



# Stock Pitch

Michael de Boyett

Brambles

# Overview



# Company Profile

## Brambles Ltd

# Brambles



## Information

<b>Current price</b>	\$10.79 (12/08/20)	<b>Market cap</b>	\$16.24B
<b>52 week range</b>	\$8.970 - \$13.420	<b>P/E Ratio</b>	8.64
<b>Ticker</b>	ASX: BXB	<b>Dividend Yield</b>	2.58%

- Brambles' platforms form the invisible backbone of global supply chains, primarily serving the fast-moving consumer goods, fresh produce, beverage, retail and general manufacturing industries.
- As a pioneer of the sharing economy, Brambles is one of the world's most sustainable logistics businesses.
- Its circular business model perpetuates the share and reuse of the world's largest pool of reusable pallets and containers.

# Value Investing Thesis

## Investment Thesis

### 'Hidden' Industry

- Brambles operations are not immediately obvious to a layman and therefore it is more likely to be an underappreciated stock as it is less covered than 'traditional' logistics operators such as FedEx.

### Strong & Resilient Demand

- As international trade and logistics continues to increase with the rise of ecommerce, Brambles rides the same increased demand for their services as they continue to fulfil a vital step in the same value chain.

### Forward-looking and Sustainable

- Brambles is a pioneer in the industry and at the cutting-edge of reusability and efficiency, their offering is the future of logistics and not the legacy of it.

### Restructuring Completed

- Sold off an unprofitable business unit in FY19 and have refocused on their core strengths, the benefits of removing this unit should be prevalent in their FY20/FY21 report which should drive up the share price

DEALS FEBRUARY 25, 2019 / 6:43 PM / A YEAR AGO

**Brambles sells IFCO business for \$2.5 billion, to buy back shares**

ASX & Media Release

**Brambles announces the sale of its IFCO RPC pooling business for US\$2.5 billion**

Sydney – 25 February 2019: Brambles today announced that it has entered into a binding agreement to sell its IFCO reusable plastic containers (RPC) business to Triton and Luxinva (a wholly-owned subsidiary of the Abu Dhabi Investment Authority) for an enterprise value of US\$2.51bn. The transaction is subject to customary regulatory approvals and is expected to be completed during the second quarter of calendar year 2019.

**Brambles**

### IFCO sale complete

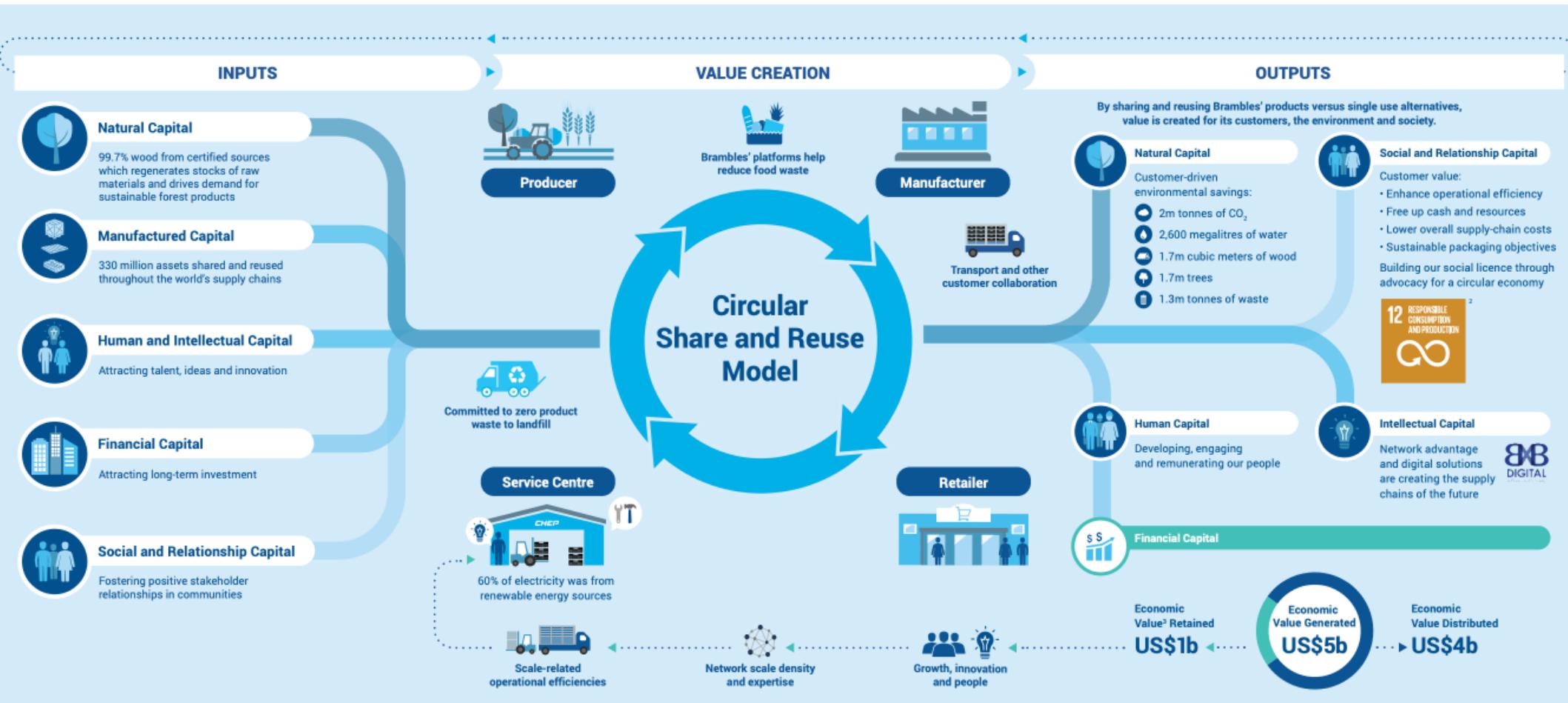
#### Use of proceeds



# Business



# They operate a Circular Share and Reuse Business Model



# More simply put, they are a supply chain market maker

## Inherently Sustainable Operating Model

- Brambles' 'share and reuse' model follows the principles of the circular and sharing economies, promoting the share and reuse of assets among multiple parties in the supply chain. Brambles offers customers a more efficient and sustainable alternative to the use of disposable products or managing their own proprietary platforms.

## Network Advantage and Supply Chain Expertise

- Underpinned by its superior network advantage and industry-leading supply chain expertise, developed over 70 years of managing customers' supply chains around the world. With operations in approximately 60 countries.

## Sustainability Framework

- Brambles' sustainability framework organises the Group's sustainability activities and goals under three broad programmes: Better Business; Better Planet; and Better Communities.



# Customer Value is of paramount importance

## Supply Chain Solutions

### Platform Solutions

- By eliminating the need for customers to purchase and manage their own pallets, Brambles reduces the capital requirements and complexity of customers' operations while simultaneously reducing waste from their supply chains.

### Retail Store Solutions

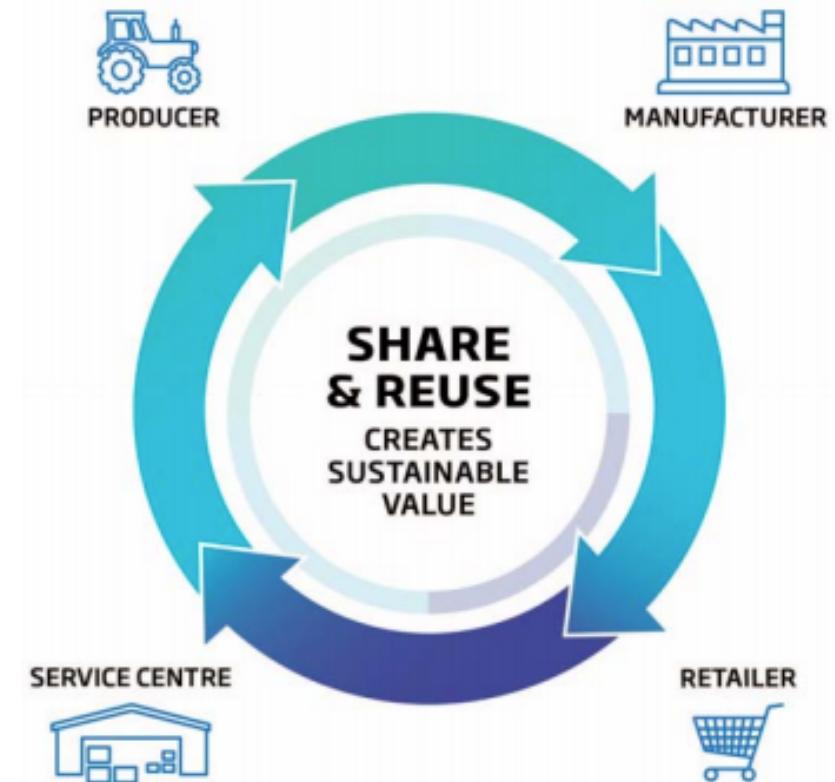
- Develop retail store solution strategies and consumer-facing platforms that improve the efficiency of the shared supply chain by increasing sales at lower costs to the supplier, retailer and consumer.

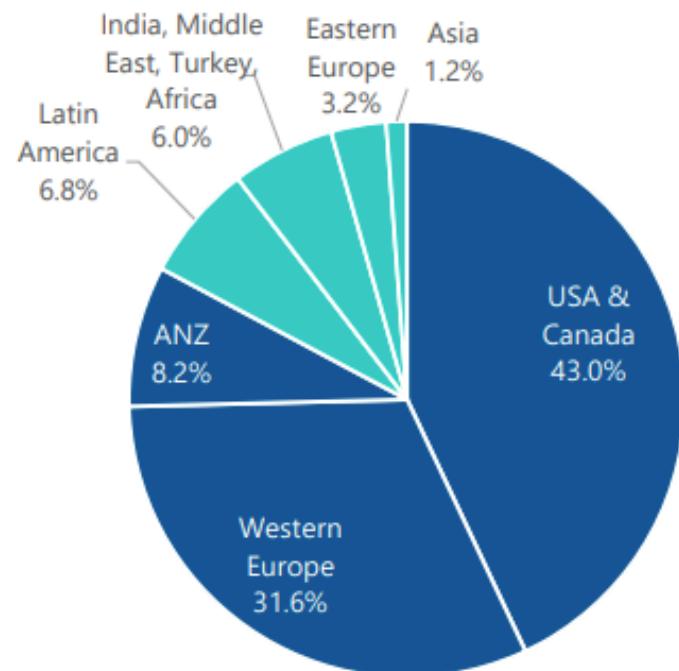
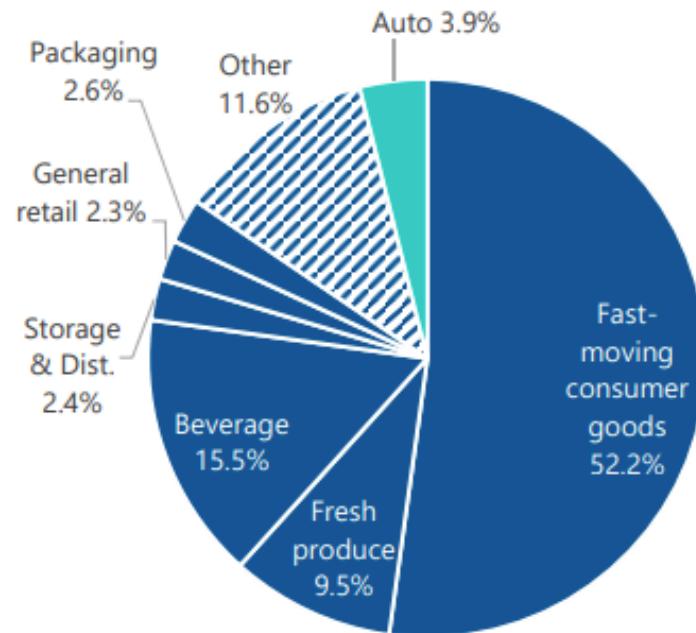
### System-Wide Solutions

- Identify the causes of network inefficiencies and product damage.

### Warehouse and Distribution Centre Solutions

- Providing higher quality platforms and engineering services to improve the performance of automated facilities



**FY19 sales revenue by region****FY19 sales revenue by sector**

Developed markets

Emerging markets

"Consumer staples" sectors

Industrial sectors

# Strong and decisive leadership with proven record



## **CEO – Graham Chipchase**

- Joined Brambles as the Chief Executive Officer on 20 February 2017. Prior to Brambles, Graham was Chief Executive Officer of Rexam plc, one of the world's largest consumer packaging companies, from 2010 to June 2016. (Rexam Plc was successfully acquired)



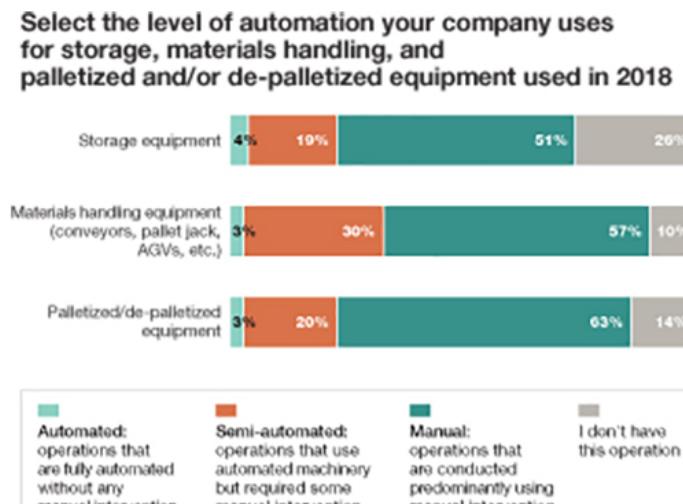
## **Chairman of the Board – John Mullen**

- Previously, John was Chief Executive Officer of Asciano, Australia's largest ports and rail operator from 2011 to 2016. Prior to that, John had a distinguished career with the DHL Group from 1994 to 2009, ultimately becoming Chief Executive Officer of DHL Express in 2006.

A close-up photograph of a stack of weathered wooden pallets. The pallets are made of light-colored wood and have blue-painted edges. Some of the paint is worn off, revealing the underlying wood. The lighting is warm, creating shadows and highlights on the rough surfaces.

Industry

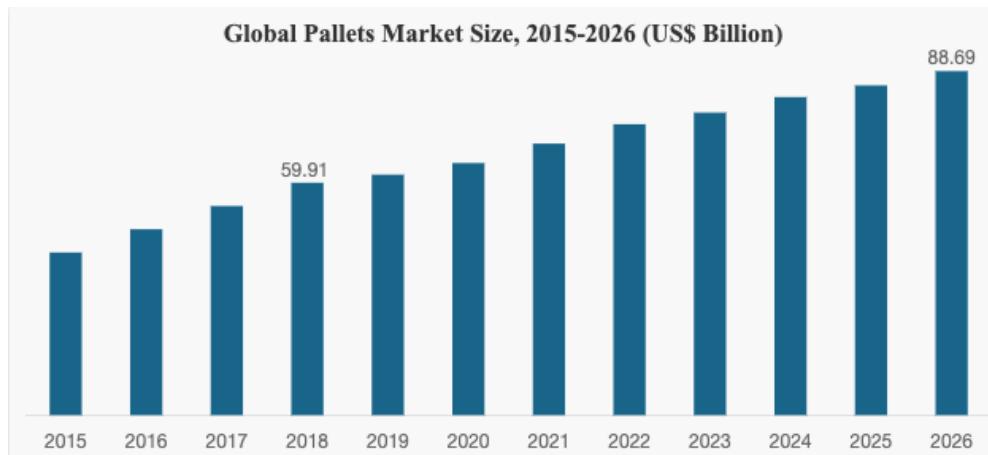
# Automation is the number one priority



## Key Facts

- Pallet compatibility was a top-of-mind issue for companies as they invested in automated materials handling, palletizing/de-palletizing machinery and storage equipment.
- In a business environment where every second counts, and where customers won't wait for their orders, setbacks could mean the difference between staying competitive and falling behind.

# Demand continues to rise year-on-year

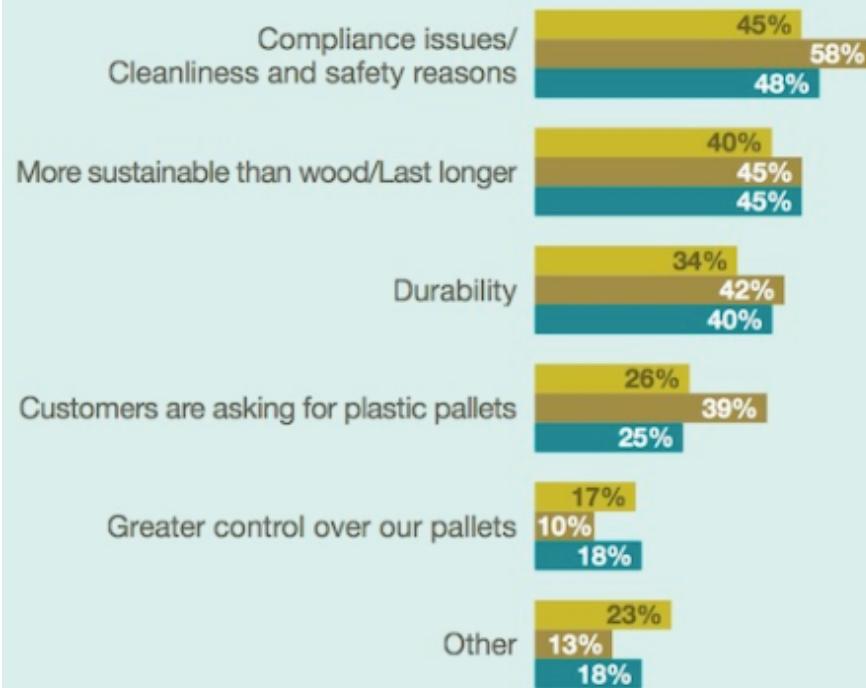


## Key Facts

- The total number of pallets in use in the US is forecast to increase 5.1% CAGR to 2.6 billion units, supported by gains in US manufacturing and warehousing activity.
- Manufacturing will remain the largest market for pallets in 2020. However, the warehousing and construction markets will post faster growth.

# Plastic and reusable is the future

## And, why do you expect your usage of plastic pallets to increase?



## Key Facts

- Wooden pallets have many disadvantages such as less durability, moisture absorption, cleanliness problems, and they splinter and break easily.
- Nowadays, logistics and shipment companies are shifting more towards plastic pallets, owing to its advantages such as lightweight and environmental impact as compared to wooden pallets.



# Strategy

WITRON

# They are committed to being the global leader

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## Grow and Strengthen Network Advantage

- Brambles continues to deepen its network advantage by growing in core businesses and rapidly scaling in newer markets.
- They want to improve customer experience further through simpler processes, additional services and enhanced platform quality



## Deliver Operational and Organisational Efficiencies

- They seek to offset the impact of cost inflation and competitive price pressures through efficiencies in areas such as procurement, plant automation and transport optimisation.

# While maintaining a disciplined business model



## Disciplined Allocation of Capital and Improved Cash Flow Generation

- Allocation of capital in a disciplined manner to maintain and grow its existing businesses, to drive innovation and to manage its portfolio of products and services.



## Innovate to Create New Value

- They are constantly innovating in new materials and platforms that enable its customers to increase sales, gain greater market insights and improve operational efficiencies in a changing retail landscape.



## Develop World-Class Talent

- Brambles' key priorities for its employees are safety, engagement and capability-building. The Group is committed to fostering a culture of agility, innovation and continuous improvement.

# Competitive Advantage

# Brambles competitive moat is defended



## CLEAR COMPETITIVE ADVANTAGES

### Key Facts

- Global leader in supply chain equipment and solutions – they are at the forefront and are forcing change in the industry
- They imbed themselves within their customers supply chains making themselves very 'sticky' – the reliance on Brambles becomes dependence.
- Major network effects mean that multiple participants in the value chain become customers of Brambles because as soon as one joins it becomes more cost effective for all other participants.

# Risks



# Risks are recognized and have active response plans

## Risks



Retailer acceptance of pooled solutions



Regulatory compliance



Industry trends with FMCG

## Mitigation

- Retailers are integral to Brambles' operating model. So Brambles have dedicated teams with executive-level responsibility for strengthening retailer relationships, identifying retailer specific product requirements and ensuring retailers understand Brambles' value proposition
- Brambles operates in a large number of countries with widely differing legal regimes, legislative requirements and compliance cultures. So Brambles have a Code of Conduct which provides a framework for detailed policies addressing regulatory compliance. Also an adoption of Group-wide online compliance training programmes to supplement face-to-face training
- Industry trends (e.g. fragmentation of the retail supply chain, growth of e-commerce and hard discounters, demand for different pooling equipment materials or designs) could affect demand for Brambles' current service offerings. Mitigating through driving customer intimacy throughout the supply chain and uncovering opportunities to leverage the Group's unique global scale and value proposition.

# Financial Statements



# Brambles Ltd

## SOCI & SOFP

### Consolidated Statement of Comprehensive Income

for the year ended 30 June 2019

	Note	2019 US\$m	2018 US\$m <sup>1</sup>
<b>Continuing operations</b>			
Sales revenue	2	<b>4,595.3</b>	4,470.3
Other income		<b>150.4</b>	133.0
Operating expenses	3	(4,004.8)	(3,812.8)
Share of results of joint venture	2	-	(11.8)
<b>Operating profit</b>		<b>740.9</b>	778.7
Finance revenue		<b>15.3</b>	28.3
Finance costs		(103.8)	(131.7)
<b>Net finance costs</b>	5	(88.5)	(103.4)
<b>Profit before tax</b>		<b>652.4</b>	675.3
Tax expense <sup>2</sup>	6A	(198.3)	(121.8)
<b>Profit from continuing operations</b>		<b>454.1</b>	553.5
Profit from discontinued operations	9B	<b>1,013.6</b>	139.2
<b>Profit for the year attributable to members of the parent entity</b>		<b>1,467.7</b>	692.7
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial (loss)/gain on defined benefit pension plans		(10.8)	17.8
Tax benefit/(expense) on items that will not be reclassified to profit or loss	6A	<b>2.7</b>	(4.7)
		(8.1)	13.1
<b>Items that may be reclassified to profit or loss:</b>			
Exchange differences on translation of continuing business foreign subsidiaries	21A	(85.0)	(98.5)
Exchange differences released to profit <sup>3</sup>	9C	<b>32.2</b>	-
		(52.8)	(98.5)
<b>Other comprehensive expense for the year</b>		<b>(60.9)</b>	(85.4)
<b>Total comprehensive income for the year attributable to members of the parent entity</b>		<b>1,406.8</b>	607.3

### Consolidated Balance Sheet

as at 30 June 2019

	Note	2019 US\$m	2018 US\$m <sup>1</sup>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	23	<b>1,691.3</b>	180.2
Term deposits	2	<b>411.2</b>	-
Trade and other receivables	10	<b>768.9</b>	1,247.0
Inventories	11	<b>59.8</b>	60.3
Other assets	12	<b>61.5</b>	70.9
<b>Total current assets</b>		<b>2,992.7</b>	1,558.4
<b>Non-current assets</b>			
Other receivables	10	<b>52.8</b>	50.4
Property, plant and equipment	13	<b>4,313.2</b>	5,139.7
Goodwill and intangible assets	14	<b>286.2</b>	1,022.8
Deferred tax assets	6C	<b>73.6</b>	38.2
Other assets	12	<b>11.8</b>	18.1
<b>Total non-current assets</b>		<b>4,737.6</b>	6,269.2
<b>Total assets</b>		<b>7,730.3</b>	7,827.6
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	<b>1,208.5</b>	1,954.3
Borrowings	17	<b>556.8</b>	91.2
Tax payable		<b>31.7</b>	61.8
Provisions	16	<b>75.5</b>	65.9
<b>Total current liabilities</b>		<b>1,872.5</b>	2,173.2
<b>Non-current liabilities</b>			
Borrowings	17	<b>1,643.4</b>	2,397.1
Provisions	16	<b>14.8</b>	12.6
Retirement benefit obligations	18	<b>37.3</b>	29.7
Deferred tax liabilities	6C	<b>353.1</b>	434.9
Other liabilities	15	<b>1.0</b>	1.7
<b>Total non-current liabilities</b>		<b>2,049.6</b>	2,876.0
<b>Total liabilities</b>		<b>3,922.1</b>	5,049.2
<b>Net assets</b>		<b>3,808.2</b>	2,778.4
<b>Equity</b>			
Contributed equity	19	<b>6,187.4</b>	6,218.5
Reserves	21	(7,322.5)	(7,253.7)
Retained earnings	21	<b>4,943.3</b>	3,813.6
<b>Total equity</b>		<b>3,808.2</b>	2,778.4

### Consolidated Cash Flow Statement

for the year ended 30 June 2019

	Note	2019 US\$m	2018 US\$m
<b>Cash flows from operating activities</b>			
Receipts from customers		<b>6,332.2</b>	6,582.4
Payments to suppliers and employees		(4,675.9)	(4,847.2)
Cash generated from operations		<b>1,656.3</b>	1,735.2
Interest received		<b>5.3</b>	14.9
Interest paid		(92.7)	(115.2)
Income taxes paid on operating activities		(230.5)	(211.9)
<b>Net cash inflow from operating activities</b>	23B	<b>1,338.4</b>	1,423.0
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(1,208.4)	(1,138.3)
Proceeds from sale of property, plant and equipment <sup>1</sup>		<b>130.0</b>	139.4
Payments for intangible assets		(21.6)	(19.6)
Proceeds from disposal of businesses, net of costs to sell and cash disposed <sup>2</sup>	9D	<b>2,366.2</b>	102.2
Proceeds from joint venture loan receivable		-	150.0
Acquisition of subsidiaries, net of cash acquired		-	(3.9)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>1,266.2</b>	(770.2)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		<b>1,060.9</b>	2,786.1
Repayments of borrowings		(1,316.4)	(3,027.0)
Net (outflow)/inflow from derivative financial instruments		(34.8)	26.6
Payment for term deposits	2	(411.2)	-
Proceeds from issues of ordinary shares		<b>0.2</b>	-
Payments for share buy-back, net of transaction costs		(54.1)	-
Dividends paid	8	(328.1)	(352.0)
<b>Net cash outflow from financing activities</b>		<b>(1,083.5)</b>	(566.3)
<b>Net increase in cash and cash equivalents</b>			
Cash and deposits, net of overdrafts, at beginning of the year		<b>171.3</b>	112.7
Effect of exchange rate changes		(2.0)	(27.9)
<b>Cash and deposits, net of overdrafts, at end of the year<sup>3</sup></b>	23A	<b>1,690.4</b>	171.3



# Stock Pitch

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