Australian Shareholders' Association
Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Best in show but not showy for shareholders

Company/ASX Code	Brambles Limited/BXB
AGM date	23 October 2018
Time and location	2 pm The Westin 1 Martin Place Sydney
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Mary Curran assisted by Estelle Renard
Pre-AGM Meeting	Yes, with Chairman Stephen Johns & Robert Gerrard, Co. Secretary

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

Summary of ASA Position

Despite being best in breed and a market leader in pallets, the company had a negative return of 5.8% for shareholders. However, since the end of the financial year, the share price has jumped from A$8.88 to A$10.69 and total shareholder return (TSR) to date is 22% on the news of the IFCO demerger. The Chair, Stephen Johns, views the demerger as positive for Brambles and states IFCO (reusable plastic containers/crates) has different capital requirements to the core Brambles business and the expected ability to cross-sell did not eventuate given the entrenched US preference for cardboard to plastic for fresh produce. Therefore, after a strategic review, it was better to separate the two. Currently it makes up approximately 16% of Brambles total revenue. He expects the demerger to be taken to the shareholders by June 2020, unless sold to private equity or trade buyers prior. Should it demerge, it would most likely be listed on a European exchange.

Dividends remain constant and the final 2018 dividend will be 30% franked (90% of revenue is earned outside Australia). Gross dividend yield is more than 20% below the ASX300 average.

Return on invested capital (ROIC) return is 16%. Free cash flow after dividends has improved from US$(123.8m) to US$202.4m. Profit is up on the previous year

During the year Brambles divested the North America whitewood pallet business (CHEP Recycled) and 50% of the Hoover Fergus Group (HFG oil & gas containers joint venture).

The management team are now resident in the UK, as 80% of the business is in the northern hemisphere and that as with many multinationals, BREXIT could affect employees. As noted last year the CEO, Mr Chipchase, is a director on Board of a large publicly listed company (Astra Zeneca) which is a practice not favoured by ASA. The Chairman assured us that this is not impacting of his ability to run Brambles and he sees it as a positive for gaining experience.

With regard to board renewal, the Chairman will step down once his three-year tenure is up and they are currently recruiting a non-executive director with deep digital experience and data analytics. Despite a recent AFR article, the Chairman's pay remains constant and it is only a currency deviation, rather than a pay cut. (Chairman is paid in A$).

Just prior to the 2017 AGM, a class action was announced by Maurice Blackburn. Since then there is a second class action by Slater and Gordon. The chairman stated they will vigorously defend their position.

Summary

(As at FYE)	**2018**	**2017**	**2016**	**2015**
NPAT (US$m)	986	771	915	942
UPAT (US$m)	997	958	998	987
Share price (A$)	8.88	9.91	12.39	10.50
Dividend (A$ cents/% franking)	29c/30%	29c/30%	29c/25%	28c/30%
TSR (%)	(5.8)	(22)	20	18.4
EPS (A$ cents)	53.3	50.0	51.9	53.3
CEO total remuneration, actual (US$m)[1]	2.5	1.1	6.1*	6.1*

*Previous CEO, who also earned US$5.8m in 2017

For 2018, the CEO's total actual remuneration~ was **29 times** the Australian Full time AWE (based on May 2018 data from the ABS).

[1] The year-on-year comparison of remuneration is affected by the movement of exchange rates from A$1=US$0.7540, €1=US$1.0950 and £1=US$1.2732 for FY17 and A$1=US$0.7726, €1=US$1.1950 and £1=US$1.3465 for FY18.

Item 2	**Adoption of Remuneration Report**
ASA Vote	**Against**

Summary of ASA Position

ASA has history of voting against the remuneration report for various reasons. Last year there was a protest vote which resulted in a near strike 23.3% (strike is 25% against). This was brought about by shareholder reaction to the poor performance of its US-based pallet business. Normally the remuneration has strong support from institutions and pension funds, i.e. about 90% in favour.

This year good changes came in to force including clawback provisions with the board being able to broaden its discretion to cancel both short term incentives (STI) and long term incentives (LTI) awards which have been granted but not vested. On leaving the company, executive directors who cease to be employees of the company shall be required to retain at least 50% of their minimum shareholding for the 12-month following their cessation of employment. We support the deferral of vesting on leaving the company, whereby executive directors who cease to be employees of the company shall be required to retain at least 50% of their minimum shareholding for the 12-month following their cessation of employment.

Minimum shareholding requirements have been strengthened with application to all disclosable executives and members of the executive leadership team. CEO's minimum shareholding is 150% of base salary and other executive leadership team (ELT) members to 100%, built up over 5 years. Also, STIs have been strengthened with financial objectives increasing from 70% to 80%. All executives will have a measure based on the Brambles Group Cash Flow to emphasise importance of cash generation for Brambles.

Brambles continues to use 'face value' rather than (so called) 'fair value' in the calculation for LTI allocations.

However, LTI still has only three-year performance period with awards based on two measures, relative TSR and each comprising 50%, namely underlying profit condition (for STI awards) and Return on Capital Invested (ROCI) for LTI awards. TSR is compared to two benchmarks, the ASX 100 and, as a link to global performance, MSCI World Industrials.

We questioned the Chairman if the ROCI targets would be changed should the divestment of IFCO go ahead and he confirmed they would as IFCO, for example, has a much lower ROCI than Chep.

TSR LTI awards are considered to be too high and to vest too quickly, i.e. 50% vesting if the TSR equals the median ranked ASX/MSCI 100 and 100% by 25% over-performance. Additionally, should absolute TSR be negative, LTIs are still payable if performance hurdle is met. The company, like many, believes in aligning with comparator groups as it states TSR can be totally market driven.

On top of generous Fixed Remuneration, the potential magnitude of the variable pays (ie STI and LTI) appears excessive. The maximum opportunity for the CEO is 310% of fixed remuneration, (180% STI at max including cash plus shares plus 130% LTI) with 90% in cash. The CEO remuneration is calculated and paid in sterling, whilst Brambles' functional currency is US$ hence the annual report is reported in US$. For the purpose of Australian shareholders comparing the company's remuneration with the other ASX-listed companies, the CEO's package[2] can be summarised in A$ (converted to Sterling to A$ at exchange rate of 1.78 as at 30 June) base of 1.1m GBP converts to A$1,958,000, pension supplement of 15% base salary A$293,700, car allowance A$32,040. STI at target = A$2,349,600; STI at max = A$3,524,400; LTI at 50% vesting = A$1,272,700; LTI at max = A$2,545,400.

For the CEO and CFO, as they are new appointees, no vesting took place. The average vesting over the past 5 years is around 50%. They state the financial hurdles are tough and the forecast for two years' time is 0% e.g. in table 4.1.1 the CEO received 31% of his STI potential. A more realistic estimate of the CEO's remuneration package is between A$2.1m and A$5.5m (if on target). However, the total theoretical opportunity remains at A$8 million.

With regard to non-executive directors (NEDs) there is no increase in fees proposed for 2019.

The remuneration report of some 22 pages has extensive disclosures but complexity of the different incentive plans makes it difficult for a retail shareholder to understand. However, Brambles is a global company and its remuneration report, like its business is complex and reflects requirements of Corporations Law and AASB standards.

Item 3	**Election of Elizabeth Fagan as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Fagan was previously Senior Vice President and Managing Director of Boots for UK and Ireland and has held senior positions for DSG international Plc. She stepped down from the role at Boots on 1st September 2018 to join Brambles. She holds a Batchelor of Science, Biochemistry from Strathclyde University. She has filled the vacancy created by the retirement of Christine Cross.

[2] Mr Chipchase's contract as disclosed in 2016 provides for the following remuneration package: Base salary of £1,10 0,000 per annum; Pension supplement of 15% of base salary; Car allowance of £18,000 per annum; Health and life i nsurance; Annual short term incentive (STI) opportunity of 120% of base salary at target and 180% at maximum, with 50% of any incentive deferred for two years and awarded in Brambles shares under the Brambles 2006 Performance Share Plan; and Annual long term incentive (LTI) share awards, granted under the Brambles 2006 Performance Share Plan, equal in value to 130% of base salary, performance tested and vesting after three years.

Item 4	Re-election of Scott Perkins as a Director
ASA Vote	For

Summary of ASA Position

Mr Perkins joined the board in 2015 and was supported by ASA at that time. He is a NED of Woolworths and Origin Energy. Currently holds 20,000 shares.

Item 5	Participation of Graham Chipchase in the Amended Performance Share Plan
ASA Vote	Against

Summary of ASA Position

This is to permit CEO to participate in the new plan. As per commentary about we believe the plan is overly generous and do not support it.

Item 6	Participation of Nessa O'Sullivan in the Performance Share Plan or in the Amended Performance Share Plan
ASA Vote	Against

Summary of ASA Position

This is to permit the CFO to participate in the new plan. As per commentary above, we believe the plan is overly generous and do not support it.

The individual(s) (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- *makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- *shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.