Financial Review

1. Financial Review

1.1 Group Overview

1.1.1 Summary of 2020 Financial Results

US$m			Change	
(Continuing operations)	FY20	FY19[1]	Actual FX	Constant FX
CHEP Americas	2,469.0	2,287.8	8%	10%
CHEP EMEA	1,827.8	1,849.1	(1)%	3%
CHEP Asia-Pacific	436.8	458.4	(5)%	1%
Sales revenue	**4,733.6**	**4,595.3**	**3%**	**6%**
CHEP Americas	342.5	298.4	15%	17%
CHEP EMEA	407.1	441.8	(8)%	(2)%
CHEP Asia-Pacific	118.0	118.3	-	6%
Corporate	(72.6)	(54.8)	(32)%	(33)%
Underlying Profit	**795.0**	**803.7**	**(1)%**	**4%**
Significant Items	(28.0)	(62.8)		
Operating profit	**767.0**	**740.9**	**4%**	**9%**
Net finance costs	(80.8)	(88.5)	9%	5%
Tax expense	(209.0)	(198.3)	(5)%	(10)%
Profit after tax from continuing operations	**477.2**	**454.1**	**5%**	**11%**
(Loss) / profit from discontinued operations	(29.2)	1,013.6		
Profit after tax	**448.0**	**1,467.7**	**(69)%**	**(68)%**
Average Capital Invested	**4,773.6**	**4,130.6**	**16%**	**19%**
Return on Capital Invested	16.7%	19.5%	(2.8)pp	(2.5)pp
Weighted average number of shares (m)	1,548.7	1,593.4		
Basic EPS (US cents)	**28.9**	**92.1**	**(69)%**	**(67)%**
Basic EPS from continuing operations (US cents)	**30.8**	**28.5**	**8%**	**14%**

Note on FX: The variance between actual and constant FX performance reflects the strengthening of Brambles' reporting currency, the US dollar, relative to other operating currencies, particularly the Australian dollar, Euro, Latin American currencies and the South African rand.

FY20 Operating Environment

Between July 2019 and February 2020, Brambles' operating environment was characterised by moderating transport inflation and increasing labour and property inflation in all regions. The macro-economic environment was stable in most regions of operation except for Europe, where deteriorating economic conditions and Brexit-related uncertainty impacted like-for-like volume growth.

Covid-19 started impacting Brambles' largest businesses in March 2020 as the pandemic spread across Europe and North America, followed by Latin America and Africa. These impacts varied across regions and Brambles' portfolio of businesses.

Approximately 80% of Brambles' revenues are derived from customers in the consumer-staples sectors, which are primarily serviced by the CHEP pallets businesses. During March and April 2020, the CHEP pallets businesses experienced unprecedented levels of customer demand across global grocery supply chains, with demand volatility continuing throughout May and June 2020.

This demand was driven by lockdown measures introduced in all major markets and subsequent changes in consumer behaviour including pantry stockpiling in developed markets and a shift to 'at-home' consumption across all regions.

While revenue growth increased in line with higher pallet volumes, servicing the additional customer demand and managing volatility and disruptions across Brambles' network led to higher supply chain costs during the period from March to June 2020. These cost increases largely related to additional transport, handling and repair costs required to ensure continuity of pallet supply while minimising the level of capital expenditure to service these temporary spikes in customer demand.

Brambles' Automotive container and Kegstar keg-pooling businesses, which account for approximately 5% of Group

[1] The comparative period does not include the impact of AASB 16 Leases. IFCO is presented in discontinued operations.

revenue, were significantly impacted by Covid-19. Customer demand in the Automotive business was impacted by the closure of the global automotive manufacturing industry while in Kegstar, lockdown laws significantly reduced 'on-premise' consumption of beer in served markets from March to June 2020.

Sales revenue from continuing operations of US$4,733.6 million increased 6% at constant currency, driven by growth in the global pallets businesses which offset Covid-19 related declines in the Automotive and Kegstar businesses.

Volume expansion contributed 3% to revenue growth and included the benefit of elevated pallet volumes in March and April 2020. Net new business growth of 2% was largely driven by new customer contract wins and lane expansion with existing customers, particularly in the European and US pallets businesses. Like-for-like volume growth was 1%. Pricing contributed 3% to revenue growth and included strong price realisation across the CHEP Americas segment, reflecting increased cost-to-serve in the region.

Underlying Profit of US$795.0 million increased 4% at constant currency and included a US$24.2 million benefit relating to AASB 16: Leases (AASB 16). Excluding the benefit of AASB 16, Underlying Profit increased 1% as the sales contribution to profit from the global pallet businesses, US supply chain programme efficiencies and lower transport and lumber inflation offset direct and indirect cost increases across the Group and Covid-19 related headwinds. These headwinds included a US$23 million profit decline due to lower demand in the Automotive and Kegstar businesses.

Net plant costs increased US$44 million, reflecting labour and property cost inflation in all regions and higher pallet repair and handling costs to support elevated pallet volumes due to Covid-19. These increases were partially offset by cost efficiency benefits from US supply chain programmes.

Net transport costs increased US$16 million driven by additional transport miles associated with the Latin American asset management programme and increased pallet collections and relocations due to Covid-19.

Depreciation expense increased US$19 million in line with pool growth and investments in US supply chain programmes while Irrecoverable Pooling Equipment Provision (IPEP) expense increased US$33 million despite an overall reduction in loss rates and increased asset efficiency. The increase in IPEP expense reflected higher First In First Out (FIFO) unit pallet costs in all major markets.

Corporate costs increased US$18 million, reflecting investments in technology and infrastructure of US$6 million, costs relating to digital transformation of US$2 million, and US$4 million relating to investments in customer experience and other Group-wide efficiency projects.

Other overhead costs increased US$30 million, reflecting investments to support growth, network efficiencies and improved asset management and commercial outcomes across the Group.

Operating profit from continuing operations of US$767.0 million increased 9% at constant currency and included a US$34.8 million decrease in Significant Items. Current-year Significant Items included a US$28.0 million non-cash impairment of the Kegstar business, reflecting uncertainty over the ongoing performance of the craft beer segment due to Covid-19. FY19 included US$62.8 million of Significant Items reflecting IFCO-related restructuring costs and asset write-offs in Latin America.

Profit after tax from continuing operations of US$477.2 million increased 11% at constant currency, reflecting operating profit growth and lower net finance costs.

Net finance costs decreased 5% at constant currency despite US$27.8 million of lease interest expenses recognised following the implementation of AASB 16. Excluding the impact of AASB 16, finance costs decreased US$35.5 million, reflecting interest income on Australian-dollar deposits and reduced interest expense from the repayment of bank borrowings and the US$500 million 144A bond funded by proceeds from the sale of the IFCO business in FY19.

Tax expense was US$209.0 million, up 10% in constant currency. The effective tax rate on Underlying Profit was 29.4% compared to 29.0% in FY19, reflecting a change in mix of global earnings.

Loss from discontinued operations of US$29.2 million, decreased from a profit of US$1,013.6 million in the prior year, which included the operating results and gain on sale of IFCO. The current-year loss reflects a US$26.8 million post-tax impairment of the deferred consideration receivable from First Reserve, reflecting current market conditions in the oil and gas industry. The receivable is due to be repaid by First Reserve in 2026 and Brambles will continue to monitor this with a view to full recovery of the balance and related interest.

Return on Capital Invested remained strong at 16.7%, down 2.5 percentage points at constant currency, largely due to the impact of AASB 16. Excluding the impact of AASB 16, Return on Capital Invested was down 0.9 percentage points at constant currency, reflecting the Underlying Profit performance and an increase in Average Capital Invested driven by capital investment to support volume growth, US supply chain efficiency programmes and prior-year investments in the European Automotive business and Brexit-related retailer stocking.

Cash Flow Reconciliation

US$m	FY20	FY19	Change
Underlying Profit	795.0	803.7	(8.7)
Depreciation and amortisation	612.2	484.3	127.9
IPEP expense	155.7	127.1	28.6
EBITDA	**1,562.9**	**1,415.1**	**147.8**
Capital expenditure	(930.1)	(989.4)	59.3
US supply chain investment	(72.7)	(73.0)	0.3
Proceeds from sale of PP&E	104.4	102.5	1.9
Working capital movement	108.7	(13.2)	121.9
Other	(29.3)	(10.2)	(19.1)
Cash Flow from Operations	**743.9**	**431.8**	**312.1**
Significant Items	(3.4)	(10.8)	7.4
Discontinued operations	(4.6)	135.4	(140.0)
Financing costs and tax	(273.7)	(317.9)	44.2
Free Cash Flow	**462.2**	**238.5**	**223.7**
Dividends paid - ordinary	(290.7)	(328.1)	37.4
Free Cash Flow after ordinary dividends	**171.5**	**(89.6)**	**261.1**
Dividends paid - special	(183.2)	-	(183.2)
Free Cash Flow after special dividends	**(11.7)**	**(89.6)**	**77.9**

Cash Flow from Operations of US$743.9 million increased US$312.1 million and included a US$140.6 million reported cash flow benefit from AASB 16. Excluding AASB 16, Cash Flow from Operations increased US$171.5 million on the prior year, reflecting increased earnings, asset efficiency gains and favourable working capital movements driven by improved debtor collections.

On a cash basis, capital expenditure (excluding US supply chain investments) of US$930.1 million decreased US$59.3 million, reflecting improved asset efficiency and disciplined capital allocation.

On an accruals basis, capital expenditure decreased US$52.1 million at constant currency as lower pooling capital expenditure was partly offset by increased investments in non-pooling capital expenditure.

Pooling capital expenditure decreased US$81.9 million in constant currency terms despite investments to support growth. The Group's primary measure of asset efficiency, the pooling capex to sales ratio, decreased 2.9 percentage points at constant currency to 17.6%. This reduction was driven by:

- US$40 million of asset efficiency improvements across the pallet businesses in North America, Latin America, Europe and Turkey;
- US$48 million of prior-year investments to support Brexit-related retailer stockpiling and a large European Automotive contract which did not recur in FY20; and
- US$16 million of benefits relating to lower per-unit pallet costs due to the US lumber procurement programme.

Non-pooling capital expenditure increased US$29.8 million in constant currency due to service centre maintenance and plant upgrades in the US, Latin America and Australia.

Free Cash Flow after ordinary dividends was a surplus of US$171.5 million and increased US$261.1 million on the prior year driven by the improvement in Cash Flow from Operations outlined above and a US$44.2 million reduction in cash financing costs and tax payments.

Cash financing costs increased US$8.1 million as the inclusion of US$26.5 million in lease payments due to AASB 16 offset financing cost savings of US$18.4 million.

Cash tax payment reduced US$52.3 million, largely reflecting a lower Australian tax instalment rate and tax payments in the prior year relating to IFCO.

These improvements partly offset the year-on-year cash flow impact of the IFCO divestment in May 2019. Prior-year cash flows included a US$137.7 million cash contribution from IFCO which was recognised in discontinued operations.

Free Cash Flow after ordinary and special dividends includes a US$183.2 million cash outflow relating to the special dividend payment in October 2019, which was funded by the IFCO sale proceeds received in the prior year.

Segment Analysis

1.1.2 CHEP Americas

US$m			Change	
	FY20	FY19	Actual FX	Constant FX
Pallets	2,412.5	2,228.9	8%	10%
Containers	56.5	58.9	(4)%	(3)%
Sales revenue	**2,469.0**	**2,287.8**	**8%**	**10%**
Underlying Profit	**342.5**	**298.4**	**15%**	**17%**
Average Capital Invested	2,369.6	1,942.6	22%	24%
Return on Capital Invested	**14.5%**	**15.4%**	**(0.9)pp**	**(0.8)pp**

Sales Revenue

Pallets sales revenue of US$2,412.5 million increased 10% at constant currency, reflecting price realisation across the region and strong volume growth which included the benefit of elevated pallet demand levels in the fourth quarter following the outbreak of Covid-19.

US pallets sales revenue of US$1,807.9 million increased 9% reflecting:

- Pricing growth of 4% driven by pricing actions to recover higher costs-to-serve. Effective price, which includes transport and lumber surcharges that are recognised as an offset to costs, increased by 3%, reflecting the lower contribution from surcharges in line with the moderation in lumber and transport rates during the Year;
- Like-for-like volume growth of 3% included the benefit of a surge in pallet volumes in March and April 2020 related to Covid-19; and

- Net new business growth of 2% included the rollover benefit of new customer contracts won in the second half of FY19.

Canada pallets sales revenue of US$279.2 million increased 7% at constant currency, reflecting strong price realisation and volume expansion with new and existing customers.

Latin America pallets sales revenue of US$325.4 million increased 15% at constant currency, driven by pricing actions initiated in the second half of FY19 and net new business wins.

Containers sales revenue was US$56.5 million, down 3% at constant currency, reflecting lower volumes in the North American IBC and Automotive businesses.

Profit

Underlying Profit of US$342.5 million improved 17% at constant currency and included a US$14.1 million benefit relating to AASB 16. Excluding this benefit, Underlying Profit increased 13% at constant currency and included the benefit of a one-percentage point improvement in US margins, in line with guidance. The US$131 million sales contribution to profit was partly offset by:

- Net plant cost increases of US$27 million, reflecting higher pallet repair and handling costs due to labour and property inflation, additional costs to service elevated levels of pallet demand due to Covid-19 and damage rate increases in Canada associated with the stringer-to-block pallet transition in that market. These cost increases were partly offset by savings from US supply chain programmes;
- Net transport cost increases of US$9 million, reflecting additional transport miles due to the Latin American asset management programme and additional pallet collections and relocations across the US network incurred to service Covid-19 related increases in customer demand while minimising capital expenditure. These additional costs were partly offset by network optimisation savings and lower third-party freight costs;
- Depreciation cost increases of US$9 million due to pool growth and investments in US supply chain programmes;
- IPEP expense increases of US$25 million driven by higher FIFO unit pallet costs despite lower pallet losses in Latin America; and
- Other cost increases of US$24 million, reflecting investments in resources to support growth, asset and network efficiencies and improved commercial outcomes.

Return on Capital Invested

Return on Capital Invested of 14.5% decreased 0.8 percentage points at constant currency due to a 1.7 percentage point adverse impact of AASB16. Excluding the impact of AASB 16, Return on Capital Invested improved 0.9 percentage points at constant currency due to increased profitability in the region and asset efficiency improvements in Latin America.

1.1.3 CHEP EMEA

US$m			Change	
	FY20	FY19	Actual FX	Constant FX
Pallets	1,571.1	1,558.9	1%	5%
RPC	27.3	30.6	(11)%	5%
Containers	229.4	259.6	(12)%	(8)%
Sales revenue	**1,827.8**	**1,849.1**	**(1)%**	**3%**
Underlying Profit	**407.1**	**441.8**	**(8)%**	**(2)%**
Average Capital Invested	1,904.0	1,776.4	7%	12%
Return on Capital Invested	**21.4%**	**24.9%**	**(3.5)pp**	**(3.0)pp**

Sales Revenue

Pallets sales revenue of US$1,571.1 million increased 5% at constant currency, reflecting the contribution from current and prior-year contract wins in the European pallets business and solid price realisation across the region. Like-for-like volume growth continued to be impacted by macroeconomic conditions, notwithstanding a surge in pallet volumes during March and April 2020 following the outbreak of Covid-19 in the region.

European pallets sales revenue of US$1,372.4 million increased 5% at constant currency, comprising:

- Net new business growth of 4%, reflecting strong contributions of current and prior-year contract wins in Southern Europe and Central and Eastern Europe;
- Price growth of 1% driven by annual contract indexation; and
- Like-for-like volumes in line with prior year as deteriorating economic conditions in the region offset the surge in pallet volumes during March and April 2020.

India, Middle East, Turkey and Africa (IMETA) pallets sales revenue of US$198.7 million increased 9% at constant currency, driven by strong price growth and contributions from net new business wins. This growth was partially offset by like-for-like volume declines due to lockdown measures and temporary restrictions of cross-border flows following the Covid-19 outbreak during the fourth quarter.

RPC and Containers sales revenue of US$256.7 million decreased 7% at constant currency, reflecting:

- Automotive sales revenue of US$152.1 million, down 7% on prior year due to the shutdown of the European automotive manufacturing industry for the duration of the fourth quarter following the outbreak of Covid-19;
- Kegstar sales revenue of US$15.7 million, down 19% on the prior year due to the introduction of lockdown restrictions in all major markets in March 2020, which impacted on-premise consumption of beer for the duration of the fourth quarter;
- IBCs sales revenue of US$61.6 million, down 9% on the prior year reflecting lower volumes; and
- RPC sales revenue of US$27.3 million, up 5% on the prior year reflecting volume growth in the South African business.

Profit

Underlying Profit of US$407.1 million decreased 2% at constant currency and included a US$4.8 million benefit relating to AASB 16. Excluding the impact of AASB 16, Underlying Profit decreased 3% at constant currency as the solid revenue contribution to profit of US$56 million was more than offset by:

- A US$23 million decline in the Automotive and Kegstar businesses driven by lower customer demand following the outbreak of Covid-19;
- Net transport cost increases of US$5 million, reflecting additional transport miles incurred in the European pallet businesses to ensure continuity of pallet supply and manage demand volatility due to Covid-19;
- Net plant cost increases of US$20 million, reflecting labour and property inflation across the region and additional pallet repair and handling costs incurred to support elevated levels of customer demand while minimising capital expenditure due to Covid-19;
- Depreciation increases of US$9 million due to pallet pool growth and prior-year automotive asset purchases to support a large contract win in Europe; and
- Other indirect cost increases of US$12 million were driven by IPEP expense increases, due to higher unit pallet costs, and overhead investments to support business growth.

Return on Capital Invested

Return on Capital Invested of 21.4% decreased 3.0 percentage points at constant currency. Excluding the impact of AASB16, Return on Capital Invested decreased 2.0 percentage points at constant currency driven by lower Underlying Profit in the Automotive and Kegstar businesses due to Covid-19 and a higher Average Capital Invested balance, reflecting investments to support growth and prior-year investments in the European Automotive business and Brexit-related retailer stocking.

1.1.4 CHEP Asia-Pacific

US$m			Change	
	FY20	FY19	Actual FX	Constant FX
Pallets	340.7	343.2	(1)%	5%
RPC	51.4	65.7	(22)%	(17)%
Containers	44.7	49.5	(10)%	(5)%
Sales revenue	**436.8**	**458.4**	**(5)%**	**1%**
Underlying Profit	**118.0**	**118.3**	**-**	**6%**
Average Capital Invested	490.6	424.5	16%	22%
Return on Capital Invested	**24.1%**	**27.9%**	**(3.8)pp**	**(3.7)pp**

Sales Revenue

Pallets sales revenue was US$340.7 million, up 5% at constant currency, reflecting moderate price realisation and like-for-like volume growth in the Australian business and the ongoing expansion of the timber pallet business in China.

RPC and Containers sales revenue was US$96.1 million, down 12% at constant currency due to the rollover impact of a prior-year contract loss in the Australian RPC business.

Profit

Underlying Profit of US$118.0 million increased 6% at constant currency and included a US$5.0 million benefit from AASB16. Excluding this benefit, Underlying Profit increased 1% at constant currency, driven by the sales contribution to profit and plant cost efficiencies in Australia which more than offset other cost increases in the region.

Return on Capital Invested

Return on Capital Invested of 24.1% decreased 3.7 percentage points at constant currency largely due to the 3.2 percentage point adverse impact of AASB 16.