

28-Jul-2016

The Brink's Co. (BCO)

Q2 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to The Brink's Company's Second Quarter 2016 Earnings Call. Brink's issued a press release on second quarter results this morning. The company also filed an 8-K that includes the release and the slides that will be used in today's call.

For those of you listening by phone, the release and slides are available on the company's website at brinks.com. At this time, all participants are in a listen-only mode. A question-and-answer session will follow this formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

Now, for the company's Safe Harbor statement. This call and the Q&A session will contain forward-looking statements. Actual results could differ materially from projected or estimated results. Information regarding factors that could cause such differences is available in today's press release and in the company's most recent filings with the SEC. Information presented and discussed on this call is representative as of today only. Brink's assumes no obligation to update any forward-looking statements. The call is copyrighted and may not be used without written permission from Brink's.

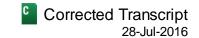
It is now my pleasure to introduce your host, Ed Cunningham, Vice President of Investor Relations and Corporate Communications. Mr. Cunningham, you may begin.

Edward A. Cunningham

VP-Investor Relations & Corporate Communications

Thank you, Aaronson, and good morning everyone. Joining me today are CEO, Doug Pertz; CFO, Ron Domanico; and former CFO, Joe Dziedzic. This morning, we reported results on both the GAAP and non-GAAP basis. The non-GAAP results exclude certain retirement expenses, reorganization and restructuring costs, acquisitions, dispositions, and tax rate adjustments.

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In addition to these items, our non-GAAP results exclude Venezuela due to a variety of factors, including our inability to repatriate cash and continued currency devaluations and the difficulties we face operating in a highly inflationary economy. We believe that non-GAAP results make it easier for investors to assess operating performance between periods.

Accordingly, our comments today including those referring to our guidance will focus primarily on non-GAAP results. A summary reconciliation of non-GAAP to GAAP results is provided on page four of the release and more detailed reconciliations are provided in the release and the appendix to the slides we're using today in this morning's 8-K and on our website. Page eight of the press release provides a summary of several outlook items including guidance on revenue, operating profit, earnings per share, and adjusted EBITDA.

One final note. In future quarters, we plan to hold our conference call at 8:00 AM Eastern Time before the market opens. The earnings release and slides will be distributed prior to the call and we will continue targeting the fourth Thursday after quarter's end as the date for the call.

It's now my pleasure to turn the call over to Doug Pertz.

Douglas Allen Pertz

President, Chief Executive Officer & Director

Thanks, Ed. Good morning, everyone, and thanks for joining me on my first call with Brink's. I'm truly excited to be here and I see tremendous opportunity to improve the performance of the business and create value at Brink's.

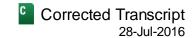
I'm confident that my background has prepared me well for this opportunity. I've held leadership positions at several public companies with global operations and have driven significant shareholder value in the past. The last company I led, Recall Holdings, was very similar to Brink's in many ways. Recall was a route-based logistics business with a network of over 300 branches in 26 countries, and many of its customers overlap Brink's including banks and other financial institutions.

I led the spinoff of Recall from its parent to a standalone public company and reenergized the company and management with strategies to accelerate growth, improve margins and differentiate customer offerings. With a new strategy and upgraded management team, Recall accelerated organic and acquisition growth, achieved substantial gains and operational efficiencies, and rolled out differentiated services to customers using technology. In just over three years we achieved well above industry growth rate, materially improved margins, and most importantly more than doubled the value of the company.

I see similar opportunities to drive change and create value at Brink's and I have a strong sense of urgency to do so. One of my first objectives is to restore credibility and confidence among our three key constituents: our investors, employees and our customers. It begins by delivering on our commitments to customers and investors. Starting with U.S. business, we need to demonstrate significant operational improvement throughout the company, improvements that are clearly seen by our customers in service levels and by our investors in margin improvement.

We need to improve our sales and marketing efforts to make it easier for our customers to choose Brink's by providing differentiated services and enhancing the overall customer experience through technology and other benefits. And we need to deliver sustainable growth in revenue, earnings, and cash flow for our investors. If we do these things, I'm confident that we will close the significant valuation gap that currently exists between Brink's and our peer companies.

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Our EBITDA multiple has been stuck in the range of around 5.5 to 6 times while our peers and other industrial service business have much higher multiples. If we apply these higher multiples to our current EBITDA, as suming no improvement, that valuation gap would look much different than it does today.

Based on Brink's recent historical finance performance versus peers, it is understandable, however, why we have a lower multiple and lower overall valuation than we should. However, with strong performance I see no fundamental reason why Brink's should trade at such a discount. And the good news is that we have the opportunity to grow both EBITDA and the multiple, and that's why I'm here.

Our greatest near-term opportunity to create value is to accelerate profit growth in the U.S. to close the gap on our operating margin versus market peers. To strengthen the focus on this objective, we announced this morning that I will serve as President of the U.S. business in addition to my CEO responsibilities. I'm already spending most of my time in Dallas, the headquarters of our U.S. operations, learning as much as possible about the challenges we face in this, our largest market, and developing plans to drive margin improvement.

We also announced today that Mike Beech, an Executive VP, who has had responsibility for our top five markets will narrow and sharpen his focus on improving operating performance in Mexico, which is our next largest opportunity for improvement, and in Brazil. Amit Zukerman's Executive VP role has been expanded to include responsibility for France. Amit will continue to manage our strong performing global markets that include EMEA, Latin America, Asia and the Brink's Global Services Business. Chris Parks, President and General Manager of Brink's Canada, will continue in his role, but he'll now report directly to me.

When I arrived at Brink's two weeks ago, we announced changes at CFO and CIO level. Ron Domanico is our new CFO; and Rohan Pal is our new Chief Information and Chief Digital Officer. I worked closely with both Ron and Rohan at Recall and each played major roles in the success we achieved there. Both are on board and ready to drive similar success at Brink's.

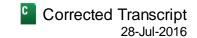
Ron is replacing Joe who served as CFO since 2009 and will remain at the company until September 30. Joe and the company have reached a mutual agreement on his departure and he's been nothing short of spectacular in his efforts to help us manage a smooth transition. Joe is a first-rate executive and contributed much to Brink's over the last several years as CFO. Joe will cover our results one last time today, but I wanted to take this opportunity to say thanks to Joe on behalf of the Board and to all of our employees. Thanks, Joe.

Ron comes to Brink's with a proven track record as CFO of several significant public companies including HD Supply, which he helped take public and where he grew shareholder value significantly. I'm confident that Ron will provide the same strong financial and strategic leadership to Brink's, and that Rohan will help drive differentiated customer-facing technology as well.

Now, let me turn to the quarterly results. I'll start with a brief overview. Our second quarter results include 5% organic revenue growth and an operating margin of 5.3%, which is up 120 basis points over the year ago quarter. On a constant currency basis, this margin rate was 6%. Adjusted EBITDA over the last 12 months was \$284 million. The EBITDA margin was 9.9%, again up 80 basis points versus the prior 12-month period.

Earnings were up 27% at \$0.38 per share. Excluding currency, earnings were \$0.48 per share. Even with the continued currency headwinds, it was a good quarter compared to 2015. Performance in the U.S. continued to be unacceptable and the timing of improvements there has been delayed. However, results in much of the rest of the world were strong offsetting the shortfall in the U.S. and Mexico versus prior guidance. We have great

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opportunities to deliver much better results especially in the U.S. and Mexico, which account for about a third of our total revenue. The upside is substantial and we will pursue it aggressively.

Looking ahead to full year results, our revenue outlook of \$2.9 billion assumes organic growth of approximately 5% offset by negative currency and dispositions. Given this year's lower than originally expected profits in the U.S. and Mexico, we reduced our overall profit outlook but still expect substantial improvement over 2015 supported by continued strong results, again, in the rest of the world.

Our margin rate outlook of 6.4% to 6.9% is well over 100 basis points higher than last year's 5.3%. Adjusted EBITDA is expected to grow by approximately 10% to a range of \$305 million to \$330 million. Full year 2016 earnings are expected to come in between \$1.95 to \$2.10 per share, again a significant improvement over last year's earnings of \$1.69 per share. Our 2016 guidance assumes that the strong currency headwinds will continue through the second half of the year and have a substantial impact on revenue and profits, reducing revenue by about \$180 million and operating profits by about \$20 million.

Rebuilding our credibility begins by delivering on these targets for the year and I am fully committed to do so.

I'll now turn it over to to Joe and Ron, and I'll then close with some comments before we open it up for questions. Joe? Thanks.

Joseph W. Dziedzic

Former Chief Financial Officer, The Brink's Co.

Thanks, Doug. Good morning, everyone. Our 5% organic revenue growth was driven by Argentina, Brazil, Mexico and Chile where we capitalized on inflation and volume growth. Our retail growth in Mexico and Brazil is offsetting a challenging environment with our financial institution customers. The currency impact was mostly in Argentina, Mexico, and Brazil.

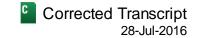
Operating profit grew 50% on a constant currency basis from \$31 million to \$47 million. This improvement was driven by strong organic revenue growth in Argentina and Chile combined with a strong quarter from France and lower global incentive compensation expense. Even with the unfavorable currency impact, the margin rate was still 5.3% for the quarter up 120 basis points from last year.

Earnings per share grew 53% on an organic basis, a strong quarter year-over-year. The next few slides provide an overview of our five largest countries and global markets, starting with the U.S. and Mexico. The U.S. had an operating loss of \$2 million for the quarter due mainly to higher fleet costs, including vehicle accidents, volume pressure, and other operating inefficiencies. We've reduced our full-year profit outlook in the U.S. to a range between \$5 million and \$15 million.

Although the first half results do not reflect all the positive actions taken in the U.S. this year, we are confident that we're getting traction on the critical processes that will enable us to improve profits in the second half. We are working to reduce our fleet and labor costs through the purchase of more one-person vehicles that are smaller and more fuel efficient than the previous vehicle design. We've increased capital expenditures this year to drive more savings in our U.S. fleet. We exceeded our midyear target of 325 one-person vehicles by 35, and we exceeded our target for optimized routes as well. We are confident we will achieve or exceed our year-end targets of 460 one-person vehicles and 60% of routes optimized.

We are making good progress improving our revenue capture by adding more resources to support our branch operating processes. And we expect a positive second half impact from a significant commercial win that we

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cannot yet disclose. We expect to use some of the labor savings we're generating through the process efficiencies to fund additional resources at our branches to drive further process improvements and savings. We expect the third quarter to show significant profit improvement and the fourth quarter year end exit rate to be close to 5% margin.

Mexico delivered strong organic revenue growth of 7% as double-digit retail growth was partially offset by lower financial institution volumes. The revenue mix did not deliver the margin pull-through we expected, so we've got some work to do to lean out the cost to generate the incremental margin. We're working on several significant initiatives in Mexico to increase margins, such as a handheld device rollout, similar to what we completed last year in the U.S., as well as variable compensation programs in certain areas to drive increased efficiencies.

France, Brazil and Canada round out our largest five markets. Our team in France continues to perform well under challenging conditions, converting a 1% organic revenue decline into organic profit growth of nearly 50% despite a slow growth macro environment. France continues to transform its business model to managing more of its customers' cash supply chain while driving increased efficiencies in its operations. Results in France were also aided by more working days in this year's second quarter compared to last year and the positive settlement of the social tax matter from a previous quarter. But it was still a strong quarter from an operational perspective. For the year, we expect solid profit growth on flat revenue as we control costs and execute our service offering transformation in France.

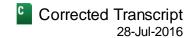
Our team in Brazil continues to perform extremely well in a difficult environment delivering 33% organic profit growth on 13% organic revenue growth. The team continues to execute productivity actions and cost controls to counteract a very difficult competitive environment. It is important to highlight that Brazil's profit in 2015 was heavily backend-loaded with the fourth quarter accounting for 50% of the full year profits. So the comparisons become much more difficult for Brazil. Nonetheless, we expect Brazil to deliver about the same margin rate in 2016 as they did in 2015 despite an increasingly price-competitive environment.

In Canada, organic profit declined slightly on modest organic revenue growth. We expect significant improvements in second half profits from volume gains and productivity actions already taken. Even with the negative impact of the strong dollar, along with the volume pressure in our Global Services unit, the steady performance of our global markets unit continued into the second quarter. The combined operating margin rate of the 35 countries that comprise this unit was 17%, up 280 basis points over the same period last year. The EMEA region delivered a strong margin rate of 10.3%, breaking into double digits. Revenue declined versus last year as expected, due primarily to the closure and partial disposition of a money-losing operation in Ireland. We also saw slightly lower volumes in Global Services, including the U.K.

The Latin America region achieved strong organic revenue growth and substantially higher margins. Most of the organic revenue growth and more than half of the second quarter profits in Latin America were driven by Argentina. Results in Chile also improved as we continue to realize the benefits of restructuring actions taken in the past few years and we had an easier comparison against last years' second quarter that included an industry-wide labor strike.

Revenue and profits in Asia were up solidly for the quarter driven by Hong Kong and Singapore. First half non-GAAP cash flow from operating activities decreased by \$23 million versus last year due primarily to the timing of working capital and tax payments that we expect to recover in the second half of the year. Our first half cash flows, and the first quarter in particular, are the weakest of the year due to normal beginning of the year payments.

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Capital expenditures and capital leases were up \$14 million year-to-date versus last year when we had a low spend of only \$41 million as we were redesigning our U.S. vehicles and executing global tenders. We increased our full year spending estimate by \$10 million to a range of \$130 million to \$140 million to reflect additional new vehicle purchases in the U.S. to drive lower operating costs.

Net debt decreased by \$20 million versus the first half of last year as the strong cash flows in the second half of 2015 were partially offset by the lower cash flows in the first half of this year.

As I complete my last earnings call with Brink's, I want to take a moment to express my gratitude to the entire Brink's team around the world for the support I've received throughout the last seven years. While we as a team have not accomplished everything we had hoped to, I believe we made significant progress in areas that will be an important part of the foundation for the future success of Brink's. I believe that Brink's Board made an exceptional choice in Doug as CEO, and I believe he is uniquely qualified to lead Brink's through its next phase of transformation and growth.

I am proud to be part of the 157 year legacy of Brink's and will be cheering for the great success that I believe is to come. Although I am leaving Brink's, I am not leaving the many friendships and relationships that I plan to maintain in the future.

Thanks again and next up is Ron.

Ronald James Domanico

Chief Financial Officer & Executive Vice President

Thanks, Joe, good day everyone. I'm excited to be at Brink's. I want to echo Doug's comments and also thank Joe for his excellent leadership of the finance function and for making my transition as smooth as possible. I did a lot of research before joining Brink's. Now, two weeks into the job I'm happy to say that everything that I've seen has confirmed the enormous potential that the company has to increase value. Our intention is to drive cash flow and to increase the multiple that you, our investors, attribute to that cash flow.

As Doug mentioned, that starts with building credibility by consistently meeting expectations. Our game plan focuses on growth, margins, leverage and return on invested capital. Let me break down each component of the plan.

For growth, we will execute to grow organically faster than our competitors and we will make accretive acquisitions. For margins, we will strive to get paid for all the value we deliver and we will implement a lean cost structure. For leverage, we will drive incremental profit growth greater than incremental sales growth. And for ROIC, we will prioritize our spending to maximize the return on invested capital.

To reflect our increased focus on cash flow, starting immediately we're initiating reporting on EBITDA; you probably noticed EBITDA in our press release. On slide 11 you can see that the outlook for adjusted EBITDA in 2016 is between \$305 million and \$330 million. That's approximately a 10% growth from 2015 and a double-digit margin as a percent of sales. You can also see that Brink's EBITDA, as Doug mentioned, has a multiple in the range of 5.5 times to 6 times, on the right side of slide 11 are the EBITDA multiples of our three closest competitors. As we restore credibility and performance and execute our strategy, we expect the investment community will attribute an EBITDA multiple to Brink's commensurate with our peers.

EBITDA growth and multiple expansion should drive considerable value creation for our shareholders. That's my focus, that's my commitment, and that's why I'm excited to be at Brink's.

With that, I'll turn it back over to Doug.

Douglas Allen Pertz

President, Chief Executive Officer & Director

Thanks, Ron, and thanks Joe as well. In summary, despite reduced profit expectations in the U.S. and Mexico and the persistence of currency headwinds, we remain on track to deliver another year of strong growth in operating profit, margin rate, EBITDA and earnings per share. In fact, delivering approximately 20% year-over-year growth in both operating income and EPS coupled with 5% organic revenue growth would be considered a strong performance at most companies. However, we need to underpin this with sustainable margin improvements.

We expect continued organic profit growth in Argentina and Chile and in our payments business to supplement improvements in the U.S. Similar to the first half actual currency impact, we've built in a negative profit impact of about \$20 million as we said earlier for the year from currency. But of course the actual impact will be undoubtedly different.

On the revenue side we maintained our guidance as we said earlier of \$2.9 million, reflecting 5% organic revenue growth. Compared to prior guidance this outlook reflects a profit reduction of about \$10 million in the U.S. and a similar decline in Mexico, again, compared to prior guidance. We expect these declines to be offset by improvements in the rest of the world as we saw in the first half. This nets to an expected operating income of between \$185 million to \$210 million and an EPS range of \$1.95 to \$2.10 versus guidance of \$2 to \$2.20 per share.

Before I open it up to questions, I want to answer in advance the questions I've been getting since I joined Brink's a couple weeks ago. And the question usually goes something like this, so how do you see your first 100 Days as CEO. As I said earlier, we need to rebuild our credibility in the investment community and we need to do this with a sense of urgency driving the necessary changes to do so. It's only been a couple of weeks and we already made some major organizational decisions that will help drive where we want to go and instill the culture needed to get us there.

I've already spent a fair amount of time in Dallas learning about the U.S. operations and with the team we started to lay the base for added improvements and hit the targets we need to hit. Over the next three months I'll be doing a lot of traveling to see operations, to get to know our people, and meet our customers. This will support development of a vision, overall strategy, and specific action plans with targets. At some point, probably early next year, we'll communicate a three-year strategic plan to drive shareholder value, complete with a process to achieve our goals and appropriate metrics to measure the success.

One thing I already know is that this strategy will include an aggressive focus on cost reduction and operational excellence with a target to close the gap and even more on operating margin. It will also include acceleration – accelerated topline growth including organic growth and the potential for synergistic accretive acquisitions that add density to our markets and further leverage margins. We'll support these objectives by exceeding customer expectations and offering differentiated services supported by technology.

I look forward to sharing our plans, executing, and creating added shareholder value. Thanks very much for listening this morning and I look forward to meeting many of you in person over the next coming months.

This concludes the formal remarks this morning and Aronson let's open it up now for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from an Ashish Sinha of Gabelli. Please go ahead.

Ashish Sinha

Gabelli Securities International UK Ltd.

Hi , good morning. I've got a few questions. So, Doug, you've been in your role now for three weeks, I just wanted to get a sense of, if you have any views on the special projects the company is running, handhelds, one-man crew, centralized billing etcetera, etcetera. Are they the right things to do? Is the technology being implemented from your perspective and experience? Is that the right thing – are they the right things? And is the pace of implementation correct?

Secondly, I wanted to talk about the opening slide which says you want to close the employee gap with competitors. Could you elaborate a little bit more on that? Is it the caliber of employees, more deliberation levels; what exactly is that? And lastly, if I could squeeze in a very short one on central costs. So first half central cost, first quarter, second quarter you are earning around \$13 million to \$14 million; that is a low level. Should we expect a catch up in the second half? Or is there a bit of cost which now get allocated directly to the segments? Thank you.

Douglas Allen Pertz

President, Chief Executive Officer & Director

Well, thanks Ashish. I appreciate the comments. Let me answer the first two and then I'll pass it over for the third question, which I didn't quite hear it fully and I may ask you to clarify.

I think that the first question in terms of the things that have been put in place that we've talked about already on the U.S. operational side are truly key things that make a lot of sense that we should be doing that will add value as we start ramping those up further than where we are; in other words, one-man trucks, the handhelds which we're implementing throughout the organization, the billing revenue collection etcetera, those are very good projects. They need to be accelerated. We probably need to aggressively push them forward even more. But we'll be adding to that I think fairly significantly to drive value even faster and at a higher level.

So we've seen the start of it. I think we'll accelerate that and we'll see more of the benefits from what's already been done, and then it'll be added too. Handheld is just the first part of technology by the way and it should be fully in place as a base. I'm sorry, what were you going to say?

Ashish Sinha

Gabelli Securities International UK Ltd.

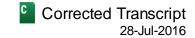
I just was going to ask whether those handheld, the modules or the software being used, is that what you would have wanted to do in the first place if you were there? Or would you want to have implemented something else?

Douglas Allen Pertz

President. Chief Executive Officer & Director

Well, when you're asking about a specific software, I don't have a good technical answer necessarily to that. I think most importantly is that we should have handhelds throughout the whole system and that's a very important

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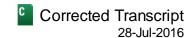


technology base to have. Where we take it from there in a more advanced system is, you have to be seen, do we use other type of technology such as RFID et cetera, I think would be the next thing that we take a look at in how we do that. As an example, at Recall, at least in our industry at Recall we used RFID and we're industry pioneers in that in our industry, not across the board. So I think we'll take a look at other types of technology and that's what I will be charging Rohan to lead and his team in driving that.

The second question that you had was about employees, and if you read the information, I think it's on the fourth slide, it says, close the gap with competitors. So this is not related specifically to our employees. I think we have a great team at Brink's. I think it's a great base to be starting from. It's probably a little bit kind of misnomer in where it was located in there, but clearly what we're saying is not about our employees, we're saying that we need to close the gap in our operations, in our margins, in our performance, in our financials with competition. So I think that's just the location that it was laid out in the slide. Again, I think we have a great team. I think with some augmentation, which we've already started in the leadership, we'll be able to close the gap versus competition, which is what we're really focused on doing.

Could you repeat the third part of your question again to make sure that we address that properly? Ashish Sinha Gabelli Securities International UK Ltd. Yeah. I mean on the EBIT, the central cost. So you did \$13.1 million of cost in first quarter, \$13.4 million in the second guarter last year. Every quarter you were doing \$19 million to \$20 million plus. Now is that a new low level or is my understanding correct? Or could it be possible that a few central costs have been moved into the regions? Or is there a catch up in central costs in the second half of this year? Joseph W. Dziedzic Former Chief Financial Officer, The Brink's Co. I'm sorry. I didn't follow. What cost is it? Edward A. Cunningham VP-Investor Relations & Corporate Communications He's asking for EBITDA I think. Ashish, correct me if I'm wrong, the \$13.1 million in EBIT, is that comparable to the prior quarter in terms of what's included specifically related to corporate? Ashish Sinha Gabelli Securities International UK Ltd. The corporate items, yes. Below your – just above operating profit non-GAAP. Joseph W. Dziedzic Former Chief Financial Officer, The Brink's Co. Oh, the corporate expenses. Ashish Sinha Gabelli Securities International UK Ltd. Yes.

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Joseph W. Dziedzic

Former Chief Financial Officer, The Brink's Co.

On a year-over-year basis we expect corporate expenses to be favorable. And there is, our global incentive compensation, much of that lands in the corporate expenses and the second quarter we were favorable on a year-over-year basis. That will help drive favorability on a year-over-year basis. Some of the restructuring actions we took at the end of 2015, beginning of 2016 will also lower corporate expenses on a year-over-year basis. We

have not provided a specific guidance for what the corporate expense level will be for 2016, but I expect that it will

continue to reduce over time.

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Gabelli Securities International UK Ltd.

Okay. Thank you.

Douglas Allen Pertz

President, Chief Executive Officer & Director

Thanks, Ashish.

Operator: Our next question comes from Jeff Kessler of Imperial Capital. Please go ahead.

Jeffrey Ted Kessler

Imperial Capital LLC

Joe, I just want to thank you so much for all the help that you've provided us for – over all the years that we've been with you. So I hope you – all the best to you, man.

Joseph W. Dziedzic

Former Chief Financial Officer, The Brink's Co.

Thank you, Jeff. Thank you.

Jeffrey Ted Kessler

Imperial Capital LLC

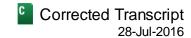
I kind of like to get to a couple of things. Firstly, with regard to Mexico, it seems you have been improving toward the end of last year into the very beginning of this year and now it seems to have been set back from a profit point of view. What exactly is holding back profit this year in Mexico, because obviously – there had been some improvement last year.

Joseph W. Dziedzic

Former Chief Financial Officer, The Brink's Co.

Yeah. Jeff, it's a great question and you can see from our revenue growth that we've turned the quarter to having – several quarters in a row now of solid organic revenue growth. What we found in the second quarter was where we added that revenue was not in the ranges where we had excess capacity. And so we had some incremental cost of getting that business on board. The great news is, we're getting the organic revenue growth. It's coming with retailers and so it's a little more disbursed than some of our other business. Now, what we got to do is focus on getting the cost down and optimizing the additional volume we've added to this system.

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But with the incremental volume, we're confident we're going to be able to get the efficiencies over time to bring the margin pull through. But it's clear in the second quarter, we didn't get the margin pull through we had hope to with the incremental volume. But with that volume, we can figure that out.

Jeffrey Ted Kessler

Imperial Capital LLC

Okay. Compusafe, which has been around for quite some time and the model, the business model for that has changed over time particularly in the last couple of years, is that going to be part of the, let's call it, the technology upgrade? Is it that technology focus that is going to be used as part of the route structure? And now you have use of other technologies since it's obviously – handhelds and better billing processes is the actual customer-facing piece of equipment going to be continued to be used as a recurring revenue item.

Douglas Allen Pertz

President, Chief Executive Officer & Director

Let me take a first stab at that on a higher level. I think we're talking about two different types of technology and purposes for that. The handheld is really at the operational side of the business as well as making sure that we have custody and security around that. So that's a productivity efficiency and security tool more than anything else and somewhat reporting, whereas the Compusafe is really how do we provide a solution to the customer that's a total solution that satisfies a lot of those same things. So they're really different technologies and driven differently in terms of what we're looking to end up with.

What we want to end up in terms of a technology that's customer-facing is one that obviously solves their systems problems and is not just a breakdown of the types of individual services, but is a total system that provides better profitability for us and better efficiency and solutions for our customer. And the technology interface is both the handheld and the other things that go along with that that help operate the backend of the system as I like to call it, as well as the front end which are the solutions at the customer-facing side, which Compusafe would be one of those solutions, but integrated into a more technologically integrated system that in fact provides better information on a real-time basis if possible with our customers as well.

Jeffrey Ted Kessler

Imperial Capital LLC

Okay, I'm just asking a question because your competitions come out with similar types of products and what I'm thinking of is that you are better off in trying to integrate this as part of a larger solution...

Douglas Allen Pertz

President, Chief Executive Officer & Director

I agree with you.

Jeffrey Ted Kessler
Imperial Capital LLC

One final question. That is the Zukerman and Beech have been kind of moved around to different geographies over the last couple of years, I'm wondering is this going to – do you think this is the area where you can maximize their talents at this point?

Douglas Allen Pertz

President, Chief Executive Officer & Director

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Well, let's start with Amit Zukerman, certainly what we've done here is expanded his role versus where he has been at least in the recent period of time. I really can't talk much about it, subsequent to that. But the performance in his areas, EMEA, and global services and Latin America have been very strong. This adds a direct reporting with France, which is a major market for us, but also fits on a geographical basis with some of these other businesses. So we expect great things, not only to continue out of France but also in Amit's overall leadership in that, and we continue to expect great things out of what Global Services has done under his leadership and the rest of his strong team.

So this is a strengthening of that focus and we think that'll do well. But there's also a sense and probably the most important piece is this reorganization, sends a signal that the U.S. is very critical to who we are and where we're going and our success both as an operation with our customers but also with the valuation with our investors. And hence, the focus directly with me on that.

And then, second most important, if you will, in terms of our upside opportunity is Mexico. And so refocusing in a much sharper, hopefully, aggressive fashion with Mike on Mexico and continuing with Brazil which is a very important market for us as well, we think will really send the message both internally but externally as well and will hopefully get us to where we want and need to go.

Jeffrey Ted Kessler

Imperial Capital LLC

Okay, great. Thank you very much.

Douglas Allen Pertz

President, Chief Executive Officer & Director

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Thank you.

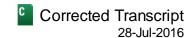
Operator: [Operator Instructions] It seems we have no further questions at this time. This concludes our question-and-answer session. I would like to turn the conference back over to the management for any closing remarks.

Douglas Allen Pertz

President, Chief Executive Officer & Director

Thank you. And again, thank you all for joining in this morning's call and especially for my first call. We look forward to meeting – I look forward in particular to meeting many of you personally in the coming months and seeing you on future calls and most importantly as investors in the future. Thanks very much and have a good day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.



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