



Australian  
National  
University

# ANU Student Managed Fund

Investment Recommendation

## **Brambles Limited**

**ASX code: BXB**

Safi Wheeldon (Head of Active Australian Equities)

Enrique Sinha (Senior Analyst – Active Australian Equities)

Shaun Patrick (Analyst – Active Australian Equities)

Gauri Arora (Analyst – Active Australian Equities)

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### Notes:

Unless otherwise specified, dollar amounts in this report are presented in Australian dollars for ASX market data and in U.S. dollars for RWC's financial reporting, consistent with the company's primary reporting currency.

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## Glossary

**AAE** – Active Australian Equities

**ANU** – The Australian National University

**BXB** – Brambles Ltd

**CAPEX** – Capital expenditure

**CHEP** - Commonwealth Handling Equipment Pool

**EBIT** – Earnings before interest and tax

**EBITA** – Earnings before interest, tax and amortisation

**EMEA** – Europe, the Middle East and Africa

**FMCG** – Fast-moving consumer goods

**FC** – Franking credits

**FY** – Financial year

**GICS** – Global Industry Classification Standard

**IAC** – Investment Advisory Committee

**IOZ** – iShares Core S&P/ASX 200 ETF

**MoS** – Margin of safety

**R&C** – Risk and Compliance

**SMF** – ANU Student Managed Fund

**WACC** – Weighted average cost of capital

## Portfolio Recommendation

The AAE Team recommends that the Student Managed Fund (SMF) **sell** its entire active position in Brambles (BXB) within the Active Australian Equities portfolio and invest the proceeds into the iShares Core S&P/ASX200 ETF (IOZ).

## Investment Thesis

BXB is an Australian-based supply chain logistics company. It operates in over 60 countries through its CHEP brand which distributes pallets, reusable plastic containers and types of specialised containers.

The key reason underpinning our sell recommendation is that BXB no longer has an attractive trade-off between maximising the expected value of the funds invested and the risk of a sustained loss in value for the fund.

The SMF's original investment thesis identified the following drivers of long-term value:

- strong competitive advantage within the pallet industry;
- improved returns on invested capital after demerging non-core businesses;
- exposure to retail sector, with insulation from e-commerce;
- inflationary pressures on margins hedged by contract teams; and
- geographic diversification enhances BXB's defensive nature.

BXB's investment thesis has materialised across the identified strategic areas since the Fund's initial purchase. The company maintains its competitive position within the pallet industry through market shares of 55%, 25%, and 70% in the Americas, EMEA, and APAC regions respectively, with network effects continuing to limit new reusable pallet entrants. ROIC has improved following the completion of non-core divestments, including IFCO (A\$3.52bn), HFG JV, CHEP Recycled (A\$147.2m), and CHEP Aerospace (A\$175m), resulting in a focused business structure and debt-to-equity ratio below 15%. The company has demonstrated insulation from adverse e-commerce impact through its retail sector exposure, while implementing cost indexation clauses in 75-80% of contracts to address inflationary pressures, evidenced by maintained margins despite lumber price increases of 130% in FY21. Despite the company's divestment of CHEP India, its geographic diversification continues to provide defensive characteristics, with 90% of revenue generated outside Australia.

The SMF originally purchased BXB on 27 May 2021, at \$10.69 per share, for a total cost of \$41,377.06. The company was flagged for a rebalance in Semester 1 2025, upon breaching the +3% threshold relative

# Brambles

**AUSTRALIA**

**ASX code: BXB**

**Price (6/10/2025)** \$24.85

**Valuation (exc. FC)** \$21.89

**Margin of safety (MoS) (exc. FC)** -11.92%

**Valuation (inc. FC)** \$23.63

**Margin of safety (MoS) (inc. FC)** -4.90%

**Dividend yield** 2.57%

**GICS** Commercial & Professional Services

**52-week range** \$17.80- \$26.93

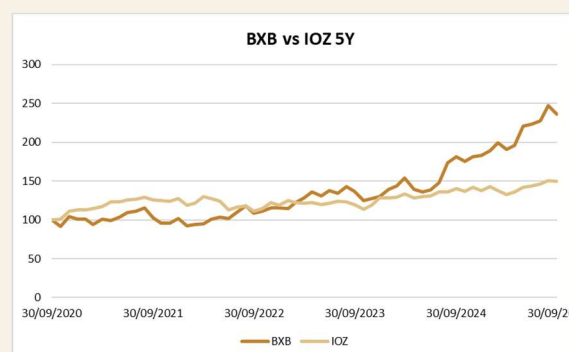
**Recommendation** **Sell**

**Key assumptions**

**Required return on equity** 7.45%

**WACC** 7.05%

### Five-year price history



to its target weight. At that time, the AAE team decided to allow the BXB deviation to stand. However, on 26 August 2025, BXB was rebalanced back to its target weight of 10% after exceeding the +5% threshold relative to its 10% target weighting in the AAE portfolio and in line with the SMF IPS. The SMF sold 941 shares at \$26.13, for a total of \$24,561.44 net of fees, reinvesting the proceeds into the IOZ. Despite the success of BXB for SMF, the AAE team believes that the stock's recent price rally is unsustainable, and it is appropriate that the SMF sell its holding. The team's investment case for a sell is driven by:

- structural headwinds to volume growth and profitability; and
- execution risks with margin expansion initiatives.

The AAE team has estimated a target BXB share price of \$21.89, implying a MoS (excl. FC) of -11.92%. We contend that the fundamental strengths of BXB noted in the original investment thesis have materialised and are reflected in the current price, prompting our recommendation that the SMF sell BXB.

## Investment Case

### Structural Headwinds to Volume Growth and Profitability

The original investment thesis, built on the core long-term growth assumption that converting customers from low-quality "whitewood" and plastic (single-use) pallets to the pooled CHEP network will drive consistent volume expansion, is facing a material erosion. This assumption is structurally challenged by three compounding factors: sluggish organic demand in its core Fast-Moving Consumer Goods (FMCG) end-market, persistent headwinds from pallet competition and the long-term impact of retailer inventory optimisation, leading to structural pallet oversupply in BXB's network. These factors collectively prevent the high rate of new customer wins required to justify the stock's current price.

#### Sluggish FMCG Volumes

Brambles' core revenue is underpinned by the global FMCG sector, a market inherently defined by slow, structural growth. This sluggish pace is due to the industry's heavy weighting towards basic, non-discretionary goods, where volume growth is inherently limited by population dynamics and consumption ceilings, rather than economic expansion. This is evidenced by the sector's historical sales revenue CAGR of approximately 3.80% from 2021 to 2025, a trend forecast to persist.

This persistent slow market growth has translated directly into operational difficulties for BXB, evidenced by the first negative (1%) Like-for-Like (LFL) volume decline recorded in 2025. This decline in volume confirms that underlying pallet usage by existing customers across all markets is insufficient to drive organic expansion.

Given the projected CAGR of ~3.2% to 4.3% for the global FMCG market, a low growth rate BXB is already struggling to match organically. Achieving the stock's premium valuation requires revenue growth upwards of 6% in FY26-30, which is significantly above this market rate. The company's ability to achieve the revenue growth required to justify its premium valuation hinges on winning new business, a task made increasingly difficult by competition from single-use pallet alternatives.

#### Competition from Single-Use Pallet Alternatives

The original BXB investment case was reliant on the company's strong competitive advantage within the pallet industry, which it could maintain by converting customers from whitewood and single-use plastic pallets to CHEP's pooled, reusable network. However, BXB's conversion momentum has been decelerating with net new business wins, which largely reflect conversion rates declining from 3% in FY22 to 2% in both FY24 and FY25. The declining conversion abilities of BXB are a result of declining whitewood pallet prices, which delayed small to medium manufacturers deciding to switch to pooling alternatives. Despite the structural case for conversion, the cyclical normalisation in whitewood availability and pricing has

reduced the urgency for customers to switch, tempering the rate of share capture from single-use alternatives below the original investment thesis expectations.

BXB faces increasing competitive pressure from one-way whitewood and plastic pallet alternatives that offer cost advantages in specific applications. While plastic pallets command higher prices (approximately 70% more than wooden alternatives), their durability advantages and contamination resistance make them attractive for specialised applications in food and pharmaceuticals. The plastic pallet market is projected to grow at a 5.4% CAGR through 2030, reaching \$9.37 billion, driven by e-commerce growth and stricter environmental regulations. This shift represents a structural challenge to BXB's wooden pallet dominance, particularly as customers in building materials and specialised industries increasingly adopt one-way solutions that eliminate return logistics complexities and reduce dependence on pooling networks. As whitewood quality and price pressures ease and pallet availability normalise, these single-use alternatives regain cost competitiveness versus pooling, which contributes to a lower conversion rate than the original investment thesis envisaged.

### Persistent Structural Oversupply (Pallets)

BXB confronts a persistent oversupply of pallets driven by a fundamental shift in customer inventory management practices since Covid-19. The scale of this oversupply is evident in BXB's destocking volumes, with customers returning 5 million pallets in FY23 and 12 million in FY24, creating an influx of assets back into BXB's network. This has left BXB with 4 million excess pallets across its US operations.

The oversupply challenge extends beyond cyclical inventory adjustments, reflecting retailers' and manufacturers' adoption of just-in-time practices and reduced safety stock levels in response to normalised supply conditions. This structural imbalance will force BXB to absorb additional repair, transport and storage costs while also experiencing reduced like-for-like volume growth.

The persistent nature of this oversupply stems from structural retail optimisation, where large existing customers have permanently recalibrated to maintain leaner inventories and require fewer pallets on-hire at any given time, confirming that underlying pallet usage by the customer base may be insufficient to drive organic expansion. This oversupply is not a temporary dislocation but represents a reduction in pallet intensity, as improved supply chain automation, efficiency gains, and retailer inventory optimisation systematically reduce overall demand for pallet services, resulting in structural pallet oversupply congesting BXB's historically efficient network.

### High Execution Risk Associated with Margin Expansion Targets

BXB faces execution risks in achieving its margin expansion targets, which underpin the current valuation. The targeted margin accretion depends on strategic initiatives focused on Asset Efficiency, Network Productivity and Overhead Productivity. Each area is challenged by internal complexity and external volatility, creating headwinds that risk the realisation of expected benefits. For Asset Efficiency, a key driver is the proposed global rollout of new digital solutions, such as Serialisation+, designed to reduce uncompensated pallet losses and improve asset cycle times. These projects require capital investment and integration across BXB's global network, with risks that promised cost savings, including reductions in pallet purchases, may not materialise, a common challenge in large-scale digital transformations. Notably, while Serialisation+ offers a competitive advantage, competitors such as Loscam have deployed IoT-enabled "Track & Trace" solutions using Sigfox networks to monitor pallet location and condition in real time, eroding BXB's competitive edge and diminishing its ability to deliver differentiated efficiency gains for customers.

External headwinds compound these risks. Inflationary pressures on fuel, third-party logistics, and labour costs threaten to absorb or negate the operational improvements expected from Network Productivity and Transport Optimisation initiatives, such as reducing empty transport miles. Meanwhile, BXB's overhead productivity targets carry execution uncertainty. The company has set a target to achieve a net benefit of US\$55 million by FY27 through overhead restructuring, but the realisation of such benefits may

prove overly ambitious given the difficulties in sustaining deep structural cost reductions amid organisational complexity and resistance. Taken together, while these transformation initiatives remain strategic priorities, the combined challenges of execution risk, competitive pressures eroding technological advantages and macroeconomic volatility present barriers to delivering the margin expansion that underpins investor expectations.

## Risks to Recommendation

### Sustained Investor Confidence

The primary risk of a sell recommendation lies in BXB's entrenched investor confidence, which may sustain elevated valuations despite underlying operational challenges. The market continues to view BXB's current P/E ratio of approximately 26x as justified, reflecting persistent faith in the company's economic moat and operational excellence. Even as operational metrics show signs of stress, such as rising damage rates, excess plant stock and slowing conversion rates, investor confidence may persist based on historical performance and the belief that these challenges are cyclical rather than structural. For example, when the FY24 results came out, BXB's share price rallied by over 15%, despite the company disclosing a persistent oversupply of pallets and ongoing excess plant stock.

## Model Summary

### Revenue

Brambles reported relatively modest revenue growth of around 2-3% in FY25, with constant-currency sales up ~3% to \$6.67 billion. This weaker performance was mainly due to slower price realisation as cost inflation eased, limited like-for-like volume growth given destocking in the US and ANZ, and only modest net new business wins across regions. Brambles consistently frames its revenue growth around three levers: like-for-like volumes, net new wins, and price/mix. In FY25, volumes grew by about 1% (roughly half from like-for-like and half from new wins) while price/mix added around 2%, but overall growth was dampened by macro softness and easing indexation benefits.

For our revenue forecast, we follow Brambles' own revenue growth framework of like-for-like volumes, price/mix realisation, and net new business wins, applied across each operating region. In the Americas, revenue is primarily driven by underlying consumer goods demand and pallet flows, with like-for-like volumes proxied by US retail trade activity and inventory restocking trends. Pricing is modelled in line with cost-to-serve indexation, which includes wages, transport, and input costs. In EMEA, revenue growth is linked to regional retail trade trends and a modest contribution from the automotive pooling segment. Price/mix effects reflect the pass-through of labour, fuel, and material cost inflation into customer contracts, consistent with Brambles' indexation mechanisms. In APAC, forecasts are anchored to real retail turnover in Australia and New Zealand, while price/mix reflects wage growth, timber costs, and fuel indices, which together shape the cost-to-serve and are largely recoverable through pricing.

Across all regions, net new wins have been modelled conservatively at 0.5% per year, reflecting ongoing but steady structural conversions to pooled pallets and incremental contract gains. By weighting the growth outlook from each region to Brambles' consolidated sales mix, we derive Group revenue growth of ~4-5% per year over our explicit forecast period (FY26-30), in line with management's FY26 guidance of 3-5%. From FY31 onwards, we adopt a 2.75% terminal revenue growth rate, consistent with Brambles' mature market position and long-term alignment to inflation-adjusted consumer goods demand. This growth is expected to come primarily from steady price/mix realisation (around +1.5-2% annually), consistent net new business wins of ~1-2% across regions, and moderate recovery in like-for-like volumes of ~1-1.5%. Together, these drivers provide a balanced and credible revenue growth trajectory that aligns with company disclosures and industry trends while acknowledging cyclical risks.

## Costs

Historically, BXB's EBITDA margin has generally hovered between 28-31%, with the 2025 margin reaching 31.8%. The forecast period anticipates an acceleration of this trend, driven by the company's stated guidance of achieving approximately 3 percentage points of EBITDA margin expansion by 2028 (from an FY24 baseline, rising to 33.0% in 2028 and stabilising through 2030E. This expansion is modelled on the target of broadly equal contributions from Supply Chain Productivity, Asset Efficiency, and Overhead Productivity.

The majority of this margin improvement is modelled to be delivered by a decrease in COGS as a % of revenue, moving from 67.20% in 2025 to 65.20% in 2030E. Brambles' COGS consists of five cost categories: employment, transport, repair and maintenance, raw materials and subcontractors. BXB's strategic initiatives are designed to structurally reduce costs across these areas through several key investments:

- **Asset Efficiency:** Implementing digital solutions, including Serialisation+ (smart asset tracking), to reduce uncompensated pallet losses, improve cycle times, and lower the volume of new pallet purchases required (impacting the wood/materials COGS component).
- **Network Productivity:** Focus on leveraging digital capabilities to identify and resolve high-damage rate routes and further optimise pallet collection, while simultaneously reducing inefficiencies associated with excess plant stock levels (e.g., in the US).
- **Transport Optimisation:** Leveraging data and digital insights to reduce empty transport miles and optimise network flows, thereby decreasing third-party freight and fuel costs.

The other two key cost line items are modelled as follows: SG&A expenses are expected to see reductions due to overhead restructuring, which is guided to deliver a net benefit of approximately US\$55 million by FY27 through incremental investments in digital and organisational efficiencies. This is modelled for SG&A expenses decreasing from 2.03% of revenue in 2025 to 1.80% by 2028E.

Finally, Other Operating Expenses, which is primarily comprised of the Irrecoverable Pooling Equipment Provision (IPEP) expense, is forecasted to increase from 1.40% of revenue in 2025 to 1.60% by 2026E and onwards in line with BXB's own guidance. This subtle increase reflects the shift in accounting treatment as BXB moves to FIFO treatment.

## Model Evolution

To provide a clearer context on the development of Brambles' fundamentals and our updated view, the table below compares the key forecast drivers in the current model iteration against the last revaluation (S1 2025).

Metric	Current Model (Updated)	Prior Model (5/5/25)
FY26 Revenue Growth	4.25%	4.05%
Long-Term Growth Rate (Post FY30)	2.75%	2.00%
FY28 EBITDA Margin Target	33.7%	30.23%
COGS as % of Revenue (FY30)	65.20%	63.89%
<b>Target Price</b>	<b>\$21.89</b>	<b>\$21.60</b>

The most notable update in this iteration is the increase in the long-term growth rate, which has been upgraded from 2.00% to 2.75%. This upward revision is supported by a more robust terminal view on global inflation and Brambles' consistent success in structural conversions. Concurrently, we have made a material upgrade to the cost base, with the FY28 EBITDA Margin Target rising substantially from 30.23% to 33.7%, formally incorporating the company's stronger guidance for greater-than-3 percentage points of expansion driven by Supply Chain Productivity and Asset Efficiency programs. While this model assumes a slightly higher COGS as a percentage of revenue (65.20% vs 63.89% in the prior model) due to

a shift in cost allocation, the overall improvement in the EBITDA margin confirms a much stronger outlook for overhead and SG&A expense reduction.

The combined impact of these fundamental model upgrades has resulted in a minor upward revision to our intrinsic value, moving from the prior target of \$21.60 to a revised figure of \$21.89. However, while the previous model's target represented a healthy 5.12% positive MoS at the time, the rapid appreciation of the market price since the last revaluation has eroded this margin. The current share price now comfortably incorporates both the structural improvements and the upgraded long-term outlook, leading to the decision to downgrade our recommendation to Sell.

## Scenario Analysis

We modelled six distinct scenarios to capture the range of potential outcomes for Brambles. The bull case reflects upside from stronger demand, higher pricing power, and accelerated customer conversions. This includes a rebound in like-for-like volumes as supply chains normalise, sustained price/mix benefits from extended cost indexation, and incremental market share gains through faster conversions from whitewood pallets. Conversely, the bear case captures downside risks from weak execution and macro pressures. These include failure to achieve targeted margin expansion, a complete stall in net new business growth, and a prolonged global downturn leading to negative volumes and operating leverage. Together, these scenarios highlight that while Brambles' upside depends on effective execution and steady demand recovery, downside risks remain significant if growth or efficiency targets are not met.

A full breakdown of the scenario assumptions, valuation deltas, and weighting methodology is provided in Appendix B.

## Valuation Summary and Recommendation

Our discounted cash flow (DCF) model generates a base case valuation (including FC) of \$23.63. This valuation provides a MoS of -4.89%. Our scenario analysis is outlined in Appendix B and provides a bull case valuation of \$26.14 and a bear case valuation of \$20.55.

Valuation Summary	Bear case	Base case	Bull case
Share price (6/10/25)	\$24.85	\$24.85	\$24.85
Valuation (w/o FC)	\$18.94	<b>\$21.89</b>	\$24.21
<b>Margin of safety (w/o FC)</b>	-22.84%	<b>-11.92%</b>	-2.59%
Valuation (w FC)	\$20.55	<b>\$23.64</b>	\$26.14
<b>Margin of safety (w FC)</b>	-16.31%	<b>-4.89%</b>	5.20%
Required return on equity	7.45%	7.45%	7.45%
Cost of debt (after tax)	3.57%	3.57%	3.57%
WACC	7.05%	7.05%	7.05%

After evaluating the return and risk trade-off of the BXB investment case, our assessment the risk of loss of holding BXB outweighs the potential upsides. In conclusion, **we recommend that the SMF sell its entire active position in Brambles (BXB) within the Active Australian Equities portfolio** and invest the proceeds into the iShares Core S&P/ASX200 ETF (IOZ).

## Appendix

### Appendix A: Key Financial Summary

Financial year (USD million)	2021(A)	2022(A)	2023(A)	2024(A)	2025(A)	2026(E)	2027(E)	2028(E)
<b>Total revenue</b>	5210	5559	6077	6545	6670	6953	7293	7603
<b>Revenue growth</b>	10.05%	6.70%	9.32%	7.70%	1.91%	4.25%	4.88%	4.25%
<b>Adjusted EBITA</b>	1158	1221	1364	1576	1739	1889	2034	2158
<b>Adjusted EBITA margins</b>	22.22%	21.97%	22.45%	24.09%	26.08%	27.16%	27.89%	28.38%
<b>NOPLAT</b>	949	1037	1116	1306	1456	1326	1429	1514
<b>NOPLAT margin</b>	18.22%	18.65%	18.37%	19.95%	21.82%	19.07%	19.59%	19.91%
<b>Invested capital (ex. goodwill)</b>	4792	5266	5671	5938	6183	6547	6939	7326
<b>Invested capital (inc. goodwill)</b>	5188	5642	6061	6338	6616	6991	7395	7796
<b>ROIC (ex. goodwill)</b>	19.80%	19.69%	19.69%	21.99%	23.54%	20.26%	20.59%	20.66%
<b>ROIC (inc. goodwill)</b>	18.29%	18.37%	18.42%	20.61%	22.00%	18.97%	19.32%	19.42%
<b>Free cash flow</b>	82	583	697	1030	1177	952	1024	1113
<b>IC turnover (ex. goodwill)</b>	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0
Financial year	2029(E)	2030(E)	2031(E)	2032(E)	2033(E)	2034(E)	2035(E)	2036(E)
<b>Total revenue</b>	7916	8262	8489	8723	8962	9209	9462	9722
<b>Revenue growth</b>	4.12%	4.37%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
<b>Adjusted EBITA</b>	2240	2326	2390	2456	2523	2592	2664	2737
<b>Adjusted EBITA margins</b>	28.29%	28.15%	28.15%	28.15%	28.15%	28.15%	28.15%	28.15%
<b>NOPLAT</b>	1574	1636	1681	1727	1774	1823	1873	1925
<b>NOPLAT margin</b>	19.88%	19.80%	19.80%	19.80%	19.80%	19.80%	19.80%	19.80%
<b>Invested capital (ex. goodwill)</b>	7735	8182	8407	8638	8876	9120	9371	9629
<b>Invested capital (inc. goodwill)</b>	8218	8680	8905	9136	9373	9618	9868	10126

<b>ROIC (ex. goodwill)</b>	20.34%	19.99%	19.99%	19.99%	19.99%	19.99%	19.99%	19.99%
<b>ROIC (inc. goodwill)</b>	19.15%	18.85%	18.87%	18.90%	18.93%	18.96%	18.98%	19.01%
<b>Free cash flow</b>	1151	1174	1192	1225	1259	1293	1329	1365
<b>IC turnover (ex. goodwill)</b>	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

## Appendix B: Scenario Analysis

### Bear Scenario 1: Margin reduction efforts do not work

This scenario models the risk that Brambles fails to execute on its margin-accretive strategy, which targets approximately 3 percentage points of EBITDA margin expansion by FY28 (from the FY25 baseline of 31.8% to 34.8%).

**Valuation:** \$18.61 w/o FC (-24.94% Margin of Safety), \$20.22 w FC (-18.48% Margin of Safety)

**Rationale:** The company's valuation relies heavily on its ability to generate significant operating leverage and structural margin expansion through its "Shaping Our Future" transformation program. This scenario captures the risk that large-scale strategic investments in Asset Efficiency, Network Productivity, and Digital Solutions fail to translate into lower operating costs. This failure to execute would negate one of the largest drivers of earnings growth in the base case model, significantly compressing the intrinsic value of the stock, even if top-line revenue growth is achieved. This demonstrates the high execution risk associated with Brambles' transformation programs.

**Model Changes:** EBITDA margin is held constant at the FY25 baseline level (31.8%) through the entire forecast period (FY26E-FY30E), instead of expanding to the targeted 34.8% by FY28.

**Bear Case Weighting:** 45%

### Bear Scenario 2: Slowdown in Customer Conversion – Net new business growth stalls

This scenario models the risk that the company's structural volume expansion, driven by converting new customers (specifically small-to-medium enterprises and those using white wood pallets) to the pooling model, stalls completely.

**Valuation:** \$19.86 w/o FC (-19.91% Margin of Safety), \$21.52 w FC (-13.22% Margin of Safety)

**Rationale:** Brambles' long-term volume growth is driven by the structural component of 'net new business' (NNB), which allows the company to sustainably expand its total pallet pool and market share by converting users from single-use pallets. This scenario assumes that intense competition, temporary macroeconomic factors (such as sustained low white wood pallet prices), or a failure in sales execution causes NNB growth to halt completely. This failure to convert new customers removes a key source of growth.

**Model Changes:** Revenue growth can be generally assumed to be the summation of Price Realisation and Volume Growth.

- Volume Growth is set to 0% for the entire forecast period (FY26E - FY30E), reflecting the total stall of net new business and the assumption of flat like-for-like volumes.
- Price Realisation is modelled to track General CPI for the entire forecast period.

This scenario assumes the company can only achieve price increases commensurate with general inflation, while simultaneously failing to deliver any structural volume expansion.

**Bear Case Weighting:** 45%

### Bear Scenario 3: Prolonged Global Economic Weakness / Recession – negative like-for-like volume growth

This is the worst-case scenario, which models the impact of a deep and prolonged global recession. It assumes that broad economic weakness leads to a significant and sustained reduction in consumer demand for the fast-moving consumer goods (FMCG) and industrial products transported on Brambles' pallets, resulting in a substantial and persistent decline in the utilisation of its existing pallet pool.

**Valuation:** \$16.31 w/o FC (-34.22% Margin of Safety), \$17.67 w FC (-28.74% Margin of Safety)

**Rationale:** Brambles is typically considered a defensive stock due to its exposure to staple goods; however, no business is entirely recession-proof. This scenario captures the severe risk to its operating leverage if like-for-like (LFL) volumes turn negative for a sustained period. A persistent drop in pallet movements means the fixed network costs (service centres, transportation hubs) are spread over fewer rentals, severely compressing operating margins. While the pricing component is assumed to recover some cost inflation, the steep volume decline overwhelms the positive pricing, leading to negative revenue growth and a sharp drop in profitability. This is the scenario that most significantly damages the equity value.

**Model Changes:** Revenue growth is determined by the summation of Price Realisation and Volume Growth.

- Volume Growth is set to a persistent negative 3.0% for the entire forecast period (FY26E - FY30E), reflecting the sustained decline in LFL volumes due to a deep recession.
- Price Realisation is modelled to track General CPI, which is assumed to mostly offset the negative volume contribution.

The net result is a period of slightly negative overall revenue growth, leading to severe operating deleverage relative to the base case, where volume expansion is assumed.

**Bear Case Weighting:** 10%

### Bull Scenario 1: Volume Upside – Demand Rebound

**Valuation:** \$24.69 w/o FC (0.20% Margin of Safety), \$26.66 w FC (8.20% Margin of Safety)

**Rationale:** A stronger-than-expected rebound in US retail demand and inventory restocking, coupled with stabilisation in Eurozone consumption and ongoing APAC expansion, drives like-for-like (LFL) volume growth well above baseline expectations. We model Group volumes increasing supported by sustained FMCG throughput and improved pallet cycle efficiency. This scenario reflects a normalisation of supply chains and renewed consumer goods activity across major markets.

**Model Changes:** LfL volume growth increased by 3% annually across all regions through FY30. Price/mix and net new wins remain unchanged from the base case.

**Bull Case Weighting:** 45%

### Scenario 2: Price/Mix Upside – Strong Cost Pass-Through

**Valuation:** \$23.85 w/o FC (-3.21% Margin of Safety), \$25.76 w FC (4.55% Margin of Safety)

**Rationale:** Persistent wage, freight, and timber cost pressures extend the indexation tailwind longer than expected, resulting in stronger and more sustained price realisation. In this scenario, Brambles captures

3-3.5% annual price/mix growth versus 1.5-2% in the base case, as elevated inflation inputs are embedded in customer contracts and renewed agreements. The company benefits from higher margins as costs stabilise at a higher base, reinforcing pricing power and customer stickiness.

**Model Changes:** Price/mix growth increased by 2% p.a. across all regions through FY30, reflecting stronger indexation pass-through. Volumes and net new wins held at base-case levels.

**Bull Case Weighting:** 45%

### Scenario 3: Net New Wins Acceleration – Market Share Capture

**Valuation:** \$23.63 w/o FC (-4.10% Margin of Safety), \$25.52 w FC (3.57% Margin of Safety)

**Rationale:** Accelerated conversions from whitewood to pooled pallets in the US, expanded partnerships with European retailers, and early-stage penetration in Asia lead to a structural uplift in net new wins. Brambles gains incremental market share as supply chain reliability and sustainability credentials strengthen customer preference for pooled solutions. This scenario assumes successful execution of commercial initiatives and continued capital discipline.

**Model Changes:** Net new wins increased to 2% p.a. across all regions through FY30 (vs 0.5% in the base case). Like-for-like volume and price/mix growth maintained at base levels.

**Bull Case Weighting:** 10%

## Appendix C: Sensitivity Analysis

### USD/AUD Exchange Rate

USD/AUD	Price (w/o FC)	MoS (w/o FC)	Price (w FC)	MoS (w FC)
\$ 0.60	\$ 23.92	-2.92%	\$ 25.74	4.48%
\$ 0.62	\$ 23.15	-6.05%	\$ 24.97	1.34%
\$ 0.64	\$ 22.43	-8.98%	\$ 24.25	-1.59%
\$ 0.66	\$ 21.75	-11.74%	\$ 23.57	-4.35%
\$ 0.68	\$ 21.11	-14.34%	\$ 22.93	-6.95%
\$ 0.70	\$ 20.50	-16.79%	\$ 22.33	-9.39%
\$ 0.72	\$ 19.93	-19.10%	\$ 21.76	-11.71%

### WACC

WACC	Price (w/o FC)	MoS (w/o FC)	Price (w FC)	MoS (w FC)
6.25%	\$ 25.65	4.08%	\$ 27.47	11.47%
6.50%	\$ 24.32	-1.30%	\$ 26.14	6.09%
6.75%	\$ 23.10	-6.26%	\$ 24.92	1.13%
7.05%	\$ 21.75	-11.72%	\$ 23.57	-4.33%
7.25%	\$ 20.92	-15.10%	\$ 22.74	-7.71%
7.50%	\$ 19.95	-19.05%	\$ 21.77	-11.65%
7.75%	\$ 19.04	-22.72%	\$ 20.86	-15.33%

**Contact details**

SMF email: [smf.rsfas@anu.edu.au](mailto:smf.rsfas@anu.edu.au)

SMF website: <https://www.rsfas.anu.edu.au/rsfas-education/student-managed-fund/>

SMF Facebook page: <https://www.facebook.com/smfANU/>

SMF LinkedIn page: <https://www.linkedin.com/company/anu-smf>

Research School of Finance, Actuarial Studies and Statistics

College of Business and Economics

+61 2 6125 4626

The Australian National University

Canberra ACT 2600 Australia

[www.anu.edu.au](http://www.anu.edu.au)

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