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Brambles

Information current as at 1 August 2023

What are the main business activities?

Brambles is a global supply chain company. They provide reusable wooden pallets and plastic containers for the transportation of goods from manufacturers to processors and retailers. Brambles uses what is known as pooling to provide this service, under the brand name CHEP. Manufacturers rent pallets from the CHEP pool, send it down to their supply chain to a processor or retailer and CHEP picks it up at the other end, returning it to the pool. Depending on the region, the manufacturers are charged either a risk-adjusted fee-per-use or a daily rental charge for each pallet.

Brambles operates across Europe, Asia-Pacific, North and South America. Most goods (>80%) transported on Brambles’ pallets are consumer staples, including fast moving consumer goods, fresh food and beverages. Brambles also provides specialised containers for the shipping of automotive parts and liquids.

Why is this firm attractive to its customers?

For manufacturers, using a pooled pallet service has many advantages. Without a pooled pallet service, manufacturers must manage their own supply, transportation and storage of single-use pallets, known in the industry as ‘whitewood’ pallets. Whitewood pallets are lower in quality, less durable and more variable in dimensions compared to CHEP’s pallets. Many large retailers, who have automated equipment at their loading docks and distribution centres, will not accept goods on whitewood pallets for this reason and require manufacturers to use high quality pooled pallets.

Using a pooled service also ensures reliable supply of pallets for manufacturers at a contracted price. Manufacturers in many regions are geographically concentrated and their goods are transported long distances. For example, food tends to be produced in agricultural centres and consumed in cities. This tends to create localised under-supply of pallets in producing regions and over-supply in consuming regions. Brambles is the world’s largest pooling service, and their scale allows them to arbitrage this dynamic with their national-scale pools, providing pallets at comparatively lower cost and more reliability compared to whitewood in areas of under-supply.

ESG observations

In a recent survey by Jarden, investors said Brambles is one of the top 3 ESG performers on the ASX. Brambles has a strong focus on promoting circular economy, emissions reductions and diversity and inclusion in their operations.

Pallet pooling is inherently more sustainable than using whitewood, as each pallet is re-used many times. Additionally, 100% of Brambles’ pallets are built using lumber with a sustainable certification from the Forest



Stewardship Council. This makes Brambles a more attractive pallet supplier for manufacturers who are focused on environmental sustainability of their own operations.

Brambles is one of the most ambitious companies on the ASX on emissions reductions. With the use of offsets, the company has been net zero on scope 1 and 2 emissions since 2020 and has made a commitment to be net zero on Scope 3 emissions by 2040. Brambles also actively promotes the reduction of waste and emissions in the supply chains of their customers.

Why does the portfolio hold this stock?

Brambles is highly exposed to consumer staples, which is very defensive in volume terms. In recent years, Brambles has also done an excellent job of renegotiating their contracts with customers, adding clauses to pass through volatile costs such as lumber and fuel, and effectively pricing to recover increases in pallet input costs and losses during the extraordinary supply chain disruptions of the pandemic. We expect Brambles to utilise their leading market position to hold these pricing gains and produce strong cashflows as input costs such as lumber, fuel and transport contracting normalise.

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