

September 27, 2017

## The Brink's Company: BCO

Ryan Fuchs

Sector: Industrials

Industry: Security Services

Current Price: \$80.25

Target Price: \$96.93

**Company Description:** The Brink's Company is a global leader in security services for banks, retailers, and a variety of other commercial and governmental customers. Brink's services include armored car transportation, money processing, long-distance transport of valuables, and other value-added solutions.

### BUY

Current Price:	\$80.25
Target Price:	\$96.93
Market Cap:	4.18B
Beta:	2.03
ROIC:	29.29%
ROE:	37.64%
EBITDA Growth	69.84%

### Catalysts:

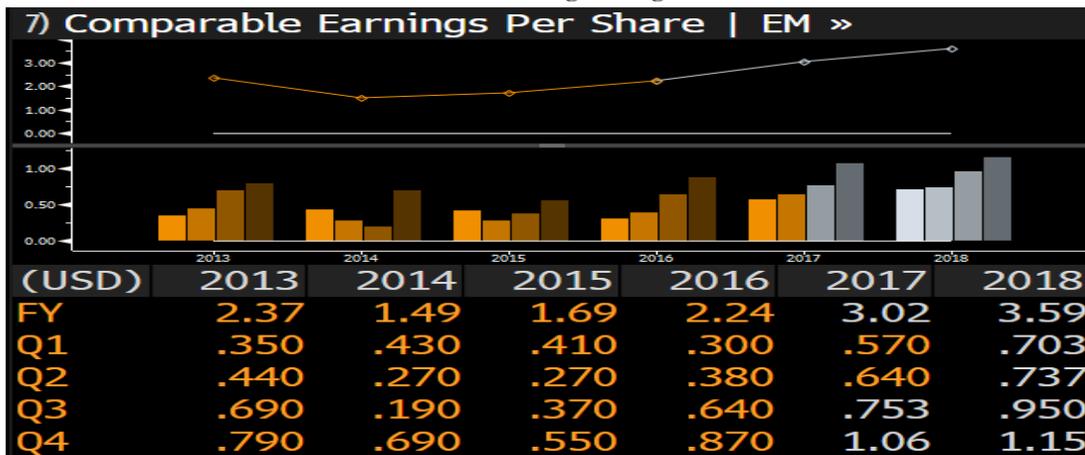
- Short Term(within the year): Strengthening international presence through strategic acquisitions in existing markets
- Mid Term(1-2 years): Increased profitability in US by closing the margin gap with competitors
- Long Term(3+): Reduce overall fleet costs by designing new trucks with a separate body and chassis

**Thesis:** Brink's is a leading provider of security services worldwide. After releasing improved 2<sup>nd</sup> quarter earnings, the company is in position to continue growing past their targets in 2019. Synergies derived from tactical acquisitions in already existing markets will immediately generate earnings, creating short-term growth for the firm. In terms of long-term growth, closing the margin gap between Brink's and their most successful U.S. competitors serves as the key driver for this stock. Through operational excellence, they have already begun to do so as last quarter's operating margin was up 2.1% in North America. By increasing margins and market share in existing markets through operating excellence, Brink's will continue growing towards being the premier security service provider worldwide.



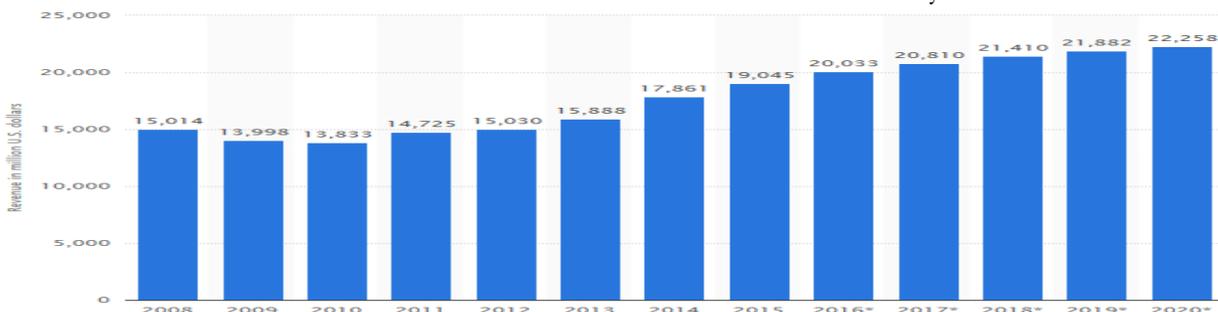
## Earnings Performance:

After incurring losses in both 2014 and 2015, Brink's increased its profits and margins to finally generate a net income in 2016. Brink's managed to cut a 2014 net income of -\$83.9M to -\$11.9M in just one year, followed by a positive net income of \$34.5M in 2016. The company's operating profit grew 157.5% from \$56,000 in 2015 to \$144,200 in 2016. This was driven by cutting labor costs, helping decrease SG&A by over \$80,000 from the previous year. Brink's carried its success over through the 2<sup>nd</sup> quarter of 2017, where Brink's experienced an operating profit of \$59.7M, up 52.3% from 2016's 2<sup>nd</sup> quarter. This included a \$6.5M increase in operating profit from last quarter in North America, the main segment Brink's is targeting in their strategic 3-year plan. Revenue in this segment also grew 3% in the 2<sup>nd</sup> quarter, shooting up to \$311M. This continued success is the result of Brink's operating excellence, where the company has generated \$101.3M in net cash provided by operating activities in just the last 6 months. Driven by this operating excellence, EPS has went up about 35% to 3.02 these last 6 months and is forecasted to continue growing.



## Industry Outlook:

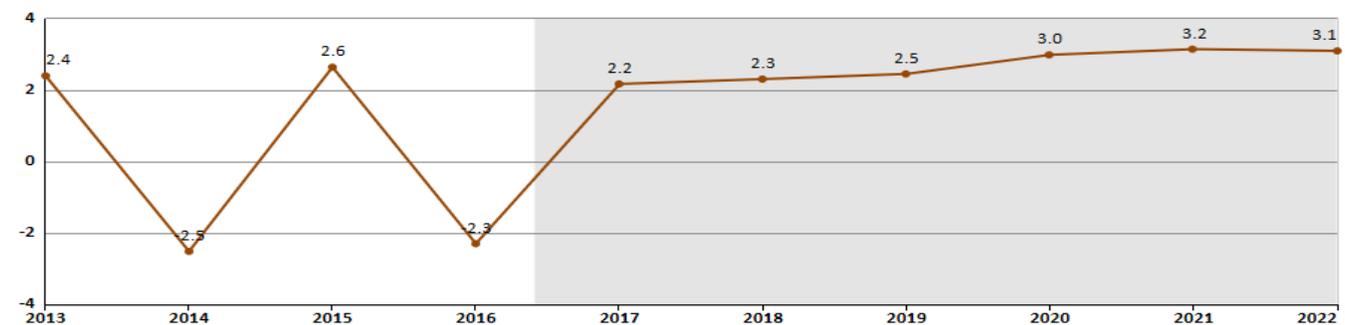
The security services industry is extremely reliant on consumer spending. The more consumers spend, the faster businesses will run out of cash and call for deliveries. With consumer spending expected to grow by 2.8% in 2017, the U.S. remains the most profitable segment for the industry. Furthermore, this industry feeds on business performance. The president's proposed tax plan to lower the corporate tax rate will indirectly benefit the security services industry. The demand for cash-in-transit deliveries will grow as both businesses performance and the number of businesses grow directly with the lower tax rate. Banks serve as the primary customer for businesses in this industry strictly based off volume. The increase in long-term interest rates by the Federal Reserve also provides growth in the US for this industry. If long-term interest rates rise, short – term borrowing will increase. This would create increased demand for security service companies, as banks will turn their cash over faster. The chart forecasts revenue in the U.S. for the industry:



## International Expansion:

Brink's has made a heavy emphasis on increasing its market share in already existing markets these last six months. The company should experience immediate growth through strategic acquisitions in these existing markets. As announced in July, Brink's will acquire Argentinian transportation company Maco Transportadora de Caudales S.A. This will be a major driver for short term growth as Brink's can immediately integrate them into their existing operations in Argentina, where Brink's is already the #2 provider for security services. This acquisition is especially strategic as Argentina is the fastest growing country in Brink's most profitable segment, South America. In the 2<sup>nd</sup> quarter of 2017, South America's revenue grew 20% to \$204.6M. Those numbers will only go up, with Argentina's GDP increasing 2.7% in the 2<sup>nd</sup> quarter of 2017. The upwards trending GDP (chart shown below) in Argentina will demand for more cash deliveries as consumers are spending more, creating an increase demand for Brink's trucks.

**International Monetary Fund (IMF) Forecast**  
Real GDP Growth (% Change)



CEO Doug Pertz projects the cost synergies produced by this acquisition to result in a post-integration multiple of about six times adjusted EBITDA. Later this year, Brink's is set to acquire Temis, a cash management company in France. This acquisition will also easily integrate into Brink's operations. Temis will immediately raise Brink's cash delivery route density in the Paris metropolitan area, creating short-term growth for the company. Synergies for these acquisitions seem to be endless from improved distribution to geo-arbitrage.

## Competitive Advantage in the U.S.:

It is no secret that the U.S. is the greatest opportunity to create value in the security services industry. President Trump's ambition to drop the corporate tax rate to 15% is the main driver for the growth of security services in the U.S. If Trump drops the corporate tax rate, businesses will be flourishing and the number of businesses will increase. This will increase the demand for cash-in-transit deliveries because more businesses will need money faster. Brink's margin gap is the widest with its U.S. competitors. However, the company is closing that gap fast by drastically increasing margins. The company has seen its operating margin increase by almost 3% and its EBITDA margin increase by over 2.5% from year-to-year. CEO Doug Pertz said "there are no structural differences between our margins and those of our most successful competitors."

Operating Margin (%)				
Ticker	Market Cap	2015	2016	TTM
BCO	4.3B	1.8	4.8	6.6
SCTBF	5.8B	4.7	4.7	4.7
SOHGY	12.8B	7.6	6.9	6.8
G4S	431.8B	2.7	5.3	6.3

\*Ratios derived from Morningstar.com

This spreadsheet compares Brink's operating margin to its U.S. competitors. As you can see, Brink's is steadily closing the margin gap with competitors of the largest market cap in the industry.

In Millions of USD except Per Share	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
12 Months Ending	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
<b>Returns</b>						
Return on Common Equity	16.12	19.54	9.50	-14.88	-3.17	10.53
Return on Assets	3.19	3.58	2.25	-3.58	-0.58	1.75
Return on Capital	12.38	14.02	8.92	-9.24	-4.69	6.72
Return on Invested Capital	23.49	29.47	16.41	0.80	-1.36	12.62
<b>Margins</b>						
Gross Margin	18.81	19.03	19.04	17.24	19.27	19.72
EBITDA Margin	9.45	8.85	8.71	3.77	6.42	9.13
Operating Margin	5.30	4.69	4.32	-0.77	1.85	4.77
Incremental Operating Margin	8.25	-78.27	-	-88.16	-	-
Pretax Margin	4.90	4.26	3.69	-1.38	1.34	4.14
Income before XO Margin	3.20	3.53	2.39	-2.41	-0.83	1.54
Net Income Margin	1.98	2.38	1.50	-2.36	-0.39	1.14
Net Income to Common Margin	1.98	2.38	1.50	-2.36	-0.39	1.14

Brink's has also increased its marketing operation, with hopes to increase it's market share in the U.S. through brand recognition. This emphasis on U.S. expansion has already positively attributed to earnings so far, as operating profit in North America has increased \$5.5M from the 1<sup>st</sup> to 2<sup>nd</sup> quarter.

## Reduced Fleet Costs:

Later this year, Brink's is set to release 200 newly designed trucks separating the vehicle's body and chassis. This new model is supposed to allow the company to replace trucks in the future at about 40% of the current cost it takes to replace each truck. Since each engine will need replacing quicker than the armored body, the company can separate the armor while the engine is in reparation rather than fixing the whole truck at once. These new trucks will decrease depreciation and operating expenses, ultimately increasing Brink's EBITA Margin. The EBITA Margin's sensitivity to the DPR and Other Operating Expense margins is shown below:

### BEFORE NEW TRUCKS

### AFTER NEW TRUCKS

EBITA Margin		COR/Revenue		Other Op. Exp./Revenue		DPR/Revenue	
History	LTM	History	LTM	History	LTM	History	LTM
BCO	4.7%	80.9%	78.6%	10.7%	10.6%	3.7%	3.5%
Competitors	5.3%	74.8%	74.9%	18.2%	19.9%	3.0%	2.3%
Target	10.8%	74.8%		10.7%		3.7%	

EBITA/Rev = 1 - COR/Rev - Other Cash Op. Costs/Rev - DPR/Rev

(1-T) x Rev/IC

x Rev/IC

## Debt Flexibilities:

On Friday September 29, 2017, Brink's announced its intent to enter a new \$1.5B senior secured credit facility. This includes a \$1B revolving credit facility and a \$500M term loan offered by Brink's. The \$1B revolver provides Brink's flexibility because the credit does not require any fixed payments. This should drive the company's industry leading ROIC even further as it now has excess capital to invest in strategic areas.

Overview	Comp Sheets	Markets	EPS Preview	Ownership	Credit	Custom				
Equity Valuation	CDS Spreads	Profitability	Balance Sheet	ESG						
Name (BICS Best Fit)	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Operating Income Margin	Net Income Growth (%)	Net Profit Margin	Net Profit ex/Sales (%)	Return on Invested	Return on	Return on
Median	4.77%	4.44%	14.18%	10.53%	2.52%	4.66%	3.79%	10.69%	5.66%	16.64%
100) BRINK'S CO/THE	5.60%	69.84%	14.28%	10.00%	164.27%	4.56%	3.71%	29.29%	6.72%	37.64%
101) PROSEGUR CASH SA	-1.26%	4.10%	23.51%	19.92%	6.41%	11.07%	5.18%	19.74%	9.31%	33.69%
102) TAIWAN SECOM	-0.18%	-4.51%	26.86%	17.71%	-54.51%	6.74%	7.51%	11.86%	4.32%	9.41%
103) G4S PLC	14.94%	15.80%	7.76%	5.93%	54.51%	3.35%	1.53%	11.55%	4.94%	35.97%
104) PROSEGUR COMP SEGURI...	9.10%	9.86%	14.09%	11.07%	-19.50%	4.75%	3.88%	11.38%	5.77%	18.54%
105) SECURITAS AB-B SHS	9.47%	4.79%	6.21%	4.75%	7.68%	3.07%	1.88%	10.01%	5.93%	21.48%
106) CORECIVIC INC	0.15%	-0.65%	24.55%	16.01%	2.75%	11.76%	5.05%	9.61%	6.54%	14.73%
107) SECOM CO LTD	3.93%	18.37%	21.74%	14.00%	2.28%	9.29%	4.96%	8.47%	5.54%	10.04%
108) SOHGO SECURITY SERVIC...	6.75%	0.51%	10.35%	6.76%	-0.95%	4.36%	2.66%	7.41%	4.97%	9.57%

Loans given under the revolver and the \$500M term loan will mature five years after the revolving credit facility is closed. The company intends to use the proceeds from the term loan to repay existing debt. Any remaining proceeds will be allocated to working capital needs, CAPEX, and acquisitions. This increased flexibility gives the company both short and long-term growth opportunities. Brink's accumulation of cash from year-to-year and their decrease D/E ratio puts them in position to take on such debt. Brink's cash grew about \$40M from 2015 to 2016, with their capitalization decreasing .15 in the LTM.

Capitalization (Debt/Equity)		
	History	LTM
BCO	0.30	0.17
Competitors	0.41	0.38

## Conclusion:

Brink's provides both short and long-term growth to our portfolio. After disastrous years in 2014 and 2015, it is clear that Brink's is moving back in the right direction behind its strategic three-year plan. While the revolving credit facility accumulates a large amount of debt, Brink's simultaneously issued term loans that will pay off a significant amount of the revolver. The company will use the flexibility provided by the revolver to increase its market share in both the U.S. and other existing markets, mainly in the Americas. Through operational excellence in tactical markets, I believe Brink's is on track to become the premier security service in the industry. With new management and strategy driving them in the right direction, we must capitalize on this opportunity before the stock grows any higher.

The Brink's Company (BCO)

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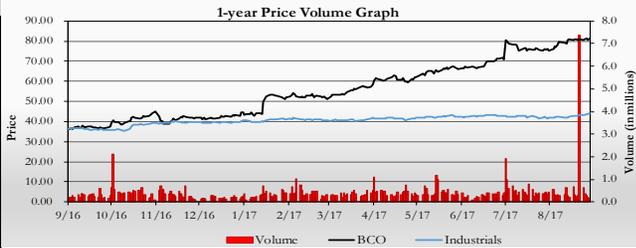
BULLISH

Analysis by RYAN  
9/29/2017

Current Price: \$80.25  
Divident Yield: 0.6%

Intrinsic Value: \$85.85  
Target Price: \$96.93

Target 1 year Return: 21.37%  
Probability of Price Increase: 97.5%



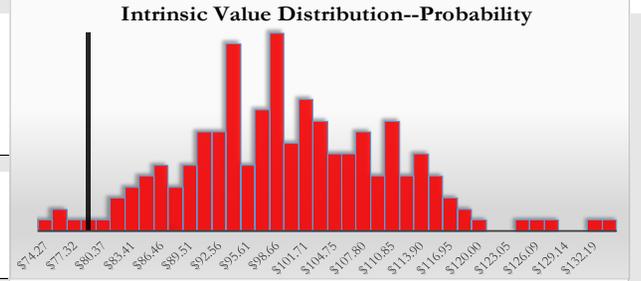
**Description**  
The Brink's Company provides secure transportation, cash management services, and other security-related services worldwide.

**General Information**  
Sector: Industrials  
Industry: Commercial Services and Supplies  
Last Guidance: November 3, 2015  
Next earnings date: October 26, 2017  
Estimated Country Risk Premium: 8.54%  
Effective Tax rate: 27%  
Effective Operating Tax rate: 26%

Market Data	
Market Capitalization	\$4,051.10
Daily volume (mil)	0.57
Shares outstanding (mil)	50.48
Diluted shares outstanding (mil)	51.50
% shares held by institutions	84%
% shares held by investments Managers	77%
% shares held by hedge funds	8%
% shares held by insiders	1.15%
Short interest	1.50%
Days to cover short interest	1.46
52 week high	\$84.00
52-week low	\$36.04
Volatility	28.11%

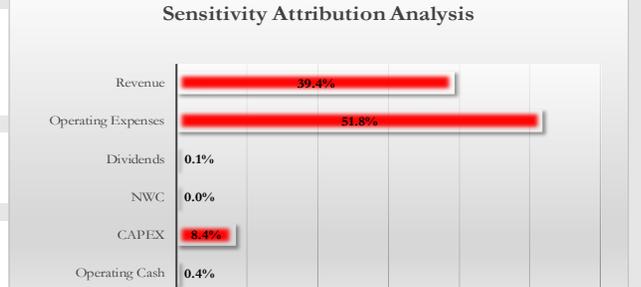
Quarter ending	Past Earning Surprises	EBITDA
6/30/2016	2.74%	-22.43%
9/30/2016	1.07%	-17.31%
12/31/2016	6.14%	-18.71%
3/31/2017	12.98%	9.92%
6/30/2017	10.08%	-22.14%
Mean	6.60%	-14.14%
Standard error	2.2%	6.1%

Peers	
Diebold Nixdorf, Incorporated	
Total return to shareholders	
N/M	0% per annum over 0y
N/M	0% per annum over 0y
8.57% per annum over 5y	2.38% per annum over 5y
-3.57% per annum over 1y	44.32% per annum over 1y
25.52% per annum over 2y	31.53% per annum over 2y
N/M	N/M



Management	Position	Total compensations growth
Pertz, Douglas	Chief Executive Officer, Pre	N/M
Domanico, Ronald	Chief Financial Officer and	N/M
Marshall, McAlister	Chief Administrative Officer	8.57% per annum over 5y
Beech, Michael	Executive Vice President and	-3.57% per annum over 1y
Zukerman, Amit	Executive Vice President	25.52% per annum over 2y
Pal, Rohan	Chief Information Officer, C	N/M

Profitability	BCO (LTM)	BCO (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	26.9%	17.13%	259.98%
Operating Margin	5%	3.43%	2.10%
Revenue/Capital (GAAP)	5.03	5.00	123.58
ROE (GAAP)	24.3%	10.4%	22.6%
Net margin	2.7%	1.5%	4.6%
Revenue/Book Value (GAAP)	8.89	6.94	4.87

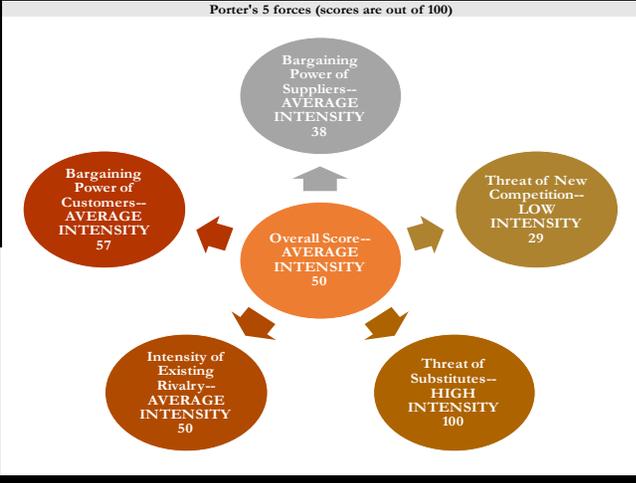


Invested Funds	BCO (LTM)	BCO (5 years historical average)	Peers' Median (LTM)
Cash/Capital	20.3%	21.0%	21.7%
NWC/Capital	17.4%	11.3%	26.4%
Operating Assets/Capital	39.9%	44.8%	24.9%
Goodwill/Capital	22.3%	23.4%	27.0%

Capital Structure	BCO (LTM)	BCO (5 years historical average)	Peers' Median (LTM)
Total Debt/Market Capitalization	0.56	0.47	-0.64
Cost of Existing Debt	4.0%	5.6%	5.8%
CGIS Rating (F-score, Z-score, and default Probability)	BBB	A	BBB
WACC	6.5%	10.7%	10.7%

Revenue Growth Forecast	NOPT Margin Forecast	Revenue to Capital Forecast
Base Year	8.6%	4.33
6/30/2018	11.0%	3.39
6/30/2019	11.3%	2.19
6/30/2020	10.9%	1.69
6/30/2021	10.5%	1.40
6/30/2022	10.1%	1.21
6/30/2023	9.9%	1.07
6/30/2024	10.1%	0.97
6/30/2025	9.7%	0.88
6/30/2026	9.3%	0.81
6/30/2027	9.0%	0.76
Continuing Period	8.6%	0.71



Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	37.2%	\$84.66
6/30/2018	37.4%	\$95.83
6/30/2019	24.7%	\$105.70
6/30/2020	18.3%	\$115.66
6/30/2021	14.6%	\$125.74
6/30/2022	12.2%	\$135.96
6/30/2023	10.6%	\$146.38
6/30/2024	9.8%	\$157.06
6/30/2025	8.6%	\$168.09
6/30/2026	7.6%	\$179.59
6/30/2027	6.8%	\$191.72
Continuing Period	6.1%	9.5%

Valuation	NOPT Margin Forecast	Revenue to Capital Forecast
Base Year	8.6%	4.33
6/30/2018	11.0%	3.39
6/30/2019	11.3%	2.19
6/30/2020	10.9%	1.69
6/30/2021	10.5%	1.40
6/30/2022	10.1%	1.21
6/30/2023	9.9%	1.07
6/30/2024	10.1%	0.97
6/30/2025	9.7%	0.88
6/30/2026	9.3%	0.81
6/30/2027	9.0%	0.76
Continuing Period	8.6%	0.71

Below, insert a screenshot of your “OUTPUT” page from the Pro-Forma. Or, if you built your own model, insert screenshot of it here.