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The Brink's Co. (BCO)

Q3 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to The Brink's Company's Third Quarter 2016 Earnings Call.

Brink's issued a press release on the third quarter results earlier 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 the 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 call 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 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. This call is copyrighted and may not be used without written permission from Brink's.

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

Edward A. Cunningham
VP-Investor Relations & Corporate Communications, The Brink's Co.

Thank you, Keith. Good morning, everyone. Joining me today are CEO, Doug Pertz; and CFO, Ron Domanico.

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. Non-GAAP results also exclude Venezuela due to a variety of factors, including our inability to repatriate cash, Venezuela's fixed rate exchange policies and continued currency devaluations, and the difficulties we face operating in a highly inflationary economy. 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.

A summary reconciliation of non-GAAP to GAAP results is provided on page 3 of the release. More detailed reconciliations are provided in the release and the appendix to the slides we're using today is in this morning's 8-K and on our website. Finally, page 7 of the press release provides a summary of several outlook items, including guidance on revenue, operating profit, earnings per share and adjusted EBITDA.

I'll now turn the call over to Doug.

Douglas Allen Pertz

President, Chief Executive Officer & Director, The Brink's Co.

Thanks, Ed. Good morning, everyone, and thanks for joining our call.

This morning, we reported strong third quarter results, including a 60% increase in earnings per share, 5% organic revenue growth and 64% growth in operating profit to $61 million. Our operating margin was 8.3%, up from 5% in last year's third quarter. Brazil, Argentina, Colombia and Chile were key contributors to profit growth. I'm also pleased that the U.S. operations turned profitable for the first time this year, and we expect additional improvement in the U.S. in the fourth quarter that should continue into next year.

Looking ahead, we remain on track to achieve our previous full-year guidance, which includes EPS in the $1.95 to $2.10 range on revenue of about $2.9 billion or approximately 5% organic revenue growth. We expect operating income to be in the range of $185 million to $200 million and our full-year margin rate to improve by more than 100 basis points to a range of between 6.4% and 6.9%. Our full-year adjusted EBITDA is expected to be between $305 million and $330 million. Ron will provide a full detailed financial review in a few minutes, and page 7 of the press release details our unchanged guidance.

I want to spend a few minutes updating you on what we've been doing during my first three months at Brink's to assess our businesses, our people, our challenges and our opportunities. In addition to spending significant time learning about all aspects of the U.S. business, and meeting U.S. customers, we visit most of our operations throughout Latin America, Europe and Canada. We learned a lot about our people, our culture, our markets and our customers. Now we're deep in the process of assessing what we've learned in terms of country-specific strengths, weaknesses, assets, competitive issues and opportunities, and I wanted to share some of my initial observations.

On the positive side, it's clear that Brink's has many great businesses with strong market positions, strong leaders, positive cultures and dedicated employees. We have a very strong brand and a solid base of customers, in fact, in many cases, customers who want to do business with Brink's and make sure that we succeed. In fact, in most cases, our customers want to do more business with us, offering us the opportunity to grow revenue share through increased account share.

Not surprisingly, we also confirm that our U.S. business has some challenging and inter-related issues that are impacting performance, including culture and consistent service levels and delays in near-term IP systems implementation, many of which you've already heard about. These include the delays in implementation and deployment of IT-related productivity initiatives, such as handheld mobile devices, route logistic software and electronic billing systems. These near-term issues are being addressed aggressively, and we expect to see increasing benefits from our actions in the fourth quarter and into next year. I'm also pleased that we're also starting to see some strong trends in improving service levels to our customers.

I'm convinced that there are no structural differences between our U.S. business and our competitors' operations. In fact, overall, we may be better positioned than our customers (sic) [competitors]. This means that with the right plans, investment and leadership, we should be able to close the gap between our margins and those of our competition and close the gap in a reasonable timeframe. Our strategy will focus on reducing fleet costs, reducing labor costs for truck, branch and route optimization, and other key initiatives, more on this in a moment.

Another challenge in the U.S. is related to our sales and marketing efforts, which must be strengthened. In recent years, Brink's U.S. reduced its customer-facing resources, which enabled our competitors to grow revenue at our expense. As alluded to earlier, we have untapped opportunities to achieve account share gains within our base Tier-1 financial institution customers. And we have new revenue growth opportunities in the Tier-2 and smaller institutions that we don't focus on today. There's also growth potential in the largest and relatively unvented retail market vertical, especially in our CompuSafe service and related higher-margin offerings.

In Mexico and Canada, two distinctly different markets, we learned that both businesses have something in common. Each has competitive issues related to higher labor costs and operational flexibility. We're working to resolve these issues and which would offer significant upside profitability opportunities. We're determined to grow both organically and potentially through acquisitions, while also improving the operations and profitability of our current business. Our recent travels and meetings have confirmed that there are significant potential for acquisitions that could add future synergistic value. Ron will comment further on the significant financial capacity we have to invest in, our operational improvements and to make accretive acquisitions.

In summary, we obviously face some challenges especially in the U.S., but these are not new. And I view them all as opportunities. When we look at Brink's from a global perspective, the positives far outweigh the negatives and opportunities are greater than previously anticipated. Even more important, our challenges are fixable and represent tremendous opportunity to create value.

So, what's next? First of all, we'll stay focused on meeting our 2016 targets, which includes improved margins and 5% organic revenue growth. Importantly, we expect our U.S. revenue and margins to continue to improve. Over the next couple of months, we'll complete the assessment process and, at the same time, we're developing a detailed strategy to create substantial value for our stakeholders. As part of this process, we're evaluating our full range of assets, including our vehicles, equipment, facilities, IT systems and software, labor and organizational structure.

After fourth quarter earnings are released in February, we plan to hold an Investor Day meeting, where we'll communicate a three-year strategic plan, complete with specific tactics and metrics to measure our future success. The strategy will include plans to accelerate top-line growth organically, while implementing tight cost controls. It will also include the potential for synergistic, accretive acquisitions that add density to our markets and further leverage our margins.

Improving margins is a centerpiece of our plan, and we've already begun an aggressive drive to achieve operational excellence. These efforts, combined with additional initiatives that were included in the plan, will help us exceed customer expectations and close the margin gap that exists today between us and our most successful competitors.

While the margin gap is most pronounced in the U.S., we'll also provide specific strategies to expand margins in other countries. These objectives will be supported by enhanced – and enhanced by offering differentiated customer-facing services driven by technology. I'm confident that executing on our strategic plan will restore credibility with our customers and drive investor value.

The chart on slide 8 illustrates some of the key actions that will be part of our strategic plan to drive improved margins and deliver organic and inorganic growth. Obviously, what is not included on the illustrative chart are detailed initiatives and financial targets. At the Investor Day we spoke about, we'll provide specific initiatives and target ranges so that investors can assess our plan and evaluate the strong value creation which I believe will be substantial.

Many of these improvement initiatives are already underway and we're just starting to see the resultant cost savings momentum. For example, we are already reinvesting in the aging U.S. fleet by purchasing smaller, more efficient vehicles designed to accommodate both one- and two-person crews. The cost to buy these trucks is about 30% to 40% below what it would cost to simply replace the old diesel power trucks. On top of this, the new vehicles should markedly reduce annual fleet expenses while reducing the average life of our fleet.

In addition to reducing fuel, maintenance and repair costs in the U.S., these vehicles, when operated by a one-person crew, will reduce net labor costs materially as compared to the 2-person crews they are replacing. By year-end, we should have about 400 trucks capable of accommodating one-man crews on the road, and we plan to end about 300 more per year over the next three years. All total in the future, these two fleet-related initiatives should have a substantial impact on U.S. margins and will offer a very attractive return on the investment in the new trucks and other investments we're making in the fleet. We'll provide more details as we present our completed strategic plan.

Also as stated earlier, reinvesting in our sales organization and increasing in our marketing efforts is another breakthrough initiative aimed at accelerating U.S. organic revenue and margin growth. Increasing our coverage and penetration of the financial institutions is critical, and we also have a great opportunity to pursue growth in the large and again heavily unvented retail market, where we'll focus on selling higher-margin CompuSafes and related retail solutions and services.

A good example of this is a just received order from a national retail for hundreds of onsite cash recycler safes. This agreement includes recurring revenue from related services, monitoring and CIT activity. We expect to begin generating revenue for the sale installation of the recyclers in the fourth quarter, with subsequent continued high-margin recurring service revenue under a multiyear agreement. Expanding these retail services and the sale of our CompuSafe service are key elements in our overall strategy.

Now I'll turn it over to Ron who will cover the results in more detail. Ron?

Ronald James Domanico

Chief Financial Officer & Executive Vice President, The Brink's Co.

Thanks, Doug, and good day, everyone. I'd like to direct your attention to slide 10.

Adjusting for forex of the businesses we exited, revenue in the third quarter increased from $701 million in 2015 to $735 million in 2016, an organic increase of 5%. All segments, except France, generated organic growth. The U.S., Canada and Mexico each grew approximately 1%. Brazil was up 6%, and Argentina and Chile drove the double-digit growth in Latin America. Forex in the third quarter was $29 million unfavorable versus the same period last year, driven primarily by devaluation in Argentina and Mexico.

For the nine months 2016 year-to-date, revenue increased organically by $94 million or 4% to $2.14 billion. The U.S. and France were each down 1%, while Canada was up 2%, Mexico up 5%, Brazil was up 12%, and Latin America was up 23%. Year-to-date forex was $169 million unfavorable, as the U.S. dollar strengthened against all other currencies except the euro. Dispositions reflect the previously announced exits from Ireland and Russia.

For the 2016 fourth quarter revenue outlook, we expect growth from price increases in Latin America, typical seasonality and new business in the U.S. with a large retailer.

Turning to slide 11. Third quarter 2016 non-GAAP operating profit grew organically by $24 million or 64% to $61 million versus the third quarter 2015. Operating profit, as a percent of revenue, increased 330 bps from 5.0% in the third quarter 2015 to 8.3% in the current quarter. The improvement was driven by revenue growth, lower corporate expenses, price increases and a social tax credit in Brazil, profitability in payment services, and a return to profitability in the United States. For the nine months 2016 year-to-date, non-GAAP operating profit of $130 million increased organically by $33 million or 31% over prior year.

Operating profit, as a percent of revenue, increased 130 bps from 4.8% in the first nine months of 2015 to 6.1% in the current year-to-date. The year-to-date improvement was driven by price increases in Brazil and Argentina, including the inflation impact on ad valorem charges. Revenue growth in Asia, margin expansion in France, lower investment and payment services, and lower corporate expenses also contributed to the improvement.

These improvements were partly offset by higher labor charges in Mexico and greater insurance and repair expenses in the United States, year-to-date forex of $15 million unfavorable as the U.S. dollar strengthened against all other currencies, except the euro and especially versus the Argentine peso.

For the 2016 fourth quarter operating profit outlook, we expect growth from recent price increases in Latin America, margin expansion in the U.S. and Mexico, and new business in the U.S. with a large retailer, as Doug described previously.

Moving to slide 12. We prepared this slide and the next one to bridge operating profit, income from continuing operations and EBITDA. This slide is a bridge for the third quarter, and the next slide is a bridge for the year-to-date. The variance from prior year for each part of the bridge is included at the bottom of each slide.

Third quarter 2016 non-GAAP operating profit of $61 million was reduced by $5 million of net interest expense, $22 million of taxes and $2 million of minority interest to generate $33 million of income from continuing operations. This equates to $0.64 per share in the third quarter 2016, which was up $0.24 per share or 60% higher than the third quarter 2015. Depreciation and amortization was $32 million. Adding back the $27 million of combined interest and taxes resulted in adjusted EBITDA of $92 million for the third quarter 2016. This was up $22 million or 31% versus the same quarter last year.

Turning to slide 13. Nine months year-to-date 2016 non-GAAP operating profit was $130 million. Net interest expense was $14 million, which represents an effective borrowing rate just over 4%. Taxes of $45 million reflect an effective tax rate of 39%. We expect the interest and effective tax rates to remain at approximately these levels for the full year 2016. Minority interest was $4 million.

Backing up interest, taxes and minority interest from operating profit results in $66 million of year-to-date income from continuing operations. This equates to $1.32 per share in 2016, which is up $0.18 per share or 16% higher in the first nine months of 2015. Depreciation and amortization was $97 million. Adding back the $60 million of combined interest and taxes resulted in adjusted EBITDA of $224 million for the year-to-date 2016. This was up $15 million or plus 7% versus last year.

Now moving to slide 14. Capital expenditures in 2016 are expected to be between $130 million and $140 million. This is in line with depreciation and with our prior guidance. This total anticipates a rate of investment in the fourth quarter 2016 that is higher than the year-to-date run rate. The increase is being driven primarily by the acquisition of additional armored vehicles that will reduce labor, drive down maintenance and repair expense and will also provide greater safety. We expect this higher level of armored vehicle replacement to continue into 2017.

We're also in the process of reviewing our entire asset base to determine asset utilization, asset effectiveness and return on invested capital. And we're reviewing the most cost-effective way to finance future investment. Any impact on expected future capital expenditures and the associated returns will be disclosed with our comprehensive strategy in the first quarter of 2017.

Moving to slide 15. This slide illustrates Brink's debt and leverage position. The bars on the left side of the slide illustrate our debt at the end of 2014, the end of 2015 and at September 30, 2016. The height of each bar represents gross debt. The top part of each bar represents our cash position, and the bottom part of each bar represents the net debt position. As of September 30, 2016, our net debt was $296 million. This was up $23 million from year-end 2015, but $22 million less than year-end 2014.

On the right side of the slide, the bars illustrate our trailing 12-month EBITDA at the end of those same periods. Above these bars is the ratio of net debt divided by trailing 12-month EBITDA. This leverage ratio of approximately 1, the lowest amongst our peers, and indicates that Brink's has the balance sheet to make accretive investments.

Turning to slide 16. We believe that adjusted EBITDA is a meaningful non-GAAP metric for stakeholders to assess cash flow. We calculate adjusted EBITDA on a trailing 12-month or TTM basis. 2016 TTM adjusted EBITDA at the end of the third quarter 2016 was $306 million. This is virtually flat with the year-ago EBITDA, as the $39 million organic increase in operating profit was almost entirely offset by the forex impact on operating profit and depreciation, amortization and other.

The EBITDA margin as a percent of revenue, however, increased 80 bps to 10.6%, and the Brink's enterprise value divided by EBITDA resulted in a 1.6 churn expansion in the multiple from 5.4 times to 7.0 times. Perhaps of greatest relevance, in the past year, the BCO share price increased over $10 or approximately 37%.

Looking at the right side of the chart, on the top, you can see how Brink's multiple has increased in 2016. But on the bottom, you can see that our multiple is still materially below that of our closest peers. We believe this gap will close, as we implement our strategy and consistently achieve projections.

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

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.

Thanks, Ron.

In summary, we had a strong third quarter and expect to deliver another year of solid growth in operating profit, margin rate, EBITDA and earnings per share. Our guidance remains unchanged. We expect to deliver approximately 15% to 20% year-over-year growth in both operating income and EPS and more than 100 basis points improvement in margin.

Full-year revenue is expected to grow 5% percent organically to $2.9 billion supported by strong growth in Latin America segments, including Brazil and Mexico. We also expect strong fourth quarter revenue growth in the U.S. and an operating margin in the quarter close to 4%. I'm confident that these results will support added value creation and, going forward, will demonstrate that we can continue to achieve sustainable profit and margin improvements.

On my first earnings call in July, I discussed my initial impressions of Brink's. I'm happy to say that those impressions have not changed, except to say that I'm even more convinced that Brink's is a great opportunity for all of our stakeholders.

We're focused on a strong finish to 2016 and completing our initial assessment of strengths, weaknesses and opportunities, some of which I've shared with you today. At the same time, we're already implementing several key margin improvement initiatives and are well along into development of our strategic plan.

We look forward to communicating the plan and the future targets at our Investor Day in the first quarter of next year. Most of all, I'm excited about demonstrating over the next several years that we can deliver on our plan and create substantial value for all of our stakeholders.

That concludes our formal comments this morning. Thanks so much for joining us, and we look forward to your continued support. Keith, now let's open it up for questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Jamie Clement with Macquarie.

Jamie Clement
Analyst, Macquarie Capital (USA), Inc.

Q

Gentlemen, thanks. Thanks very much for taking my questions this morning.

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.

A

Thank you, Jamie.

Jamie Clement
Analyst, Macquarie Capital (USA), Inc.

Q

Yeah. I was scribbling down some notes. I think you all made a comment about Brazil's operating profit performance in the quarter. Was there a good guy in there that's not necessarily sustainable or did I miss something there because I noticed the margin was a lot better than the recent quarters?

Ronald James Domanico
Chief Financial Officer & Executive Vice President, The Brink's Co.

A

Jamie, yes, there was. I mean, in my comments, I mentioned that there was a recovery of social taxes in the quarter that were overpaid in prior quarters. That amount reflected less than half of the improvement, but most of the improvement was from organic growth and volume and price increases in Brazil.

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

Okay. So with that said, and I noticed obviously your guidance for the full year in Mexico I think would imply a very, very strong end of the year. So, I mean, over the last 18 months or so, I mean, the macro conditions in Latin America have not been terrific. Are you starting to see a bottom form where you can kind of build off that? I know you have intercompany initiatives and that kind of thing, but from a macro perspective, do you think things are kind of falling out a little bit?

Ronald James Domanico
Chief Financial Officer & Executive Vice President, The Brink's Co.
A

Well, two parts to the answer. The first part is the macro itself, and we've seen a significant improvement in Brazil with the pending reconciliation of their political turmoil. We've actually seen the Brazilian real improve against the U.S. dollar in the third quarter, which was unexpected, quite frankly. But in addition to that, we've seen the business environment also improve, so that was a positive.

In Argentina, we've seen the new administration implement actions to begin reducing the inflation and restoring confidence in that country. Argentina has seen huge cash inflows as investors look for debt that has actually real returns. So, the inflation is still high, but the devaluation is less. So, the improvement in U.S. dollars is continuing to improve.

Mexico, I don't think we've seen a degradation at all. I don't think we've also seen the improvement. But seasonality, as I mentioned in my comments, is a factor for a lot of our Latin American countries as the fourth quarter contains the holiday seasons, where there is more cash movement.

So, we do recognize that the fourth quarter does represent a step-up from the strong performance in the third quarter, but based on our review of the business and the seasonality that the company has traditionally experienced, we feel confident in that.

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.
A

And, Jamie, I'd like to add a little bit more to what Ron talked about more in the macro side – or micro side, I guess that's the local Brink's side rather than the macro, and that is that both Brazil and Mexico, we're seeing strong performances on the retail side of the business, which we think will continue to drive revenue and profitability in there.

And yes, in Mexico, while it's a jump up for the full year in the fourth quarter, it is seasonal. We do anticipate that we'll hit the types of targets that we're looking at in the 6% range in margins. And as we alluded to as well, we think we'll have some opportunities in the next couple of years with some structural changes in Mexico as well that will substantially help.

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

Okay. And then just – yeah, that's perfect. Maybe just a quick follow-up there. Alluding to price increases in Latin America, are these like the typical year – or sort of year-end price increases that we see flowing through the P&L that really kind of make up for some of the wage increases that you see and then, I mean, we would expect to see kind of a step back in the first half and then you kind of start that process all over again, right? Is that so right way to think about it?

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co. — A

It's a combination of those things but, yes, that sits in a lot of what drives it in the key countries in Latin America.

Jamie Clement
Analyst, Macquarie Capital (USA), Inc. — Q

Okay. All right. Great, guys. Thanks so much for your time. I appreciate it.

Ronald James Domanico
Chief Financial Officer & Executive Vice President, The Brink's Co. — A

Thank you.

Operator: Thank you. And the next question comes from Ashish Sinha with Gabelli.

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co. — A

Good morning, Ashish.

Ashish Sinha
Analyst, Gabelli Securities International UK Ltd. — Q

Good morning. How are you?

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co. — A

Great.

Ashish Sinha
Analyst, Gabelli Securities International UK Ltd. — Q

Thanks for taking my questions. I had a few starting with M&A. I mean, you talked a lot about it during your prepared remarks and I don't want to steal your thunder for the Investor Day next year, but just wanted to get a sense of you're warming up two acquisitions a little bit, you've talked about your strong financial position. But if I look at Brink's in every country, you have a leadership position in most of those countries. So I wanted to understand the approach to acquisitions in existing countries, if there could be any regulatory concerns.

And that leads me to my next question is, if we think about acquisitions, are you essentially thinking about new regions to complete the whole circle on M&A? You've also visited a lot of global regions. Are you happy with Brink's the way it is today? I mean, any regions you see where you feel less compelled or see an argument to probably divest it? That's my first set of questions.

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.

A

Well, let's see if I can address those. I think if you take a look at – first of all, as we've alluded to and as Ron I think clearly laid out is that with the balance sheet leveraged or unleveraged as it is, we have the capacity to both manage and invest in what we think will be great returns in the margin improvement side, investment in the fleet and other productivity and margin improvement investments. So that's number one. Second thing then in terms of the balance sheet will give us the opportunity to do accretive acquisitions.

So let's talk a bit where those might be or more specifically what the objectives around that. And first of all, they would be first objective and priorities would be in our core business, because in our core business, that gives us the ability to leverage the synergies and, therefore, get accretion associated with that. So, that's the first focus on it.

The second would be around that is related to our existing geographies first before we go into new geographies and make sure that the new geographies you're going to, if we do do that, would be something that would make sense and, again, we can gain some synergies associated with both the growth that we'd see in those marketplaces, so we'd want them to be high-growth markets, as well as the ability to manage those would give us some synergies around management, even though they would not be the typical type of synergies we'd be looking for with a business it would be purchased within an existing geography. So, that's kind of the waterfall, if you will, that we'd be looking for before we'd go into adjacent type of businesses, which should be far down in our list at least at this time.

With that said, we see there are, [ph] I'd say, (32:41) a number of existing geographies that we're in that we should be able to do acquisitions that we would find very compelling from the standpoint of expanding our market positions, as well as gaining significant synergies on the cost and operational side. And we can go down the list probably in more detail, if you wish, in terms of an overview that we'll probably talk to in February in terms of our market position, which then you can then extract from that if there might be or what type of regulatory issues there might be, but there are a number of countries and geographies that we have lots of room to move in.

Ashish Sinha
Analyst, Gabelli Securities International UK Ltd.

Q

And in terms of divestments, anything which you don't like in your last three months?

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.

A

No. I think in general, as I said in my comments, we're looking to six businesses, if we can, improve our businesses and not sell. Certainly, there may be some one or two minor guarding positions – guarding businesses that don't fit our core strategy or geographies that may not be core. But in general, no, we're not looking to sell anything where there's nothing strategically that we're looking that can change us on the divestiture front.

Ashish Sinha
Analyst, Gabelli Securities International UK Ltd.

Q

Okay. Just a couple more on – I mean, the usual format for your slide pack for the results had a slide or half a slide each on each of the regions, which was missing this time around, which probably dealt – dug in a little bit deeper into each regions. Any reason why that was excluded?

And then following off from that, I mean, I just wanted to follow up from Jamie's question and ask the same question about the U.S. I mean, you've got a broad guidance. If we try and back out fourth quarter and if I look at your full-year guidance for U.S. margins, it implies quite a big swing. So, just wanted to understand where you get the confidence. Is it the catch-up from the benefits you'll get once all of your special projects are implemented or is there a new contract which I think you mentioned or something else which is driving that improvement in the fourth quarter?

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.

A

Well, I'll mention – I'll talk about the U.S. first and then I'll pass it back to Ron in terms of your other question. Ashish, certainly, the one contract that we talked about will start giving us some benefit of increased revenue in the fourth quarter, and that's why I suggested that we'll see greater revenue growth in the fourth quarter in the U.S. than what we've seen in the first three quarters of the year based on that initial sale and installation of the recyclers. But that's just the revenue increase that then that flows through.

The other impacts are starting to see some of the impacts associated with the IT implementations that we talked about and some of the benefits associated with that, as well as starting to see some of the benefits and just starting to see some of the benefits associated with some of the new trucks that are beginning to be phased in and the benefits associated with both the transition, where we can, to one-person routes as well as some of the beginnings, so I call it momentum starting, on the lower fleet cost on those.

Again, it will be relatively minimal in the fourth quarter, but that should start the momentum into the next year and beyond, as we see the true impact of the number of trucks and the benefits associated with those.

Ronald James Domanico
Chief Financial Officer & Executive Vice President, The Brink's Co.

A

Ashish, addressing the first part of your question, as I looked at the way we discussed our performance in the past, I thought there was an overemphasis on our nine segments and the lack of attention on the performance of the entire business. So, what we were attempting to achieve is to discuss Brink's in total and then give the explanations for the drivers on each of the key metrics. We also do have all that segment information in the press release which is still there and in our 10-Q, which will be filed later today, will have the same level of detail.

In addition, if you look at the third quarter, we had $61 million of non-GAAP operating profit, which was 47% of our year-to-date operating profit. So, in one quarter, we had almost half of the profit for the three quarters that have elapsed so far.

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.

A

And seasonally, the fourth quarter is generally higher.

Ronald James Domanico
Chief Financial Officer & Executive Vice President, The Brink's Co.

A

Yeah.

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.

A

We talked about Mexico. We then talked about the U.S. and so forth. So, we're comfortable with that.

Ronald James Domanico
Chief Financial Officer & Executive Vice President, The Brink's Co.
A

Yeah. With the performance improvements, as Doug mentioned about the U.S. and the seasonality, plus the impact of the price increases that Jamie discussed on the first question, we do have a high degree of confidence in the range that we put out for our outlook.

Ashish Sinha
Analyst, Gabelli Securities International UK Ltd.
Q

Understood. Thank you very much.

Operator: Thank you. [Operator Instructions] And the next question comes from Jeff Kessler with Imperial Capital.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC
Q

Thank you and thank you for taking my question. I recall that when the company first bought – first took over the 80% of Mexico that it did not own over the next two or three years, there was a lot of labor reduction, there was a lot of charges around that labor reduction. Are we still looking at – you've obviously done an assessment of Mexico and you've probably come to the conclusion that the reductions they did were not enough or was it that you needed more – just simply more efficiencies gained following the labor reductions?

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.
A

Jeff, this is Doug. I honestly don't know about those labor reductions that you were talking about when it first happened where. So I'm not assessing it based on what happened several years ago. We're basing it based on where our current situation is and what the structure is in place today and where we can take that. We talked about a stronger fourth quarter that will get us to a range of 6% operating income this year, but we're suggesting based on our analysis that there's a fair amount of improvement that we think in margins that are capable over the next number of years through labor improvements and labor flexibility improvements.

And we'll share more of that as we get into our strategic plan review. So I guess we can do a little bit of digging in, maybe even talk to you later about what you might have heard before, but I don't really know what that is. We just know what we have, opportunities going forward.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC
Q

Okay. And with regard to the opportunities for one-person trucks, I'm assuming that given – 10, 15 years ago, Wells Fargo tried, but before they merged Loomis, one-person trucks and it was actually a disaster because they did not figure out – they did it on a broad – they just done a broad brush basis. They did not figure out what's most efficient area to have one-person trucks, what's the most efficient, most important areas to have many-person trucks, if you want to call it that.

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.
A

Right.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC

Q

Are you mapping this out carefully to make sure that in those areas where there is higher cargo loss, you don't just stick one person on those trucks?

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.

A

Yeah, absolutely, Jeff. And there's a number of things that we're doing on this, and part of it is the technology that goes into the trucks that assures that we have protection for both our drivers' messengers as well as for the liability. We also limit the liability on these trucks, so that that addresses a little bit of that issue. And clearly, we're looking into make sure that we can map these appropriately with our routes associated with that.

So, all those things were probably lot different than, again, I don't know what was happening before or a lot different than what was happening in the past and are clearly pieces of what we need to get accomplished going forward. And part of this is the ramping up of the percentage of the routes and optimizing those that we can use the one-person trucks on going forward.

I'd like to also state, though, that our competitor uses one-person trucks in the U.S. and has done so successfully for a while. So, we're just catching up. That's why I come back to this is not a structural issue that I can see. This is one of – this is good investment, doing it the right way, putting in trucks in place that are lower cost and more efficient and more productive than we have in the past, which is it gets us a better return on those investments and then managing our labor and our routes in the most effective and efficient manner. And again, if our competition is doing it out there, we should be able to do it and, hopefully, we can do it better.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC

Q

Okay. Great. Another question with regard to technology. Where are you in your progress with regard to analytics, route optimization software, software for if you want to call it bank branch optimization, the types of things that will create a higher-value proposition for you as you sell your core and legacy services?

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.

A

Yeah. So, we're kind of in the middle of that, if you will, in terms of both the development of it as well as the implementation of it. We've spoken in the past about where we are with the static optimization process with each of our branches and on our operating side.

And you've asked really a two-pronged question there, one of it is on the operational side of optimization. And we're in the process of taking the next level that we've – from what we've already talked about into assuring that we have that across the board, we have the right optimization software and taking next step to be able to do that dynamically. That won't be an implementation that we see in 2017 and will hopefully materially improve our operational side of the business.

The other side of it, which I think you very astutely talked about, was how we work with, provide services around and package those services to our bank, our FI, as well as our retail customers, that is, the management of cash and how we both manage the routes and maximize this service to our customers. And we have that in place. We're talking with numerous customers with that now and we have those offerings now and we will continue to improve on those packaged offerings.

And it's similar to what we talked about is, as the recent order that we received that it was really a package of services. So, we're selling the equipment, but more important is this five- to six-year ongoing revenue streams of services, which include cash manager projections and so forth, managing and monitoring the equipment, as well as the traditional cash and transit services around that.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC

Q

Okay. Probably one quick question on CompuSafe. Can you give any update on what you're doing operationally with CompuSafe with regard to trying to turn it [audio gap] (44:20) more of the SaaS business than it was before? And where are you in terms of the number of customers who have taken it?

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.

A

Yeah, I think what we'd prefer to do is lay that out in our plan as well, but I can tell you that will be a very key piece of our plan going forward both in the U.S. and in other markets, and it is becoming much more of a focus in places like Mexico and Brazil and that, plus more sophisticated systems like that, are already in place in France, where I think we have probably the most sophisticated combination of both what we call smart safes and systems as well as the rest of the software and cash management services that go along with that.

Jeffrey Ted Kessler
Analyst, Imperial Capital LLC

Q

Okay, great. Okay. Thank you very much. Appreciate it.

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.

A

Thank you.

Operator: Thank you. And as there are no more questions, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

Douglas Allen Pertz
President, Chief Executive Officer & Director, The Brink's Co.

Thank you, Keith, and go Cubs.