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Start of Transcript

James Hall: Good morning all and thank you for joining us for this morning's presentation. In a moment our CEO Tom Gorman and CFO Zlatko Todorcevski will present our first half results. There will be a Q&A at the end of the presentation and I'd just like to remind everyone that all currency amounts are in US dollars and that we refer to the growth rates in constant currency unless we state otherwise.

Thanks everybody. I'll hand over to Tom now.

Tom Gorman: Well thank you very much, James.

Now before I get started with our review of the first half and a discussion of our financial outlook I would like to address a personnel announcement that we made earlier this morning. As you would have seen by now Zlatko Todorcevski has announced his intention to retire from Brambles and to step back from corporate life. I've been working for 35 years. I've worked on four continents with literally hundreds of extremely talented professionals and I'd put Zlatko at the top of that list of people I've had the privilege to work with. His work ethic, professionalism, knowledge, experience and desire to do the right thing are all exemplary. He has been a great executive partner as we've continued to move Brambles forward and he's been a great friend.

Now I understand extremely well the C-suite challenges in a company like Brambles with requirements for extensive travel and time away from home and loved ones. While I'm very sorry to see Zlatko moving on I understand and respect his decision. But to be clear Zlatko is not rushing out the door. He has agreed to work with us to ensure a smooth transition over the coming months. I'm sure you'll hear a bit from Zlatko on this very shortly but for now let's get started reviewing the first half performance.

I will start by touching on our safety performance. In the first half of FY16 the Brambles injury frequency rate continued to improve and was down to 9.6 per million man hours. The continued reduction in injury and frequency reflects all of our employees' commitment to a zero harm environment.

Now turning to our increased full year guidance and strong first half result, we are delivering our strategy of investing in our very strong network position which is enabling us to thrive despite significant macro-economic uncertainty and continued competitive intensity. We are in great shape for the second half and for the outlook into FY17. Now this is reflected in our raising of guidance for sales revenue and underlying profit for FY16 to growth of 8% to 10%. This translates to a range of $1.015 million to $1.035 million and that of course is at 30 June 2015 exchange rates. We are also reaffirming our longer term objectives for FY19, including our target for return on capital invested of at least 20%.

Our first half result was extremely positive, reflecting the hard work of our teams worldwide. Sales revenue was up 8% at constant currency driven by net new business wins, pricing and mixed gains and organic volume growth throughout the pallets business as well as growth with existing and new retailers and RPCs most notably in Europe. The positive leverage we have delivered to underlying profit which was up 10% reflects margin improvements in pallets, in particular from upside operating leverage in the Americas and continued direct cost efficiency and sales mix benefits in Europe.

In line with this strong performance we have increased our dividend by another $0.005 or 3.6% to A$0.145 per share and the non-underwritten dividend reinvestment plan will remain in place and this will remain with a discount of 1.5%.

For future dividends subject to financing requirements we intend to remove the discount from the DRP and to neutralise the impact of any dilution by buying back an equivalent number of shares.

Growth CapEx is tracking slightly below our forecast of $500 million for the full year as we are exercising discipline in the allocation of capital across the portfolio. We are investing strongly in the pallets and European RPC businesses which deliver great incremental rates of return. However, elsewhere growth CapEx was lower in the period than either the first or second half of FY15. We are keenly focused on all of our business units' ability to deliver satisfactory scale and returns within a timeframe acceptable to shareholders and we will reduce investment or take other actions where we do not believe that will occur.

Moving on, this slide presents the financial highlights of the first half '16 result in a bit more detail. Our results were impacted by currency movements reflecting the strength of the US dollar relative to other currencies. Those other currencies by the way account for about 60% of our sales revenue. This impact is essentially all translation effect and for this reason I will focus on constant currency growth rates from here on. I will also focus on underlying profit metrics as the stronger increase in statutory profit measures reflected the impact of prior period significant items rather than comparable performance.

The increase in sales revenue of 8% to $2.8 billion and underlying profit increase of 10% to $474 million were of course very pleasing to the team. The underlying profit number of $474 million translates to $491 million at 30 June 2015 exchange rates and that's the point at which we give our guidance. Underlying profit after tax was also up 10% to $296 million with underlying earnings per share up 9% to $0.188 per share. This strong profit growth did not translate to improved return on capital invested which was down 30 basis points to 14.7%. This reflects the impact on total capital invested of acquisitions that we've made since the start of first half FY15.

However, on the basis at which we set our objective to get our return on capital back to at least 20% which is prior to the impacts of any acquisitions made since December 2013, return on capital invested was actually up 60 basis points.

I would also like to take this opportunity to remind you that first half return on capital is generally not as strong as second half reflecting the seasonality in our business. Brambles value added, the economic profit measure that we use and which is calculated at constant 30 June prior year exchange rates, was equal to the prior corresponding period at $104 million reflecting the impact of improved profitability offset by the impact of capital invested for acquisitions.

Cash flow from operations was $260 million up $11 million at constant currency as profit growth offset increased CapEx.

Now turning to our segment performance, as you can see from this table on a constant currency basis our pallets business delivered outstanding improvements across all metrics and it really drove our first half result. Pallets account for about 75% of our revenue and on that revenue we are getting great leverage.

Our RPCs business continued to deliver strong sales growth particularly in Europe where expansion with new and existing retailers exceeded our expectations in the first half. Despite return on capital improvements in Europe and the strength of our operations elsewhere the profitability of the RPC business continues to reflect some short term challenges associated with our North American operations which really are yet to reach scale. We remain confident about the potential of this North American business and are taking specific actions to address profitability challenges.

Finally moving on to the containers segment, now this largely reflected the performance of Ferguson which was adversely impacted by the severe downturn in the oil and gas sector during the period. While our IBCs, aerospace and automotive businesses delivered sales growth, the overall performance of the containers segment is below our expectations. We are focused on addressing the specific challenges in the containers businesses and have been reducing capital expenditure in line with these challenging conditions.

Now turning to our revised outlook for this year in a bit more detail, in FY16 compared with what we anticipated to at the start of the year sales are stronger, leverage to profit is stronger yet, interest costs are lower and the capital efficiency of our growth is better. We are generating strongly positive incremental margins and returns in our growth capital.

To summarise we expect sales revenue and underlying profit growth to be up 8% to 10% for the full year. This compares with the 6% to 8% increase that we guided previously. Of course I'd just like to remind you that all of this is at constant foreign exchange.

We expect our underlying profit range to be between $1.015 million and $1.035 million and this guidance is at 30 June FX rate. This guidance is up $15 million from the prior range.

We now expect interest costs for the full year to be in the range of $115 million to $120 million and this is down from our previous guidance where we anticipated a range of $120 million to $125 million.

Our effective tax rate expectation is unchanged at 29%.

Growth capital expenditure is unlikely to reach the $500 million we forecast back in August and this reflects a lower investment in some of our newer businesses. We continue to anticipate the return on capital invested will be down for the year as a result of the impact of acquisitions that we've made since first half FY15 but return on capital will be up excluding acquisitions.

Now I'd like to look at sales performance in a little more detail. From the first half base of $2.795 billion constant currency growth was 8% and that brings us to the number of $3.025 billion of sales. Net new business wins in the pallets segment contributed $44 million of the total $231 million of constant currency growth. Now the greatest contributor to this was North America where we are converting customers from white wood at the strongest rate for some years. This is driven really by our market segmentation strategy.

Western Europe also contributed to new business growth despite some rollover impact of prior period contract losses in our largest European market, the UK, while momentum remains very strong in emerging markets where we saw growth of 16% in the half.

Like-for-like volume growth and pricing gains in pallets contributed to $91 million of total growth. In like-for-like volumes North America was again the strongest contributor where strong beverage sales in particular was a key driver. As those beverage sales were also strong in Europe pricing gains were positive across the business.

In the RPC business the $53 million growth contribution excluding acquisitions reflected ongoing expansion with existing retail partners in Europe such as REWE in Germany and adding new retailers such as Intermarché in France. Expansion in the RPC business also continues at strong rates in Australia, South Africa and across South America.

In North America we continue to growth with key retailers such as Walmart, ATB, Loblaws and Kroger. However, our growth momentum has been affected by Safeway's diminished support for RPCs since Safeway was acquired by Albertsons.

Containers contribution to growth excluding acquisitions was small at $3 million. The automotive, intermediate bulk containers, aerospace and catalysts and chemical businesses all delivered growth but this was only just able to offset the impact of the decline in Fergusons' revenue which was down 32% on a like-for-like basis. This reflects the sharp drop in oil and gas activity in the period.

Acquisitions in total contributed $40 million of sales revenue and this comprised two months of additional contribution from the Ferguson business which was acquired during the prior corresponding period plus this also includes the Braecroft plantation and timber milling business in South Africa and the Rentapack and IFCO Japan RPC businesses that were acquired during this calendar year. The impact of currency translation is evident on this slide representing a variance of $274 million.

I will now go into a bit more depth on the CHEP North America contribution by revisiting some of the topics the President of that business, Kim Rumph, discussed at the investor briefing in Pasadena in September of last year.

CHEP's North America first half sales growth of 7% was a direct result of initiatives we discussed in Pasadena the significance of which may not have been totally apparent at the time.

The first of these is what we call the market segmentation strategy which Kim's team have mapped the remaining roughly $1 billion of opportunity to pool 48 x 40 inch pallets in the US and sought to convert this business. This strategy is delivering. It's allowing us to gain more customers in the consumer goods and dry grocery sector from white wood and allowing us to identify and convert more land expansion opportunities.

Additional to that is the new go-to-market strategy and solutions portfolio selling strategy. This was launched in the US last year and is in the process of being rolled out to all of our pallet businesses worldwide over the course of FY16 and into FY17. I would say here that it's still early days but coupled with our commitment to quality and customer-centricity that commenced with the Better Everyday program some years ago when we kicked that off in 2009 we are beginning to see a real shift in customer perception which we believe will support customer retention and sustainable growth over time.

The targeted expansion of our own white wood business is also proving effective as we analyse opportunity in that business more closely by region. The use of our half pallet solution in North America continues to grow and it is garnering support from major FMCG and retail partners but the volumes here still remain low and progress in gaining significant penetration is going to take us some time.

We have also spoken a fair bit about our expansion strategy into new verticals and here we are making some progress, for example our reverse logistics offering in pet care and the recent win of Johnson & Johnson in pharmaceuticals. But like our half pallet program the fact here is that progress in building our business in new verticals will also take some time.

To assist in understanding our pallet sales growth this slide breaks down the composition of our constant currency sales revenue growth in pallets over the half and this is compared with the last three years. Our first half FY16 performance as you'll see compared favourably. While the rate of net new business wins remains below the heightened levels that we saw in FY13 when we were still benefitting from win backs after the bankruptcy of iGPS in the US, it remains solid and we have positive momentum.

The rate of growth in like-for-like volumes has been very pleasing and this is despite the concerns that many people have about the broader economic outlook. In our business we continue to see gradual improvement in underlying demand for consumer staples. Pricing and sales mix is also robust but not least as a result of the favourable mix benefits we are getting as a result of the way we are managing our customer portfolio. Combined I believe these factors demonstrate a business that is able to drive profitable growth from a defensive set of exposures despite uncertain conditions.

Now my final slide before handing over to Zlatko emphasises the nature of our portfolio. The first pie chart shows developed markets in blue and emerging markets in grey. Emerging markets today account for 12% of our sales revenue and they really remain core to our growth strategy but we believe our exposure to increased volatility in these regions should not be overstated. Indeed, our emerging markets business in the pallets sector performed strongly in the first half delivering a 16% growth while the South American and South African RPC businesses are also growing strongly.

It is very important to remember that South Africa and Mexico combined account for almost half of our emerging markets revenue and these are very well established businesses. Indeed, emerging markets for Brambles in many cases are amongst our most attractive businesses.

The second pie chart which is on the right of the slide shows our industry exposure which remains heavily skewed towards the far less volatile consumer staples sector incorporating fast moving consumer goods, fresh produce and beverage. These supply chains combined with the associated customers and storage and distribution, general retail and packaging account for 87% of Brambles' sales revenue. The cyclical industrial sectors of automotive, oil and gas and aerospace account for just 6% of our revenue base with the remaining 7% classified in various other verticals.

Further diversification in select emerging markets and diversification by platform or service in the grocery space remain a key part of our overall growth strategy.

I will now hand over to Zlatko.

Zlatko Todorcevski: Thank you, Tom. Good morning everyone.

I'll start with an overview of our underlying profit performance in the half. In the half we delivered constant currency growth of $47 million or 10%. Volume, price and mix benefits contributed $77 million in total. The contribution of acquisitions since the prior corresponding period was $7 million primarily reflecting Braecroft in pallets South Africa, the Rentapack RPC business in Chile and IFCO Japan as well as an extra two months of Ferguson.

While this was a very strong profit result overall a number of factors did partially offset the positive reflected in our sales growth. The most significant of these was depreciation which was up $17 million at constant currency or 7%. This reflects the investment we are making in growing our pallets and RPC businesses in particular.

Although our supply chain and operation teams continue to do an outstanding job of delivering efficiencies we were not able to mitigate entirely the increases in direct costs during the period. As a result, net plant costs were up $9 million over and above what we would expect as a result of volume growth. This was driven by two businesses in particular, Pallets Americas and RPCs.

In Pallets Americas it reflected primarily inflationary impacts in Latin America and Canada. In RPCs the increase in plant costs was largely a result of short term network inefficiency impacts in North America flowing from the reduction in Safeway volumes. The Safeway loss was also a significant driver of transport costs which were up $6 million on a net basis across the Group. Although we're growing the business despite the Safeway loss the more dispersed geographic nature of this growth relative to the more concentrated flows with Safeway have caused some inefficiencies.

In Pallets we've seen some continued inflationary impact from higher freight rates in the US although this was partly reduced by efficiencies delivered in the period. The delivery of continued transport efficiencies in Europe where inflation remains benign offset some of the negative impacts in the US.

The $5 million increase in other costs reflected modest increases in overheads throughout the Group relative to our broader growth rate and we're net of $9 million of savings delivered to date under the One Better business improvement program. Having previously delivered $11 million of savings under One Better in FY15 we're now on track to deliver an incremental $10 million in the second half of FY16 consistent with our $30 million cumulative target for the end of FY16.

Notwithstanding all of these cost increases this was a very strong profit performance. The chart showing key ratios for transport costs, plant costs and overheads are included in the appendices.

I'll now take you through the performance in each of our segments in more detail starting with Pallets Americas. I'll be focusing on the constant currency growth.

Open Briefing

Tom has already touched on some of the drivers of the sales growth in North America which was up 7% to $1.082 million with a good contribution from both USA Pooled and Recycled operations as well as Canada. Latin America growth of 11% to $116 million was also pleasing given the relatively challenged economic conditions in Brazil in particular. Our pallets business in Brazil grew marginally by 1% but we enjoyed very strong growth in Mexico and Chile.

The Lean Logistics transport management business delivered solid sales growth of 16% to $13 million.

The outstanding underlying profit performance reflected some of the strong sales mix benefits discussed early, the delivery of direct cost efficiencies and overhead cost leverage in the region. Net plant costs were up $4 million reflecting the Latin American inflation I mentioned previously with US pooled plant costs actually lower than the prior year due to strong delivery of efficiencies.

We're making steady progress with the durability program in the US to introduce nail plates on new pallets and clench nails to repaired pallets. As we stated at the FY15 results we expect to begin to see the benefit of this program in FY17.

Moving to transport costs although these were up on a net basis we've successfully delivered $15 million of efficiencies to partly mitigate the impacts of inflation which we continue to see although at more moderate levels than last year. Examples of efficiencies include network planning efficiencies and an increasing contracted [loads], which is enabling better control and accuracy in load management and a reduction in the average length of haul which obviously reduces driver cost. Enhanced planning has also reduced the need for costly spot transport purchases.

The strong profit growth in the segment translated to a healthy 1.2 percentage point increase on return on capital invested despite increased capital expenditure to support growth which I'll cover in more detail on a later slide.

As we flagged at the full year results in August we increased US plant stock levels by one million pallets because our cycle times have increased in line with customer inventories. At the same time we have seen a sales revenue benefit as a result of high manufacture inventories because we are compensated to some extent for dwell times. On a return on capital invested basis this is offsetting the impact of the minor increase in plant stock.

I would remind you all that our underlying profit margin and return on capital invested in Pallets Americas is impacted by the Recycled business and to a lesser extent the Paramount Pallets business in Canada. Excluding these white wood businesses Americas pooling underlying profit margin is 20.8%, a full four percentage points higher than the reported outcome. Return on capital invested due to the goodwill associated with those white wood businesses is also higher when they're excluded at 20.3%, more than three percentage points higher than reported ROCI.

Moving on to Pallets Europe, Middle East and Africa where the result was again very strong, sales growth was 6% at constant currency to $677 million comprising 4% growth in Europe to $597 million and 26% growth to $80 million in Africa, India and the Middle East. One full point of Europe, Middle East and Africa sales growth or 10 points of Africa, India and Middle East growth came from the Braecroft acquisition.

Within Europe solid growth rates of 5% from the Mid Europe zone which includes Germany and Italy and from Iberia and France as well as 17% growth in Central and Eastern Europe more than offset a tough result in the UK and Ireland.

In the UK and Ireland sales revenue was down 2% reflecting mostly the rollover impact of contract losses that occurred late in the prior corresponding period as well as negative movements on pricing indexation as a result of lower fuel costs.

In the absence of real pricing opportunity throughout Western Europe the strong increase in sales from volume and mix benefits is particularly pleasing reflecting continued contract wins at strong and sustainable rates of return. The decline in net plant and transport costs in the period reflects the delivery of $9 million of direct cost efficiencies in a low inflationary environment driving underlying profit up 10% to $176 million.

The return on capital invested performance in Europe, Middle East and Africa continues to be outstanding, increasing a further 30 basis points to 28.5%.

Pallets Asia Pacific also delivered a very good performance in the half. Constant currency sales revenue growth of 5% to $158 million was driven primarily by 5% growth in Australia and New Zealand where we continue to experience robust conditions despite the reportedly slow state of the economy.

Our Asian sales growth was 7%. Although revenue growth in China was a moderate 3% our timber pallet revenue in China grew by 20% reflecting ongoing penetration of our platform conversion strategy. Good incremental margins on sales growth with no overheads growth and minimal increases in direct costs enabled good leverage to underlying profit in Asia Pacific with underlying profit growth of 9% to $32 million and a 2.2 percentage point increase in return on capital to 20.5%.

Now moving to the RPC result which was mixed despite some very bright spots, constant currency sales growth of 15% or 11% excluding acquisitions to $482 million was very strong. The major driver was Europe as we've already discussed where the growth was 13%.

North American was 5% which while a disappointing headline number reflects strong progress with other retailers in the face of the drag caused by the Safeway volume loss.

In the rest of the world in which we collate the smaller Australia and New Zealand, South Africa, South America and Japan businesses they continue to be a very strong growth business. They grew 38% or 12% excluding acquisitions with strong growth in Australia, South Africa, Argentina and Brazil.

The underlying profit result was not satisfactory. The impact of depreciation of $6 million was broadly consistent with sales growth and largely related to the upfront investment required to support the recent 10-year contract with our largest retail partner, REWE in Germany.

This investment will pay off strongly in future years. The increases in net plant and transport costs as a result of the loss of the Safeway volumes have been more frustrating given our emphasis on driving penetration to increase scale and efficiency in that business. We're confident the performance will improve in IFCO North America once we cycle through the Safeway volume decrease and subsequently stabilise the network.

Finally, containers where the result was not where it needs to be, there are pockets of good performance such as the European automotive operations and European and North American IBC businesses but there are some clear challenges as Tom has discussed. Overall sales revenue of $224 million reflected growth of 7% driven by steady growth in automotive, intermediate bulk containers, aerospace and the catalysts and chemical containers component of oil and gas.

However, this growth was overshadowed by the performance of the Ferguson Group which we acquired in September 2014. Although Ferguson delivered a minor increase in sales to Brambles because we owned it for two more months in the first half of '16 compared to the first half of '15 on a pro forma basis its sales were down 32%. This is a significant decline as a result of the drop off in activity in the offshore production and exploration sector following a sustained collapse in oil prices.

At the underlying profit line we were unable to offset the impact of the Ferguson result and increases in other costs. These other costs included higher depreciation as a result of the investment in the Cathay Pacific contract in aerospace, direct cost challenges in the liner bag business in intermediate bulk containers and in other costs, higher staffing in automotive and intermediate bulk containers.

Total underlying profit was down 20% to $21 million. Combined with the increased capital invested from a full period of Ferguson ownership this drove a reduction in return on capital invested of 3.4 percentage points to 4.4% in total. Clearly this outcome needs more work and focus. As we move forward we'll continue to assess these business units critically in the context of the scale and returns we require and the need to achieve these in a timeframe that's acceptable. We will take action where the scale, returns or timeframe are unacceptable. We remain optimistic of finding a way forward in each case that will be satisfactory for shareholders in the long run.

Let's now move on to cash flow. This table shows a reconciliation from underlying EBITDA down to free cash flow after dividends at actual currency. As you can see the reduction in earnings resulting from currency translation and the increase in capital expenditure drove a $9 million reduction in operating cash flow to $260 million despite some offsetting benefits including from working capital movements and other line items. Were we to look at this on a constant currency basis then the strong increase in underlying earnings would in fact more than offset the increased CapEx and we'd be looking at an $11 million increase in operating cash flow.

Free cash flow after dividends was up in actual currency terms primarily reflecting the reduced cost of paying the dividend due to the weaker Australian dollar and the activation of the dividend reinvestment plan.

We'll now look at CapEx in more detail. A slide on pallets replacement CapEx which remains stable is included in the appendices. The slide on the screen focuses on growth CapEx.

As you will recall we forecast in August last year that we would invest about $1.5 billion of CapEx in growth initiatives over the period FY16 to FY19 including $500 million in FY16 alone. We're in fact likely to underspend that amount for FY16 having invested $203 million of growth CapEx in the first half. We're now expecting somewhere between $200 million and $250 million in the second half of FY16.

The primary reason for this lower than anticipated spend is reduced investment in containers and the RPCs business in North America. Broadly speaking we continue to expect to invest the remaining $1 billion of growth CapEx over the period FY17 to FY19. Of course we'll only invest in opportunities that we're confident will create value. Growth investment in pallets has been very strong as we expected. The vast majority of this investment has been directly to fund growth in addition to the smaller requirement to increase plant stock in response to higher customer inventories.

There has been no material change to the customer inventory situation as illustrated by the US Census Bureau data in the appendices of the presentation. We do not anticipate any need to further replenish the pool and we remain very comfortable that we're protected from an inventory decline because we have no further commitments to provide brand new pallets to any individual customer.

On the subject of pallet purchases I'd also draw your attention to some additional disclosure we've started to provide with this result in the background information to our ASX release. This information includes a number of units of equipment in each segment on a net basis being after the provision for irrecoverable equipment as well as the total number of units bought in the period. We believe this will provide greater transparency on growth investment relative to loss rates and enable the market to triangulate per unit cost of CapEx in each segment more effectively.

I'll close my slides by briefly touching on our balance sheet position which remains very strong, net debt decline in the first half of '16 to just under $2.7 million reflecting cash generation and the benefits of the dividend reinvestment plan. Having completed a $500 million note issue into the US 144A bond market in October last year we have now lengthened the average tenure of our borrowing to 4.4 years while we've also expanded our undrawn committed facilities to $1.4 billion.

Consistent with the reduction in net debt the ratio of net debt to EBITDA and EBITDA interest cover both improved during the period relative to the first half of FY15. We expect net debt to EBITDA to be below our policy target of no more than 1.75 times by the end of FY16.

Before handing you back to Tom I'd like to say a few words about my retirement announcement. It was obviously a tough decision to make because we have a fantastic company that's performing extremely well and with outstanding people. However, it was a decision I made solely with my young family in mind.

I'd like to publicly thank Tom, the Brambles Board and all of my colleagues around Brambles for their support over what will be four-and-a-half years by the time I leave the Company.

I took the decision at this time in order to enable Tom and the Board ample opportunity to find my successor over the next 12 months but I will be here for another year and I still have many things I want to deliver over the time so I remain committed and focused.

Both personally and professionally Brambles has been a tremendously rewarding experience for me. I want to especially thank Tom. He's clearly not only a world class CEO and a great leader but a true friend and it's these kinds of friendships that I'll miss most when I finally retire next year.

Thanks, Tom.

Tom Gorman: Well thanks, Z. I think most of the market would think of us as two unemotional guys so we'll stick to the script and move forward but we've got a long time to say goodbye and it's been a real pleasure working with you.

Let me close out the business discussion now with three slides on our strategy and our long term financial targets before opening for Q&A.

I believe it's clear that Brambles is executing against the strategic objectives that we set out at the FY15 result. The first of these objectives is investing in protecting and enhancing the very strong network advantage that we enjoy. The growth CapEx we're investing in is about leveraging that position especially in our core operations which serve the FMCG, beverage and fresh food sectors. The brand and go-to-market investment we showcased in Pasadena is also integral to that market position.

Another thing we discussed in Pasadena was our intent to invest in leveraging our 500 million assets worldwide through developing a stronger data analytics capability and ultimately participating as a solutions provider in the Internet of Things. I'm very delighted that this morning we were able to announce the appointment of Prasad Srinivasamurthy, the Head of Customer Innovation and Internet of Things with SA Power Networks, to lead this initiative for us which we are now calling BXB Digital.

Prasad will join us next month. He will report directly to me and we'll be opening a new Brambles office in Silicon Valley in Northern California.

Our second strategic objective pertains to driving operational and organisational efficiency. As we have shown today operational efficiencies are largely offsetting direct cost pressures and the One Better business improvement program is indeed on track.

Our third strategic objective is disciplined capital allocation for long term growth. You have seen that we have reduced growth CapEx to some of our smaller and less established businesses. I wish to stress that we are actively focused on all of our business units' ability to deliver satisfactory scale and returns within a timeframe acceptable to shareholders. Where we do not have high enough degree of confidence in delivering this outcome we will not invest further and we may well seek alternative options with regard to structure and/or ownership.

Now this slide here sets out the building blocks to our commitment to delivering higher returns over time. We use this slide internally to visualise our roadmap to achieving our target of return on capital invested of at least 20% by FY19. Now today our average capital invested, we shortened that to ACI on the slide, is $6.4 billion. Now this includes about $700 million of capital from acquisitions that we made since December 2013 when we set the FY19 objective. At that time we specifically said that our long term objective excluded any future M&A activity and was also at constant currency.

To reconcile our first half return on capital of 14.7% to the FY19 objective we need to make three adjustments. First, excluding the impact of acquisitions since December 2013; second, including the impact of currency movements since that same period in December 2013 and third, to annualise the first half '16 number taking into account the usual phasing of our performance more heavily weighted towards the second half.

When we do this, when we make these three adjustments this give us a ROCI or return on capital run rate of 16.8%.

How do we anticipate achieving at least 20% over the next three years or so? As we have articulated we are focused on both quality and quantity. Quality is about the actions we are taking that will lead to higher margins. These include our durability program to reduce US plant costs, the ongoing mitigation of broader input cost pressure, pricing and sales mix improvements, other direct cost efficiencies, the One Better program in indirect costs, asset utilisation improvements and the reduced amortisation charge on the IFCO acquisition which starts to impact our financials in FY17.

Quantity, well quantity is all about the strong incremental rates of return we anticipate generating on the growth investment that we are making. From second half '16 to FY19 we are currently expecting about $1.2 billion of growth CapEx. Group-wide at present we generate incremental return on capital on aggregate well above the targeted 20%. We expect this number to be higher as we deliver on the drivers of earnings quality. By FY19 assuming all else being equal this will leave us with a capital base of about $7.6 billion and this includes the $700 million of acquisitions since December 2013 which I mentioned earlier.

To achieve a 20% return on capital on the acquisition adjusted capital base of $6.9 billion would require underlying profit of about $1.4 billion. Now we recognise that the reconciliation of this target is somewhat more complicated as a result of the acquisitions we have made and the big FX swings we've experienced since December 2013. However, in the interest of clarity and complete transparency we will continue to update this roadmap on a six monthly basis.

Now I would like to close by recapping four key business points. One, we have delivered a very strong first half result with great leverage from sales to profit. Two, we are upgrading our full year sales revenue and underlying profit guidance to growth of 8% to 10% at constant currency. Three, we are keenly focused on effective capital allocation across all of our businesses with particular emphasis on those that are not delivering to our required levels today. Four, we are reaffirming our FY19 objectives.

Thank you very much for your time today. We'll now take questions.

James Hall: Good morning and thanks everyone. It's James Hall speaking here. We'll go straight into Q&A and the first question on the line - before I do that I'll just remind everyone it is star one if you need to ask a question.

First question on the line is from Anthony Moulder at Citi. Good morning, Anthony. Please go ahead.

Anthony Moulder: (Citi, Analyst) Good morning all. Just a couple of questions if I could. Pallets Americas, if I start with that, was a particularly strong result. Can you talk to some of the contract successes in these new verticals that you mentioned given I see that as the key path to your 20% ROC target?

Tom Gorman: Just to clarify we'd probably refer to it less as new verticals. The new vertical story for us was really around looking at pet care, aftermarket automotive, DIY, home and hardware and farmer. Those are really what we call new verticals and we are making some progress on that front.

The real truth is this idea that we talked about in Pasadena which is when we look at the grocery store today what is our penetration across the businesses that we're in? In essence how do we extend our reach? There are a number of companies that we brought on board. JBS Foods which is a large producer of chicken, pork, lamb, other protein products, actually they're the largest in the world, that was a very big win for us in the period, has a big impact in FY16 and even larger again on an annualised basis. I mentioned we did refer to J&J so the Johnson & Johnson win was very important to us and the third play again in the protein space was Mountain Farms.

I think the team has done a really good job but, Anthony, I wouldn't say that it's actually new verticals for us. I think when we really make a big win in pharmaceuticals or in home and hardware or in aftermarket automotive I think then we would talk more about that as new vertical. We've proven the ability to extend our reach into space that we are today.

We're also globally outside of the US. We continue to extend our reach with retail growth. I would focus particularly here in Australia the growth that the team's been able to get with the expansion of the ALDI business has been a big positive for us. That's not really a new vertical. We view that as organic growth but it's a big win as they continue to grow and we support them with our solutions.

Anthony Moulder: (Citi, Analyst) Fair enough. RPCs if I could.

Tom Gorman: Sure.

Anthony Moulder: (Citi, Analyst) Obviously the combined Safeway Albertsons moving to cardboard, disappointing given the efficiencies that have been outlined for RPCs. Is there anything in that decision that's particular to those retailers and perhaps not representative of the market's view of the benefits from those RPCs?

Tom Gorman: Yes, we think - to be very direct we think it's unrepresentative of the market's view. If we were to take out Safeway, which we're not saying we would, from the overall performance, but our growth in North America's something like 17%, excluding Safeway. We continue to grow with all of our retailers; Loblaws, big new win for us as we extend our business across a number of new product lines with them. We're growing with Walmart. We're growing basically with all of our major retailers in the US.

I have to say we haven't given up here either. With the Albertsons acquisition the Albertsons team is really now running supply chain and making the key decisions for the combined enterprise. We've done some work with them. They've been open for us to run some studies. We partner with Cal Poly in the US to do sort of supply chain studies. We believe the data are overwhelmingly positive to work with RPCs and we haven't given up but we're reflecting accurately where Albertsons is today in their view but as I said we're not giving up.

I think as you know, Anthony, it's privately held by Cerberus and our view ultimately is to have conversations at more senior levels to really impress upon them what we think is not only an environmental sustainability positive move but much more importantly as well is the efficiency and the real cost savings we can deliver. We're definitely not giving up but it has had an adverse impact on the US performance.

As Z touched on it's not just the revenue. The Safeway business was incredibly efficient for us and it has had an adverse impact in the network itself and we're just working through some of that cost in the first half.

Anthony Moulder: (Citi, Analyst) Alright, perfect. Lastly if I could, we've seen some moderation of the transport costs rate of growth in the US but not necessarily implicit or seen in these results. Do you expect that to come through more fully second half?

Tom Gorman: Well I do think that you are seeing them in this half. If I could just juxtapose of where we were last half, we have been through some period of time now delivering outstanding rates of efficiencies. The operations team is doing a great job and what you're seeing is that we haven't offset everything in the US but I could tell you that the net increase is well below what it was this time last half. We are progressing and we are seeing the rate of increase decline and that's positive for us.

What we tend to focus on, Anthony, is the things that we can control. Our job is to deliver the efficiencies and the team's done an outstanding job.

Anthony Moulder: (Citi, Analyst) Perfect, thank you.

James Hall: Thanks, Anthony. The next question is Simon Mitchell at UBS. Morning, Simon.

Simon Mitchell: (UBS, Analyst) Morning. Just a follow up on Pallets Americas margin. Obviously a very strong performance with 14% growth in EBIT off 7% revenue growth but then if we look at slides 40 and 41 where you give us the transport cost and repair cost or plant cost trend those costs have actually been up or flattish in the half, certainly not down. Where do you attribute that performance from? Is it really just down to leverage as you start to grow at a faster rate on the top line?

Zlatko Todorcevski: It's a combination of both of those, Simon. It's Zlatko here. It really comes down to the strength of the top line growth that Tom discussed and if you look at US Pooled in particular, that's 7% and probably getting close to the magnitude of revenue growth we saw back three years ago when we were getting the win backs from iGPS and the leverage you get then both in the plant network as well as transportation.

Anthony made the comment that we are seeing some moderation of transport inflation in the US and we are. It's not as high as it was in the first half of last financial year but we are still seeing gross inflation of 6% so it's not where we would expect it to ultimately be.

The focus of the team is really on how you mitigate that and I'd say the team's done a fantastic job. To have something like $21 million of inflation in the period and only get a net $6 million outcome I think just speaks to the effort of the team.

Tom Gorman: I would just also point out that in addition to the net new wins in the US Pooled business makes up for more than half of their total gross in performance but I would just say also that we have had some positive pricing in mix in the period and that goes to the leverage.

Simon Mitchell: (UBS, Analyst) Okay and then just moving to Pallets EMEA. I think I asked exactly the same question six months ago as to how high can this return on capital go. You [printed] 28.5% in the half and that looks extremely high in an historical context. Are you feeling comfortable at holding that level?

Tom Gorman: I think that we've actually guided that over time, meaning through the cycle out to FY19, we actually envision returns and margins actually coming down from where they are. What I can absolutely tell you is that the improvements that we're making is not on the back of the customers. Price in Europe is essentially zero in the period. What we're delivering in terms of margin expansion we're really delivering efficiencies against a backdrop of a benign cost environment.

The growth that we're getting, we are seeing organic growth across Europe and we are getting some net new wins so we are expanding our customer base but pricing has essentially been zero in Europe.

As long as we're delivering our solutions on a competitive basis and by the way, when we deliver and get these efficiencies some of that is shared back with the customer and that's proven here in an environment where we took no price and in certain markets the index was actually negative, the UK for example. I think we're behaving incredibly responsibly and controlling what we can control and if that leads to margin expansion and return on expansion we're happy with that.

Simon Mitchell: (UBS, Analyst) Okay and just last one from me on RPCs. Can you talk to the rollout of the woodgrain RPCs in the US and the impact that may have had on margin during the period?

Tom Gorman: No, it's really what you're seeing is in the CapEx number but the rollout itself really hasn't begun. It is in the CapEx so we are starting to acquire the woodgrain but the rollout will be coming in the second half.

Simon Mitchell: (UBS, Analyst) Okay, thank you.

James Hall: Thank you, Simon. The next question comes from Cameron McDonald at Deutsche Bank. Please go ahead, Cameron.

Cameron McDonald: (Deutsche Bank, Analyst) Good morning, guys. A couple of questions if I can. Just looking at your comments around the RPCs and the challenges, specific challenges in the North American market and you said you were taking specific actions to address that. Can you just go into a bit more detail around that please? Then linked into that is, how many surplus, if that's the right word, RPCs will you end up holding given the Safeway contract loss?

Tom Gorman: To be clear, just to be clear in terms of specific actions that we may or may not be taking I think that was a general comment relative to our entire portfolio. We are always reviewing the performance of our portfolio.

When it comes to the North American RPC business this is a business that we love. This is a business where we have a massive first mover advantage. We think there's enormous upside notwithstanding the issue with Albertsons. We think this is a market that is going to continue to convert from corrugate to plastic. We think it delivers a great solution for our customer and we have a very strong market leading position.

What we don't have yet in that business is full scale and we don't have a financial structure that we're yet comfortable with but we are committed to this business. What you'll see from us over the next couple of years is working on things that we can control which is all around the structure of the network and getting more efficient and making sure our wash plants are as efficient as they are in Europe and elsewhere in the world. That's a big task for us.

Also we have to look at pricing in this market to make sure that we're getting fair share for the value that we're bringing to our customers. We have taken price in this space in the first half and by and large that price is holding. We're pleased with the progress that we're making there.

Relative to your question in terms of the Safeway volume, as that volume has declined we're very fortunate that we're getting this growth with other customers. The 17% growth ex-Safeway that we referred to we're essentially able to deploy those assets back into other growth areas.

In terms of an inefficient portfolio in the US there really isn't a problem for us at the moment but we do need to put all of those assets to work and over time, and I think we've said this to you before, Cam, we don't ever see the US asset efficiency being equal to that in Europe. The business models are different. The businesses are different. But we do see over time a continued improvement in our asset utilisation in the US and we've yet to see that come through in '16. That is held back a little bit by the rundown of the Safeway volume but there's no major issue.

Cameron McDonald: (Deutsche Bank, Analyst) Alright, thank you. Then just one further question. You mentioned that you've been disappointed with the containers result and that you'd be looking at other ownership structures for those assets that are underperforming. Over what sort of timeframe are you thinking that you'll persist before you pursue those other alternatives?

Secondly, 32% reduction in revenue in Fergusons, at what point do you need to make an adjustment to your carrying value of the $320 million worth of goodwill?

Tom Gorman: I'll answer the second question first. We have completed a review as you would expect that we're required to complete and we don't have any issue of impairment with the Ferguson asset at this half. That's been reviewed and signed off so there's no issue there.

I think the comment that we've made about - as I said earlier it applies to our entire portfolio. There's no specific timeframe. There's not some big review coming up in the next couple of months where everyone's holding their breath to see whether it's white smoke or black smoke that comes out of the chimney. That's not the way we run our business. What we've proven over time at Brambles is that it's a company that deploys capital patiently but responsibly. Patience is not infinite here. We want to see all of our businesses on the correct trajectory.

I will say within the containers group there are four distinct supply chains within that group and each one of them has a different story. If you look at our automotive business, very strong in Europe and continuing to grow, there's a base effect in the US meaning it's coming off of a very small base but that business is growing very, very successfully but yet the Australian business is winding its way down to zero. When you look at the total result it's clearly impacted by that but we like the automotive business. The IBC space we like a lot. We think it's a great margin business. We think ultimately it's the path for us to build our intercontinental flows.

These are businesses that are going to take time to build but we challenge ourselves frequently in front of the Board to make sure that we're on the right trajectory and we challenge ourselves as a leadership team to make sure that when it comes to capital allocation that we're putting it in places that first cover our return on capital, which all of them do but secondly then it's an allocation question. Which business should be in line to get the capital first? If there becomes a case where some of our businesses are crowded out from that perspective and we feel that long term either they're not scalable to be meaningful for us or they don't deliver the returns that we're really looking for we would then step up to look at potentially exiting the business or, as we've said, looking at different ownership structures.

There's nothing to share today but we wanted to make the point that these are conversations that we have all the time within the Company and we're keenly aware that certain businesses aren't where we want them today.

Cameron McDonald: (Deutsche Bank, Analyst) Thanks.

James Hall: Thanks, Cameron. Matt Spencer, Merrill Lynch is up next. Morning, Matt.

Matt Spencer: (Merrill Lynch, Analyst) Morning guys. Harping on the same point a bit but, Tom, can you actually quantify the impact from the Safeway's loss in the half and can we get an idea of what it might be on an annualised basis from the half impact?

Tom Gorman: Yes, Matt, I think we've actually given you those data because we said that ex the Safeway business we would have grown at 17% and Safeway was sort of our fourth largest customer at this time last year and they continued to climb.

Zlatko Todorcevski: Matt, the only other thing I'd add is we're obviously disappointed with the volume loss and as Tom said we're working to recover that but if you look at the composition of our volumes in the first half of '16 Safeway today only represents about 2.5% of that business. We'd like to retain that. We'd like to grow that business again but it's not today a material part of that business. We've got quite diversity across all retailers.

Matt Spencer: (Merrill Lynch, Analyst) Great, thanks. Ferguson, with the 32% fall in sales is Ferguson profitable at your underlying profit measure in first half '16?

Tom Gorman: We don't disclose at that level of detail but the business is profitable.

Matt Spencer: (Merrill Lynch, Analyst) Okay.

Tom Gorman: The 32% just to be clear, that's on a like-for-like basis. What we've tried to do - remember we did not have the business for all six months last year. We only had it for four months so we've given you a like-for-like there so you get a sense that the business has been impacted without a doubt by a severe downturn in the oil and gas space.

Matt Spencer: (Merrill Lynch, Analyst) Yes and just lastly what's [your] position on M&A now in containers? Are we unlikely to see M&A in that segment? I guess you were looking at selling one of those businesses over the last 12 months. Is there any update on anything in containers?

Tom Gorman: No, I think that - the containers business in total for us is about 8% of our revenue and each one of those supply chains then is roughly a quarter of that when you step back and look at it. We like this space. If there are opportunities in this space we are going to step up to those opportunities.

Clearly in oil and gas at the moment we're at a low point in the cycle but there are opportunities. There are inbound calls all the time to us in this space but we're going to do stuff that both makes strategic sense for us and financial sense. I don't think we've changed our view at all in terms of M&A activity. We do, I don't know, I wouldn't say a lot of M&A, Z, but we have an active portfolio. We say no to a lot more than we say yes to. If you look at the stuff that we have done recently, Rentapack right in the core sweet spot of our business give us the market leader in Chile, we want to expand throughout Latin America, an unbelievably strong platform to do that.

The IFCO acquisition and buying out our partners in Japan, footprint in Japan, we think we can make that company better with complete ownership and everything's tracking.

If you look at what we've done in South Africa frankly that has more to do with vertical integration and ensuring supply of timber going forward. All of those are incredibly strategic moves for us, all relatively small but the economics makes sense. I don't see us changing that discipline at all going forward. It's a difficult time in some of the industries we're in but I don't think that we should shy away from stuff that makes sense. It may in fact not be popular in the marketplace but we're building long term sustainable competitive advantage here and we'll continue to look at opportunities.

Matt Spencer: (Merrill Lynch, Analyst) Thanks, Tom.

James Hall: Thanks, Matt. The next question is Sam Dobson at Macquarie. Please go ahead, Sam.

Sam Dobson: (Macquarie, Analyst) Morning guys. Just firstly on the Pallets EMEA, UK and Ireland inevitably the outlier there with 2% revenue decline year-on-year. Can you elaborate a little bit more on what was driving that please?

James Hall: Sam, I'm sorry, your line's not very good, mate. We couldn't actually hear the question very well. Can you repeat it?

Sam Dobson: (Macquarie, Analyst) Can you hear me now?

James Hall: Yes, it's a little better.

Sam Dobson: (Macquarie, Analyst) Okay so just terms of Pallets EMEA, UK and Ireland saw a 2% decline in revenue year-on-year. Just wondering if you could elaborate on what was causing that?

Zlatko Todorcevski: Yes, Sam, it's Zlatko. There are a couple of impacts as Tom alluded to on the presentation itself. Firstly, we mentioned that we're rolling through some losses that happened towards the end of the prior corresponding period. They'll work their way through. That obviously is a negative impact relative to where we were last year.

We also spoke about the impact of indexation in Europe more generally but in the UK and Ireland specifically it's actually been a negative impact principally because of the downward pressures that we've seen on diesel prices in particular, which as you'd be aware that's one of the components that flows through to the index on how we reprice each year. That has been a negative at the top line on price and we've seen the roll forward of these contract losses. That's really what's driving the UK and Ireland.

Tom Gorman: Yes, the only thing I would add to that is that the cycling of the lost business, all of that business was at margins significantly below the average margin in the UK. In terms of a mix effect on the underlying profit it's very positive.

Sam Dobson: (Macquarie, Analyst) Okay, understood. Just following up I guess on the impairment question for Ferguson I know in your notes to your accounts you assume a 6.7% average revenue growth rate for that business. Just wondering what the free cash flow growth rate you need to - obviously in order to not impair that business.

Zlatko Todorcevski: We're obviously not going to disclose that, Sam, but I will say that we've stress tested Ferguson quite aggressively as you would expect. We've both taken up the weighted average cost to capital that we use to discount that business. Our expectations on growth are substantially below where they were when we bought the business and as you'd expect because we aren't investing as much as we might have anticipated because the growth isn't there cash flow's actually quite strong out of that business to date.

Sam Dobson: (Macquarie, Analyst) Right, okay and just lastly on growth CapEx. The guidance there to FY19 I think is now 1.4 to 1.45 down from 1.5 previously. Can you just touch on where that decline's come from? I know you've said that it's from lower investment in new business. I was just wondering if you could elaborate a little bit more.

Zlatko Todorcevski: Yes, Sam, it's really from lower investment as Tom alluded to in the North American RPCs business and in the containers sector in particular. What we've said is from this point forward we're looking at about $1.2 billion so for the $1 billion of growth CapEx in the period '17 to '19 and somewhere in the range of $200 million to $250 million for the second half for FY16. The drop off in this year is really driven by North American RPCs and containers.

Sam Dobson: (Macquarie, Analyst) Okay, that's great. Thanks guys.

James Hall: Thanks, Sam. We now go to Paul Butler at Credit Suisse. Morning, Paul.

Paul Butler: (Credit Suisse, Analyst) Hi guys. Thank you. Congratulations on the strong result in North America Pallets. I just wanted to ask about the slide you've got in on US inventors versus sales. Obviously that's been increasing and I think it's sort of currently at levels we haven't seen since 2008. How much of that is contributing to the strong growth and if that number starts - if that inventory starts to come down again what does that mean in terms of the sales outlook for the pallets business?

Zlatko Todorcevski: Paul, we don't really see that having a major impact on sales at the moment whatsoever. We did flag that it was requiring some investment in pallets to ensure that we had sufficient stocks to meet that demand and we have invested that capital now but we don't believe it's having a material impact at all on our sales revenue. In fact, as Tom alluded to what's really driving that is penetration of some customers in different verticals that we've won more recently and then the impact of price and mix that we saw in the period.

Tom Gorman: Paul, at the beginning of this half we indicated that we would be investing about $1 million in what we refer to as plant stock in the US as we saw this build coming and it's interesting what's happened through the first half.

We've actually seen the cycle time extend just slightly but it's mostly with manufacturers. The retail stocks are actually down just a bit and there's a slight lengthening of stocks with the manufacturers.

Fundamentally what you want here, Paul, is you want to see a pull through of that into overall demand. When we step back and look at organic growth in the US we tend to guide between 1% to 2% of organic growth and the US overall was at the lower end of that, just slightly north of 1%. If you look at the results that have been coming out from all of our customers that's broadly consistent with where our customers have seen the market. We haven't seen a massive uptake. It's still good, it's still positive but it's at the lower end of where we expected. If we get big pull through of that and then you see the velocity increase, then I think you'd see an uptake in organic growth and it would have an impact on overall sales.

Paul Butler: (Credit Suisse, Analyst) Okay and just another one. Last year I think in North America we had quite bad weather whereas this year it's been a lot better. How much of an impact does that have to the sales that we expect for the second half?

Tom Gorman: Well I think in the first half we referred to that we've seen quite a bit of growth in beverage both in North America and in Europe and that was sort of a warmer summer. We've seen that flow through and I think other companies that are exposed to beverage in the US saw the same thing through there. I think what we haven't had is - I think last year they referred to it as the polar vortex where we had this very, very cold period that affected supply chains in a couple of places around the US. We haven't seen that problem thus far so we haven't had disruptions to anything as we've started this half of the year.

It's hard for us to say that there's any big conclusion in terms of overall growth. I think as we've indicated the second half of the year has started well for us in line with expectations. I think if it hadn't started well you wouldn't have seen us raise our guidance. We feel pretty good about how we're heading into the second half of the year.

Paul Butler: (Credit Suisse, Analyst) Okay so that weather benefit for this year versus last year might be say one or two percentage points of growth?

Tom Gorman: I think it's very hard to call it. It was really in the month of January and it's very hard for us to say anything. We'll take that question on. If we see something we'll come back and respond to it when we come to the second half but it's not material from where we're sitting, Paul.

Paul Butler: (Credit Suisse, Analyst) Okay and just one more. Zlatko, I think you gave us some, a little bit more detail on the CHEP recycle business and that's performing very strongly. How much of an additional contribution was in the result from that versus the previous half year?

Zlatko Todorcevski: I didn't actually say, Paul, that it's performing strongly. It's more of a drag down on our underlying profit margin and return on capital because as you're aware it's more of a trading business where we buy pallets, recondition then and sell them.

Paul Butler: (Credit Suisse, Analyst) Yes.

Zlatko Todorcevski: It has a lower margin which draws down the overall margin. Because it has some goodwill from the IFCO acquisition it also draws down ROCI. That's the impact I was referring to. That had negligible underlying profit impact in the period. It's not a driver of underlying profit.

Tom Gorman: One thing I think, Paul, that is pleasing with the recycled business in the half, you might recall that one of the things that recycled does for us now is it actually repairs the CHEP blue network pallets. This is part of our strategy to own and operate a certain percentage of our service centres in the US. It's now about 20% of our volume.

What is very pleasing is - we had some teething pains as we had the IFCO business which we acquired start to work on repair in our service centres. That is progressing quite well and I would say that our own service centres now are equally and in some cases better performers than our third party centres. That's very important to us because that - it flows through in a different way, Paul. It really flows through in our total operating costs and our plant operations so it's quite positive from that perspective.

Paul Butler: (Credit Suisse, Analyst) Okay and just - sorry, just one more. On page 24 when you show the adjustment to ROCI for currency, the adjustment that you're making there are you just adjusting the invested capital based on current exchange rates? What's the adjustment [unclear].

Tom Gorman: I'm sorry, go ahead.

Zlatko Todorcevski: I was just going to say, Paul, it's both underlying profit and return on capital so we make both adjustments.

Paul Butler: (Credit Suisse, Analyst) Okay so when we think about getting to 20% return on or 20% ROCI by FY15 we should make this adjustment as the basis that we...

Tom Gorman: Yes, the objective is FY19. We set an objective back at a period of time under certain scenarios. Obviously the US dollar has strengthened against all currencies essentially so we make these adjustments. We recognise it's getting complicated here but we're trying to hold ourselves accountable to something that we're committed to.

My guess if all else stays about where it is today when we get to the 20% out in FY19 the actual reported ROCI will probably be lower because at actual currency unless you see a substantive weakening of the USD over the next two-and-a-half years but we would report it and we would show the roadmap just to show you how we look at our business.

Zlatko Todorcevski: The objectives were always set at constant FX at the time they were set which was December 2013.

Paul Butler: (Credit Suisse, Analyst) Okay, thanks very much.

James Hall: If I can just go next to Scott Ryall at CLSA. Scott, you're up, mate.

Scott Ryall: (CLSA, Analyst) I've had a lot that have been asked but I was wondering if you could just reconcile, Tom, with respect to the comments you made around slide 11 that you're still looking at diversification opportunities but then talk about that in the context of growth CapEx going forward, which you've been pretty clear you focused on I guess what I would call the core businesses, the pallets businesses in particular where you are seeing decent returns on and no return on capital increases. Can you just reconcile those two for me, the fact that growth CapEx has been deployed in the traditional businesses but you're still looking at diversification where you actually pulled away from growth CapEx?

Tom Gorman: I think we have to be careful and I have to make sure that the wording is completely understood. Core is often misunderstood as a term. We work today, we have a business and a set of businesses that fundamentally work across six different supply chains but the largest clearly is pallets which is really FMCG focused. The second largest is RPCs which is really fresh produce focused and then the containers business has four distinct - we have industrial, oil and gas, aero and automotive. Those are our core businesses. Those are the businesses we're in today and we would look to continue to grow those businesses. Each one of them is facing unique opportunities and challenges. Let's take each one really quickly.

When you look at the pallets business we continue to grow along our strategy of geographic expansion. We're continuing to do that. New market entries continue for us. We continue to look at the African continent to grow. We've disclosed that we're now growing our business in Russia. We will continue to grow under that strategy. We're doing that also in RPCs. We've done it in Chile with an acquisition that we're now going to grow. We bought out our partners in Japan. We're going to do that. The RPC business is also I'd say partnering with the pallets business as we look at additional Latin American expansion. We will put capital there.

When it relates even to Ferguson we're actually still deploying capital for new opportunities. There's more opportunity for us in the Middle East today than there is in the North Sea so we'll deploy capital in that way. Overall when you look at Ferguson demand is down so we're not throwing capital when there's no opportunity and when there's no chance to get a return.

I think we're being disciplined in that way. We're not specifically starving anyone of capital because the business is out of favour. Our business is quite unique. Remember we don't build plants and then hope people like the product we produce. We get customers and then we buy the assets to support those customers. We will continue to do that but there are certain businesses that are challenged. We will not invest more capital in the automotive business in Australia for example but we are making substantive investments in Europe and we will continue to invest in the US to support the growth that we're getting out of General Motors.

I want to be careful to imply that we have this dart board here that some things we like and some things we don't. Some things are challenged and we're addressing them specifically but in aerospace we talked about the capital that we deployed to support the Cathay Pacific contract. We'll continue to do that.

That's the issue on near term capital. You step back and then there's a strategic discussion about the portfolio and the long term fit of these businesses. That goes to scalability and our long term view of the return on capital of those businesses. That's a slightly different question. Even if we were planning to exit a business we would want that business to be in good shape upon exit. Again there's no plans here but I think it's trying to address you question both in the near term and then in the longer term.

Scott Ryall: (CLSA, Analyst) Okay, fair enough. Just one more question. With Zlatko's announcement today I think most people would understand the travel schedule you guys do is pretty brutal. Tom, what's your thoughts in this space? [Unclear].

Tom Gorman: I agree that it's a lot of travel. I think you're accurate there. Fundamentally the issue is Zlatko's a lot taller than I am so when you get on a plane little guys sleep well and big guys don't. It works out really well for me so it's not an issue.

Joking aside, Zlatko's got a very young family here and he'll probably talk to you about this a lot more than I and I happen to know his family and he's got a fantastic wife and beautiful young children. People have to make decisions. If you met his kids you'd realise why you never want to be away from home. He's got a beautiful young daughter and his son is just a great kid, a kid like any kid eight or nine years old, whatever the heck he is. Zlatko doesn't actually know his age. He's a normal kid. He likes playing. Zlatko wants to coach his team. He likes roaming around in the park collecting spiders and other anthropods (sic - arthropods). What he really wants to do is spend time with his family. Frankly I respect that enormously.

I'm in a different phase of my life. My oldest son is out of university. My youngest son is approaching the end of his university career and I love what I do just the way Zlatko does and I've got a lot of gas in the tank and I love this Company. When my time comes we'll disclose that and discuss it but the two are not related.

Scott Ryall: (CLSA, Analyst) Okay, thank you.

James Hall: Thank you, Scott. Nick Markiewicz from Morgan Stanley. This is the last question on the line so if anyone else does want to ask something now's the time to press star one and get in the queue. Nick Markiewicz, please go ahead with your question.

Nick Markiewicz: (Morgan Stanley, Analyst) Thanks, James. I think most of mine have been answered. Maybe just to touch on guidance, I appreciate you've obviously upgraded earnings guidance already to 8% to 10% but the current run rate's already at 10% and you've probably got transport costs coming down in the second half and a few other positive tailwinds. I guess the question is maybe just to finish the call, is your guidance actually conservative?

Tom Gorman: I think our guidance is realistic from where we sit today. I think you guys have known us for a long time now. We take this stuff incredibly seriously and we have never misguided since I've been CEO. Does that mean that we're on the conservative side? I think we're realistic. We have four-and-a-half months to go. We don't see any big shocks when we look out into that future but we live in a world where things change relatively quickly and there is some volatility out there.

We're confident in the guidance that we've provided. If things get better we would share that with the market when we update the market in the April timeframe but at the moment we're comfortable with the range we've given.

Nick Markiewicz: (Morgan Stanley, Analyst) Sure and one last question, sorry. Not to labour on growth CapEx too much but can you just reconcile the $1 billion of growth CapEx from '17 to '19 and what portion realistically you think is going to be allocated to the US and that $1 billion of unserved US revenue that you mentioned earlier in the call?

Zlatko Todorcevski: Nick, we aren't going to provide guidance down to that level of granularity but broadly consistent with what we said at the investment market briefing in September of last year you should expect pallets overall to see about 50% of that $1 billion. We're broadly looking for RPCs to be 35% and containers subject to performance will get the other 15%.

Nick Markiewicz: (Morgan Stanley, Analyst) Great, okay. Alright, thanks guys.

Zlatko Todorcevski: Thank you.

James Hall: Well thanks everybody. There's no further questions on the line, so thanks very much and have a great day.

Tom Gorman: Thank you guys.

End of Transcript