04-Feb-2016

The Brink's Co. (BCO)

Q4 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to The Brink's Company's Fourth Quarter 2015 Earnings Call. Brink's issued a press release on fourth 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 the 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 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, investor presentation and in the company's most recent SEC filings.

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, Denise. Good morning, everyone. Joining me today are CEO, Tom Schievelbein; and CFO, Joe Dziedzic.

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This morning, we reported results on both a GAAP and non-GAAP basis. The non-GAAP results exclude Venezuela operations, U.S. and Mexico retirement expenses, reorganization and restructuring charges, certain compensation items, acquisitions and dispositions. We believe the 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.

Please note that, as in past years, our quarterly non-GAAP results have been adjusted to reflect our full year tax rate, which was 37% in 2015. Prior to this adjustment, results for the first three quarters of 2015 gives an estimated full year rate of 42%. The resulting EPS figures for each quarter are provided on page 16 of today's press release. Joe will provide additional information on our tax rate in a few minutes.

Summary reconciliation of non-GAAP to GAAP results is provided on page 3 of the release. More detailed reconciliations are provided in the release, in the appendix to the slides we're using today and on our website.

Finally, page 9 of the press release provides a summary of several outlook items, including guidance on revenue, operating profit and earnings per share.

With that, I'll turn the call over to Tom.

Thomas C. Schievelbein

Chairman, President & Chief Executive Officer

Thanks, Ed. Good morning, everyone. I'm pleased to report that on a non-GAAP basis, our fourth quarter and full year earnings came in well ahead of the guidance we provided in October.

Fourth quarter earnings per share was $0.55 versus the $0.58 we reported in a very strong year-ago quarter. Revenue declined 14% or $115 million due to negative currency translation, which also reduced operating profit by $16 million and EPS by $0.20. On a constant currency basis, the fourth quarter earnings per share was $0.75 or up 29%.

Earnings for the full year showed very strong improvement at $1.69 per share, up 67% versus the $1.01 in 2014 despite currency headwinds that reduced annual revenue by $467 million, operating profit by $50 million and earnings per share by $0.64. So even with the currency-related decline of $467 million, about 75% of our total revenue in 2015 was generated outside of the United States.

Now we understand that currency fluctuations are a fact of life for global companies. We can't control them and we can't hide behind them. But it's important to point out that despite strong currency headwinds that worsened throughout the year and continuing challenges in the U.S., we increased earnings by 67% in 2015. And on a constant currency basis, full year earnings more than doubled.

Our year-over-year improvement was driven by strong organic profit growth in Argentina, Mexico, Chile and Asia and disciplined execution of a restructuring plan that achieved $50 million in global cost reductions. These positive factors were partially offset by profit declines in the U.S. and Europe and negative currency. The net result was a year-over-year operating profit improvement of $33 million, which boosted our margin rate by 160 basis points to 5.3%.

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While fourth quarter and full year results in the U.S. were clearly disappointing, we expect significant improvements this year. Joe is going to cover the drivers behind last year's U.S. profit decline and the specific action items that are in place to drive profit improvement in the U.S. in 2016.

In addition to a profit recovery in the U.S., we expect improved results in Mexico and in our Payments business along with savings from our ongoing restructuring actions to drive continued profit growth and help us deliver earnings in the $2.00 to $2.20 per share range on revenue of approximately $2.8 billion. Our operating profit guidance targets a margin range of 6.7% to 7.4%, which includes a negative currency impact of about $30 million.

In summary, we feel good about the progress we've made and the earnings growth we achieved in 2015, and I'm confident that at Brink's we'll deliver further improvement in 2016.

Now, before Joe provides the details behind our 2015 results and our outlook for 2016, I'll close with a reminder that my retirement is effective as of this year's Annual Meeting of Shareholders, which is scheduled for early May. It may be earlier if a successor is named before that.

The CEO search process is underway. It's being overseen by our Board's Governance and Nominating Committee, and internal and external candidates are being considered. We will update you as necessary during the search process.

And with that, I'm going to turn it over to Joe, and then we'll open it up for some questions. Joe?

Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President

Thanks, Tom. Good morning, everyone. I'll start this morning by comparing our full year results against the guidance we provided at the beginning of 2015.

Last year at this time, we were estimating EPS of $1.55 to $1.75, driven by improvement from operations of $0.89 to $1.09. We ended the year up $1.32 from operations, well above our original estimate, and we needed every bit of it to cover the much higher than expected currency impact of $0.64 versus the $0.35 we expected at the beginning of 2015.

Not everything went the way we had projected in 2015, particularly in the U.S., but we did deliver at the high end of our original guidance.

Our 2016 EPS outlook has not changed. We expect continued operating improvement to overcome currency headwinds and drive another year of significant earnings growth, from $1.69 to a range between $2.00 and $2.20 per share.

My next few slides will provide an overview of our fourth quarter results and full year results. Then I'll cover segment results with an emphasis on the challenges and opportunities we face in our U.S. operations. I'll close with a more detailed review of the assumptions behind our 2016 guidance.

The fourth quarter was our most profitable quarter of 2014, accounting for $0.58 of the full year EPS of $1.01. This year, fourth quarter 2015, we improved $0.17 operationally but currency completely offset these gains.

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This slide shows our fourth quarter reported revenue, operating profit and EPS and the impact of currency on each. Revenue declined entirely due to currency. In constant currency, operating profit grew by $6 million, but currency was negative $16 million.

The operational improvement for the quarter was led by Argentina's volume and pricing increases, lower corporate expenses, price increases in Brazil combined with solid seasonal volume growth, and continued improvement in Mexico.

The currency headwinds continued to be driven by the Argentine peso, the Brazilian real, the euro and the Mexican peso. The Argentine peso devalued in mid-December from about ARS 9.50 per U.S. dollar to about ARS 13 per U.S. dollar. A significant Argentina devaluation was already included in our 2016 guidance, so this was not a surprise.

Looking once again at our full year results, the operational improvement of $1.32 from a base of $1.01 was driven by a variety of factors. The $50 million of cost reductions, the growth in Argentina and Asia, the turnarounds in Mexico and Chile, and the lower corporate expenses more than offset the decline in the U.S. and the unfavorable impact of currency.

We were also able to lower the 2015 tax rate to 37%. At our Investor Day presentation in October, we said we were working on using the Latin America withholding taxes we pay as an offset against our U.S. income tax. At that time, we were confident we could deliver this reduction in 2016, but added that we were working to accelerate it into 2015. Not only were we able to do so, we also realized an even greater benefit from some one-time recoveries of previously recognized taxes.

In summary, our full year revenue grew 3% organically, but currency had a negative impact of $467 million. The operating margin rate expanded from 3.7% to 5.3% as operating profit grew by $33 million despite $50 million of unfavorable currency. EPS grew 131% last year on a constant currency basis.

Overall, a very strong performance, and there are still significant opportunities to drive additional profit improvement in 2016.

Now, I'll cover segment results, beginning with the U.S. Our single-biggest opportunity for improvement in 2016 is our U.S. operations. But before discussing 2016, I'll address the disappointing 2015 results after a fairly strong start to the year.

The challenge of adding new business while implementing significant head count and cost reductions in late 2014 and early 2015 pushed volumes and profits higher through the first half. Unfortunately, we did not manage to increase volume and the cost actions effectively enough. As a result, profits fell sharply in the second half of 2015. In hindsight, our global cost reduction plan was generally well-executed, but we cut too deeply in the U.S., given our operational capabilities in the branches. Our overhead in the branches was too high but was necessary given our inefficient manual processes. As a result, we had to increase spending in 2015 to address service quality, staffing challenges, and fleet availability.

As staff turnover increased, we also experienced higher security cost and additional inefficiencies. This increased spending and higher security costs were the primary drivers of the profit decline in the second half of 2015. In addition, we completed the transition of a significant and profitable money processing contract to a competitor, as expected, in the second quarter, which put even more downward pressure on the second half revenue and profits.

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Despite the challenging end to 2015, we believe the U.S. has laid a strong foundation for significant improvement in 2016. We've made solid progress on our productivity initiatives and have brought our service quality back in line. For example, we completed the rollout of the centralized billing project and handheld scanners, which we are working on to add greater functionality to drive more savings.

We optimized 17% of our routes through our route logistics optimization projects and we integrated 162 one-person vehicles into our operations. In late 2015, we delayered the U.S. field operations. We continue to roll out new KPIs and dashboard tools for our branch managers and have increased the target of one-person vehicles to be placed in service in 2016. We expect to grow margins to the 4% to 5% range in 2016 from these and other actions initiated in 2015.

Given the weak finish to 2015, we do not expect significant improvement in the first quarter, but we do expect the second quarter to be closer to our 4% to 5% margin target and the second half should be even stronger as our one-person vehicles ramp-up and the other initiatives yield significant savings. We expect the U.S. margins to be at or above 6% in the second half of 2016.

During the fourth quarter of 2015, we delayered the U.S. field operations by eliminating the Regional VP and Area Director roles. We replaced these layers with district VPs who will provide increased support to our branch operations, as we implement changes necessary to improve profitability at the branch level. This structure moves decision-making closer to the branches where we serve our customers and should allow us to make changes faster to drive efficiencies. New incentive plans have been rolled out to provide more performance-based variable compensation at the branch level. Another important change is a new COO who brings significant logistics experience to our U.S. business.

At our October 6 Investor Day, we talked about our introduction of lower-cost one-person vehicles that reduce labor, fuel, and maintenance cost. We're also retrofitting vehicles from our existing fleet to enable them to operate with one crew member. At the end of 2015, we reached 162 one-person vehicles, well ahead of our October projection of 100. For 2016, we increased our original plan from 300 of these vehicles to achieve at least 460 by year-end. In addition to lower labor, fuel, and maintenance costs, we expect to reduce total labor hours, increase our stops per worked hour, and maintain or improve current premise and drive times between customer locations. This rolled out plan is critical to achieving our 2016 profit improvements.

During the fourth quarter, we rolled out a CIT dashboard that provides branch management with improved visibility into data that enables them to drive process improvement. The dashboard provides daily visibility into the performance of a route and its crew. These include the time required to check in at the branch in the morning and check out in the evening, the time spent on a customer's premise, and the total route time, all critical elements in measuring and managing the performance of a route crew. These dashboards will continue to evolve to support branch management and driving efficiency and improving profitability.

Mexico delivered a strong fourth quarter and ended the year at 7.3% margin, right in the middle of the 6% to 8% range we provided at the beginning of the year. In local currency, fourth quarter profit and margin rates were at all time highs since we acquired full ownership of the business in late 2010. Mexico was on the trajectory we need to deliver 10% margins in 2016, which was our original margin goal when we acquired what was an unprofitable operation. Delivering a 10% margin rate at Mexico is critical to achieving our 2016 guidance.

Fourth quarter profits in France fell slightly due to currency headwinds. For the full year, France faced a challenging environment, as slight volume declines were offset by growth in retail solutions. Revenue declined significantly due to the weaker euro, but France was able to expand the margins from 7.6% to 8% during the year.

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In addition to reducing our cost, we are repositioning this business to pursue higher margin solutions within the cash supply chains of our customers, and we expect to see the benefits of these efforts in 2016.

Brazil delivered a strong quarter in the midst of a deteriorating macroeconomic environment with pressures from all directions. The team executed on retroactive price increases as predicted and benefited from solid seasonal volumes, even though they were slightly lower than in the past. Approximately half of the full-year profit from Brazil was in the fourth quarter, but the significant devaluation of the Brazilian real caused the year-over-year decline. We expect 2016 to continue to be difficult but our Brazilian team is up to the challenge.

Profits in Canada for the quarter and full year were down due mainly to currency. But Canada delivered a solid 8% margin for the quarter and maintained the same full-year margin rate of about 7%, despite a slight revenue decline and higher pension cost.

The steady performance of our Global Markets segment continued into the fourth quarter. The combined operating margin rate of the 35 countries that comprise this segment was 17%, up 250 basis points over the year-ago quarter.

The Latin America region delivered 15% organic revenue growth and solid margin growth, almost entirely due to Argentina. Results in Chile also improved due mainly to recent restructuring actions, but lower profits in Colombia largely offset these improvements. The EMEA region delivered lower but still solid margins of 8.6% as revenue declined as expected due to both currency and lower volumes. The organic revenue decline in Germany was expected as we exited a guarding contract of last year. Asia continues to perform well on all fronts with an exceptionally strong margin rate of 23% in the quarter and 18% for the full year.

Year-to-date cash flow from operating activities on a non-GAAP basis increased $9 million despite approximately $25 million of restructuring and severance payments. Capital expenditures and capital leases were down $28 million versus last year due to both currency and decreased spend across most segments. Net debt decreased by $49 million from the end of 2014 due primarily to lower CapEx spend, increased CFOA, and the cash collected on the sale of a facility in Mexico.

Since I'm on the slide covering cash flow and net debt, I would like to highlight a change in our future cash payments to our U.S. pension plan. Due to the low equity returns in the market in 2015, we are now projecting payments to the U.S. pension plan starting in the year 2020. Slide 33 in the appendix provides the payments by year, but we're now estimating about $50 million spread over four years.

I'll close with a review of our 2016 outlook and the assumptions behind it. Our 2016 revenue outlook assumes 5% organic growth and 9% unfavorable currency impact, resulting in about $2.8 billion of revenue, which is lower than our guidance at the end of 3Q 2015 due to increased currency pressure. We expect to grow operating profit to a range between $190 million and $210 million, despite $29 million of unfavorable currency impact. The currency impact is due primarily to the devaluations of the Argentine peso and the Brazilian real.

Our operational improvements come from the U.S. and Mexico delivering their targeted margins, the payments business improvement from the U.S. prepaid card, and the rest of the world contributing another year of solid profit growth, led by continued organic growth in Argentina and Brazil, the benefits of the business transformation in France and the benefits of additional restructuring actions. Despite the lower revenue, our EPS guidance is still $2.00 to $2.20. We estimate our tax rate will be 39%, which is higher than the 37% in 2015 due to the onetime tax benefits realized from our actions in 2015.

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This slide summarizes our 2015 year-over-year results and our outlook for 2016. Our performance in 2015 was not perfect but our overall results were exceptional, and we delivered EPS at the high end of our guidance despite significant currency headwinds. We grew our margins from 3.7% to 5.3% and expect to grow it to about 7% in 2016. And we expect another year of significant earnings growth in 2016.

That concludes my comments this morning. Denise, let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Jamie Clement of Macquarie. Please go ahead.

Jamie Clement
Macquarie Capital (USA), Inc.
Q

Tom, Joe, Ed, good morning, and thanks for taking my questions.

Thomas C. Schievelbein
Chairman, President & Chief Executive Officer
A

Sure. Good morning.

Jamie Clement
Macquarie Capital (USA), Inc.
Q

Joe, if I – can I get a little bit more info on the retroactive price increases in Brazil? Like typically, 1Q, 2Q in most of these Latin American markets, and by the way maybe I'm lumping them all together inaccurately, but usually sees margin pressure in the first two quarters because you got to up your wages because of inflation and then you get it back more in a gradual way in Q3 and Q4. This year Q4 much more dramatic as a good guy for The Brink's Company. So, can you talk us through that a little bit?

Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President
A

Certainly. The environment in Brazil just continued to deteriorate throughout the year. We saw less retroactive price increases in the first half with most of that being recovered in the third and fourth quarter. We actually got a little more of the retroactive price increases during the third quarter and we performed a little better in the third quarter versus what we expected, and we got the balance of it back in the fourth quarter. The Brazilian business also took some cost actions mid-year as the environment continued to deteriorate and we saw volume pressure.

And the fourth quarter ended up being our strongest by far. In fact, it came down to the month of December where we picked up a great seasonal volume pick-up as well as the bulk of the price increases in the fourth quarter. It all came down to the very last minute, but the team was able to execute and deliver as they had expected to all year. And given our customers' traditional practice of settling up by year-end, it just went down to the wire this year.

Jamie Clement
Macquarie Capital (USA), Inc.
Q

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Okay. As we look at Brazil's margin for the quarter, which was, gosh, I mean it was high teens, and I look at it for the full year and I think it was more, let me, I think it was maybe more...

Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President

A

8%.

Jamie Clement
Macquarie Capital (USA), Inc.

Q

8%, I was going to say 9%, okay. Very good. As we think about sort of modeling this business going forward, should we be thinking more – which numbers should we be thinking more about?

Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President

A

Well, let's start with the fourth quarter was extraordinarily high margin due to the factors we discussed. The way we're thinking about Brazil is, given the incredibly difficult macro environment, the geopolitical environment continues to worsen. I think from the outside in, you'd say it a business can maintain their margin rate in Brazil and ex-currency maintain their local currency profit, that would probably be viewed as a very good performance in that environment. That's not what we're targeting for Brazil.

They have a growth plan. They have a plan to grow particularly in the Retail segment. They did get good traction in 2015 in Retail. The actions they took particularly in the middle of the year on cost we expect to help them going into 2016. They'll continue to monitor the macro environment and take the necessary actions. But we're expecting them to grow margin dollars in 2016 and to grow the top line. Expanding the margin rate will be incredibly difficult but we have a plan in place to increase the profitability of the business nominally.

Jamie Clement
Macquarie Capital (USA), Inc.

Q

And then, Joe, last follow-up question and then I'll turn it over to others. So, in looking at your 2016 outlook, and I was just looking at page 25 of your slides. It looks to me like the incremental or detrimental operating margin assumption on your currency hit is – looks like somewhere between like let's say 10% and 11%. Considering the floating and we don't know what the profitability of Argentina is, although, I think you all have made some public comments about its importance in the non-Brazil, non-Mexico, LatAm segment. I would have thought that considering the floating currency and I think your assumption is ARS 15 to USD 1 for the year, if I am not mistaken; I think that's what you said at your Investor Day. I would have thought that the margin on the currency hit that you're anticipating in 2016 would be a lot higher than 10% to 11%. Where am I wrong?

Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President

A

So, that your thought process is exactly right but let me add some context. So, Argentina is far and away our most profitable country, particularly on the margin rate. Argentina has continued to perform exceptionally well in a high inflation environment. They expanded their margin rate. They grew local currency profit faster than the local currency inflation. They performed exceptionally well. You're correct; we did, back at our previous guidance at Investor Day, in the third quarter earnings release, we were expecting about ARS 15 to the dollar for 2016. Given the devaluation that occurred in mid-December, we've now adjusted that to be at about ARS 17 by year-end.

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So, we're counting on Argentina continuing to devalue throughout the year. That's the biggest driver of the revenue and the margin impact. What's happening is we have other revenue impacts that they're hitting us but they're in lower margin segments. And we're not getting as much of a hit in those other business units that are having currency impacts from having the currency devaluations.

Jamie Clement
Macquarie Capital (USA), Inc.
Q

Okay. Because, I mean, just looking at my screen, the obvious ones particularly for the first half of 2016, the obvious headwinds are the real, the Mexican peso, and the Argentine peso, and those are pretty darn profitable countries for you.

Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President
A

Right. So, let me – there's another critical data point. So, when we translate Argentina's results throughout the year, their local currency results, during 2015 we used the official rate. The official rate hovered between ARS 8.5 to ARS 9.5 during the year. Throughout the year, we repatriated cash from Argentina. And when we pulled cash out of Argentina, we actually paid something closer to the floating market rate, the blue-chip swap rate and that rate was closer to ARS 14 to ARS 14.5.

So, on a revenue line, you saw Argentina in U.S. dollars growing at the inflation rate with very little exchange change. But at the op profit and net income level, we were absorbing the hit of translating earnings at a ARS 14-ish rate because we were pulling the earnings out of the country by repatriating the cash. So in 2015, we incurred cost to repatriate cash, earnings from Argentina that was unfavorable FX. I'd have to go back and calculate kind of an effective rate on earnings but the effective rate in 2015 was much higher than the ARS 8 to ARS 9.5 rate we translated revenue at.

Jamie Clement
Macquarie Capital (USA), Inc.
Q

Okay. Well, I mean, that is – yes, that's definitely important point. And thank you very much for your time, as always.

Operator: Our next question will come from Ashish Sinha of Gabelli. Please go ahead.

Ashish Sinha
Gabelli Securities International UK Ltd.
Q

Hi. Good morning. Thanks for taking my questions. I have two to begin with. Firstly, talking about the U.S. and the organic growth rate. Your peer this morning on their conference call kind of suggested that the market growth is running roughly, they estimate, around 3% to 4%. And if I look at your numbers, I just wanted to get a sense of what's happening in terms of the market and whether the internal disruptions you had this year impacted your market share. So, that's my first question.

And secondly on corporate expenses. So, good performance on that. But I wanted to understand how much of the reduction is sustainable, and if there are any onetime items in there, and whether $85 million would be a good ballpark to begin with as the base number for our estimates? And also, if we think three to five years out, how much onetime costs of these special projects which you're currently undertaking, how much of those costs are in the $85 million, which could probably go away over the three- to five-year timeframe? Thank you.

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Thomas C. Schievelbein
Chairman, President & Chief Executive Officer
A

Sure. So, let me just address the market and the growth in the U.S. This is not – we're not losing market share in the U.S., it's more about gaining additional outsourced business. So, that's the basis of our assumptions, Ashish. Relative to details on the corporate overhead, I'm going to let Joe. There are not a lot of onetime items in there, but I think it's important Joe goes through the details with you.

Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President
A

Yeah. So, let me just add a point on the U.S. revenue. Our reported revenue in the U.S. was essentially flat $730 million versus $728 million. We absorbed about a 2-percentage-point negative impact from fuel surcharge, which I think our competitor who released earnings today referenced that as well. So, we actually had a couple percentage points of revenue growth but we pass-through fuel increases and in this case decreases through to customers and that reduced revenue. So, if you think about a 3% to 4% industry growth, we were in the 2% range.

We also had mid-year where we transitioned away a large profitable money processing contract that was a direct reduction of us and an increase for that other competitor who released today. So, that negatively affected our second half results. But we're still within $20 million or $30 million of revenue of that competitor in the U.S., so we're about the same size today.

With respect to corporate expenses, we have a number of things that occur in corporate expenses. I'll start with, year-over-year we improved and it was driven significantly by the restructuring and cost actions we took at the end of 2014 beginning of 2015. And we quantify that of around $50 million of the improvement. We have a number of different things in the corporate line item that relate to the operations of the business, namely our global insurance program where we – each country takes a level of self insurance and then at the global level we take a level of self insurance for the whole company. And we performed very well in 2015 particularly against the 2014 results and that benefit showed up significantly in the corporate expenses line. So, part of our improvement year-over-year is corporate expenses.

To specifically address your question about some of the corporate-funded projects or programs, we continue to work on reducing those as part of our restructuring we announced at the end of 2015. We're taking more cost out of those programs, and you should expect for 2016 somewhere in the neighborhood of $85 million for corporate expenses. That was the guidance we provided at Investor Day. That's still a good range. Over time, we'll continue to work to reduce that. As the businesses are able to start to implement some of the projects we're working on at the global level, the corporate support will move away and the countries will take full ownership of that. So, there will be decreases over time; it's unquantified at this time.

Ashish Sinha
Gabelli Securities International UK Ltd.
Q

Great. Thank you.

Operator: And our next question will come from Saliq Khan of Imperial Capital. Please go ahead. Mr. Khan, your line is open. You may be muted on your side.

Saliq Jamil Khan
Imperial Capital LLC
Q

My apologies, guys. Hi, Tom. Hi, Joe. Hello?

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Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President

A

Good morning.

Saliq Jamil Khan
Imperial Capital LLC

Q

Hey, guys, a couple quick questions for you. First one being is in the U.S., Brink's introduced a lot more vehicles, like you had noted, which require lower fuel and lower maintenance. What is the estimated cost that you're seeing right now per vehicle – estimated cost savings, excuse me, per vehicle in comparison to the legacy vehicles that you had?

Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President

A

Sure. So, we expect meaningful improvement in cost per mile operated. We've measured that down to maintenance and fuel and the original acquisition cost, particularly with the Transit Connect vehicles and the Ford 550s [F-550]. It is significant and substantial. And as we introduce more of those vehicles into the fleet, we will be able to realize those savings.

I'll just highlight the 460 vehicles that we're targeting for year-end 2016, that includes retrofits. There's a significant number of vehicles that are in our existing fleet that we are retrofitting to enable one-person crews. It's a lot less expensive to retrofit an existing vehicle versus buy a new one. And so we're doing that as a way to realize the labor benefits as quickly as possible.

Saliq Jamil Khan
Imperial Capital LLC

Q

And, Joe, you noted the one-person truck crew and the savings that are associated with it on the labor cost side. What impact, if any at all, are you seeing to the overall efficiency of the business as a result of a one-person crew?

Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President

A

We're seeing labor savings. We are paying the one person on the crew more because they're doing more, they're responsible for more. So, they are getting a slightly higher wage. We're seeing that we are able to operate the route as efficiently as before mostly. There's a few steps in the process where we're not as efficient. We're continuing to work on those core processes to figure out how to do them as efficiently with one versus two.

But by and large, if you think about the time driving between customers, whether there's one or two people in the vehicle, it's the same. It is a little more timely for one person to check in in a branch in the mornings and check out in the evenings, because one crew member operating both the vehicle and transferring the valuables takes a little bit more time. We're working on that. And in some cases, premise time can be faster but we're working on those processes.

But by and large, it is a meaningful savings. You don't get 100% of the labor savings for removing the one head count, but we're getting a significant amount of it.

Saliq Jamil Khan
Imperial Capital LLC

Q

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In regards to EMEA, the thing that you noted earlier was that both the organic revenue and the operating profit have been down, and you noted it was largely because of lower volume. How are you guys thinking about potential price increases or additional internal cost reductions?

Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President

A

Well, the driver for EMEA on a year-over-year basis is we had a very profitable guarding contract in Germany and it was profitable only in the year 2014. It wasn't as profitable in the prior years. It was a kind of an unusual situation that allowed us to generate significant margin in one additional year added to the contract.

And that contract went away at the end of 2014, which we expected. So, that's the single biggest driver on the profitability in Europe. We also have a few countries, one particular one that's very small that unfortunately has sustained some significant deteriorations in its operations, and we are working to remedy that this year.

Saliq Jamil Khan
Imperial Capital LLC

Q

Okay. And lastly on my end, guys, as you take a look at your current overall capital structure, do you find that it is adequate to ensure both the growth and profitability measures that you have in place right now for 2016 but also to go ahead and look at potential acquisitions? Thank you.

Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President

A

We're very comfortable with our capital structure today. We paid down debt in 2015. Particularly in the fourth quarter, we generated free cash flow in 2015, which was a nice change in trajectory. We have ample liquidity to invest in the business both organically and inorganically. We don't feel that we're limited in any way in making necessary investments to grow the business.

Saliq Jamil Khan
Imperial Capital LLC

Q

Great, thank you.

Operator: Our next question will be a follow-up from Jamie Clement of Macquarie. Please go ahead.

Jamie Clement
Macquarie Capital (USA), Inc.

Q

Yeah, thanks. Joe, given the second half performance in the U.S., you went through I think in a lot of detail how you can get to U.S. margin target in 2016. But if I could ask you to look out two years, three years, four years, what are the next steps in kind of getting that up to kind of 8% to 10%? And can that even be done in a marketplace that – your competitor said maybe plus 3% to 4%, others might say GDP at best – in that kind of growth environment?

Joseph W. Dziedzic
Chief Financial Officer & Executive Vice President

A

Well, let me start with the reference to our competitors' margin. I think looking at their margins is a great thing for us because it proves the level of profitability that this industry can deliver in a very mature, developed market like the U.S. There's plenty of currency in circulation to allow us to continue to improve our business and grow. I think you see all the competitors growing at some level.

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In 2015, our revenues were $730 million. Our most profitable competitor was only slightly larger than that. They grew a little more than that, largely because of a contract we transitioned away to them. But at the end of the day, what we need to focus on is what we can control in our business.

And we can move our margins from the 2% we're at to industry level profitability. Our focus right now is on helping our frontline employees run the business better. We need to help our frontline employees in managing the core processes in the business. We need to equip them with efficient processes, well documented processes. Train them, give them the tools that they need to run the business, whether it's the hand-held scanners or optimized routes or, most importantly, the visibility to how they're performing. If our frontline employees don't know how they're performing relative to the goals we're setting, it's difficult for them to know what success looks like.

And that's a huge focus of the management team. Arguably, one of the most important things Mike Beech has brought to the U.S. as the leader of the large five is a focus on core process improvement, breaking down what we do in the business at the most fundamental level, measuring it, and putting resources in place and tools in place to allow the frontline employees to better manage it. I think we're making the necessary changes in the business to allow us to do that and the projects that we're implementing are going to deliver that.

Thomas C. Schievelbein
Chairman, President & Chief Executive Officer **A**

Jamie, the other thing is that clearly Continuous Process Improvement and improving the efficiency is key to getting our margins up, but at the same time we are working really hard in having some success in terms of higher-value services and getting customers to transition to more outsourcing.

So, you have two things that will work to our advantage in terms of getting the margin rate up. The first thing we have to work on real hard is the efficiency and then secondly is to transition to more higher-value services that still use cash-in-transit but that add additional margin opportunity.

Jamie Clement
Macquarie Capital (USA), Inc. **Q**

Okay, got it. And one follow-up, if I may. You all didn't discuss it much in 2015, but clearly the diamond market in 2015, it was not what it's been over the last couple of years. It's hard for me to know exactly what the right metrics are to look at in terms of what drives your business. But can you talk a little bit, just kind of conceptually about diamond market, what you saw this year? And if you can quantify what kind of a hit you might have taken on the P&L because of diamonds, or not, any increased visibility would great.

Thomas C. Schievelbein
Chairman, President & Chief Executive Officer **A**

Well, so, Jamie, the diamond market was down. Diamond and jewelry market was down. We typically look at that and look at it from a portfolio perspective with currency as well as precious metals. And so, you saw the improvement in the margin for the rest of the world, which is fundamentally that.

So, diamonds and jewelry were just down. They've been down for a couple years now. We're hoping for a rebound in diamonds and jewelry. I did see where De Beers had a good end-of-the-year sale, so we're hoping...

Jamie Clement
Macquarie Capital (USA), Inc. **Q**

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Holidays.

Thomas C. Schievelbein
Chairman, President & Chief Executive Officer
A

...yeah. We're hoping that that transitions to a better market going forward.

Jamie Clement
Macquarie Capital (USA), Inc.
Q

I mean, so it sounds to me like manageable is what you're telling?

Thomas C. Schievelbein
Chairman, President & Chief Executive Officer
A

Yeah, it's manageable.

Jamie Clement
Macquarie Capital (USA), Inc.
Q

Okay, great. Thanks very much.

Operator: [Operator Instructions] And in showing no questions at this time, we will conclude the question-and-answer session.

The Brink's Company Fourth Quarter Earnings Conference Call has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

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