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Start of Transcript

Operator: Thank you for standing by and welcome to the Brambles Limited 2023 half-year results briefing. 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 Graham Chipchase, CEO. Please go ahead.

Graham Chipchase: Good morning everyone and thank you for joining us for our 2023 half-year result. Before discussing our half-year result, I'd like to address the announcement we made earlier this morning regarding Nessa's intention to retire from Brambles and step back from full-time executive life. Over the past six years, Nessa has been instrumental in delivering our strategy and moving our company forward during a period of significant volatility. It has been quite the journey and I want to thank her for her dedication and for the leadership she has brought to our finance function during this time. As most of you have seen, Nessa has been an outstanding CFO, setting high standards and ensuring robust governance while also demonstrating mastery of the fine detail. As noted in the announcement, we will now commence a search for her successor. Nessa has agreed to work with us to ensure a smooth transition.

Turning now to our result. Today, I will start by providing a summary of our performance for the half-year, then give an update on progress against our transformation programme and the revised FY23 outlook statement before Nessa takes you through the detailed financials.

Turning to slide 3 and the key messages from our half-year performance. I'd like to start by calling out an outstanding result for Brambles in what continues to be a challenging operating environment. The business delivered revenue growth of 14% which is driven by pricing to recover both operating and capital cost-to-serve increases. Volumes were slightly down in the half, with early signs of slowing consumer demand in the United States and Europe, as well as pallet availability challenges which limited growth with new and existing customers.

Underlying profit growth of 25% on a constant currency basis included benefits relating to deferred plant and transport costs due to lower pallet return rates and one-off insurance proceeds. Excluding these benefits, underlying profit increased 16% with the business delivering operating leverage as pricing and surcharge income more than offset input cost inflation, higher pallet losses and incremental overhead investments to support growth and transformation initiatives.

Cash Flow from Operations decreased $42 million as higher earnings and compensation recoveries were more than offset by an increase in cash capital expenditure. This is largely due to the timing of payments for pallet purchases which also included a $170 million impact of lumber inflation on the cost of new pallets. Free Cash Flow after dividends was in line with the prior year as the declining Cash Flow from Operations was offset by proceeds received from the repayment for loan receivable relating to the divestment of the Hoover Ferguson Group investment in 2018.

Earnings per share growth of 24% on a constant currency basis is in line with earnings performance and also benefits from a reduction of shares on issue compared with the first half of FY22, following the completion of the share buy-back in June 2022. The stronger earnings performance has given us confidence to declare an interim dividend of US$0.1225 per share, an increase of 14% on the prior year. This represents a payout ratio of 49%. Finally, our return on capital invested of 19.8% increased 1.2 points as the strong profit performance more than offset the increasing investments in higher cost pallets over the past 12 months.

Turning to the next slide. This strong performance was delivered in challenging operating conditions with ongoing disruptions and uncertainty across global supply chains. As outlined on slide 4, the inflationary cost pressures and supply chain dynamics experienced in FY22 continued into the first half, adding both costs and inefficiencies across customer supply chains and our own operations. Input cost inflation was persistent during the first half across key inputs, including lumber, labour, transport and fuel in all regions. However, some of these pressures began to moderate towards the end of the half. Importantly, while we expect transport and fuel costs to continue moderating, labour costs are expected to remain elevated with wage inflation in many regions reflecting increasing cost of living pressures.

Lumber and pallet prices continue to remain well above historic levels, despite moderation in some markets. Nessa will provide more detail on lumber and pallet pricing dynamics in her slides, but the key points to highlight are, despite moderating lumber and pallet prices, the Group weighted average pallet price is up 14% in the first half, and while we continue to expect lumber and pallet prices to moderate, the FY23 average price per pallet is expected to remain higher than FY22.

Turning to supply chain dynamics. Elevated inventory levels across retailer and customer supply chains continued to impact cycle times and plant stock levels in all regions. While Australia remains challenging with no material signs of destocking, we started to see early improvements in pallet return rates in North America and the UK at the end of the first half. While phasing will vary between regions, we are expecting pallet return rates to continue improving in the US and Europe as supply chains in these regions progressively reduce inventory levels through the second half of FY23.

As pallet return rates improve, this will continue to benefit our plant stock levels which have been operating below optimal levels due to uncertainty in supply chains. Combined with our many asset productivity initiatives, plant stock levels have started to improve in most regions at the start of the second half and with a progressive destocking anticipated, a gradual lifting of allocations in the US and new business activities being pursued in Europe is expected in the second half of the year.

Turning to the next slide. I want to now take some time to provide you with a framework which outlines the potential impacts to our business of the progressive destocking scenario we are anticipating. This underpins a number of our second half expectations and the updated FY23 guidance we have provided today. Our forecast scenario is very progressive destocking of inventory levels across supply chains, which is expected to result in an additional five to six million pallets, gradually returning back to our network in the second half of the year.

Our expectations of a progressive destocking scenario are informed by the various discussions with customers and other supply chain participants but are ultimately dependent on a number of factors as outlined on the slide. Before getting into the details, I want to emphasise that our business is well placed to manage a progressive destocking scenario, considering the challenges and net inefficiencies and increased inventory levels in supply chains have [introduced] into our operations.

While we expect pallets returning to be a net benefit to the business, there are a number of variables to consider. On volumes, the increased pallet returns will allow us to redeploy these pallets and pursue pent-up demand, including net new business which has been challenged due to pallet availability across our network. However, we anticipate that there may be challenges to like-for-like volumes which are subject to macroeconomic conditions as well as the one-off impact on volumes of destocking.

Looking at plant stock, we have been operating at sub-optimal levels for some time. A progressive destock and associated pallet returns are likely to improve plant stock levels which will increase the efficiency of our network. The increased pallet returns should result in a reversal of the deferred net repair and transport cost benefits called out this period. However, any cost headwind would be partially offset by improved network efficiency, with less relocation of pallets between service centres, to align to customer demand patterns and better utilisation of our plants and maximising the throughput capacity of fixed cost investments.

Destocking will arguably have the greatest benefit to our pooling capex and cash flow as pallet return rates improve, reducing our requirement to invest in new pallets for the pool. While we expect destocking to occur in the second half, the cash flow benefit is weighted to FY24, largely due to a delay in realising the cash benefits associated with any capex avoidance.

Finally, we expect rational competitive behaviour to continue over the medium-term. With many pooling networks across the world having experienced challenges in their plant stock levels, a gradual destocking event is likely to replenish pallet supply to more optimal levels and gives us confidence that rationality will be maintained. As you can see, there are a number of moving parts in a destocking scenario that can impact the business. However, on balance, we believe that a progressive destocking scenario is likely to be a net positive for Brambles.

Turning over the slide. The continued challenges to supply chain dynamics, including inflationary cost pressures and increased inventory holdings, reinforces the importance of our transformation programme. One of the core goals of the transformation programme is to increase the efficiency and resilience of the Company. Considering the asset productivity headwinds the business has experienced, our continued effort and discipline on asset efficiency has assisted in offsetting some of the challenges we have experienced.

During the first half, we made improvements to our commercial terms to reward collaborative approaches to asset use and efficiency. This has supported our strong profit performance in the half and created greater alignment of outcomes, ensuring our pallets are used properly and returned in a timely manner. Combined with the continuation of the successful activities from FY22 to improve asset productivity, an additional five million pallets were made available for customers in the last six months, with further details on these specific initiatives outlined in Appendix 1 of today's presentation.

Across our network we have now commissioned nine integrated repair cells and expect this to reach 23 by the end of FY23. This is one less than initially forecast, although we expect the timing delay to be minimal. In addition to the nine sites already commissioned, we currently have an additional four sites where the installation is either nearly complete or awaiting commissioning which gives us confidence of the continued ramp-up expected in the second half of the year. Improving our network is not just about automating repairs, but also working on ways to improve the durability of our pallets.

We improved our damage rate by 35 basis points against FY22 through improved pallet design, repair techniques and investments in quality which means they can be reissued more quickly to our customers. I'll provide further detail on our digital transformation on slide 8, so we'll move now to customers, where we continue to prioritise improvements to their experience and the quality of interactions we have each day. Our goal remains to make Brambles the natural partner of choice today and tomorrow.

Improvements during the period include further rollout of our dynamic delivery notifications, which provides greater visibility of orders to allow our customers to better plan their daily production activities, multiple process improvements to our myCHEP portal, a key touchpoint for our customers to make orders and manage their accounts, and the simplified commercial model for smaller customers in Canada which streamlines the fee structure and also provides them with greater certainty of overall fees. Finally, we continue to support our customers in keeping supply chains moving as pallets return, as well as increased investments in countries like Australia.

Turning to the next slide, our Shaping Our Future scorecard outlines the metrics and measures we are targeting and the building blocks of our transformation programme. Each metric contributes to the strength of our sustainable business model to transform the business and unlock value for customers and shareholders. As you can see, some metrics have already been achieved and others are progressing ahead of target while most are progressing and are on track. However, in challenging operating conditions and amid uncertainty across global supply chains, some metrics are tracking below target.

Consistent with FY22, supply chain dynamics led to higher cycle times, increased misuse of pallets and pallet availability challenges across our major regions which impacted volume growth and customer net promoter scores. While pallet availability challenges are a large reason for the net promoter score tracking below target, we are not relying solely on the improvement in supply chain dynamics to increase our NPS score and customer satisfaction. As an example, we are gathering feedback in real time and gauging the quality of our customer interactions with approximately 7000 completed surveys this half, providing us with actionable insights.

The market conditions continue to create challenges for asset efficiency metrics with both the pooling capex to sales ratio and uncompensated pallet losses tracking below the scorecard target. Despite the challenging operating conditions, the Group's pooling capex to sales ratio improved in the first half of FY23 by two points and we expect further improvements for the full year. Importantly, comprehensive plans are in place and being implemented to mitigate any headwinds from the metrics below target and successfully deliver on the benefits of the transformation programme. We are also beginning to see early signs of improvement in the operating conditions which should have a positive impact on a number of the metrics currently below target.

Turning to the next slide. We continue to make strong progress on our digital transformation utilising data and technology to provide better visibility of our assets and network as well as underpinning new customer experience trials. We now have over 300,000 smart pallets across our network, more than 50,000 are live in over 25 countries, having been injected into the network in a targeted manner to test a specific hypothesis. In the period, we expanded the targeted diagnostics programme to five additional countries.

We also have over 250,000 smart pallets deployed to deliver continuous diagnostics more widely across our network. This includes 200,000 deployed in the UK and on our stringer pallets in Canada which continue to deliver insights on authorised activities and flows of our pallets. We've also progressed the rollout of continuous diagnostics in North America and in Chile as part of the Serialisation+ trial. The Serialisation+ trial, which aims to uniquely identify every pallet, is progressing well, and as at December 2022 we had approximately 180,000 pallets serialised. The process ramped-up significantly in January 2023 with a step change improvement in the tagging rate, giving us confidence that we're on track with our FY23 priorities.

Turning to customer experience, we're excited about the trial of three solutions which are designed to remove inefficiencies across customer supply chains. These trials leverage our unique visibility across the supply chain to generate customer value. On the right-hand side we have our FY23 priorities for each initiative outlined. I don't propose to go into detail on each of the FY23 priorities but we continue to make progress with each priority on track and I look forward to providing a further updated in August 2023. Importantly, we remain disciplined in our approach of deploying capital with future investments in FY24 and FY25 conditional on demonstrating value and scalability.

Turning to our sustainability highlights. We are extremely proud of our track record in delivering improvements against our 2025 Sustainability Targets. Some highlights for the first-half year include an improvement to our injury frequency rate and a two point increase in the representation of women in management positions which reached 35%. We've also reduced our Scope 1, 2 and 3 emissions during the half which represents a positive step forward since our June 2022 commitment to net zero emission by 2040.

There was also an improvement to our waste diverted from landfill across our owned and third party sites, another step towards our 2025 commitment of zero product materials being sent to landfill. Finally, we have further enhanced our leading ESG assessment credentials in the first half, including the top position in the Dow Jones Sustainability Index in our industry category, being named the world's third most sustainable company by Corporate Knights and being recognised as a global top employer.

Turning to the Outlook. Brambles has upgraded its FY23 sales and earnings guidance which reflects better than expected price realisation, driven by both commercial actions and customer mix, combined with improvements to both our pipeline of productivity initiatives and outlook on the macroeconomic environment. For the year ended 30 June 2023, Brambles now expects sales revenue growth of between 12% and 14% at constant currency, underlying profit growth of between 15% and 18% at constant currency, including US$25 million of short-term transformation costs. We expect Free Cash Flow after dividends to benefit from the upgraded earnings guidance and to be an improvement on FY22, albeit still a net outflow.

The level of underlying improvement is dependent on lumber and pallet pricing, normalisation of inventory levels and flows across global supply chains and other productivity improvements in the asset pool. Dividend payout ratio to be consistent with the dividend payout policy of 45% to 60% of underlying profit after finance costs and tax in US dollar terms. The outlook is dependent on a number of factors as outlined on the slide. I'll now hand over to Nessa to provide the financial update.

Nessa O'Sullivan: Thank you, Graham and good morning everyone. Starting with our first half results. The Group delivered strong sales revenue growth of 14%, other income of $181.5 million, increased by $80 million at constant currency with almost half of the increase due to higher surcharge income in North America with the balance due to increased asset compensations and one-off flood insurance proceeds in Australia. North American surcharge income is linked to market indices for lumber, transport and fuel with the increase in the first half largely driven by fuel surcharges. Lumber surcharge declined year-on-year in line with the decline in lumber prices in the US.

Underlying profit growth of 25% at constant currency included seven points of deferred plant and transport cost timing benefits associated with lower pallet return rates and a two point benefit from one-off insurance proceeds relating to Australia floods. Excluding these timing and one-off benefits, underlying profit increased 16% at constant currency and delivered operating profit leverage. Profit after tax for the Group increased 20% at constant currency.

The net finance cost increase was driven by increased interest rates on variable rate debt and higher average net debt over the period, and the effective tax rate remained broadly in line with the prior comparative period. The first half results also included a hyperinflation charge of $12 million, reflecting Brambles' operations in Türkiye, Argentina and Zimbabwe. Brambles' basic EPS increased by 24%, reflecting the Group's profit after tax growth of 20% and includes a four point benefit from the share buy-back programme which was completed in June 2022.

Turning to the revenue growth on slide 13. Group sales revenue increased 14% at constant currency driven by strong pricing in all regions to recover both operating and capital cost-to-serve increases. Group volumes declined 1% as net new business growth was offset by a decline in like-for-like demand. Net new business volume increased 1% as pallet availability limited the business' ability to pursue new contract wins in the half. Growth in the period reflected rollover contributions from prior year contract wins in the European pallet business. Like-for-like volume decline of 2% reflected pallet availability constraints and softening demand across key markets.

Looking at the Group profit analysis on slide 14. Sales growth and the North American surcharge income contributed $454 million to Group profit which more than offset the impact of cost inflation and other operating cost increases in the period. Plant costs increased $126 million, reflecting input cost inflation including repair lumber of $92 million and inefficiencies associated with the scarcity of pallets, with the balance of the increase driven by additional repair costs associated with the manufacturing of one million pallets that would otherwise have been scrapped. These plant cost increases were offset by approximately $20 million of plant cost benefits due to repair cost deferral relating to lower pallet returns and includes damage rate improvements in the US and European businesses and automating benefits.

Transport cost increases of $72 million included $48 million of fuel and transport inflation, increased relocation costs driven by less than ideal plant stock levels and incremental cost to increase asset collections which yielded approximately four million pallet recoveries in the half. The transport operation cost increases were partly offset by a $15 million benefit of deferred costs due to lower pallet return rates. Depreciation increases of $36 million largely reflects the impact of lumber inflation on pallet purchases. IPEP expense increased $21 million in the half, largely due to higher pallet losses in the US.

Finally, other cost increases of $86 million reflect overhead investments across the Group to support growth and the delivery of the overall transformation programme. These investments in increased capability were partly offset by higher asset compensations and a reduction in the short-term transformation costs which is in line with the fiscal year ’23 expectations we outlined at the Full Year FY22 Results Presentation.

Now turning to slide 15 and taking a closer look at the market lumber inflation and our pallet price evolution in our largest regions. After a prolonged period of extraordinary lumber inflation, including historic highs over the past two years, we’ve started to see market lumber costs moderating. Looking at the lumber market dynamics in our key regions on the left-hand side of the chart, US market lumber prices peaked in the second half of last year and we are seeing lumber costs moderating, reflecting improved supply and lower demand for lumber in the market.

While US market lumber prices are currently well below the peaks in the prior year, they remain above pre-pandemic levels. European market lumber pricing increased in March 2022 due to the Russia and Ukraine war impacting global lumber supplies. More recently, lumber prices have begun to moderate and in Latin America, pallet prices have stabilised but remain high due to the strong demand for lumber from Latin America across the globe.

Turning to the impact of these lumber market dynamics and our pallet prices. The charts in the middle of the slide show the movement of Brambles’ pallet prices for the primary pallet in each region since June 2020. Prices have been rebased to June 2020 to capture the movement of pallet prices during this period of elevated lumber inflation. As you can see, the dynamics in all three markets vary as does the average pallet price we’re paying each month across the regions.

However, overall, our pallet prices in all three regions are following the general downward market trend, noting there will always be a delay in the flow-through of market lumber rates into our pallet prices, given how we source lumber. Despite this trend, pallet prices in all regions increased over the first half of the prior year. Combining the various factors across the regions, the Group weighted average pallet price increased by 14% over the prior year first half, with the mix impact due to the higher number of pallets purchased in higher priced markets and also impacted by the mix of where the lumber has been sourced.

Looking to our expectations for the rest of this financial year, in line with our outlook in August 22, we continue to expect the full year Group weighted average pallet price to increase over FY22 due to the region and sourcing mix. However, in terms of the second half year-on-year pallet price outlook, given the prior year half two peaks in lumber, we expect the weighted average pallet price to be below the prior year half two level. Despite these significant increases in pallet prices which have impacted cash flow and pooling capex in recent years, we are confident we will be able to deliver appropriate returns on these higher price pallets through a combination of pricing and surcharges, noting that the recovery of appropriate returns is phased over multiple years, given the related assets have a 10 year life.

Now turning to slide 16 and the Group’s asset efficiency performance in the period. Pooling capex to sales, which is the Group’s asset efficiency metric, improved with the ratio decreasing by 2.2 percentage points despite a three percentage point impact of lumber inflation in the period. The improvement in the pooling capex to sales ratio, which are largely due to both the revenue growth and an overall reduction in the number of pallets purchases compared to the prior corresponding period.

Pallet purchases were made to support cycle time increases, replace scrapped and lost assets and to increase plant stock. They were offset by lower issue volumes in the period and successful asset productivity initiatives, detailed in Appendix 1 of the ASX slide deck which resulted in five million additional pallets recovered and refurbished. On a full year basis, we previously guided to the market, despite pallet price inflation in the year. We expect the pooling capex to sales ratio to improve by three to four points versus FY22 levels, reflecting ongoing sales revenue growth as well as the expected improvement in pallet return rates, as US and Europe supply chains progressively destock and benefits are delivered from our asset productivity initiatives.

Turning to the segment results for CHEP Americas. The Americas segment delivered sales growth of 15% at constant currency, reflecting strong pricing growth to recover cost-to-serve increases across the region. The region also delivered both margin and ROCI improvements despite inflationary cost pressures and higher asset losses due to challenging supply change dynamics. Underlying profit growth of 26% at constant currency included a 12 percentage point timing benefit with the lower pallet return rates driving lower transport and plant activity costs.

Excluding this timing benefit, underlying profit increased 14%, reflecting strong sales flow-through to profit as well as incremental North American surcharge income and pallet durability benefits. These benefits were more than sufficient to offset plant and transport cost inflation, additional asset recovery and remanufacturing costs, higher asset charges and overhead investments to support future growth and the transformation programme.

The North Americas surcharge income, which delivered $38 million of incremental income in the period is, combined with the headline pricing, intended to recover the inflation impacts on operating costs and to enable delivery of appropriate return on increased capital costs of pallets. Return on capital invested improved 1.4 percentage points at constant currency, driven by the increased earnings partly offset by a 17% increase in the average capital invested, which reflects the impact of lumber inflation on pallet purchases over the previous 12 months.

Turning to slide 18 for the revenue profile of the US business. Sales revenue for the US business, which excludes surcharge income, increased 13% with pricing growth of 19%, reflecting rollover contributions from prior year pricing actions and additional pricing initiatives to recover operating and capital cost inflation in the first half. Volumes in the period were down 6%, half of which was due to softening consumer demand, with the balance reflecting constrained pallet availability, impacting both like-for-like volumes and net new business volumes which was in line with the prior year.

Turning to the EMEA region on slide 19. CHEP EMEA delivered sales growth of 14%, reflecting strong pricing to recover operating cost-to-serve increases and progressively recover the impact of lumber inflation on the capital cost of pallets. At constant currency, underlying profit increased 16% with margins improving by half a percentage point as the sales flowed through to profit and higher pallet compensations more than offset the impact of input cost inflation across plant, transport and overhead costs. In addition to inflation, overhead investments in the period included additional resources to support growth and the transformation programme.

Looking at CHEP EMEA sales growth on slide 20, overall sales growth in the region was 14%, driven by pricing growth of 12% to recover operating cost-to-serve increases and progressively deliver a return on the capital cost of pallets, noting that the pallets have 10 year useful life. The increase in price in the region includes indexation. Volumes were up two percentage points, with the rollover from prior year contract wins partly offset by a one percentage point decline in like-for-like volumes, largely due to the softening of demand. Pallet availability constraints in Europe continue to impact both like-for-like volumes and net new business wins in the period.

Turning to the Asia-Pacific region on slide 21. The business delivered revenue growth of 10% in constant currency, driven by both pricing and volume growth in the pallets business and growth with existing customers in the Australian RPC business. Underlying profit growth of 31% included $8 million of one-off benefit from insurance proceeds relating to floods in Australia and a $6 million timing benefit on deferred repair costs due to lower pallet return rates. Excluding these one-off and timing benefits, underlying profit increased 13% as sales growth and automation benefits delivered in the Australian RPC business were sufficient to offset inflationary cost pressures.

The 5.4 percentage point increase in ROCI in the period was largely due to the one-off and timing benefits recognised in the underlying profit, which accounted for just under five points of ROCI growth, with the balance of the ROCI improvement driven by underlying earnings growth more than offsetting the impact of an 11% increase in the average capital invested. The ACI increase relates to pallet purchases and the increase in per unit cost of a pallet impacted by both domestic lumber inflation and the sourcing of higher cost offshore lumber.

I'll now take you through the corporate segment on slide 22. Overall costs in the corporate segment increased $3 million at constant currency as a reduction in transformation spend of $4 million was offset by an increase of $7 million in corporate costs, reflecting both labour inflation as well as additional resources and other employee related costs. Shaping Our Future spend decreased $4 million at constant currency with the $11 million reduction in short-term transformation costs, largely consulting fees, partly offset by $7 million of additional investments to support the digital transformation and other Group-wide initiatives, including improving the customer experience. It's important to note that there are additional ongoing transformation costs that are reflected within the regions and not included in the corporate segment.

Turning to our cash performance on slide 23. Cash Flow from Operations decreased $42 million at actual FX rates, driven by $154 million increase in cash capex, largely due to lumber inflation and the timing of pallet payments, with approximately $170 million outflow in the first half due to lumber inflation on pallets, relating to the purchases in the final quarter of FY22 and in the first quarter of FY23.

Free cash outflow after dividends of $147 million was in line with the prior year with the decline in Cash Flow from Operations and $8 million incremental outflow on financing costs and tax, offset by a $51 million increase in cash flow from discontinued operations. The increase in discontinued operations reflected a $41.5 million final settlement from first reserve, with the balance of the increase relating to cash flows from CHEP China now recognised in discontinued operations, following the proposed transaction announced in November 2022. Dividend payments remain broadly in line with the prior year, as an increase in the DPS on the final FY22 dividend was offset by the benefit from the share buy-back programme which was completed in June 2022.

Turning to our balance sheet. The balance sheet remains strong with $1 billion of undrawn committed bank facilities and cash balances of $188 million. We maintained our strong investment grade credit ratings with our financial ratios remaining well within our policies. During the half, a Green Finance Framework was established alongside a Euro medium-term note shelf programme to facilitate bonds issuing in a green format.

To provide some further context for the upgraded guidance which Graham outlined earlier, I'll finish by outlining some updated considerations which underpin our FY23 outlook. We expect sales revenue growth to be weighted to pricing as we continue to focus on recovering cost-to-serve increases in all regions, particularly in the EMEA and the Americas segment. Price realisation in half two is expected to include roll-over contributions from pricing in the first half, half two pricing initiatives to recover cost-to-serve increases, as well as customer mix benefits.

Group volumes are expected to be broadly flat to prior year, with ongoing downward pressure on like-for-like volumes due to macroeconomic slowdown and one-time impacts of destocking, offset by the reissuing of returned pallets to service existing customers and to pursue new business. Timing benefits of approximately $35 million are expected to reverse in the second half of '23 in line with five to six million of pallet destocking expected in the second half. The North Americas surcharge income is expected to decline year-on-year in the second half, reflecting anticipated year-on-year decline in lumber costs.

For Shaping Our Future, we expect full year short-term transformation costs of approximately $25 million, down from $48.4 million in FY22. Ongoing corporate transformation costs are expected to include digital transformation operating costs of approximately $80 million in line with the guidance provided at the Full Year FY22 Results Presentation. Overhead costs, excluded Shaping Our Future costs are expected to increase at the same run rate as in the first half of this year, reflecting the impact of the first half headcount increases and additional investment to support transformation.

Full year margins across all regions are expected to be above FY22 levels, despite a moderation in the second half margins, including the reversal of deferred plant and transport cost timing benefits. Pooling capex in the second half is expected to be below the second half '22 levels, reflecting improved pallet return rates, including anticipated progressive destocking. Asset efficiency is also expected to continue to improve in the second half, with the full year capex to sales ratio expected to reduce to three to four points over the prior year.

Cash flow benefits of lower pooling capex related to higher pallet return rates are expected to be weighted to FY24. The level of underlying improvement in the capex to sales ratio is dependent on a number of unknown factors, including lumber and pallet prices, destocking and the rate of reduction of inventory levels across supply chains and other productivity improvements in the asset pool. ROCI is expected to remain broadly in line with FY22, reflecting the full year ACI impact of second half ’22 and first half ’23 pallet purchases at elevated pallet prices and reversal of first half ’23 timing benefits, impacting the second half underlying profit. I’ll now hand back to Graham.

Graham Chipchase: In closing, I’d like to reiterate a strong first half performance in challenging conditions. We continue to support our customers in navigating supply chain challenges with increased investment and acceleration of transformation initiatives to restore pallet availability and pool efficiency in all regions. The strong revenue and earnings performance support our FY23 guidance upgrade. Our conservative balance sheet with US$1.2 billion of undrawn committed facilities and cash is a great competitive advantage for the business. The transformation programme continues to deliver benefits and we are making strong progress against our 2025 sustainability targets, including a reduction in direct and indirect emissions. Thank you, and I’ll 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. If you wish to cancel your request, please press star then two. If you’re using a speaker phone, please pick up the handset to ask your question. The first question today comes from Matt Ryan from Barrenjoey, please go ahead.

Matt Ryan: (Barrenjoey, Analyst) Thank you. Hi Graham, hi Nessa. I just had a question on the anticipated destocking that you outlined on slide 5. The 5 to 6 million, can you compare that to how many pallets you got back in the last major destocking event back in late 2016? Then secondly, just looking at that slide, I’m just hoping if you can clarify whether we’re to read your comments to suggest that if you do get the 5 to 6 million back, you’ll have sufficient demand to redeploy the pallets straight away?

Nessa O’Sullivan: Hi Matt, thanks for the question. A couple of things to note, and I think if you look at the first half FY17 results which you’re referencing the destocking, you’ll see that was a relatively small component of what we saw in terms of overall impact. Really what the issue was in that year is that we came into the year with high levels of pallet stocks coming into FY17 and then the anticipated growth did not eventuate. So while there was some destocking, that wasn’t the major event, it was really just due to underlying demand.

As we’re thinking about destocking for this coming next six months and as we look forward, it’s been based on, in each of the markets we’ve had input from customers and retailers about what they plan to do. It’s not an exact science but it’s fair to say how you should think about it is, that we don’t anticipate going back certainly not in this half, to pre-pandemic levels of lower inventory.

There is still a sense out in the market of need to hold additional inventory to manage supply chain risks globally and we would expect to see progressive destocking to continue, certainly into the first half of FY24. Hence why we’re giving you where we landed and what it is and then the related costs of getting those extra pallets back, you can think roughly that’s about the $35 million that you see reversing in the second half that equates to the timing benefit that we had in the first half.

Matt Ryan: (Barrenjoey, Analyst) So how do we think of dwell time looking forward, are you expecting any change to customer behaviour or are you thinking that the pallets coming back through the destocking are just related to demand and inventory levels changing?

Nessa O'Sullivan: Matt, we do see that we would expect cycle time to come down progressively but we don't expect, at least as we go through, certainly the level of destocking we see will reduce cycle time but it won't reduce back to the quantum. So we would expect really how we're thinking about it currently but we'll have to revise our views depending on what happens, but if you think about what we expect in the second half of this year and potentially going into next year, we'd expect probably to at least half the cycle time increase that we saw since the pre-COVID times.

Matt Ryan: (Barrenjoey, Analyst) Okay, that's really helpful, and just a last one from me, if this all happens faster than expected, are you anticipating any bottlenecks in regards to repairs or transport or anything else that we need to think about?

Nessa O'Sullivan: I think there's a couple of things to note. First of all, we come into this period where we don't have sufficient plant stock to operate efficiently across our networks – and we've referenced 5 to 6 million is the level of pallets that we've been short, particularly if we think up to the first quarter trading update. We'd expect by the end of the year that we still would be about [2/2.5 million] pallets short of ideal levels. So if we start getting a lot more destocking then we'd have the opportunity to return to more optimal levels of plant stock earlier.

The second thing, and depending – because it's varying by market, we are in some markets now already gearing up to go after new business wins and looking at that pipeline which hasn't been feasible. In other markets it would accelerate our ability to take people off destocking, and then remembering we have the ability to change the pattern of how many the quantum and how many pallets we buy – month by month when we order pallets, you should think about a lag of about a quarter – we would then reduce our pallet purchases if we ended up with more pallets coming back quicker than we expected, and because of the payment lag time we would expect to see that benefit more flow into FY24 rather than in current year in terms of cash flow. I don't know if you want to add anything, Graham?

Graham Chipchase: No. Matt, the only thing I think we are looking at is whether in some areas we've got enough labour to repair the pallets – labour is tight in some of our markets – but other than that I think we're in pretty good shape to deal with varying rates of destocking, so I think we're in much better shape than we were last time there was a destocking.

Nessa O'Sullivan: Yes, and I think also, the added capacity that we put into the US networks with the automation programme that was completed more than 12 months ago, where we sort of saw an increase of about 20% in capacity, really gives us a lot more agility in our network to be able to handle that.

Matt Ryan: (Barrenjoey, Analyst) That's helpful, thank you.

Operator: The next question comes from Reinhardt van der Walt from Bank of America, please go ahead.

Reinhardt van der Walt: (Bank of America, Analyst) Good morning folks, congratulations on the result. I'm conscious that we haven't got a free cash flow guidance number just quite yet, can you provide maybe just thinking around omitting that little element from the guidance – what's the one question that you need to have answered before you can give us a firm number?

Graham Chipchase: I think one of the things we would say is there are quite a few – and I think we [unclear] presentation, there are quite a few big moving pieces here, so clearly it's going to be things like the rate of destocking, it will also depend a little bit on macroeconomic conditions. I think what we were trying to get across, if we can look at the glass half-full here, is we've obviously had a very impressive upgrade on earnings in the outlook. We are expecting that to drop-through into the cash flow, and if you remember when we did the guidance, we sort of said it was going to be better than '22, which was [minus 200-and-something] but it wasn't going to be positive, so i.e. not zero.

So you've got a 220-something million range there and what we're sort of implying and saying is that that earnings drop-through is going to come through to the cash flow. So we are obviously going to be a lot closer to one end of the range than the other but we can't – because the numbers are quite big and lots of moving pieces, we'd rather wait and see a few more months of activity and see whether the destocking is progressing at the rate we've assumed or not. It may be fast or it may be slow and I think those do have a big impact, so clearly we're going to come back and update the market for trading in April, we'll give a bit more of a view then, and obviously it will depend on where we end up by the end of June, but I think we'll have clearer idea when we get to April. Anything you want to add to that?

Nessa O'Sullivan: No, I think that's fair.

Reinhardt van der Walt: (Bank of America, Analyst) Thank you very much and I appreciate it's a very narrow [glide path]. Just on the slowing like-for-like volumes that you're seeing specifically in the US, could you maybe just give us a little bit of colour around what kind of supply chains you're seeing that in? Is there specific supply chain partner types where the volume slowdown is a bit more pronounced?

Graham Chipchase: It's pretty much across the board. Remember though that we're very much largely weighted to consumer staples so it's not like we're – and I think that's one of the things when you're looking at market statements from retailers about inventory levels, they've got a bigger mix than we have in terms of general merchandise versus consumer staples and you'll see perhaps more of a destocking in general merchandise first rather than staples. So we're not seeing it being focused in one particular area, and of course, we're also subject to quite – seasonality in terms of things like beverages which will be much more weighted to building up towards the summer period versus food.

So there are a lot of moving pieces here but we would say it's across the board, and I think to put a bit of colour on it, in the US, we think half of it's down to slowing down of consumption of the 6% we saw and the other half we think is because we just haven't had the pallets to either enable our existing customers to grow a bit faster, but also to go after net new business wins which obviously we normally do 1% or 2% per annum. So that's I think how we're looking at the volume decline at the moment.

Reinhardt van der Walt: (Bank of America, Analyst) Got it, thanks, that's very helpful. Maybe just one final question, given that you're starting to see that moderation in US lumber prices, especially relative to Lat Am, is there an opportunity now for you to start actually bringing your lumber procurement back to the US and start relying a little bit less on the Lat Am market?

Nessa O'Sullivan: We source lumber globally, it's a key part of our global IP that we manage lumber sourcing and remember also that we stick to making sure that we have 100% supply of certified sustainable lumber. So we will continue to look at where's the best place to buy lumber to meet our needs and that can vary over time, noting that the indices and the type that gets quoted isn't necessarily the exact species that we buy at any given time.

It does depend on supply availability and other factors that determine where we buy the mix from, but it is something that we have expertise in and something that we continue to review. There are a range of things that we do to make sure that we will continue to beat the market in terms of lumber costs, and if you remember, lumber costs in the market went up to 300%, our pallet prices did not go up to the same extent as the lumber market did because of our ability to manage those sort of global supply of lumber into our business.

Reinhardt van der Walt: (Bank of America, Analyst) Excellent, thanks a lot and congratulations on your tenure again, Nessa, I wish you all the best.

Nessa O'Sullivan: Yes, thanks a million.

Operator: The next question comes from Justin Barrett from CLSA, please go ahead.

Justin Barrett: (CLSA, Analyst) Hi guys, congrats on the solid result and well done, Nessa, again, on your time with Brambles. I'm just wondering if I could also ask about the pallet destocking. I think in FY22 you noted you made an additional investment in eight million pallets during the period to support your customers, if you get five to six million pallets back in the second half of '23 and the destocking continues, is there a chance that you get some more pallets back into FY24 as well?

Nessa O'Sullivan: Yes, that's exactly what we think, so when I talked about – when we look at pre-pandemic levels, we think the world has changed and I don't think that we would go – we don't see at least in the short to medium-term, us going back to those levels, because we're hearing from retailers and customers that because of the risks in supply chain that they still are looking to hold higher levels than they have historically. So what we've put in the five to six million pallet destocking that we see in the second half, we'd expect to see similar levels of destocking potentially going into early FY24.

We'll evaluate that and reassess that, depending on what we see, but that would not take us back to the pre-COVID levels. So we see it as more progressive, and remembering though, what's very different to other times when we've had pallets coming back, is that we are short of pallets in our network which means that we have inefficiencies currently. The second point is that we have not been able go after net new business for two years now in the US, but actually – [and then one] in Europe – and we're seeing this supply as giving us that opportunity as well. So progressive destocking, yes, we see continuing into FY24.

Justin Barrett: (CLSA, Analyst) Great, and then maybe just one on pricing. In the US commentary, you noted that you undertook additional pricing initiatives to cover the cost-to-serve, I was just wondering if you could expand on those initiatives. Are they just extensions of what you've done over the last couple of years, or is there anything new in those initiatives?

Nessa O'Sullivan: As you seen when you talk about investment and you see some of the overhead increases, some of that has been improved commercial and analytics capability into our organisation, which means as we've been repricing contracts, we're in a better position now to identify and align our pricing better with the risk profiles and the real cost-to-serve of our customers, and that's, as we do more and more in the digital space and analytical space, we expect that to even improve further.

But you can expect some of it's due to, as we've seen, we've looked at loss rates, that we're in a better position to identify where that sourced from and to price accordingly, we've continued, but a lot of it is more of the same in terms of consistency across the contracts having surcharge mechanisms in there, and also varying – as the price of pallets has gone up, also varying the terms that we have in place that flows through to compensations to reflect the changes in pallet prices.

So a little bit it's more insights as we go to reprice the contract, it's continuing the disciplines that will have delivered benefits to us like the surcharge mechanisms continuing to do that, and it's also looking at trying to align accountabilities and objectives of customers with ours in terms of asset accountability, have really been the key areas of focus.

Justin Barrett: (CLSA, Analyst) Great, very thorough, thank you.

Operator: The next question comes from Andre Fromyhr from UBS, please go ahead.

Andre Fromyhr: (UBS, Analyst) Thanks. Good morning, Graham and Nessa. Just staying on the topic of pricing, can you help us understand on the increase in EMEA pricing, how much of that is explained by indexation versus pro-active pricing initiatives?

Graham Chipchase: We estimate it's about 50/50 between indexation and pro-active pricing, if you want a rough guide.

Andre Fromyhr: (UBS, Analyst) Great, and then if you relate the pricing environment to availability, am I right in understanding there's a different context between Europe and Americas, but maybe you could talk through how you think destocking and higher return rates might change the availability environment and therefore how you have those pricing conversations with customers.

Graham Chipchase: I think we would say that the severity of the impact has been greater in the US and it's gone on for probably a year longer than we've seen in Europe, something like that. But having said that, if you look at the complexity of what's going on in Europe at the moment, I think the way it resolves will also be different. Some of the issues in Europe are somewhat more deep-seated than just macroeconomics, we all know what's going on in parts of Europe right now.

So I think there's been a lag between Europe and the US but I also think that the impact has not been as great on Europe. Already we are seeing availability improving in both the US and the UK and beginning to start improving in mainland Europe. So it feels like the impact is going to be lower in Europe and will get out of it quicker than in the US but in both we're seeing ability now too in the US to take more customers off of allocation and in Europe, start actually looking at converting whitewood customers into pooled customers, so I think in both of them we're heading in the right direction going forwards.

Andre Fromyhr: (UBS, Analyst) Okay, then last one from me just relating to capex, it looks like in the half you spent about [$650 million] odd on maintenance capex, [and that's about a $1.3 billion] run rate for the year, if lumber stabilises even just where it is right now and you complete your asset efficiency programme, where does that [$1.3 billion] go to in the next couple of years?

Nessa O'Sullivan: Well look, we're not giving multi-year outlooks but when we talked at originally back at investor day and we talked about where we were going to go with capex to sales by 2025, we feel confident that as we look at the initiatives we're putting in to asset productivity and we think about the outlook for lumber, we'd be confident that we can get to those levels of efficiency, which was a key ambition. The work that we're doing in digital, that presents additional opportunity, we believe, over and above that because we're getting such strong results already from the analytical insights and we just haven't seen the flow through yet to the extent of the value that we're getting from it yet, largely because of the lumber inflation that's been quite extraordinary.

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

Operator: The next question come from Anthony Longo from JPMorgan, please go ahead.

Anthony Longo: (JPMorgan, Analyst) Good morning everyone. First question from me was just with respect to – appreciate the pallet loss rates in the half, but to take your commentary early in the second half where you saw the return rates improve – improve for manufacturers – are you able to potentially provide a bit more colour on to what extent that has actually improved in percentage rates or some sort of order of magnitude so we can probably put that into a bit of context?

Nessa O'Sullivan: At this point of the year, you to tend to obviously see seasonally you see pallets return. I was working out what is an increased return through flowthrough underlying versus what is part destocking. It's a little hard to actually split out those components. I think in terms of the run rate of returns, we are seeing early improvements but I think we need to go further through the year to be able to be more definitive on what is destocking ongoing, particularly given we came into the seasonal destock with much higher stock than out across supply chains than we would normally have.

Anthony Longo: (JPMorgan, Analyst) Yes, understood. In terms of incentive to manufacturers to get on top of and return that stock back, what sort of discussions have you been having and what is ultimately seen, more of an improvement that you have seen at the turn of the second half?

Nessa O'Sullivan: I think we have to also appreciate what do our customer want from us, and in terms of them having concerns about other supplies unrelated to us, like their input cost to their products, being able to supply the retailers, what they want and keeping buffer stock that retailers want them to keep, that's one component that we hear them saying, we're not going back to pre-COVID levels at this time. The other piece we're doing is, certainly as we work with our customers, where we've seen stock levels increase or demand increase, we've certainly been working with them to understand what's the rationale for that.

Working with them as we're repricing contracts, we obviously have to reflect if the cost-to-serve – generally, if you're holding on to pallets for longer, generally the cost-to-serve has gone up because we need more pallets to service the same volume, so that is part of what we factor into how we price our contracts. We also have been, as we've redone contracts, the compensation for pallets has gone up, recognising the value of the pallets and therefore the cost of holding onto the pallets for longer is also a key input that we have to make a return on, are all things that we've identified.

But we're also more broadly working with individual customers to look for inefficiencies where we can get pallets back and identify where they may have longer cycle times in their supply chain, using the analytics that we get. We've also been working with retailers and improving our ability and frequency of how we pick up pallets that are being returned. We started off doing a whole load of more localised vehicles [unclear] fleets in the US which has been really successful in getting pallets back to us.

But we're also now, for instance, we're rolling that out in Europe as well because we've some really, really good returns from doing that. We're also collaborating with retailers specifically looking at inventory they might have and working out with them how we can work with them to improve supplies back to their customers so that the flow works for retailers and us. So our job has been joining a lot of dots with people across supply chain to understand the role everyone plays in keep supply chains flowing freely, that we need to eliminate collectively, inefficiencies, because there's a cost to us all collectively of holding additional stocks.

So it's been a pretty comprehensive set of collaborations across supply chains to work on improving the cycle times, but some of it's inevitably just based on the risk view of manufacturers and retailers in terms of what they want to hold to be able to service their own end customers.

Anthony Longo: (JPMorgan, Analyst) That's fantastic. Earlier in the conference call, Graham did mention about the competitive landscape and then being reasonably rational at the moment, so just following on from pallet returns, is that something that your competitors are also seeing in terms of those return rates improving? Because I'm just trying to get a sense as to what that ultimately then means for – and I know you have given some commentary around that, your capex – pooling capex to sales in the second half, but I just want to get a sense as to how permanent this sort of trend is such that we can better put that through our numbers as well.

Graham Chipchase: There haven't been many statements from our competitors and clearly we don't talk to each other about what's going on with pallet returns but I think we can anticipate and be reasonably confident that we're all seeing the same pressures and are behaving in the same ways in response to those pressures, partly because there's been no big market share changes amongst the pooled competitors and with whitewood. So I think everyone's behaving in a similar way and we know that because the availability of lumber and the availability of getting new pallets purchased is tight for everybody.

We would anticipate that our large competitors are also having a shortage of pallets in their networks to run efficiently. So when we do see a destocking we would expect people to be behaving in the same way that we've outlined, which is we need to get pallets back in to run more efficiently. Then there will be an opportunity to serve existing customers better and to continue to convert whitewood into pooled, and that would happen equally, we clearly would say that we're investing a lot now in terms of our digital capabilities to provide additional value for our customers and to allow both us to run our business better, but for them to run their business more effectively.

That's something clearly we think we can do and it's based on our much bigger network that we have and our network advantage. So we're confident about where we stand but we're also confident that our competitors are facing the same challenges and therefore there's no reason for them to want to behave irrationally, particularly as the pallets they have purchased over the last couple of years will be super-expensive and they'll need to get a return on that just like we do. So I think that's the basis for our statements.

Anthony Longo: (JPMorgan, Analyst) Yes, sure, that's fair and that's perfect, that's exactly what I was after. A final one from me before I overstay the welcome, in terms of the returns on the Americas, that actually looked quite strong and so I suppose that 20% [ROIC] has proved elusive of late. How far away are you from that to the extent to which some of these business improvement initiatives has come through and in a pretty supportive pricing environment and notwithstanding some of that destocking that you have flagged?

Nessa O'Sullivan: We're very pleased with the progress that we've been making. I think if you go back three or four years, there was a lot of concerns and scepticism about could we deliver on pricing, could we price that reflected the expertise we have and the market leadership position in that market, and particularly, obviously, the US is a big piece of that Americas region. I think, pleasingly, we've seen that discipline of pricing across all of the components of the Americas segment which also includes Canada and Latin America.

I think the commercial mechanisms have made that business a lot more resilient and able to cope with the changes in cost pressures, and particularly the surcharges that we've got in. As our leader in the US was talking about interacting with customers, and she was referencing that as you put the surcharge income in, that the customers are seeing that as an equitable way to do pricing because that component will obviously vary as inflation comes down, but it gives us that insurance in terms of us managing our cost base that we have that in place.

So while we don't give specific guidance going out for [ROCE], we have delivered progressive margin improvement and are very pleased with where we are. The pricing et cetera we do is about recovering the cost-to-serve and it's about getting a fair and appropriate return for what we're investing in in the business, so that's really how we evaluate it.

Graham Chipchase: Yes, and I think the only other thing I would add to that is that clearly the challenge for us in the US in particular but around the Group, is trying to reduce the losses and that's where I think the investment in technology and everything we're doing around asset efficiency, that's what will get us to the slightly higher [ROCE] level in the future but we're not there yet and we've got a lot of work to do but we think we're working on the right things to make that happen.

Anthony Longo: (JPMorgan, Analyst) That's great, thanks, Graham, thanks, Nessa and congrats on the result and also thanks for the help on Brambles, Nessa, over the past couple of years.

Operator: The next question comes from Niraj Shah from Goldman Sachs, please go ahead.

Niraj Shah: (Goldman Sachs, Analyst) Hi Graham and Nessa. Just a couple of ones from. Firstly on the pooling capex to sales guide for this year. You've obviously seen a price [led] upgrade to sales and at least directionally the profile on pallet cost seems consistent with how you were thinking about and talking about things three and six months ago. So just wondering why you're not more optimistic than the three to four point improvement and pooling capex to sales for the year?

Nessa O'Sullivan: Niraj, I think what you have to take into that is if you notice we have caveated to say it depends on a lot of factors in terms of the number of pallets that you get back, what the actual pallet price is, and we try and balance that with, what's our best balance view about where we're going to go? We set a target for ourselves which we communicated and gave a lot of transparency to the market to say we're going after three to four points of pooling capex to sales improvement in the year, we've delivered over two of that in the first half and we believe we're in a good place to be able to deliver on the three to four.

If we get to a better place then that's something and if we feel more confident on that as we get to the next quarter trading update, we're very happy to provide commentary, but at this point, it's based on a lot of assumptions to get to that number and we're confident of the three to four point improvement, is probably how you should think about it.

Niraj Shah: (Goldman Sachs, Analyst) Fair enough, that makes sense. Then the second one, just on IPAP first half, second half phasing is always sort of tricky so just keen to get your thoughts on how we should be thinking about that in the second half and [for the full year].

Nessa O'Sullivan: Basically, how we're thinking about it for full year is basically assume run rate for first half is where we are for second half, that's our go in position.

Niraj Shah: (Goldman Sachs, Analyst) Got it, thank you.

Operator: Thank you. The next question comes from Sam Seow from Citi, please go ahead.

Sam Seow: (Citi, Analyst) Morning guys, thanks for taking my question. Just interested in the implied volume decline in the US there in the second quarter, it appears it could have been close to double digits. Just wondering if [one, that was right] and interested in any comments or colour there.

Graham Chipchase: Sam, we're not giving the quarter by quarter volume declines but I think if you look at what we showed for the back end of '22 and then now the first half of '23, I don't think there's a massive difference in the volume decline. I think we are for sure saying that while half of that decline is driven by pallet availability or obviously the lack of availability, half of it is driven by a slowing down of consumption. That maybe has got a little bit higher in the last month or two and the impact from the pallet availability has improved a little bit, but roughly, roughly, I don't think there's a big change in direction here between the first six months of this year and the last six months of last year.

Sam Seow: (Citi, Analyst) Okay, and then maybe just following on from that, am I right in assuming the guidance implies circa 2% volume growth in the second half? Then maybe could you perhaps talk to the split on where you see that coming from [unclear].

Nessa O'Sullivan: No, we haven't given guidance by each of the segments in terms of where we see the growth but we have said that the second half growth in revenue we believe will be weighted to pricing and as we look at it, we think potentially, broadly flat in terms of volumes but a lot has yet to be played in terms of destocking versus issues, will we get enough pallets back to reissue them quickly enough as well to go after new volume growth. So that's the factor to think about but I'd be thinking about second half of the revenue growth largely driven by pricing and probably volumes broadly flat, but that's the go in position and we'll provide updates as we trade through the second half.

Sam Seow: (Citi, Analyst) Too easy, and just one more, just interested in the strong price realisation despite uncompensated pallets tracking below your scorecard and the operational leverage also despite automation well behind. Just looking forward, how should we think about margins [from here,] with some of those benefits to come and [lay in] in but also anything unwinding potentially in FY24?

Nessa O'Sullivan: As we've put the guidance together, what we've tried to do is give a view as to [what we expect], and we do expect full year margins across all the regions to be above FY22 levels and that factors in that we had timing benefits in the first half that we see reversing fully in the second half, and we've tried – if you look at the segment slides, we show you the quantum that we've estimated for each of the regions that you can build in to what you expect to see and how that might come together. But essentially, think about year-on-year despite timing in the first half that reverses in the second half, we expect overall margin improvement.

Sam Seow: (Citi, Analyst) Thanks for that, appreciate the colour.

Operator: Thank you. The next question comes from Anthony Moulder from Jefferies, please go ahead.

Anthony Moulder: (Jefferies, Analyst) Hi, good morning all. If I can start with pricing, obviously pricing in the US is very strong, 19% for the half, are you able to break down how much of that [unclear] obviously a component of that is given the higher capital cost, the higher cost-to-serve, the rest of it would be potentially adjustable down if the inflationary aspects of the business start to reverse. Are you able to split as to how much of that pricing increase potentially could come down as inflation eases?

Graham Chipchase: Simple answer is none of it, really, because the surcharge income is treated separately, Anthony, so the number we're showing there is purely [sort of] the price increases we get to reflect either the increased cost-to-serve or when we're looking at changing commercial terms to ensure that good behaviour is being rewarded and bad behaviour of our assets is not. The whole thing we're doing in terms of being much more specific around what's happening to the pallets and how we can commercialise and make sure that we are being compensated for transfers, which we weren't in the past.

That's all that work we're doing with smart pallets in the US, is helping us get those sorts of price increases as well as recognising that the cost-to-serve has increased systemically for the business over the last couple of years and the rolling process we have of going through the contracts as they roll off every three years on average, to make sure that we are getting compensated for that increased cost-to-serve. The lumber surcharge and the other fuel surcharges are shown separately and you're absolutely right, as we see a lowering of those cost inputs, then the surcharges will drop away, which I think is a good sign for our customers because they're knowing that at least there is some benefit as cost inflation mitigates.

Anthony Moulder: (Jefferies, Analyst) [Unclear] talk to lumber, obviously slide 15 [unclear] very helpful, but we're seeing US lumber pricing in particular come back to where it was pre-COVID, that's obviously not what you're seeing on what you're buying, is there a delay in how you're transacting on lumber relative to some of the indices that we're seeing and is that a contractual delay? Or how do we think about the delay that we see in index pricing on lumber verse what you're paying?

Nessa O'Sullivan: Well, you should [start from the,] Anthony, that we didn't go up by the same quantum as the market. We have a big competitive advantage that we buy lumber globally. Even when lumber costs went up, we stuck to our credentials of buying 100% sustainably sourced and certified lumber and we were able to do that consistently. So our mix is going to be different to others but you can see we're very well insulated, our investment in sawmills in the US meant that we actually have a competitive advantage in terms of we didn't see the same increase in pallet prices as others saw, because we have more efficient processing of lumber and we have more strategic partnerships to get supply of lumber.

So all of that means that – and the species of lumber that we buy relative to the quoted market indices is going to be different and there's various criteria I could – if we had a supply chain person on here, they could go into a lot of detail about the different species, durability, all those things that we weigh up on total asset cost of life, which determines where we source lumber from, who we source them from, have they got the right credentials that we want to buy them for.

But you should start from a point of, we didn't go up by market, therefore as you see – and we're not buying exactly the same amount, you should expect we will continue to have a competitive advantage on how we source lumber and our pallet pricing overall taking total life of asset into account. So you could get a lower price less well-constructed pallet but relative to what we buy and purchase, we still would outperform the market on that.

Hence why we give specific transparency, and we have over the last results and now so that as you're going through this it sort of helps people to understand how we're thinking about it, and at the full year we did advise the market we expected to have lumber inflation, and I know the view was, but markets are coming down. Hence, we'll continue to do that as we work through this till we see lumber costs get back to a more normalised state.

Anthony Moulder: (Jefferies, Analyst) Sure, I guess it says more as to what – or maybe more of a guidance as to what's happening in the wide pallet market over time. The second question I had was around Serialisation, that trial in Chile, it's continued but I think you're now targeting 30% of the pool, is that a high enough penetration to make a call on that investment as early as June?

Graham Chipchase: You don't need to do 100% of the market to make a call on some of the elements of what we're trying to do there. So if you think about Serialisation+, it's testing out many different hypotheses and our view is that we will, by the time we get to August, so when we actually talk to the market – and every month helps here I think – we'll be able to say, yes, this is what we think is happening, here's where we see value and here's where maybe we don't and it's going to be of course a number of different value hypotheses.

I think one of the key things is there is no silver bullet here, it's not one thing and then we're going to be able to do everything we thought of, there is a number of different things and we probably will find some don't work and we'll have to pivot and go and look at something else, and others will. So I think that's how we're looking at it. The 30% is about enough for us to get what we need to get out and come up with some views.

Would it be nice if it was more? Yes, it would but I think we're reasonably comfortable that 30% is enough and we've got to be clear, it's quite a challenge to get to the 30% as well. We're doing a hell of a lot in Chile right now and we're actually in real time starting to come up with new ways of applying QR codes to pallets, making sure that we can read all the information. It's very much a sort of a big and live experiment, we're learning as we go along.

Nessa O'Sullivan: I think it's probably fair to say that the analytic side of this capability investment we're probably going faster with that and while the Serialisation, as Graham said, we haven't been able to get to digitise as fast because of some semiconductor shortages and other aspects, that we feel good about where we are overall in terms of impacting asset productivity.

We will wait to read the results of those trials and looking at what makes commercial sense before we make any wholesale major step-ups in investments and we will continue to show capital discipline, that we have a good track record of doing that, looking at investments, assessing it, et cetera. So we see this as an important piece to change the game and continue to provide competitive advantage but we're very mindful of capital allocation that will continue to be a key input as we look at the results of the trials.

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

Operator: Thank you. The next question comes from Owen Birrell from RBC, please go head.

Owen Birrell: (RBC, Analyst) Thank you, good morning everyone. Firstly, just wanting to thank Nessa for your contribution to the improvement of Brambles over the last six years. I just want to say it's been very impressive to witness in the time that I've been covering Brambles. I've got two questions, the first one is around pallet purchasing behaviour through the last six to 12 months and then going forward. Have you been purchasing pallets through the first half and then into the second half on just a very steady basis or are you trying to time your pallet purchasings to align with the destocking activity?

That's the first question, and then in terms of the purchasing for pallets going forward, you've clearly been holding back purchases given the higher prices, and that's obviously impacted your volume growth, with the pallet prices falling, just wondering how much further they have to fall before you start to pick up purchasing back to more normalised levels?

Graham Chipchase: I think the first thing to say is, (a) it's different by region, number one, I think that's the first thing to say. So somewhere like Australia, we have not been holding back at all and the issues that just trying to get the right lumber to make the pallets, because it's clear that our customers desperately need more pallets and we're trying to do everything we can to meet those needs so we're not holding back at all there. In Europe and in the US we haven't been holding back for a period of time, we're definitely not holding back because the allocation issues was severe in the US 18 months ago and we were trying to get every single pallet we could, even though they were at significantly elevated prices as you can see from some of these charts on page 15.

At the moment though and places like the US is a good example, I think we are being mindful of trying not to go hell for leather on pallet purchases when we all know there's a destocking happening, we just can't call when and the extent of it. So we are being mindful but one of the – going back to Nessa's point about us outperforming the market on cost, part of that is because we have commitments to make with the sawmills and so there's a certain level we will take anyway because that's part of the long-term strategy to have a sustainably cost and competitive advantage on pallets.

So it's not as simple as turning the tap fully on, fully off. It's about tweaking it as we go through, and at the moment we're in the tweak of, yes, let's buy a bit less than a bit more in the US because we think there is a destocking event going to take place. But currently, there is still a shortage of pallets so we're still having to be mindful of keeping our customers supplied, so it is a balance and as I say, it is quite different between different regions.

Owen Birrell: (RBC, Analyst) That's very clear. Just one last question from me, just looking at the transformation programme, we're most of the way through '22 and '23, the first gate is approaching for the investment in FY24, I'm just wondering whether the programme has been sufficiently successful to date to proceed with the programme into FY24?

Graham Chipchase: The programme has been very successful, first statement, but I think the mix of where the benefits have come from have come more from what we call the track one things which are, let's use data and make the existing business better than it is. I think that is what we've been doing and it's been working really well. The track two, which is the more transformational stuff was always going to be longer tail, some of that '24 capex is based on things like these customer solutions trials we're doing, the three that I talked about, to my slides, where we haven't got the final solution yet.

We're still working with one or two customers; we don't know how scalable it will be and we've still got to go through that process of (a) working out just what the true value is before we push the button on rolling it out. So some of the things around customer experience, things that we're talking about in terms of better notification, all those things, I think the value is sufficiently there, we will roll them out. But the big ticket capex items [where we are] relating to customer solutions and we're not there yet to say whether we're going to do it or not, and if anything it might be pushed out.

I think the '24 numbers would be pushed out a bit I think to '25, but we don't know for sure because we haven't seen the results of the customer solutions, but I think one should take a slightly more prudent view of those capex numbers. I don't think compared to the investor day we're going to be quite there for '24.

Nessa O'Sullivan: Yes, I think you should think about it more capex light version as we go into '24 and probably early '25 because we've seen the commercial terms very successfully did deliver, we're seeing the analytics deliver really, really well, so you sort of factor those, we've probably got more value from those things than we had anticipated, and some of the other things we want to test and make sure we roll out the right solutions and that when we invest and make the big step change that if it's in customer solutions, it's something the customers want and that they will value.

Similarly, with the investment in digital, that we can see sustainable benefits from doing it, and scalable, because it's about making sure to get the insights, how can you scale these and can you make it work efficiently, and as we're doing that, some of the analytics has sort of overtaken as well and given us more insights and more value than we probably expected.

Owen Birrell: (RBC, Analyst) That's very good colour, thank you.

Operator: Thank you. The next question comes from Cameron McDonald from E&P, please go ahead.

Cameron McDonald: (E&P, Analyst) Good morning, Graham and Vanessa. Just one question from me relating back to the destocking the pallets. You said last year that you were five to six million pallets short in terms of safety stock, you're investing to try and restock that level and now you're getting another five to six million coming back to you in second half returns. Why do you need so many pallets, so going back to the capex to sales ratio, and then secondly – or are you also implying that you think that, given the pallets that are returned, and you've highlighted increased repair costs, are you actually anticipating a larger write-off of some of the pallets because they are the more damaged pallets that are returned?

Nessa O'Sullivan: Quite a few things in that, so let me start with, we have seen an improvement with the asset efficiency metric in the first half down by more than two points. We expect to be on track to deliver a four point full year reduction, which is an improvement, in the capex to sales, so we see ongoing efficiencies. So when you think about these numbers, they're not the same numbers because remember, assets have a 10 year life, so within our pool, we have assets that go for scrapping every year, that it's the end of their useful life that we replace.

We are doing things, you'll see, our scrap rate is going down, so that's helping us with asset efficiency. Depending on the timing and when we get more pallets back, that will also further help with asset efficiency because we believe it does mean that overall cycle time will come down. What we have seen in terms of pallets coming back, is we have seen less damage in terms of the damage rate overall but we are seeing higher levels of repair per pallet, and part of the reason is because over the last, three, four, five years, we've actually been investing in a range of things to help reduce the damage rate in our pallets.

The most recent one is we talked in Europe where we saw – where we changed the pallet design where the front boards were butted together which gave the pallets more rigidity. So in both the US and in Europe, despite early returns we are seeing damage rate come down. We also have some quite innovative solutions that we have that are in the pipeline that we're going to do more work on. So on balance, from what we've seen from the initial levels of return, we factor that into, as we say, the deferred repair costs and what we see coming, but thankfully, a lot of the pallets that have been out there have probably been sitting stable and not necessarily moving around as much.

We are seeing some higher damage but when you look at the net net, it's not something that we're concerned about or we see as a particular trend. Automation helps us to repair those pallets more efficiently anyway and we have factored into inflation into the repair costs that we put into forecast and also into that reversal of timing benefits.

Cameron McDonald: (E&P, Analyst) If we just unpack that too, you've got five to six million of destocking, five to six million of safety stock, does that give you then the ability to significantly grow market share or net new wins in a quite aggressive manner, given that you sort of then end up potentially being double the amount of surplus pallets that [you just normally carried through the cycle]?

Nessa O'Sullivan: Cameron, just to qualify and make sure we clarify so, we were saying that if you looked from where we were up to the first quarter as well of this year and last year, we said, ideally, we would like five to six million more pallets globally across our networks to support our customers and enable us to operate as efficiently as possible. Based on this five to six million coming back and what we plan to spend in capex, we think by the end of the year we'll still be two to three million pallets short of the ideal level. So if we get more pallets back, that will help us to get at efficiency level, and then Graham was talking about what are we going to do as we've seen the supplies start to improve?

In the US, it's allowing us to take more of the existing customers off allocation which should help with organic support or organic growth, and then in Europe, with the returns, we're now starting to be able to say, if this rate continues, we're now able to go after net new business wins. In Australia as we do it, we'll buy about 1.8 times the number of pallets that we would normally have bought at any other peak, so we've significantly ramped-up the new pallets that we're putting in because of the shortages.

Again, the availability is a key challenge in Australia so all of those factors. In some cases it's about getting back to more normalised and efficient operations, and in other places it's about restarting growth on net new business. So that's probably the context that you should think about it. But I think the component that you might be confusing a bit is, you're not thinking that we buy pallets anyway which covers the pallets that – end of asset life pallets that we need to buy are lost assets that we need to buy. So this is a component of that and so we're just highlighting those pieces, so hopefully that clarifies for you.

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

Operator: Thank you. The next question comes from Jakob Cakarnis from Jarden, please go ahead.

Jakob Cakarnis: (Jarden, Analyst) Morning, Graham, morning, Nessa. I might start with Nessa. Can you just give us a sense of what the seasonal destocking or return rates look like over the quarter in a typical year and maybe you can let us know how that's turned out over the course of fiscal '23 please?

Nessa O'Sullivan: As you can imagine, through the year there's a normal level of destocking and stocking up that you'll see seasonally, and those who've looked at our business year-on-year you sort of would see that normality. We are having higher levels of pallet returns than we would have said would be just seasonal. But as I said earlier, it's too early to know the extent to which that is destocking of excess pallets that's been held, or for us to know how sustainable that is over the full year in terms of rate of destocking that we can expect for the half. But we are seeing early signs of increased levels over and above what you'd say is seasonal from US and Europe, and less so in Australia but still a little bit in Australia that we're starting to see.

Jakob Cakarnis: (Jarden, Analyst) Sorry, I guess what I was getting at there is third quarter you'd probably get a higher return rate, I'd think, after customers unwind after the holiday period.

Nessa O'Sullivan: Yes.

Jakob Cakarnis: (Jarden, Analyst) How do we think about then with the destocking commentary that you're giving us today, the progress would be as we get to the first half of '24 maybe or if you just want to give us a sequence through the year? Obviously there's a build-up again in the fourth quarter, just interesting the shape of what destocking could potentially look like over the second half of '23 into the first half of '24?

Nessa O'Sullivan: Okay look, we're not going to go season by season, month by month, but just roughly, roughly, some of the things that you should look at, if you come into – as you get into globally, Black Friday sales, there tends to be a stock-up. You get into the US, you come Labour Day, that's usually a stock-up event. Christmas – sorry, and US, Thanksgiving tends to be just as big as Christmas, sometimes bigger – and then Christmas tends to be a big stock-up period.

Again, you'd expect that to be kind of six to eight weeks out, is sort of where you come, and sometimes even if there's big velocity going into that, you also end up with extra stocking. Post-Christmas you get a destocking event and then as you come into the European summer, particularly – and Graham alluded to it because of our exposure to beverages in particular – that we tend to have a big stocking-up. Easter is also another peak through the year. So when we look at this there's a lot of moving parts.

We look at what does seasonality look like, what are we hearing from the retailers, what are we hearing from our customers, what do we expect will happen if there's a recessionary environment, remember, [where] consumer staples if people eat more at home. So it's not a single I can give you, this is up by six points, that's down by six points. We do look at the historics, we look at based on what we get from feedback, and that's where we come back with based on what we're hearing and what we're seeing initially, we think it's five to six million pallets is destocking in this half and then I alluded to we will have a better view – so don't take it as specific guidance, but if we were to guess we'd probably say around the same quantum going into the first half of FY24.

But we have to wait and see what happens with market dynamics and we'll factor that into the outlooks when we do the full year, and if there's any other comments, if we see something different to what we expect, we will comment on that too in the quarterly trading update.

Jakob Cakarnis: (Jarden, Analyst) Helpful, Nessa, thank you. Just one for Graham, quickly, on the pricing front, obviously taking price now across key markets in the US and continental Europe, you just talked to some of the potential elasticities or issues that you might face, firstly from the existing contractual increases that are going through that maybe as a second derivative whether or not you expect as you go for market share from these returned pallets, whether the pricing intensity or competitive intensity could increase? Maybe if you could just stratify the answer over the US and Europe, please?

Graham Chipchase: Given that there is still a demand internally for pallets in terms of optimising our own efficiency and we think competitors are in a similar position, I do think that we shouldn't be worried about a flowback of pallets leading to a desire for people to go after market share. I just don't think (a) there are going to be enough coming back in the short to medium-term for that to be an issue, but on top of that I'm hoping and expecting that everyone's going to behave rationally because – and it's not because it's a philanthropic desire – if you think about the fact that all of us have had to invest in significantly higher cost pallet over a two to three year period now, we need to make a decent and acceptable return on that investment over time.

I think this is the other thing here, we've got to remember the spike in costs that we have incurred has been over a short period of time but yet the asset life is over a long period of time and we don't want to pass on big price increases over a short period of time to customers, we need to make sure it's fair, reasonable, rational and relating to the usage of the asset as far as they're concerned. So that's what I think will happen and we certainly are not going to go out there and try and grab market share if we end up with pallets coming back. We'll behave as rationally as we always do and we'd expect to get our share of the conversion market from whitewood into pool, but we're not going to try and go for any land grabs, that's for sure.

Jakob Cakarnis: (Jarden, Analyst) Okay, just historically, when this has occurred there's been some storage charges, just to your comments there, Graham – acting rationally – should we interpret the difference between where the market demand ends up and the pallets that you guys get back that there might be some storage in the new term until demand swings around again?

Graham Chipchase: Yes, we do think that things – and when we talk about some of the cost avoidance we've had around repair costs, when we start talking about some of those costs coming back, it does factor in a little bit for storage costs. Again, I think the difference to previous times is we're not going in with a big surplus of pallets that we had in the last time around so the pallets that come back, certainly in the first few waves of destocking, we need them back into our own system so we don't need the external storage, which was not the situation back in '16/'17. So I think that would be my first point, but eventually if everything came back, then yes, we would have some storage costs to incur but I don't think they would be as material as they were last time.

Nessa O'Sullivan: Yes, and also we would adapt and we would then change the plans for pallet purchases ending up with more pallets. I think the last time this was a bigger issue was really '08/'09 which was a case going in with high levels of pallets going into the market and there wasn't pent-up demand. We haven't been able to go after net new business as well as being short of pallets within our own system, which is very, very different, and if you look at what happened to the overall business in that time, relatively resilient.

The bigger issue was, as you go into ’10, if you were looking at historics going, what could happen, it’s really when you had the factor of iGPS who subsequently went bankrupt because they were pricing plastic pallets the same price as wooden pallets. I think we’re just in a fundamentally different place, we have pent-up demand, we don’t have enough pallets in the storage and we can turn off the capex at a short-term so we’re not going in with excess pallets.

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

Operator: Thank you. The next question comes from Paul Butler from Credit Suisse, please go ahead.

Paul Butler: (Credit Suisse, Analyst) Hi, thanks for taking my question, just one. Graham, you’ve talked about the digital transformation enabling you to identify unauthorised activities in the supply chain with your pallets, given the insight that you have from that, what’s your estimate of the quantum of revenue leakage within the business?

Graham Chipchase: Good try, Paul, so we’re not going to give details about that, however, I think, when we talked at the last investor day about the margin improvement and the ULP improvement, clearly, some of that is coming from our ability to stop the leakage that was taking place. I don’t think it – it’s not, to use one of Nessa’s favourite phrases, sheep stations, but in some markets and over the last year or two, somewhere like the US where we know that we’ve got higher losses and therefore it’s not that pallets are disappearing and being destroyed, we know that there’s more unauthorised usage, and I think you can see one of the components of the improved US performance has been us starting to address some of that. But again, it’s not the biggest item, it’s a factor, but there are a lot of other things as well that we need to address, not just that.

Paul Butler: (Credit Suisse, Analyst) Okay, thank you.

Operator: Thank you. At this time we’re showing no further questions, I’ll hand the conference back to Graham for any closing remarks.

Graham Chipchase: Great, well thank you all for your questions, and as I say, we’re very pleased with these results and it’s a great set of results but I would just like to thank our people because they’ve had to do a tremendous amount of work to get these results [in and when in] very, very difficult operating conditions so I’m obviously very pleased for all of them as well. Looking forward to seeing most of you, I think, over the next week in various meetings, so thank you very much for your time today.

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