



Pandemic-proof pallets?

Company/ASX Code	Brambles/BXB
AGM date	Thursday 8 October 2020
Time and location	4pm Online NSW
Registry	Boardroom
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Roger Ashley assisted by Chandra Agnihotri
Pre AGM Meeting?	Yes with Chair John Mullen and Robert Gerrard VP Legal & Secretariat

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

It was noted in the 2019 Voting Intentions that, after five years of divestments it was difficult to make year-on-year comparisons of the financial results although it is noted that an underwhelming underlying profit Compound Annual Growth Rate (CAGR) of 1% over the past five years has been achieved. Underlying profit growth was below sales growth due to cost pressures and increased investment in the business. Reducing costs is a key factor in increasing profitability.

Just when the company seems to have put its irregular performances behind it, COVID-19 is now impacting its results. To date, however, any negative impact from the virus on the company's core business has been limited. Sales and profits held up well during the year with the COVID-19 impacting predominantly in the fourth quarter driven by lock-down demand having a positive impact on the pallet business due to higher demand for consumer staples. At constant currency, sales revenue increased 6% as strong volume growth and price realisation in the pallet business more than offset declines in the Automotive container and Kegstar businesses.

The full extent of the impact of COVID-19 seems unlikely to manifest itself until post 30 June 2020 further complicating any meaningful understanding of the 2020 and future results. It would appear that the majority of the business is as well prepared as may be expected to weather the future vicissitudes of the virus.

The company has made no changes to its remuneration policies as a result of COVID-19 but we were advised that it sees no reason to do so as it has not received government benefits in any country in which it operates to offset furloughing of employees.

Governance and culture

The CEO, Graham Chipchase, is a non-executive director of AstraZeneca. The practice of a CEO holding directorships outside their broader company organisation is not favoured by the ASA. This has been raised previously with the Chairman who defended the situation saying it provided experience and a broader outlook.

In terms of gender equality, in excess of thirty percent of Board and management level positions are held by women.

Financial performance

Following the divestment of IFCO (a global supplier of reusable plastic packaging), the Board commenced a return of capital and share buyback in 2019-20. As at 30 June 2020, 53% (\$A1.5Bn) of the buyback has been completed along with the capital return.

Key Events

An ongoing class action against Brambles following performance down grade announcements is still unresolved. The company is confident that it can successfully defend the action.

Key Board or senior management changes

Mr Stephen Johns retired after sixteen years as director and six years as chair. Mr John Mullen joined the board in November 2019 and succeeded Mr Johns as Chair. David Gosnell also retired from the board, after twelve years. Three new directors are up for election, see resolutions 3 to 5 for more details. We questioned whether this flurry of Board changes (including the immediately prior years) was symptomatic of any underlying problems, poor succession planning and whether this was detrimental to the transfer of Board experience. We were assured that the Board situation is stable and one long-term director (Tony Froggatt) has extended his tenure to ensure a continuity of experience.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (US\$m)	448.0	1467.7	692.7	182.9	587.7
UPAT (US\$m)	795.0	803.7	826.1	957.5	984.5
Share price (A\$)	10.87	12.88	8.88	9.73	12.39
Dividend (A\$ cents ¹)	18c ¹	29c	29c	29c	29c
TSR (%) ²	(-13.5) ²	48.3	(5.8)	(19.1)	18.2
EPS (US\$ cents)					
Basic	28.9	92.1	43.5	11.5	37.3
Underlying profits	32.5	31.9	33.0	38.5	39.2
CEO total remuneration, actual (US\$m)	2.67	2.58	2.5	1.1	6.1

Notes

1. From 1 July 2019 dividend policy changed to \$US. The 2020 dividend is in \$US and does not include a special dividend of \$A0.17 share return of capital.
2. TSR calculated using difference in opening and closing share price and dividend (the \$US dividend in 2020 has been translated into \$A at a rate of \$A1=\$US0.6692 and excludes the special dividend).

For 2020 the CEO's total actual remuneration was **43 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

CEO Remuneration Structure

	Target \$USm	% of Total	Max. Opportunity \$USm	% of Total
Fixed Remuneration	1.499	33%	1.499	24%
STI - Cash	0.899	19%	1.349	22%
STI - Equity	0.899	19%	1.349	22%
LTI	1.319	29%	1.949	32%
Total	4.616	100.0%	6.146	100%

Note: The table above is based on the actual remuneration structure in place in the year ended 30 June 2020.

The company has made changes to its remuneration policies over the last two years to the point where a vote in favour of the remuneration report is approaching a possibility.

Short term incentives (STI) are too generous compared to fixed remuneration (maximum opportunity is 180% of base salary) and potential long term incentives (LTI). Although 80% of the STI is based on financial objectives, these are only quantified to the extent that there is a minimum threshold which for underlying profit is defined as being above the prior year's outcome "except where extenuating circumstances exist." While a table shows the STI financial measures for the past five years, those shown are from the financial statements (which show a decline in underlying profit) and the STI outcomes "are based on adjusted outcomes." While the target STI parameters are shown in a table there is no explanation of the adjustments made to the statutory results. ASA expects clear disclosure of the performance hurdles and the remuneration report should explain any board discretions applied, so that shareholders are able to understand the reasons for payments made.

The payment of half of the STI in equity is applauded as is the two year holding lock which, if applied to the LTI award (rather than the current one year) would go a long way towards offsetting ASA’s objections to a three year incentive period.

The ASA has long maintained that LTI awards based on a relative TSR hurdle (which accounts for 50% of the LTI incentive) should not commence unless performance is **above** the 50th percentile of the peer group (rather than 50% vesting at the 50th percentile) over a minimum 4-year period. Additionally, should relative TSR be negative LTIs are still payable if the performance hurdle is met.

The other 50% of the LTI is based on a matrix comprising a sales revenue CAGR and a ROIC which is defined as Underlying Profit divided by Average Capital Invested. The matrix extends from 2-6% Sales revenue CAGR and a ROIC from 15% to 18%. The matrix is subject to adjustment for acquisitions, divestments. Impairments and significant items including any impact COVID-19 may have on actual results.

The ASA is concerned at the apparent latitude that the Board has in adjusting both STI and LTI incentive criteria and we would hope that any adjustments impacting actual awards paid are detailed in future Annual Reports.

Item 3	Election of Mr John Patrick Mullen as a Director
ASA Vote	For

Summary of ASA Position

Mr Mullen joined Brambles board in 2019 and succeeded Mr Stephen Johns as Chair in July 2020. He currently Chairs Telstra and holds the role of Chairman of the unlisted entity, Toll Group. He has a background in international transport and logistics.

He holds nil Brambles shares. ASA expects he will acquire shares to equal valuation of his director’s fees over the first 3 years of his directorship.

Item 4	Election of Dr Nora Lia Scheinkestel as a Director
ASA Vote	For

Summary of ASA Position

Ms Scheinkestel has been a non-executive director for 25 years and prior to that was a senior banking executive in international and project financing. She was appointed to the Brambles board following the 2019 AGM. She has served as Chairman and Director in a range of companies across various industry sectors and in the public, private and government arena. She is also an Associate Professor in the Melbourne Business School at Melbourne University. Ms Scheinkestel serves as a director on the AusNet and Telstra boards and chairs Atlas Arteria. With Brambles, this brings her equivalent workload to 5, where a chair role counts as 2 directorships which ASA considers to be a full workload.

She holds 7,134 Brambles shares. ASA expects she will acquire shares to equal valuation of her 1 director’s fees over the first 3 years of her directorship.

Item 5	Election of Mr Kenneth Stanley McCall as a Director
ASA Vote	For

Summary of ASA Position

Mr. McCall has a background in global network management, international logistics and supply chain across many jurisdictions. He joined Brambles board in 2020.

He is currently Senior Independent Non-Executive Director for UK's Post Office Limited; he also chairs its Remuneration Committee and is a member of its Nomination and Audit, Risk and Compliance Committees.

ASA expects Mr McCall to acquire shares to equal valuation of his director's fees over the first 3 years of his directorship.

Item 6	Re-election of Ms Tahira Hassan as a Director
ASA Vote	For

Summary of ASA Position

Ms Hassan joined the Brambles board at the end of 2011, after a long career with Nestle including a role created to lead the reshaping of Nestle's global approach to supply chain management. She is based in Toronto. Other non-executive director positions: Canada Pension Plan and Ontario Shores Centre for Mental Health Sciences. She has no other listed company directorships.

Ms Hassan holds 15,000 Brambles shares, which is similar in value to her director's fee.

Item 7	Re-election of Ms Nessa O'Sullivan as a Director
ASA Vote	For

Summary of ASA Position

Ms O'Sullivan is an executive director of Brambles who was appointed to the board during April 2017. She holds 22,828 Brambles shares directly and indirectly and has conditional performance share rights over an additional 537,344 shares and conditional matched share rights over 904 shares.

Item 8	Issue of shares under the Brambles Limited MyShare Plan
ASA Vote	For

Summary of ASA Position

Brambles has an employee share plan, MyShare, to encourage share ownership by employees. After a 2 year qualifying period, employees may buy BXB shares in value to up to A\$6,000 each year and BXB will match the purchase on a one-for one basis. This proposal is to enable the CEO to participate in the share plan.

As all other executives are currently entitled to participate in the share plan, there is no valid reason to make an exception and exclude the CEO. Accordingly, the ASA supports the proposal.

Item 9	Participation of Executive Director Mr Graham Chipchase in the Performance Share Plan
ASA Vote	Against

Summary of ASA Position

Our vote against on this resolution follows from the rejection of the remuneration report for the reasons given.

Item 10	Participation of Executive Director Ms Nessa O’Sullivan in the Performance Share Plan
ASA Vote	Against

Summary of ASA Position

Our vote against on this resolution follows from the rejection of the remuneration report for the reasons given.

Item 11	Participation of Executive Director Participation Ms Nessa O’Sullivan in the MyShare Plan
ASA Vote	For

Summary of ASA Position

As all other executives are currently entitled to participate in the share plan, there is no valid reason to make an exception and exclude the CEO. Accordingly, the ASA supports the proposal.

Item 12	Extension of On-Market Share Buy-Backs
ASA Vote	For

Summary of ASA Position

The ASA supports this proposal. Brambles is to be commended for deciding to return capital to shareholders where there is no beneficial use for surplus funds.

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