Event Transcript

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Start of Transcript

Operator: Thank you for standing by and welcome to the Brambles Limited 2022 Full Year Results Conference Call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad.

I would now like to hand the conference over to Mr Graham Chipchase, Chief Executive Officer. Please go ahead.

Graham Chipchase: Hello everyone, and good morning from Sydney. Thank you for joining us today for our Full Year 2022 Results Announcement. Today I will start by providing a summary of our performance for the year, then give an update on progress against our transformation program and the FY23 outlook statement, before Nessa takes you through the detailed financials.

Turning to slide 3 and the key messages from our full year performance. We delivered results that were ahead of guidance, with stronger than expected fourth quarter performance providing good momentum as we head into FY23. On a constant currency basis sales revenue growth was strong at 9%. Underlying profit increased 10%, highlighting the operating leverage we generated this year from price realisation and supply chain efficiencies, offsetting both short-term transformation costs and cost-to-serve increases across the Group.

Free cash flow benefited from higher earnings and increased asset compensations, although this was more than offset by additional capital expenditure to support longer cycle times at retailers and manufacturers, as well as a US$470 million impact of lumber inflation, which led to higher pallet prices year-on-year. This resulted in free cash flow after dividends being a net out flow of US$218.6 million. Our return on capital invested of 17.7% was in line with the prior period. Which was an impressive achievement given the operating and inflationary headwinds the business is facing, and emphasises our disciplined approach to capital allocation.

Earnings per share growth was strong at 23%. Reflecting higher earnings and benefits from the share buy-back program which completed during the year. We increased the full year dividend declared by 11%, representing a payout ratio of 53%, and also increased the franking percentage by 5 points to 35%. In Australian dollar terms dividends declared for the year increased by 18%.

Turning to some of the business highlights. The Shaping Our Future transformation program is building momentum, and we are seeing early signs of financial benefits. Though these were offset by significant cost inflation headwinds. The importance of Shaping Our Future has never been clearer, and this will underpin value creation over the medium to long term. To counter the significant cost inflation and broader challenging market conditions, we accelerate commercial and asset productivity initiatives. We made great progress against our ambitious 2025 sustainability targets, a key differentiator for Brambles, and a source of value.

Turning to the next slide. The operating environment remains challenging, with unprecedented disruption to global supply chains, ongoing impacts of the COVID-19 pandemic, and increased geopolitical tensions. Global lumber supplies, transport capacity and labour availability have all been affected by supply shortages or capacity constraints. We expect the price of these critical inputs to remain volatile in FY23. Specifically on lumber, record levels of inflation and scarcity have impacted the supply and price of new pallets in all regions. The high levels of inflation, supply chain constraints, and industry-wide pallet shortages have meant customers and retailers have increased their inventory holdings to re-risk supply chains.

We have also seen an increase in the unauthorised reuse of our pallets in response to pallet shortages, and the higher market value of pallets. In response to this we have taken several actions to support our customers and keep supply chains moving. Specifically we purchased an additional 8 million pallets in FY22. However due to increased cycle times and ongoing low rates of returns, these purchase were not enough to replenish our plant stocks to optimal levels, with allocation protocols still in place across major markets in the US, Europe and Australia.

While conditions remain challenging, we expect the level of inventory holdings to partially unwind in the second half of FY23. We implemented new processes to refurbish 1.5 million additional pallets that would otherwise have been scrapped. We enhanced management capabilities, including increased use of data analytics and digital insights to improve the scale and efficiency of our pallet collection engine.

Turning to slide 5. Considering the challenging market conditions and increase macroeconomic uncertainty, I wanted to take a moment to reiterate the defensive characteristics of Brambles which position us well to deliver value through all stages of the economic cycle. Looking at the composition of our FY22 revenue, you can see that over 80% of sales is generated from the consumer staples sector, which underpins the resilience of our business during periods of economic downturn.

Our performance turning the global financial crisis in FY09 and FY10 is a great example of this point. Overall sales growth was broadly flat in both years, and CapEx spend fell by approximately US$180 million each year, which in turn was a driver for the business generating strong free cash flow, despite a reduction in underlying profit. In addition we know there are still significant addressable opportunities for growth in major regions, with a strong business pipeline that we can pursue when our pallet stock is back at optimal levels.

Regardless of the economic conditions our conservative and flexible balance sheet, with plenty of head room, provides a buffer from the ups and downs of market cycles. While our business is strong and inherently resilient, we also understand the importance of further optimising the performance of our business, and investing to build the Brambles of the future. In fact the difficult operating environment we currently face has only reinforced the importance of our transformation program.

Turning to the next slide, which outlines some of the key highlights across the Shaping Our Future transformation program. We are pleased with the tangible progress made in the year. The business has set the right foundations for the transformation program and is continuing to build momentum to deliver on the multi-year program. On business capabilities, our cloud migration is now complete, delivering data security and process efficiency benefits. We have also enhanced the project management and digital capabilities of the business. The current operating context has led to an increased focus on accelerating commercial initiatives to recover cost-to-serve increases, as well as asset efficiency, which we will cover in further detail later in the presentation.

Across our network we delivered efficiency benefits through service centre automation, including the delivery of end-to-end integrated repair processes across seven of our larger service centres. In addition we have begun piloting partially automated repair capabilities in small-to-medium size service centres, which will enable us to automate even more of our network and deliver further efficiencies. Network optimisation initiatives delivered further efficiencies, with reduced transport and storage costs during the year.

Pallet durability improved with initiatives undertaken across four key pallet types in the US, Europe and Australia, leading to our 100 basis point reduction in damage rates. This was 25 basis points ahead of our annual target. Turning to digital and our customers, the foundation has been laid to digitise our pool and deliver on our smart asset strategy. We will expand on the progress to date later in the presentation.

Turning to slide 7 and our detailed score card, which tracks our project against major initiatives. The majority of the metrics are progressing well, and on-track, with some targets already achieved or completed during FY22. The progress to date is a strong indicator of the early success of the program. However some metrics are tracking below target, largely due to market headwinds.

Pallet availability challenges, including lower return rates and broader supply chain dynamics, adversely impacted some initiatives. Pallet actually has been the primary reason for Net Promoter Scores tracking below target, as well as not achieving volume growth targets with existing customers. A number of our asset efficiency metrics were also below target for the year. There have been delays in the rollout of the automated end-to-end repair processes due to semi-conductor and component shortages.

While we are tracking slightly behind target on women in management roles, our FY22 target of 34% was met in July 2022. We remain confident of achieving our FY25 target of at least 40% of management roles held by women. In the next few slides we will outline the comprehensive plans in place to mitigate current headwinds and deliver the operational and financial outcomes of the transformation program, and improvements against metrics where we are tracking below target.

Turning to the next slide. We understand that the market is looking for more granularity to understand the return on the investments we are making. So let me discuss some of the more important metrics in further detail. On reducing uncompensated pallet losses we are tracking slightly behind due to market conditions which have led to higher unauthorised reuse and uncompensated loss of pallets. If a 30% reduction in uncompensated losses is achieved the annual value is estimated to be approximately US$150 million through savings on the cost of replacement pallets and increasing compensation coverage.

We are tracking ahead of our target to reduce scrapped pallets by 15% by the end of FY25, which includes benefits from processes introduced in the US to refurbish pallets that would otherwise be scrapped. We expect to over-achieve against the FY25 scorecard target. Finally, while we are behind on the rollout of the end-to-end repair process, we have mitigated some of the financial shortfall through other automation initiatives. We now expect the rollout to complete by the end of FY25.

Turning to slide 9. The current operating environment has increased the importance of accelerating our asset efficiency initiatives. We are proud of the results achieved during the year, with approximately 4 million pallets either recovered or salvaged in an environment where the supply of pallets during the year was constrained. While I don't propose to go through every item on this page, there are some key callouts from each category where additional context might be useful.

Our improved collection ability allowed us to recover 2.5 million pallets during the year. These initiatives have been underpinned by insights from data analytics and leveraging our new technology capabilities. We ramped-up our small truck fleet across North America and Europe, with the increased frequency of collections reducing the time out pallets sit at a retailer or recycler. Therefore decreasing the likelihood of loss. We estimate 900,000 additional pallets were recovered during the year. We continued our focus on engaging with non-participating distributors in the US, leading to 400,000 pallets being recovered during the year.

The value and demand for our pallets has shifted significantly. This has required us to incentivise our recyclers differently. While this has come at an increase to fees, considering the current replacement value a pallet, the incremental cost has been very worthwhile and led to the recovery of 500,000 pallets. Excitingly we also expanded relationships with five recyclers to increase the breadth of our network to areas we cannot reach, and have together created additional capacity to store, inspect and sort pallets. Leading to a recovery of 500,000 additional pallets in the year.

In an effort to improve pallet life and reuse, and in line with our commitment to zero waste, we have now installed pallet re-manufacturing capabilities at 20 US service centres. In an environment where pallet prices remain elevated the ability to re-manufacture pallets ultimately helped to reduce our cost-to-serve. This year we re-manufactured 1.5 million pallets, 500,000 more than expected. Finally, we increased pricing for high-risk lane during the year, which can be seen in the higher asset compensations across the US and Europe. In the US we doubled our coverage rate in a half a year to now cover 40% of NPD flows.

Turning to slide 10. We continued to build and refine our smart asset strategy. The data collected and analysed across our smart asset deployments will underpin the decisions we make to build the Brambles of the future, and will be a key driver of unlocking further value across our business and for our customers. We like to think of each stream as being interlinked, and the scaling of any smart asset rollout follows a sequential pattern. Starting with targeted diagnostics laying the foundation to implement continuous diagnostics, before moving to serialisation+ in any given region. There are early signs of value, and most importantly we are building the right foundations for smart assets to be successful.

Looking at targeted diagnostics. We reached our target of deployment in over 20 markets in FY22. The plan is to extend this to 30 markets in FY23. The program injects specific asset pools with a small sample of full track-and-trace devices. Because these deployments target known problems, be it suspected sources of loss or increased roll times, the value these diagnostics deliver if general material compared to the capital investment.

For example, in the US this year US$50 million of benefits were enabled by insights from targeted diagnostics. Which allowed the team to improve pricing for higher-risk lanes, as well as take actions to improve asset control in specific channels. While we do not advise that this scale of value generation is extrapolated across all smart asset deployments, the important points here is that we building the infrastructure and capabilities required. Including collection points, data analytics, and creating and coding collection weigh-points to roll out further tracking initiatives.

Next, continuous diagnostics brings track-and-trace capability to a small proportion of the pool, generally between 0.1% to 1%. Thereby increasing visibility of our assets as they travel through customer supply chains. We have now reached our target of deploying 200,000 smart assets by the end of the year into our two trial markets, the UK and Canada. While it is still early and takes time to collect, analyse and utilise the data, we are seeing initial signs of benefits which should scale progressively in the coming years.

Taking the UK market, for example, with data from these smart assets we have identified and commercialised 35,000 pallet flows which we were previously not getting paid for. We have also identified 650 new pallet collection points across our network, and established relationships with 15 new recyclers, which will increase the number of pallets recovered from the supply chain. The increased visibility of our pallets and early insights into the value, we are confident in generating the future has also led to the decision to scale the continuous diagnostics program to North America.

Finally, we will be trialling serialisation+ in Chile, which combines continuous diagnostics with another low-cost unique identifier. Depending on the success of the trial, there could be a pathway to accelerate serialisation+ in the US. Importantly, we continue to test our hypotheses across a range of technologies and markets before making investment decisions in digital capabilities in FY24 and beyond.

Turning to our customer value slide. We are aware of the prices increases our customers have agreed to across all regions to recover cost-to-serve inflation. Against this backdrop we understand that while these are genuine increases to input costs, we also need to create more value for our customers. Which comes down to the customer experience, the quality and availability of our pallets, and being easier to do business with. We have a comprehensive list of initiatives to achieve this.

We continue to look at ways to improve the customer experience, from simplifying the on-boarding process, making self-service easier and quicker, and providing greater visibility of pallet deliveries. We are continue our proactive ordering pilot, and have now designed proof-of-concepts for new customer solutions which leverage our unique visibility across the supply chain. We look forward to sharing more details as this progresses. I have already detailed the numerous initiatives around pallet quality and availability in the previous slides.

Finally, we are finding ways to make it easier to do business with us. From turning survey insights into actions, as well as migrating key systems to the cloud, which allows for seamless upgrades and reduced down time. These are all important initiatives to improve the experience our customers have when interacting with us.

Turning over the page to our sustainability program. We continued to cement our leadership position, with our credentials recognised worldwide. In FY22 we announced our commitment to accelerate our decarbonisation strategy by 10 years. Achieving net-zero greenhouse gas emissions across our whole supply chain by 2040. This is fundamental to our objective of maintaining our leadership in sustainability. We increased the numbers of customers we collaborated with by 25%, and we are well on our way to achieving our 2025 target of 500 customer collaborations. We ended the year with 33% of management positions held by women.

Finally, we signed a new US$1.35 billion sustainability-linked revolving credit facility in August 2022. The pricing of this facility is linked to sustainability targets, including decarbonisation, and highlights the increasing prominence of sustainability in capital markets.

Finally moving to our FY23 outlook. We expect the challenging macroeconomic and operating conditions experienced in FY22 to continue into FY23. This includes ongoing supply chain disruptions, inflationary pressures, and geopolitical unrest, leading to increased market uncertainty and volatility in our key regions. Within this context our FY23 financial expectations are sales revenue growth of between 7% and 10% at constant currency, underlying profit growth of between 8% and 11% at constant currency, which includes approximately US$25 million of short-term transformation costs.

Free cash flow after dividends to improve on FY22, but remain a net out-flow. In additional to this underlying improvement, free cash flow after dividends will include the benefit of the US$41.5 million of proceeds received in August 2022 from the repayment of the loan receivable from First Reserve. Finally, in line with our dividend policy, the payout ratio is expected to be between 45% and 60%.

I would now like to hand over to Nessa to present the FY22 financial overview.

Nessa O'Sullivan: Thanks Graham, and good morning everyone. Starting with our FY22 result, the Group delivered strong constant currency sales revenue growth of 9% with operating leverage to deliver operating and underlying earnings growth of 10%. The earnings growth reflects recovery of significant cost-to-serve increases through pricing, surcharge recovery mechanisms and supply chain efficiencies. The earnings growth includes a 1-point net benefit due to activity cost savings associated with the lower pallet returns, partly offset by related operating inefficiencies. In FY22 the Business was also cycling a one-off 1-point earnings growth benefit in the prior year, related to a site compensation in the APAC region.

Profit after tax for the Group increased 18% at constant currency, and included a US$22 hyperinflation charge relating to Turkey. This was offset by a US$21.6 million revaluation gain on the loan receivable from First Reserve. Since year end this revaluation has been fully realised, and loan settlement funds of US$41.5 million have been banked. Brambles basic EPS growth was 23%, reflecting profit after tax growth of 18% and a 5-point benefit from the share buy-back program which was completed during the year.

Turning to slide 16. Group sales revenue growth increased 9%, driven by increased pricing, with revenue growth across all segments. Pricing growth of 9% reflects recovery of input cost inflation and other cost-to-serve increases associated with the challenging operating conditions during the year. Group issue volumes were in line with the prior year, as pallet availability was impacted by several factors. Including lumber scarcity, pallet manufacturing constraints, and lower pallet return rates due to longer cycle times and higher levels of stockholdings across global supply chains. Volumes with existing customers declined by 1%, offset by a 1-point increase in new customers volume, primarily in Europe, as well as roll-over volume contribution from a large RPC contract in Australia which commenced part-way through the prior year.

Looking at the drivers of the Group profit performance on slide 17. Sales growth combined with incremental surcharge income in North America contributed US$574 million to profit growth in the year, and offset material operating cost increases across the Group. The US$175 million increase in plant costs was driven by cost inflation of US$183 million, primarily lumber and labour, and additional repair costs associated with the refurbishment of pallets that would otherwise have been scrapped. These increases were partly offset by activity cost savings due to lower pallet return rates, and damage rate improvements due to pallet durability initiatives.

Transport cost increases of US$154 million included fuel and freight inflation of US$207 million, and additional asset recovery costs in the US business. These increases were partly offset by network optimisation efficiencies and lower activity costs, due to lower pallet return rates in the period. IPEP expense increased US$38 million, with US$23 million of this increase due to higher pallet unit costs. With the balance of US$15 million due to a combination of additional loss charges in the Americas segment. Overall Group losses as a percentage of the pool remained in line with the prior year.

Transformation costs increased US$53 million, and included short-term costs of US$48 million. The balance of the increase related to higher ongoing transformation costs, primarily associated with digital transformation initiatives. Other costs increased US$18 million as increased investment in resources to support future growth and improved commercial outcomes across the Group were partly offset by higher asset compensations in the period. Finally, the year-on-year performance also included the impact of cycling US$11 million of one-off compensations in the Asia-Pacific region which primarily related to the mandatory relocation of a service centre.

Slide 18 outlines out cost recovery performance in the year. Our ability to take pricing and adapt our business model and commercial terms to recover cost-to-serve increases is a key highlight of the results, and demonstrates the resilience of the business. As you can see from the first two bars on the left-hand side of the chart, we delivered US$150 million net P&L benefits, which only partly offsets the increase in pooling capital expenditure during the year, which was driven by US$520 million of lumber inflation increases, and US$155 million of additional pallet purchases to support increased cycle times and to replace lost pallets. The key thing to note is that the investment in pallets relates to 10 year assets. That we are therefore expecting to progressively recover this capital cost increase and generate an appropriate return on that investment over multiple years.

Taking a closer look at lumber inflation on slide 19. The slide highlights both the extraordinary lumber cost inflation and lumber market volatility in the US and European markets, with the cost of lumber remaining well above historic averages. Historically we have seen cyclical increases in lumber costs in the range of around 30% to 50%, which is well below the 200%-plus levels of inflation we have seen in the lumber indices. The supply and demand dynamics impacting lumber continue to change, with a range of factors. Including demand from China, potential recession, housing starts in the US, as well as the Russia-Ukraine conflict adding further uncertainties to a material input cost to our business.

Our own demand for pallets and lumber is also impacted by increased levels of stockholding, and losses across supply chain, which have resulted in the increased pallets required to service the same level of demand. While lumber inflation impacts repair cost, the biggest impact of lumber inflation is on CapEx investment, with the lumber representing over

80% of the cost of a new pallet. In FY22 lumber inflation was the primary driver of the 40% increase in the weighted average price of pallets across the Group, and which added US$520 million to pooling CapEx on an accruals basis.

While we have seen some moderation of lumber pricing in the fourth quarter of FY22, we expect FY23 weighted unit pallet costs to increase over the FY22 level, with inflation impacting the price of new pallets to varying degrees in different regions. When thinking about the implications for cash and CapEx outcomes, it should be noted that a US$1 increase or decrease in the weighted group unit cost of pallets equates to approximately US$50 million in annualised impact on cash flow and CapEx. In terms of cash implications, there is also a two month to three month lag on the cash flow relative to CapEx commitments. Hence it should be noted that while we provide cash flow guidance, that the price per pallet, as well as the levels of stockholdings across supply chains, remain material potential swing factors to CapEx investment spend and cash flow outcomes in FY23.

Turning to the Group's asset efficiency perspective on slide 20. The Group's asset efficiency metric, the pooling CapEx to sales ratio, increased by 9 points to 30% in FY22, which was driven by year-on-year pallet price inflation. The impact of increased pallet purchase on the CapEx to sales ratio of US$155 million, to support longer cycle time and replacement of lost pallets, was offset by asset efficiency improvements. Including higher asset re-collections and re-manufacturing of pallets that would otherwise have been scrapped. We expect FY23 CapEx to sales to reduce by 3% to 4% points, reflecting increased pallet return rates due to a combination of asset efficiency initiatives and de-stocking as we see global supply chains normalise. We expect Group weighted unit pallet costs to remain above FY22 levels.

Turning now to segment results. The Americas segment delivered top line growth of 12% at constant currency, largely reflecting pricing to recover cost-to-serve increases. Underlying profit increased 25% at constant currency as pricing gains, surcharge income, and operational efficiencies more than offset cost inflation in the P&L. Underlying profit margin increased 1.7% points at constant currency, reflecting margin expansion across all markets, and including a 1% point margin improvement in the US business.

The margin performance in the US business has been supported by material benefits from supply chain investments made over the last three years to four years. These investments have included service centre automation, which have added capacity and agility to our service centre network, and sawmill investments which have enabled improved lumber yields, as well as commercial, customer service and sustainability benefits. Without these investments the cost impact of both volatility and demand, and pallet scarcity, would have added incremental costs to the US business over and above the actual increases reported in the year. Return on capital invested in the region improved 2.5% points, reflecting the strong earnings growth.

Turning now to slide 22, looking at US pallets revenue. Revenue growth of 11% in the year reflected pricing growth to recover higher cost-to-serve. Pallet availability challenges continued to restrict volume growth, like-for-like volumes down 4%. Net new business volumes was flat to the prior year as the business prioritised servicing existing customers over targeting new business wins.

Turning to the EMEA region now on slide 23. CHEP EMEA delivered sales growth of 7% at constant currency, reflecting pricing growth of 4% in response to cost-to-serve increases, as well as net new business growth of 3%. Underlying profit increased 5%, with the contribution from revenue, asset compensations and operational savings from lower pallet returns partly offset by an acceleration of inflationary cost pressures. Despite supply chain efficiencies and increased pricing to recover cost-to-serve, overall margins declined by 0.3 points due to the increased inflationary pressures during the year. ROCI also declined by 0.7 points, but remained strong at over 23%.

Looking at the sales growth on slide 24 in the EMEA region, overall sales growth in the region of 7% included pricing growth of 4%, reflecting the increased contractual price indexation and other pricing actions to recover the higher cost-to-serve in the region. Net new business volumes increased 3%, largely due to contract wins in Central Europe, Eastern Europe and Southern Europe. While like-for-like volumes were impacted by both softening demand in the European pallet business, and the continued impact of semi-conductor and other component shortages on the automotive industry.

Turning to slide 25, looking at CHEP Asia-Pacific. The business delivered sales growth of 5% at constant currency, reflecting pricing growth to recover increased cost-to-serve, and also reflects increased pallet pool productivity and rollover volume contributions from the Australian RPC contract commenced part-way through the prior year. Pallet availability challenges in the Australian business continued to impact volume growth. Underlying profit increased 20% and includes one-off impacts in both the current and prior years, which largely offset each other. FY21 profit included US$11 million of one-off benefits, primarily related to one-off site compensation in Australia. FY22 includes US$10 million of net timing benefits from lower pallet returns. This FY22 US$10 million timing benefit is expected to unwind in FY23 as pallet returns normalise.

Excluding these items, profit growth reflects increased productivity of the pallet pool, the sales contribution to profit, and incremental uplift from the Australian RPC business partly offset by inflation and overhead cost increases. Return on capital invested improved by 2.3% points at constant currency as the margin expansion in the period was partially offset by increases in ACI to support the Australian pallet RPC businesses, and reflects increased productivity of pallet pool and scarcity of lumber supply limiting new pallet purchases.

Turning to slide 26 and the Corporate segment. Total transformation costs of US$108.6 million increased by US$53 million, and included US$48.4 million impact of short-term transformation costs. These short-term costs were in line with the US$50 million estimate provided at the September 2021 Investor Day. Ongoing program cost of US$60 million included approximately US$40 million of digital transformation costs, also in line with the guidance provided at the 2021 Investor Day. The balance of the spend was related to IT investments and initiatives to improve the customer experience. Corporate costs increased US$7 million at constant currency, and includes US$5 million related to Brambles' share of the MicroStar post-tax losses, in addition to labour and insurance related overhead cost increases.

Turning to the cash flow now on slide 27. Despite the increased inflation in the period, the Group generated positive free cash flow before dividends. While the business delivered strong earnings growth and increased asset compensations, cash flow from operations of US$372.6 million decreased US$528.5 million over the prior year due to higher cash capital expenditure and increased working capital. The year-on-year decline also reflects the cycling of the benefit in the reduction of plant stock in the prior year.

Cash investment and capital expenditure increased by US$597.3 million, and included US$470 million of lumber inflation and reflected the impact of cycle time increases and higher losses, which were partly offset by benefits from asset efficiency and scrap reduction initiatives. The year-on-year increase in working capital of US$42.8 million reflects higher trader receivables at year end, consistent with the strong fourth quarter revenue growth. The impact of lumber inflation also increased the value of working capital inventory balances.

Financing costs and tax payments increased by US$13 million, and included the reversal of the prior year tax timing benefit of US$35 million. Free cash flow after dividend was a net out-flow of US$218.6 million after dividends payments in-year of US$304.8 million, which was an increase of US$24 million over the previous year.

Turning to slide 28 and our balance sheet. The balance sheet remains strong and puts us in a great position to continuing investing to support future growth and to reward shareholders with dividends, while maintaining our strong investment grade credit ratings. At the full year we have US$0.9 billion of undrawn committed facilities, and cash balances of US$158 million, and a conservative net debt to EBITDA ratio of 1.47-times. We continue to have long-dated debt maturity profile, with no bond maturities until FY24. Pleasingly in August this year we leveraged our sustainability credentials to sign a new US$1.35 billion five year sustainability-linked revolving credit facility, which replaces US$1 billion of existing bank facilities, and adds an additional US$350 million of committed headroom.

Turning to slide 29 and FY23 considerations. I want to finish by covering some FY23 outlook considerations to add some further context to our guidance, which Graham outlined earlier. Given our expectations that the challenging macroeconomic and operating conditions experienced in FY22 will continue into FY23, we also expect that pricing and surcharge mechanisms will continue to operate effectively to enable recovery of inflation cost pressures in the P&L, and to support progressive recovery of the increased capital cost of pallets. Consistent with this, we expect sales revenue growth to be weighted to pricing across all regions as we continue to focus on recovering cost-to-serve increases. We also expect net new business wins to remain constrained.

Pallet availability in FY23 will be dependent on normalisation of levels of stockholdings across supply chains, outcomes of asset efficiency initiatives, as well as demand from existing customers, and overall lumber and pallet supplies. Underlying profit growth is expected to be impacted by higher repair and handling costs as supply chains normalise and asset productivity initiatives lead to higher pallet return rates. In the APAC region this is expected to lead to FY23 ULP margins being below FY22. The rate of margin improvement in the Americas segment is expected to moderate, given the strong results in FY22. In EMEA we expect to see an improvement in the ULP margins as the region seeks to recover cost-to-serve increases.

The expected improvement in the free cash flow after dividends in FY23 will be weighted to the second half of the year as increased earnings, asset efficiency initiatives, and the normalisation of supply chains are all expected to be phased to the second half. The level of underlying improvement is dependent on a number of factors, outlined on the slide. On a full year basis FY23 ROCI is expected to decline by approximately 0.5 point to 1-point, reflecting the full year impact of FY22 pallet purchases at elevated prices and progressive delivery of returns on assets with a 10 year life. Important to note that the FY23 ROCI remains well above the cost of capital.

I will now hand back to Graham for his closing remarks before we go to Q&A.

Graham Chipchase: Thank you Nessa. In summary, we are proud of our many operational and financial achievements during the year in challenging operating conditions. As a business we continued to deliver on our purpose of connecting people with life's essentials every day. Playing a critical role in global supply chains by supporting our customers, while investing for the future.

We demonstrated our focus on delivering against our financial targets with our FY22 result, ahead of revised guidance, driven by a strong fourth quarter performance. Toward the end of FY22 we completed our capital management program, which commenced in 2019. In total we returned US$2.8 billion to shareholders, which is evidence of our disciplined approach to capital management.

We made tangible progress with our transformation program, building momentum for long-term success. Important, underpinned the long-term value of the transformation program is our sustainable business model. With reuse, resilience, and regeneration at its core. We continued to strengthen our sustainability leadership position with meaningful progress against our 2025 sustainability targets.

Finally, our FY23 outlook continues to see the business generate strong profit growth, with an improvement in cash flow generation, despite continuing challenging macroeconomic and operating conditions.

Thank you, and I will now hand over to the operator for Q&A.

Operator: Thank you. If you wish to ask a question please press star-one on your telephone and wait for your name to be announced. Your first question comes from Jake Cakarnis from Jarden Australia. Please go ahead. Pardon me, Jake, your line is now live.

Your next question comes from Andre Fromyhr from UBS. Please go ahead.

Andre Fromyhr: (UBS, Analyst) Good morning, maybe just starting with the free cash flow outlook. It strikes me that with coming in higher than was the guidance for FY22 giving double-digit earnings growth into next year, proceeds from First Reserve, lower US lumber costs. You've also flagged an improving CapEx to sales ratio. Why are we still expecting a negative number for free cash flow after [dividend]?

Nessa O'Sullivan: So thanks for the question. So a couple of things to note is, look, we still did highlight that we expect lumber costs to increase year-on-year because that's the trend that we are still currently seeing in pallet prices. So hence why we've called out. Look, if we are wrong on that, and if we actually see the weighted average cost of our pallets decline, US$1 decline is worth US$50 million incremental cash flow. US$2, obviously you guys can do the math on it. But because there's a range of uncertainties that impact us, we factored in what we are seeing and what we expect to happen at this point. Through the year we will be able to give more insights to what we actually see happening.

The other critical piece we have seen is that we have had to put a lot more CapEx into supporting longer cycle times as across supply chains people are holding more stock. Now we do expect to see that unwind, or start to unwind, certainly in the second half of the year. The timing of that will also impact the pallet purchases. So they're two key factors, they're material amounts. At this point we are sort of, we are highlighting we do expect an improvement, but that there are a number of material factors that are yet to be played out.

Andre Fromyhr: (UBS, Analyst) Maybe I could just move onto pricing. Obviously it's a strong feature, the main driver sales growth at the moment, and you've flagged that some of that will continue into FY23. Do you have a sense of how the market is, your competitors and the broader sort of light wood environment is moving on pricing? Where's the level of tension with customers at the moment, i.e. is it sort of acceptable when you present the data and the risk analysis that you've been talking about? Are you getting customers walking away on that basis? Or are you actually getting the behavioural responses that you're expecting in terms of asset control?

Graham Chipchase: So I think there are quite a few bits in that question. So first of all let's talk about the competitors. As I think I've said pretty consistently, when it comes to the environment for pricing, you need three things. You need some inflation, and which I think we could all say we've got a fair bit of at the moment. We need tightness of supply and demand of pallets, which again we have certainly got that at the moment. We need rational competitors. I think what we're seeing is that the competitors are being rational, and all the other prerequisites are there. So there's no reason to feel that the environment to be able to continue to get prices increases is there.

Now moving onto your comments around the reaction in the market. At the moment I think customers want pallets, because there are not enough pallets around. So to the extent that they are walking away, no-one is walking away because everybody desperately needs the pallets. I think the key thing is, as we continue to suffer higher cost-to-serve, and we are because either, as Nessa said, we're still expecting to see higher pallet prices due to lumber inflation. But on top of that we are also seeing higher cost-to-serves because we are having higher inventory holdings and higher cycle times. That is increasing our cost-to-serve, and therefore we should be increasing pricing to recover that.

So we are still seeing that, and we would still expect customers to pay that. But at some point that is going to get more difficult. At some point we'll see customers saying, look, there's no shortage of pallets. We're not happy with the prices you've been charging us. That is why it's very important that we show our customers what we are doing with them beyond just supplying a pallet at the right place and the right time and in the right condition. We've got to show that we are creating more value with our better networks, what we're doing around digital, to give insights to them so that they can get benefits and extract some value out of their own supply chains.

So I think that's those sort of - I'm not saying that's going to be an issue in the next 12 months. But it's certainly, at some point it's going to become something we absolutely have to deliver on. So I would say, although it's okay at the moment.

But are we getting lots of Christmas cards from customers thanking us for our price increases? Of course not. I mean no-one likes it. But at the same time, of course they are seeing massive inflationary cost increases in all their other raw material inputs. So I don't think we're the only people that they're seeing this from, which I think somewhat makes it a bit less contentious.

Andre Fromyhr: (UBS, Analyst) Just a little bit deeper on that one. Can you foresee your scenario where the core pricing sort of either stays where it is, or continues to tick up, but the customers - and I guess I'm thinking about the Americas here where the customers experience is actually a price reduction because of surcharges dropping away?

Graham Chipchase: Well, I think surcharges will drop away at some point, because they're driven by the index, which constitutes the cost element. So either fuel prices or lumber. So that will absolutely happen. The question is, do we hold onto the, you call it the core pricing, the regular pricing. Which we've put in there because the cost-to-serve has gone up. If we have things that change in the market that make the cost-to-serve go down, then we will probably want to look at that on a customer-by-customer basis.

That's the whole point about having a dynamic pricing model which is driven by better data. So that those customers who give us our pallets back quicker will see a benefit, compared to those customers that don't. Because at the end, we really want to get the pallets back quicker. I think the extent to which our pricing model drives a change in behaviour, that's actually a good thing for us. So yes, I mean we'll have to wait and see what happens when conditions change. We're not seeing the conditions change yet, so it's hard to answer accurately.

Andre Fromyhr: (UBS, Analyst) Great, thank you.

Operator: Thank you. Your next question comes from Anthony Longo from JP Morgan. Please go ahead.

Anthony Longo: (JP Morgan, Analyst) Good morning everyone. I just had a quick question on the fall in CapEx to sales improvement. Just wondering if you could perhaps give a little bit more colour as to why you're not expecting it to improve more from that 30% down to maybe 26%. Is that potentially reflective of longer cycle times and pallets being with manufacturing-retail customers and potentially higher damage rates as well?

Nessa O'Sullivan: Less so about damage rates, more about cycle time and the actual unit cost of the pallets. Because the reduction is really driven by more efficiency in the pool that we're expecting year-on-year. We are still expecting year-on-year increase in the pallet prices. Again that is a material swing factor. So if we end up in a much better place with pallet prices, that would enable us to get quicker to a lower CapEx to sales. But we have factored that we, despite an increase in the unit cost of the pallets, that we had some good outcomes in asset efficiency this year, and that we're expecting more of that to flow through next year.

That's despite us expecting, currently we are running our pallet pool with below ideal levels of inventory. That's restricted our ability to go after new business wins. We're expecting to be rebuilding that pallet pool as well through FY23, and that's factored into the outlook.

Anthony Longo: (JP Morgan, Analyst) That's great, thanks Nessa. Then just a further question on pricing, I appreciate we've spoken a little bit about it already. But in the context provided on some of the high-risk lanes that you have flagged, and in the context of the inflation that we have seen, as well as understanding about the surcharge dynamic as well. I mean to the extent, how much are you still expecting pricing to increase over the next little while? Because it looks like that second half number was particularly strong, particularly in the Americas.

Graham Chipchase: Yes, well, as you know, we can't address all of the contracts at the same time. So there's still contracts that we haven't looked at in terms of changing the NPD surcharge, or an additional charge. So that will still go on through FY23. Contracts are continuing to come up for renewal, and we are continuing to renew them at higher prices to reflect the higher cost-to-serve. So we don't anticipate any significant change in that sort of direction or position on pricing.

I mean I think we, it is a dynamic situation and we have to look at it very carefully. We have to be, what we have seen though is that increasing the NPD charge in the US hasn't really changed behaviour as much as we thought. That clearly is because there is such a big shortage of pallets. People are very wary about moving onto whitewood because in fact there's not enough whitewood either. I think we have also got to be a little bit careful because recognise that our customers don't necessarily all ship all their product to an NPD. Though some of them will be going to participating distributors. We run the risk if we push too hard on the NPD charge, they'll start saying, well, actually we're just going to do away with pooled on both NPDs and PDs, and we'll just, it will be a counterproductive. So we do look at it on a case-by-case basis. Where we feel it's appropriate we will continue to push. But in other cases we'll say, no, we think enough's enough. So again it's a bit of a dynamic situation.

Anthony Longo: (JP Morgan, Analyst) Okay, great, thanks Graham. Look, just final one from me, I won't overstay the welcome. But as far as the FY23 guidance goes, there was a slide that you did highlight things for - your targets for uncompensated sort of pallets, pallets scrapped, et cetera. For your FY23 guidance is that, does it mean that you need to hit those targets to hit that guidance? Or is that largely an aspirational target that you've set there?

Nessa O'Sullivan: So included in FY23 we do include targets that take us along that glide path to improvement. So you should be expecting that we will be showing progressive improvement over the next few years on that. But it does include improvement in FY23, yes.

Anthony Longo: (JP Morgan, Analyst) Okay, excellent. Look, congratulations on the result, and thanks for the time.

Graham Chipchase: Thanks.

Nessa O'Sullivan: Thank you.

Operator: Thank you. Your next question comes from Justin Barratt from CLSA. Please go ahead.

Justin Barratt: (CLSA, Analyst) Hi guys, thanks very much for your time today. Just a couple maybe for Nessa. Nessa, at the 1 Half '22 result you sort of highlighted the pressure that you're seeing on both demand and supply side in terms of lumber pricing. I'm just wondering if I could get an update on how you see that currently? I guess I'm just asking in the context of you commented again about the unit pricing for pallets expected to be higher in '23 than '22. I just wanted to again ask if, or understand why that's the case given the record I guess lumber prices that we saw throughout '22?

Nessa O'Sullivan: Yes, so a couple of things to note. First is, if you look at the shape of where we saw lumber inflation going up, we saw it really accelerating in the US. If you look last year we had a much bigger impact. This year we sort of saw those impacts flowing through to Europe where we saw that acceleration. Then if you look, particularly in Europe, you look at Russia-Ukraine. Although we don't actually access much lumber from Russia-Ukraine markets, as a percentage of our total global supply that's a very small number. The challenge is it cuts off supply to other people who are buying lumber. Which means there's now more people trying to buy the same lumber we are. Even though there's an underlying potential decrease in demand and some challenges with affordability and sort of consumer demand that, as people think about, could there be a recession.

You still have this underlying piece that is a challenge in lumber, and particularly in Europe. Then if you actually look at what we're seeing in Americas and the US, while we've seen some moderation, if you look at the overall Group-weighted costs, which we do across all of the regions, while we saw some moderation we haven't yet seen a sustainable decline. Part of it has also impacted - the US pallet price for instance is also impacted by the number of imports that we get from Latin America, so there's also supply issues there that impact the net cost, and that's always been a benefit to us. So, as we're looking a little bit more constrained in supplies from them, their weighted cost is also impacted.

We tried to outline the number of factors. We're not going to capture them all for sure, but things like housing demand in the US potentially isn't going to be as strong as we thought it was 12 months ago as we look at some changes in customer dynamics, but we still think flows from Latin America are going to remain a big challenge from a supply perspective and we expect that impact in Europe flowing through from Russia-Ukraine to be going the other way in terms of pricing.

So, it's a combination and that's why we're highlighting look, we do expect an increase. It's not at the level that we've seen in FY22; it's a materially lower level of increase but we're not seeing a decrease. That remains to be played out and so we're very open to saying we'll continue updating the market depending on what we actually see and remembering also that the lumber we buy isn't an exact match to what you see in the lumber indices.

Lumber indices, if you look at that level of increase that went up 200%, our weighted average cost of pallets went up 40%. That's a bit due to the phasing on the lumber inflation that happened in the different markets, it's a bit about the mix, but also we do buy better than the market buying lumber and lumber supply and remembering it's sustainable lumber supply so we're quite choiceful about where we buy from.

We have outperformed the market in terms of how we buy lumber. They're all factors just to think about, so when the lumber indices comes down it doesn't necessarily directly translate to us in terms of our costing but you can be sure we'll continue to be very aggressive in terms of how we buy lumber and making sure that we get the best possible price in terms of the pallets that we buy but making sure we stick to good-quality lumber that meets our sustainability requirements.

Justin Barratt: (CLSA, Analyst) Great. Thanks for that detail. Second one, just in terms of net plant and transport costs as a percentage of revenue, I just noticed in EMEA they're a little bit higher than historic levels. Is that just due to the slight lag in pricing indexation that you get in that region? Then just in Australia it was much lower than it has been in the past. Is that just due to those lower pallet returns that you've called out and hence we can see that rise or expect that to rise again in FY23 back to where it has been historically?

Nessa O'Sullivan: Yes. Look, I think you've done a good job on your analysis there because if you look at it overall, you take the net plant cost to sales that we set out in appendix 5 and then net transport cost to sales, it's still around 55% on a combined basis relative to sales. But you're right, we do see some movements and partly lower activity in Asia-Pacific that we'd expect to moderate. If you see an increase in EMEA, particularly in areas like the UK where there's been particular issues with transport scarcity, we have seen transport capacity challenges increase the cost. So, they are the things to think about, and in terms of plant cost in EMEA too, we've had the impact too of heat-treating of pallets post-Brexit that has been added in there.

Justin Barratt: (CLSA, Analyst) Fantastic, and then one final one from me. I was just surprised in the reduction in your IPEP expense in the second half of '22 just given where I guess supply chains - or the constraint on supply chains remain. Can you just describe to us what the key drivers of that reduction were in the second half?

Nessa O'Sullivan: Yes. Well, you need to look at it on an annual full-year basis year-on-year because the timing of the expenses also depends on when we complete the audits and some of those it's down to access to sites. I wouldn't read too much into what you see on a half-on-half; I'd look at the full-year basis and on a full-year basis you'll see that the loss rate in the pool was around that 8.3% overall, so similar year-on-year.

The overall increase we're seeing of the US$38 million is largely driven by FIFO cost of pallets which is US$23 million and the balance of US$15 million is that slightly - the increase in losses overall. Looking at it, it's best to look at it on a full-year basis because depending on when we do the major audits, that's where we book - that it impacts the timing of what we book.

Justin Barratt: (CLSA, Analyst) Fantastic. Thanks very much.

Operator: Thank you. Your next question comes from Anthony Moulder from Jefferies. Please go ahead.

Anthony Moulder: (Jefferies, Analyst) Good morning, all. If I can start back on pricing please, those very strong pricing increases in the period. I guess the question is how many of your customers are now paying a pricing that reflects that higher cost-to-serve? I guess I'm trying to understand as to how many more periods those pricing increases need to continue for, or is it just going to continue to roll?

Graham Chipchase: Our view, Anthony, is that there's still more contracts to address because, again, if you think about the view, the average length is three years so we're going to be doing a third each year. Again, in terms of cost-to-serve increases, those are continuing to increase, so on that basis even if they'd stopped last year we'd still have another third or two thirds to go, but they're not. We're still seeing a higher cost-to-serve. I think the environment is still there for us to continue to need to be fairly robust on price increases. That's I think - our outlook statement for '23 reflects that.

Anthony Moulder: (Jefferies, Analyst) I see that in the very low surcharge income which tells me that the surcharge structure wasn't properly implemented when it was put into the US. It wasn't like the European program. So, those price increases, they can only go through at the contract reset or is there a discussion that can happen within that three years that you can get a higher cost-to-serve in the interim?

Graham Chipchase: The surcharge mechanism you can see, I think it was US$76 million worth of increase in '22, and that was in the US. That is I think quite material and I think that's a result of all the work that's been done over the last few years to get surcharge wording into the contracts to cover things like lumber and fuel.

The other thing which I think is the one that we're really driving at here is the real cost increases in the contracts relating to either - cost-to-serve but in reality making sure that the contracts are profitable and creating value, which again for a long period of time was probably not happening in the US. That we've been addressing again every time a contract comes up for renewal and we're continually looking to raise the bar across the network.

So, every time a contract comes up for renewal we're looking at well, is it now below the average, does it really reflect the cost-to-serve, and if it doesn't we are still going in with robust price increases. I think that's exactly what we should be doing and I think there's no intent to step away from that provided the three underlying factors are still there around tightness of supply, inflation, and rational competition. Those have always got to be the prerequisites for that sort of robust pricing environment.

Nessa O'Sullivan: It's worth noting that some of that surcharge mechanism, if you like, if you were to translate that into Europe, that happens with the indexation. Yes, there's the time lag in terms of if you take it on 1 July, but we have in the last number of years also taken some increased pricing in the Europe market that has been out of cycle for that indexation. It's not across every contract but we have where there have been increased costs.

Brexit costs have been an area where we've gone back and increased costs, for instance for heat treatment of pallets, and where we had particularly acceleration in inflation for transport costs, which is going back into FY22, we also took additional pricing going into the second half. There's a time lag in indexation in Europe which obviously makes it less ideal when you have high inflation, but we have taken steps where we needed to to address it but in the US we'd say - and in North America, we think those surcharge indexes are working pretty well for us.

Anthony Moulder: (Jefferies, Analyst) Good, thank you. I guess that leads into the higher pallet costs being addressed via these pricing increases. Can they continue given that the cost to your business is going to be - through the P&L at least is going to be higher depreciation costs and higher IPEP costs that, as you point out, are going to last 10 years? How are you getting to a point that those cost offsets are reflected in the pricing increases that you're driving over the next few years?

Nessa O'Sullivan: Yes. Really good question, Anthony. What we do as contracts come up, we look at the whole cycle and we factor in what the cost of the assets are into those contracts. If we have multiple years where asset prices remain higher, then that will impact the pricing we put in. We do expect there to be some moderation in lumber costs over time so that's factored into our thinking on pricing. We have opportunities to re-price contracts on average every three years but some of them are shorter than that.

We continue to look at what is the total cost-to-serve over the contract period, what's our outlook, what do we expect and so it does get factored in on a total basis. For us, and I know there were some asks for us, why can't you recover it all in the one year, that would be inappropriate for our customers for a 10-year asset to try and factor it all in. So, if you like, we look at real cash-on-cash, what does it cost to service the customer, what do we earn from the customer, and that's the input to determining the pricing.

But you're right, as a follow-on, when we spend more on a pallet there will ultimately be for instance higher depreciation costs and the penalty for losing a pallet is higher because we have to replace it at a higher cost and obviously take a hit to the P&L. As you go forward it will ultimately over time affect the FIFO values, but that's over a longer time, the FIFO values.

Anthony Moulder: (Jefferies, Analyst) I guess that's a point that - I guess the question is whether or not you're recovering enough of that in the earlier period if that cost will remain in the P&L for the next decade.

Nessa O'Sullivan: I think you have to look at...

Anthony Moulder: (Jefferies, Analyst) I also wanted to ask about the...

Nessa O'Sullivan: Sorry. I just think you have to look at what's the economic cost of the asset. The depreciation is one component and you can see we're managing that with over-recoveries, but we're also looking at getting an appropriate return for the additional invested capital in the business. That's why we've been at pains to actually show those charts with how much are we recovering over and above the costs in the P&L, so then you can actually see what are you putting into the ACI and does this make an appropriate return for it.

Anthony Moulder: (Jefferies, Analyst) Like a BVA. The last question - I will have more for tomorrow at 10:30 but I want to ask about the CapEx of the digital transformation. It looked lower for '23. Is there some delay of some of those programs into '24, please?

Graham Chipchase: Part of it is we are not putting quite as many of the Ultra devices which are obviously the high-spec devices in - because as everyone knows, there is a shortage of semiconductors so we've not been able to do quite as many as we want. Also, part of it is us taking our time to make sure that the projects we want to invest in are going to deliver what we want. A good example is something we were going to do for the customer experience part of digital transformation, we've just decided to wait a couple of extra months because we're talking to a specific customer on that and we were thinking we might launch it by the end of FY22. It's going to be happening in the next couple of months.

I think those sorts of things have given a slight delay but if you look at it in the round, we're saying it's on track across '22 and '23 but the outcome of what we're doing in '23 will inform the CapEx spends in '24 and '25. Because as we've said back in the investor day, we are stage-gating those investments and we haven't seen the conclusion of the trials yet which will determine whether we go ahead with some of the things in '24 and '25.

Anthony Moulder: (Jefferies, Analyst) Very good. Thank you.

Operator: Thank you. Your next question comes from Niraj Shah from Goldman Sachs. Please go ahead.

Niraj Shah: (Goldman Sachs, Analyst) Good morning, Graham and Nessa. Just following up from that last question, I appreciate the discussion and the sensitivities you've provided around pallet pricing for pooling CapEx. Non-pooling CapEx is probably more controllable. Are you able to provide some sort of guidance on what that should look like in fiscal '23, or at least the major moving parts between '22 and '23?

Nessa O'Sullivan: In relation to non-pooling CapEx?

Niraj Shah: (Goldman Sachs, Analyst) Yes.

Nessa O'Sullivan: We set out at investor day what our investments were going to be through supply chain, digital, et cetera, and CapEx, and we should be broadly in line with those indicators. If you use that as a rough guide, some phasing changes, some mix changes but generally that should be a fairly decent guide.

Niraj Shah: (Goldman Sachs, Analyst) Got it. Thank you. You mentioned the allocation protocols. Are you able to comment on how your DIFOT or whatever delivery metrics compare to competitors in the key regions? What are the customers actually doing in response to being shorted these pallets?

Graham Chipchase: I think one of the important things to note is that whilst customers are on allocation in some of our regions, that doesn't necessarily mean that they are not able to run their production lines. It means that their safety stocks are incredibly low and that obviously creates a lot of frustration and concern for them. What it's meant is we've had to manage the business on a day-to-day basis rather than being able to do it on a month-to-month basis which is what we might have done when safety stocks were higher.

I think it's important just to recognise it and that as a result we are spending a lot of time and effort trying to go to our customers on a site-by-site, week-by-week what are your requirements, and making sure that we're giving them exactly the minimum and no more, because there isn't enough to go around, pallets to keep their operations running. Now, occasionally there will be plant outages but they are pretty - we're keeping those to a minimum. So, that's been the reaction.

How are our competitors, DIFOTs? Well, I have no idea and I wouldn't expect to know. However, what we see is that our competitors are also struggling to get enough pallets. We've had some inquiries in some markets, and I won't say which, where customers who are either wholly supplied by some of our competitors or dual-supplied by us and a competitors of ours whether they could switch to a higher percentage of supply by us because the other competitor is definitely struggling and we appear to be managing the situation, admittedly not perfectly but somewhat better.

I would gather or expect that we're doing pretty good, but that will be because we've got the broadest networks, the deepest networks and we have invested in our pools quite a lot leading up to the current situation. As we talked through the presentation, we've tried to be reasonably innovative about things like refurbishing and recovering pallets that we weren't before. I think we're doing just fine but I don't want to say we're doing significantly better than competitor, (a) because I don't know, and I think (b) it's a little bit inappropriate in a situation where everybody's really struggling.

Niraj Shah: (Goldman Sachs, Analyst) Excellent. Thanks for the colour, guys.

Operator: Thank you. Your next question comes from Paul Butler from Credit Suisse. Please go ahead.

Paul Butler: (Credit Suisse, Analyst) Good morning. Thanks for the presentation and congratulations on the great result.

Graham Chipchase: Thanks, Paul.

Nessa O'Sullivan: Thank you.

Paul Butler: (Credit Suisse, Analyst) I just wanted to ask about your comments, Graham, where you were saying you were expecting in the second half a partial inventory unwind, and also your comment that - which I think you've said a number of times before - that customers are holding higher levels of pallets, or at least trying to hold higher levels of pallets as a safety stock. What's the risk in your view that we go from this environment of pallet shortages to a risk of an oversupply if we do see a slowdown in end market demand as well as the safety stocks that your customers are holding come down as well?

Graham Chipchase: Yes. It's a really interesting and difficult question to answer because no one knows, but when we talk to retailers in particular, because I think these are - that's where a lot of the buffer stock is being built up is at the retailers more than the manufacturers. It appears that they think after Christmas they'll start reassessing the inventory levels and moving perhaps more to just-in-time than just-in-case. I think that's - it could happen a bit sooner because if you think about interest rates, no one's going to be wanting to hold lots of inventory.

I don't know if you saw the Walmart results released overnight where they're talking about trying to dramatically use levels of inventory as well. That's all consistent with people are definitely thinking about when are they going to start moving. Now, the risk for us, although the opportunity for us depending on how you want to look at it, is I think it's best if this happens gradually, for sure. I think everyone doing it at the same time on the same day would be very unhelpful, but I think compared to the past where we have had an issue with a big flow-back of pallets around extra storage cost, extra repair cost, we are on a slightly - you can say it's better because it's not been better for the last 18 months or so - we're in a better position in that we desperately need to rebuild the plant inventory levels.

So actually, if we get a few more coming back than we expected a bit quicker than we expected, we would be use them to rejuvenate and replenish the network. I think we're in pretty good shape but it's something we're clearly keeping a very close eye on. Again, other exogenous factors that are going to affect this are recession, which markets, when, if at all, how deep, how long, these are all things that will impact that flow-back of pallets, obviously combined with our own actions in terms of getting them back quicker regardless. It's something we're looking at very closely. We're talking to retailers and our customers pretty regularly but at the moment I would say no one's got a really clear idea about what to expect, but our working assumption is after Christmas people will start making those decisions.

Paul Butler: (Credit Suisse, Analyst) Okay. Just a bit further on that, what percentage of the pool could you absorb into getting the plant stocks back to the optimum level? Also in relation to that, you've talked about how - just on the previous question, where you're being far more nimble in terms of managing the supply of customers given the shortage of pallet availability. Is there not an opportunity to make this business as normal and be able to run the business with a much smaller plants inventory, particularly given new investment in digital and things like that to track things better?

Graham Chipchase: To try and answer that part of the question first, I think we're saying it's 5 million to 6 million pallets will get us back, that's what we need to absorb to get us back to the right place. On top of that, remember that we haven't been going out and getting new business at all for the last 18 months so there's another opportunity there which again somewhere like the US was 1% to 2% of potential net new business wins. We believe the pipeline is there. We've got targets in that pipeline so we can go out and again do some of that, so that's another chunk.

I absolutely agree with you that all the self-help that we're going through in terms of all the different actions, both digitally and non-digitally enabled, will also allow us to change the model, so we should be able to run the business in due course in a much more efficient and effective way with a lower holding inventory across the network. That's for the short term, that's for the medium term, but I think there's quite a lot we can do, both through either building up the plant stocks or going after extra growth, which we've not wholly factored in because we don't really know what the timing is going to be like for this next 12 months.

Paul Butler: (Credit Suisse, Analyst) Okay, and just one more if I may. Back to pricing, so you've had a few questions on that, but in the second half in the US I think you did something like 17% price and mix improvement. How much of that related to across-the-board price increases versus addressing the cost-to-serve issue with specific customers?

Graham Chipchase: I think one could assume that a significant amount was the cost-to-serve type of increases, so I think that's what I would - I would leave it at that because we're not going to break it down much more than that, but a significant amount of that total.

Paul Butler: (Credit Suisse, Analyst) Great. Thank you very much.

Operator: Thank you. Your next question comes from Matt Ryan from Barrenjoey. Please go ahead.

Matt Ryan: (Barrenjoey, Analyst) Thank you. I just wanted to clarify with the comments around the higher-weighted per-unit cost coming through in 2023 versus 2022. I was just wanting to know what's that based on in terms of you making an assumption for where that might go to over the course of the year, and maybe just related to that, what is your visibility when you make those sorts of assessments?

Nessa O'Sullivan: Okay. When we make the assessments, remember we buy them probably with a lead time of three months, so in terms of our visibility and clarity it's low. Hence why we're clarifying that we've assumed an increased based on what we understand. It's also for us about our mix of pallets. So, when we're looking at this we're factoring in the types of lumber we buy, where we're going to source it from and what that mix looks like that.

I referenced that we're assuming a bit of lower mix from Latin America that has historically averaged down our price in the US, and we're looking at some increased inflation in Europe, and we're looking at our specific flows from our specific sustainably linked suppliers as well. So, it can change materially, hence why we've called it out a number of times through the presentation, but that is our best view currently about where we see the year playing out, but we're very much aware that the market dynamics may continue to change.

I think you also have to go back to that reference point. If you just looked at the indices it went up 200%; our pallet prices went up 40%. We're calling that out so it can help you to understand or join the dots. While the indices are useful, they're not fully informative about things like our mix, what our arrangements for supply are, et cetera.

Paul Butler: (Credit Suisse, Analyst) Thank you. I was going to ask about Europe. Do you feel like you've got pretty good visibility with lumber and nails and other things that might have been impacted by sanctions or other things?

Nessa O'Sullivan: Yes. We think we do have a good view. The challenge is that if I just even take lumber, we bought less than 1% of our global lumber from the Russia-Ukraine. They might have been 1% each or somewhere between 1% to 2%. The challenge for us is while we've got visibility about that, we haven't got so much visibility about how many other people are going to want to buy the same pools of lumber that we want to buy, and what happens as that supply becomes more challenging.

We have part of the equation but we can't fully see, and what happens with demand? If there is more recession, if we do see recessionary impacts then there's likely to be less competition for that lumber. We expect for instance now housing starts in the US to be lower than we'd previously thought. So, it's not one factor; there's a whole combination of factors. As you can imagine, we get our supply chain team involved, we get our lumber experts involved, we look at external but we're very much aware that whatever we pick we'll be wrong, but it's on the basis of the best information we have right now but knowing that really we don't look that far ahead in terms of having our supply chain and pricing locked in.

Paul Butler: (Credit Suisse, Analyst) Thanks. Just to clarify one thing with that European situation though. I appreciate that you don't actually source that much from those places you've mentioned but the broader market sources quite a bit from those markets, so are you seeing an impact from that?

Nessa O'Sullivan: Yes. That's why we've been seeing more inflation in Europe, so definitely. That's what we're seeing, but it's a question of what happens if there is more of a feel for consumer spending going down, what will that mean for demand from others as well. We are consumer staples and we know we're pretty resilient in those environments but that will potentially affect other demand from other places, but we are seeing that impact, yes.

Paul Butler: (Credit Suisse, Analyst) Okay. Thanks, Nessa.

Nessa O'Sullivan: Thanks.

Paul Butler: (Credit Suisse, Analyst) Take care.

Operator: Thank you. Your next question comes from Cameron McDonald from E&P. Please go ahead.

Cameron McDonald: (E&P, Analyst) Good morning Graham and good morning Nessa. Just a couple of questions from me if I can. You've mentioned the very strong growth in the fourth quarter, which was stronger than expected, contributing to the full-year result. Can you just talk a little bit about where you saw that growth and where you saw that strength and what was contributing to that, please?

Nessa O'Sullivan: Yes. In terms of where we thought we would be, our revenue was higher than we had forecast and we look across the Group and we had a pretty strong fourth quarter really across the Group, but we had a higher mix of pricing than we were expecting so that it had a bigger flow-through effect in terms of our overall bottom line. The other thing that we saw in terms of the fourth quarter that gave us a better result than expected was that we saw some moderation in transport inflation in the US that had been tracking higher.

When you look at it, there's a lot are attributing slowdown in demand from China that accounts for about 20% of the activity, the transport activity in the US; we saw that. We also saw some increased asset compensations come through across our businesses and again, we had an upside in our earnings because of the pricing, the transport, and the compensation, but actually we had even a better flow-through to our cash flow because the bias for those components that supported the better outcome were cash driven.

Cameron McDonald: (E&P, Analyst) Yes, that was going to be my next question. Obviously, you've come in at US$218 million with your free cash flow after dividends relative to your previous guidance of 300 to 350, which you reiterated earlier in the year. Is that really all off the back of that better asset compensation?

Nessa O'Sullivan: It's not just asset. If you were to take - what would I say roughly, roughly is the flow-through to cash flow improvement to the P&L, I'd say maybe US$40 million-odd has been due to that. So, you look at the earnings and there's an increased impact, if you like, on the cash flow, and the balance is really due to CapEx. Pooling CapEx was about US$15 million better than we had been expecting. That's a timing thing relative to how much CapEx we buy. It's purely a phasing, doesn't really impact too much. In terms of non-pooling. We had a bigger phasing there which was probably worth about another US$30 million-odd if you're trying to get the top line.

Part of it is due to just the timing of completion frankly on one of the sawmills that we had and another one just in terms of timing of delivery of equipment which we're also caught up with some of these supply chain challenges. You saw the rephasing of [Integrum] on the glide paths that we showed for our scorecards. Part of that is due to timing of delivery of equipment which impacts when we pay for it. Of, I suppose, that change maybe we get about US$25 million of that reverses in FY23 or in totality when we look at it.

Cameron McDonald: (E&P, Analyst) Yes. Okay, great. You've called out the potential or the expectation that perhaps in the second half of '23 you start to see some inventory destocking. Some of your key customers and also counterparties - not customers but certainly counterparties - have started calling out in the US elasticity of demand given inflationary pricing. What are your thoughts around that, and maybe even just reflect on the last time we had some sort of economic impact of any severity in the US, what you actually saw and how that impacted your business?

Graham Chipchase: If we go back, as we said in the main part of the presentation, when we go back to '08/'09 crisis and the impact going into '10 across the Group the impact on revenue wasn't significantly - or wasn't significant, and that's because 80% of what goes on the pallets is consumer staples. I think that would be a very reasonable read across to what we're seeing right now, and if you look at what some of the large retailers in the US are saying at the moment in terms of where they're looking at destocking, it is not the consumer staples. It's in some of the other things like garden furniture and clothing and that sort of stuff. So, I think that's a reasonable read-across.

Then what we also saw was clearly the ULP was affected but not dramatically. I think in '08 - I think it was '08 or '09 - actually, '09 the first year - it was high single-digits impact on ULP. The important thing in terms of value is that we've generated a lot more cash because as you would expect, we start seeing some flow-back of pallets, less activity, we don't have to do so much CapEx. I think we would expect that to happen if there was a recession going forwards. We'd have some impact on top line but not much, some impact on ULP but we'd get a lot more cash coming back.

The conversations with the retailers and the customers, as I think I said in an earlier question, is that no one knows. We're getting different comments from different people. I think a good guidance is to assume that they'll start looking at it after Christmas. But yes, we saw Walmart last night say that they were going to address what they would call as overstocking or certainly very cautious stocking levels. They're starting to address it now because they had a lot of feedback from their last results call three or four weeks ago that was not so good and they are now going to address that.

That will probably affect us in due course as well I would think, but a lot of what they're addressing in the short term is these things which are non-consumer staples. I think people are still concerned in that lead-up to Christmas that they don't have enough product to satisfy need and they will look at in the new year. But if we see a recession come upon us in some markets really quickly, which it might, although I think the signs are mixed on that, then it might happen before Christmas but my gut feel just - that's why we're saying in our outlook that we expect things to potentially unwind a bit in the second half of fiscal year after Christmas.

Cameron McDonald: (E&P, Analyst) Thanks, and just a final question. At the investor day you guided to ULP guidance of low single-digit growth '23 ramping up in '24 and '25 to high single-digit growth. Given what you've just delivered and then the guidance into FY23, how do we think about what the implications are for those longer-term objectives of the business, please?

Graham Chipchase: We would say unchanged I think would be our view about those longer-term things we said at the investor day, because I think you have to recognise in the recent history, and possibly the short-term future, a lot of it is driven by inflation, high levels of inflation and what we have to do to recover cost-to-serve but eventually those will become less of an issue and then we can revert I think to what we said for those outer years back in September '21, I think that's still absolutely valid.

Cameron McDonald: (E&P, Analyst) Just to be clear though, are you talking about getting to the absolute level in FY25 or would you still expect to deliver in '24 and '25 high single-digit ULP growth?

Graham Chipchase: Talking about the percentage growth rates because I'm not going to go and reiterate '25 or '24 guidance at this point. Those numbers were part of that - showing the shape of the financials. We still think the percentage increases in revenue ULP and getting back to cash flow positive are valid, that's what we're still looking to do.

Cameron McDonald: (E&P, Analyst) Great. Thank you.

Operator: Thank you. Your next question comes from Owen Birrell from RBC. Please go ahead.

Owen Birrell; (RBC, Analyst) Hi, guys. Can I just follow up on the previous comment around the safety stocks and that you would prefer another 5 million to 6 million pallets to replenish that safety stock. Can I just ask, if you had those 5 million to 6 million pallets today, what sort of cost savings would you be looking at through the next 12 months?

Nessa O'Sullivan: Well, I think you need to look at in a few different ways. The first thing is we'd have more net new business growth, so that's the first. Potentially a bit more organic growth as well but we'd have net new business growth. We talked about - we gave you the net inefficiency that we had, and we basically said look, we had a net benefit worth about US$8 million this year. Because if you take our net inefficiencies from not having enough stock and then the saving of not doing any repairs because our - processing those because we didn't get those pallets back, we kind of came up with, as we did, and it's not an exact science but our estimates would get us to - we got about a point benefit.

That was cycling; remember in prior year we had a point benefit from the one-off site compensation in Asia-Pacific. It isn't uniform across all the regions. I would say APAC is the one that probably had the biggest net benefit, if you like, from deferred repairs which is that US$10 million that we called out. So, you can see that there was a mixed bag of inefficiencies versus benefit but APAC had a net benefit that we're calling that out as reversing in FY23.

Cameron McDonald: (E&P, Analyst) So roughly - so US$10 million in terms of net benefits on effectively plant costs. What about transport cost savings, because there was a significant amount of additional transport runs to go and collect pallets?

Nessa O'Sullivan: Yes. That's what we've - we've included all that together but what we've done is we separated what we think are the inefficiencies due to not having enough pallets. That's where we come up with the net amount but we're saying APAC just think US$10 million in total.

Cameron McDonald: (E&P, Analyst) Right.

Nessa O'Sullivan: Yes. If you have a look overall, you look at the transport cost and the increase in transport cost is below inflation level, because we did have some optimisation and other initiatives that helped us with the overall transport costs.

Cameron McDonald: (E&P, Analyst) I'm just trying to get a sense that if we do see pallets coming back in the second half, but we do fall into a bit of a recessionary environment, what's the cost savings that are going to come out as the pallet pool rebalances itself?

Nessa O'Sullivan: Net-net we'd be saying just think about the US$10 million is probably the biggest impact. The rest of them seem to wash with inefficiencies and we'd expect as we get additional repair cost, we get additional plant efficiencies is probably how I would think about it simplistically.

Cameron McDonald: (E&P, Analyst) Okay. No, that's good. Now, I just - sorry? I just wanted to draw into the CHEP Americas ROCE improvement that we saw in the second half, 260 basis points in what seasonally is a weaker period. I just wanted to understand proportionally how much of that came from Canada versus US versus LATAM specifically for the second half?

Nessa O'Sullivan: [I wouldn't set] it out like that, but I would bear in mind that as you think about where we would be low on plant stock that that would be one of the key areas. So, if you think about being 6 million short, a chunk of that - obviously you know in Australia we're short, but a chunk of that is also in the US. While they've had to deal with having minimal plant stock there's also an ACI benefit that as we replenish comes through, but no, we're not going to split that out by business.

Cameron McDonald: (E&P, Analyst) Okay. Just in terms of that ROCE improvement, is it fair to say that a large proportion of that improvement was really underpinned by the transformation in terms of the use of automation or deployment of digital assets in that region?

Nessa O'Sullivan: Look, it has to be a combination, separating out - look, as you know, we went through a big investment program in the US automating and also coinvesting in sawmills. That's been a big benefit to us adding capacity and agility. What's helped us a lot with the transformation is we're leveraging the use of data a lot more and that's helping us to re-collect assets, that's helping with the profitability. It's also helping us to inform pricing and get a better view for what the real cost-to-serve is.

We expect to be able to continue to get better insights over time. I think it's really hard to separate which piece exactly, how much would you have done without all the support, but definitely the access to data and the transformation initiatives which is now bringing us to more efficiencies, and we talked about some of those initiatives, they're all contributing.

Cameron McDonald: (E&P, Analyst) You've mentioned - just on the deployment of digital assets, you've mentioned the deployment of those assets into LATAM and into Canada. Have you deployed any digital assets into the US market outside of the Costco trials?

Graham Chipchase: Yes. Actually, the first place we ever deployed a digital asset was the US. Some of the very early trials were there and we put some into Walmart in the last couple of years. So, they've had a history of being actually one of the adopters of the technology rather than one of the laggers. One of the things we've decided to do, based on the readouts and some of the benefits we've seen from deploying the Ultras into the UK and Canada is to accelerate what we're calling the continuous diagnostics piece into the US.

That means putting a lot of the Ultras into the system because just letting them run around and around the system rather than necessarily putting them into places where we know there's a big problem, we think there's enough benefit for doing that to help with underpinning the asset efficiency improvements and some of the pricing data which leads to support the increased pricing in the US. Yes, that's happening for FY23 as we speak. The key thing is if the results of the trial in Chile on serialisation+ go well, then we would look to through '24 start building up the serialisation+ model in the US if we think the benefits are there.

Cameron McDonald: (E&P, Analyst) Can I ask just a further question on the continuous diagnostics rollout? You've mentioned - you've called out adding another 300,000 pallets - devices into the North America market. Can I just ask, within the UK market specifically, have you fully rolled out in that market and if not, how much further is there to go there and what proportion of that pool do you expect to serialise?

Graham Chipchase: There was a couple of mixed bits in there in terms of - in the UK, we've put in - so if you look at the 250,000 smart devices we've deployed. 50,000 were on various targeted diagnostic things throughout the world but

200,000 were put in between the UK and Canada. I haven't split them out between markets; that's the total. They're now just running and running so we're not going to put more in at the moment because we're focusing on serialisation+ in Chile. We think that in a market where you want to get to serialisation+, we'll have to put in somewhere between - this is not a very helpful range for you - 0.1% to just over 1% probably of the pool being the Ultras. That's the number.

The rest should be these very low-cost - and it will either be something like RFID or probably more likely a QR code or even a serialisation stamp, so very low-cost identifiers, because the camera technology will see them as they go in and out of various places as opposed to the Ultra which is giving you a reading 24/7 as it moves through the supply chain. That's where we are with it. There's not a view to do more into the UK. It's about accelerating what we've learnt to go into Chile and then see whether we make bigger steps into the US with the technology.

Cameron McDonald: (E&P, Analyst) Okay, that's fantastic. Great result. Thanks, guys.

Graham Chipchase: Thanks.

Nessa O'Sullivan: Thanks.

Operator: Thank you. Your next question comes from James Wilson from Jarden. Please go ahead.

Jakob Cakarnis: (Jarden, Analyst) Hi, guys. It's Jakob Cakarnis. I was cut off at the start of the Q&A but that's okay. I just wanted to clarify on the guidance. It sounds like you're saying now that you expect most of those pallets that have been slower turning to come back in the second half. Am I right in thinking that the skew then will be higher growth in the first half relative to the second half, all else considered?

Nessa O'Sullivan: Sorry. In terms of what we expect, we expect to start seeing that unwinding or more going back to normalisation of supply chain to start in the second half, not to be in the first half. Overall, we've been clear also that we expect to see - that's where we expect to see improvement in cash flow weighted to the second half of the year.

Jakob Cakarnis: (Jarden, Analyst) All right, but that will reduce with the plant costs going up and potentially transport costs going up as well? Will that hold back the growth rate in underlying profit?

Nessa O'Sullivan: Obviously, it depends on the pattern of destocking, and so if you get them back into an area that you've been - so for instance, if you get a whole load of pallets back in APAC then you're to have those repair costs go up quite dramatically straightaway. If you see more of a flow then you'll see a phased change and it depends on the pattern around the world. If it's a small flow-back then we may not see an impact in terms of material change in dynamics, and that's why our guidance is on a Group basis. We've given you some considerations by region but because we don't know for sure, we've put this is what we estimate will happen on a Group basis but very hard to tell what the pattern is going to be and therefore the impact on costs, because it's different by market.

Jakob Cakarnis: (Jarden, Analyst) Okay. Thanks for that, Nessa. Just quickly, Graham, just on the progress on the uncompensated losses, appreciate that there's a big pie to play for here, what's holding back the collection or implementation/benefits from those uncompensated losses? Is it issues around implementing that in contracts, is it issues around getting the data to take to customers? Appreciate now you've pushed back some of that benefits from uncompensated losses now into FY24.

Graham Chipchase: No, there's nothing from an execution point of view. We're putting in the resources, we've know the actions we want to take. It's more about the behaviour of the retailers holding onto pallets for longer and us not being able to then deal with that because until we know that they're definitely lost or not coming back for longer we can't do anything about it. I think we're really confident now that that glide path we've shown where we've got the right tools in place to execute that. As I said earlier, we've built those assumptions into our FY23 outlook on that glide path.

Jakob Cakarnis: (Jarden, Analyst) Thanks, guys.

Operator: Thank you. Your next question comes from Scott Ryall from Rimor Equity Research. Please go ahead.

Scott Ryall: (Rimor Equity Research, Analyst) Hi there. Thank you very much. I'm going to ask two questions about the Remuneration Report, if that's all right. In terms of the personal objectives, Graham, I think you scored 67% of target and Nessa was at about 85% versus President North America at 90% and President Europe at 100%. I've got the matrix in front of me in terms of what the objectives are for that. Could you tell me where yourself and Nessa fell short relative to where the North America and European outcomes were stronger, please?

Graham Chipchase: The short answer is no because we don't - we're not giving achievement against the individual metrics. What I would say is - and the outcome on the short-term personal objectives is reasonably - well, it's not reasonably, it is extremely mechanical, so there's no subjectivity in it at all. The thing that skewed the outcomes a little bit this year is some of them have done really well and some of them have not done well.

For example, if someone had something on customer net promoter score, as you've seen from our scorecard on the transformation scorecard, we didn't do well at all on that and the people who will have customer metrics will be the ones who are running some of the divisions, I would have it in mine but Nessa wouldn't have it in hers, for example, because hers would be much more focus on things like asset, productivity, and the transformation objectives which have gone - the transformation has gone incredibly well.

There's a bit of a pass-fail on some of the metrics, which is unusual because normally you'd expect a bell-shaped distribution curve where more would be meets, some would be don't meet, and some would go really well. Then the other thing is even within some of the objectives they're not all equally weighted, so you've got another mix impact to think about where some people might have had a lot on one and less on others, and if that particular one either maxed out or failed then it would clearly have a big impact on the outcome. I think the important thing to say - and I would say this, wouldn't I, as I've got the lowest numbers - it's got nothing to do with our view about people's personal performance; it has got more to do with the outcome of those very specific metrics, and I think that's...

Scott Ryall: (Rimor Equity Research, Analyst) No, I understand that. I was trying to get to what I think you answered, which is the customer satisfaction metrics were the weak point. Is that a fair comment?

Graham Chipchase: Yes. No, absolutely.

Scott Ryall: (Rimor Equity Research, Analyst) Then productivity, transformation, and people, which are the others, were closer to target. Would that be a fair - that's what I'm trying to...

Graham Chipchase: Yes. No, absolutely. Yes.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, all right. Then the second one I have is on the cash flow for an operations metrics. If I look at cash flow from operations was down 50% year-on-year in both Americas and EMEA, and I know that you've got US$180 million of catch-up CapEx that was deferred from '21, if I put that just in Americas and EMEA, which I think is fair given the size of their business, then that explains about half of it. But then I've got quite a big deviation between the reward for President Europe was 52% and below threshold - sorry, the metric was 52% and below threshold, whereas for President North America it was above maximum at 172% versus the target. I'm just trying to figure out why the North America cash flow from operations result was good and the European was perceived as bad, where they look fairly similar just on the straight metrics to me, please?

Graham Chipchase: I think you've got to understand that rem targets split by region are based on the budgets we had at the beginning of the year and things have happened during the course of the year. A good example would be things have been much more difficult in Europe based on unforeseen pallets inflation. We didn't have that budgeted in because we didn't think it was going to be a big issue in Europe in '22 whereas it turned out to be towards the backend of the year.

Whereas we knew because of what had happened in '21 that the US was having a really tough time with things like lumber inflation. That's why the budget for them would have been set lower relative to Europe. That's how it works, but clearly we're not going to - we never have done and we won't be getting into the details of what budgets are set for individual businesses at the beginning or throughout the year. That's what drives the outcome.

Nessa O'Sullivan: To give more insight on the cash, in the appendices we show the CapEx to sales and we give commentary year-on-year and you can see some of those differences in terms of the year-on-year impacts in lumber inflation that might be useful just to inform that.

Scott Ryall: (Rimor Equity Research, Analyst) Okay. So, basically you'd forecast an extremely low cash flow from operations in CHEP North America. I understand the budgeting process and all of that but you'd forecast for a really poor outcome in North America and the outcome has been better than that really poor outcome versus some of the unexpected impacts that have come in Europe, as you say, from Russia-Ukraine and the shortages there. That's I guess the key driver behind the cash flow in Europe not being so good.

Graham Chipchase: Directionally, but I wouldn't use - the adjective of very poor is yours, not mine, but yes, directionally I agree with you.

Scott Ryall: (Rimor Equity Research, Analyst) Okay. No, that's fine. Then just with respect to that US$180 million of the catch-up CapEx, just so I understand the split between North America and Europe, what was it?

Nessa O'Sullivan: I don't think we split it out but as I said, the shortage of pallets is predominantly weighted to the US. So, if you're doing the math on it, just assume that the lion's share belongs to the US.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, all right. Okay, good. No, that just helps in terms of the commentary around that [and allocating]. Okay. That's all I had today. Thank you.

Operator: Thank you. Your next question comes from Sam Seow from Citi. Please go ahead.

Sam Seow: (Citi, Analyst) Morning, all. Appreciate the time. Just one quick housekeeping question from me. Appreciate automation probably has been slow given supply constraints but maybe can you just give us an update on when you think you can spend that US$400 million-odd on the machines and then when we should start seeing some of that margin benefit flow through?

Nessa O'Sullivan: Yes. Look, we do plan - as you can see, we've just pushed it out a year in terms of being able to complete given the delays. If you look directionally at the spend that we've planned over the next couple of years in terms of automation, it looks about right. You probably would put a bit more in '25 and some into '26 to get back to the total that we'd guided to at investor day, is probably the best way. Look, in the interim obviously we'll be doing everything we can to see if we can go faster but that's our best estimate as to what the plan is, but we're still very, very committed to it, and I think what's pleasing is that we managed to get more capital-light supply chain efficiencies into our numbers for this year.

Sam Seow: (Citi, Analyst) Too easy. So just same shape just one year to the right.

Operator: Thank you. There are no further questions at this time. I will now hand back for closing remarks.

Graham Chipchase: Great. Well thanks, everyone, for dialling in and for asking questions, they've been really good. Looking forward to seeing most of you over the next week or so, so I'm sure we'll continue some of the conversations then. Thanks very much.

Nessa O'Sullivan: Thank you.

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