



The Brink's Company - NYSE: BCO

PT: \$110.74 (*Implied upside: 30.89%*)

IAG Friday Pitch: 9/13/19



**Sruthi Boddu**  
*Vice President*  
Class of 2020



**Michael Giese**  
*Senior Analyst*  
Class of 2021



**Jaro van Diepen**  
*Junior Analyst*  
Class of 2022



**Simran Korpai**  
*Junior Analyst*  
Class of 2022



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- Company Overview
- Timeline

## 02 Industry

- Regional Makeup
- Market Structures
- Cash isn't dead
- Underbanked  
Individuals

## 03 Thesis

- High Switching Costs
- Differentiation
- Balance Innovation

## 04 Risks & Catalysts

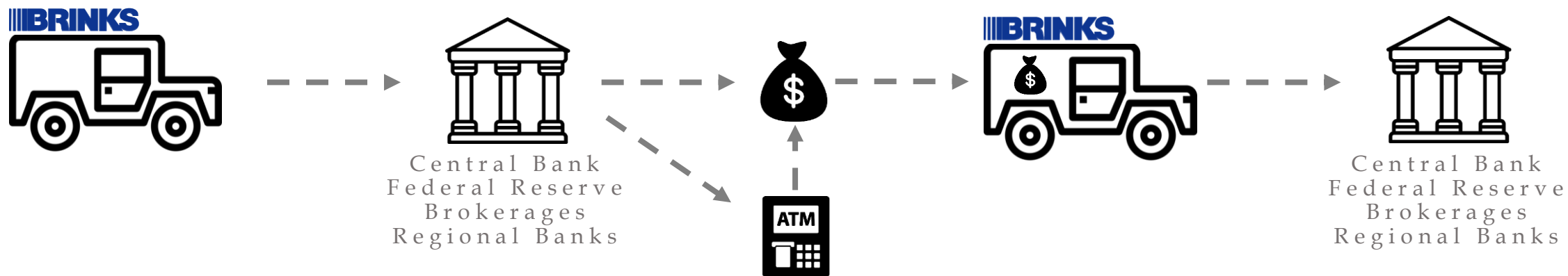
- Argentina
- Brazil
- Argentinian Peso
- Integration of  
Acquisitions

## 05 Valuation

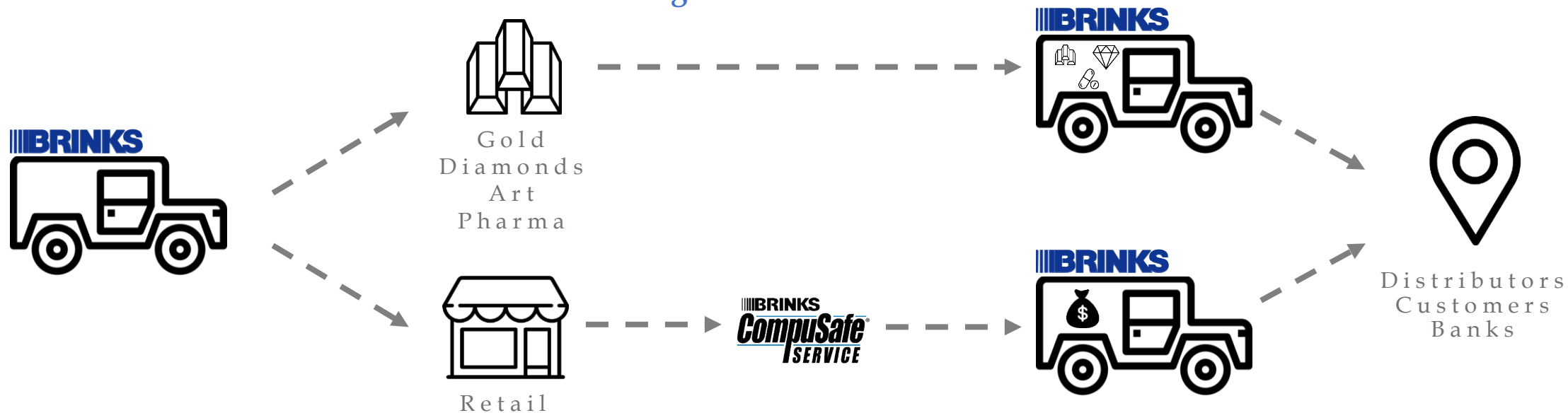
- Margin Sensitization
- Assumptions Graphed
- Model



## Core Services



## High-Value Services



# Company Overview



International leader for secure transportation and cash management

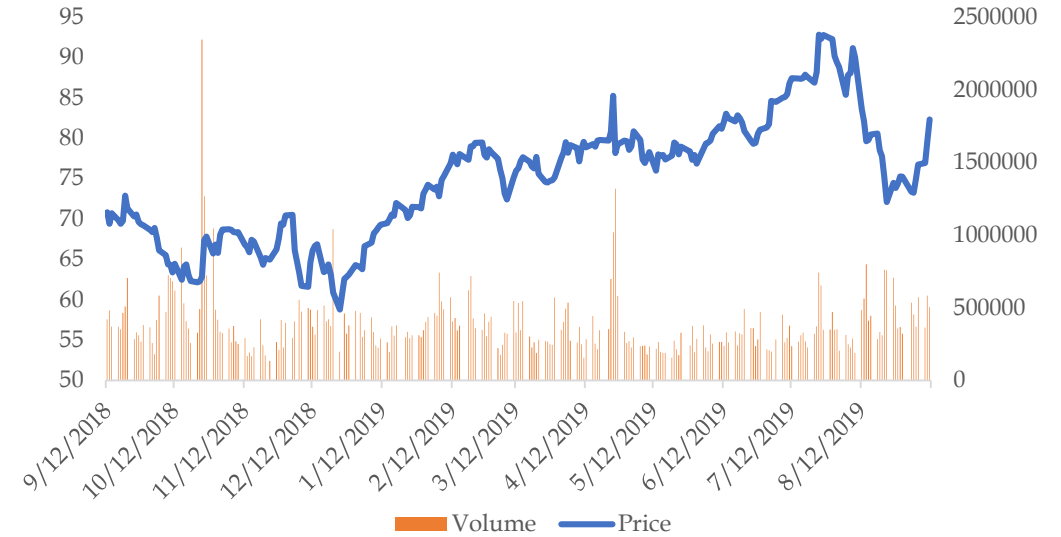
## Capitalization

## Description

## Stock Performance - 1 Year

Current Valuation	
Share Price (9/13/19)	\$ 84.60
Shares Outstanding	50
Market Cap	4,230
Cash	305
Total Debt	2,051
Net Debt	1,746
Preferred Equity	0
Minority Interest	15
Enterprise Value	5,961

The Brink's Company is the global leader in **total cash management, route-based logistics and payment solutions** including cash-in-transit, ATM services, cash management services, including vault outsourcing, money processing, and intelligent safe services, and international transportation of valuables.



Key Stats	
52 Week High	\$ 93.81
52 Week Low	\$ 59.08

## Management

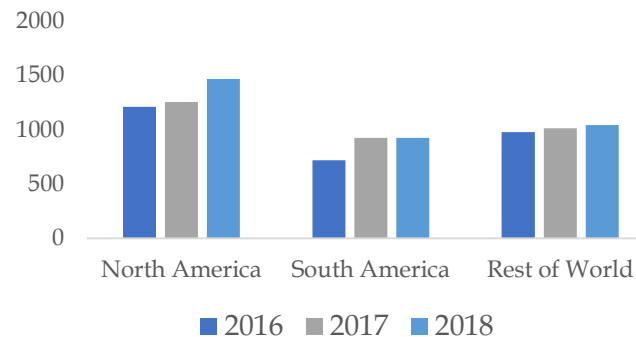
## Revenue Breakdown



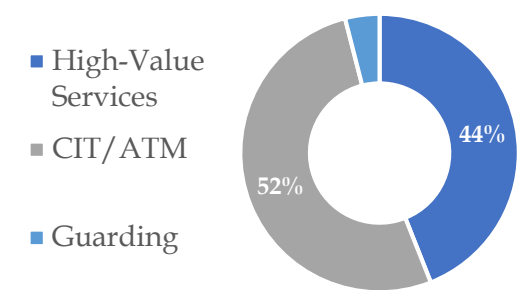
### Douglas A. Pertz - CEO

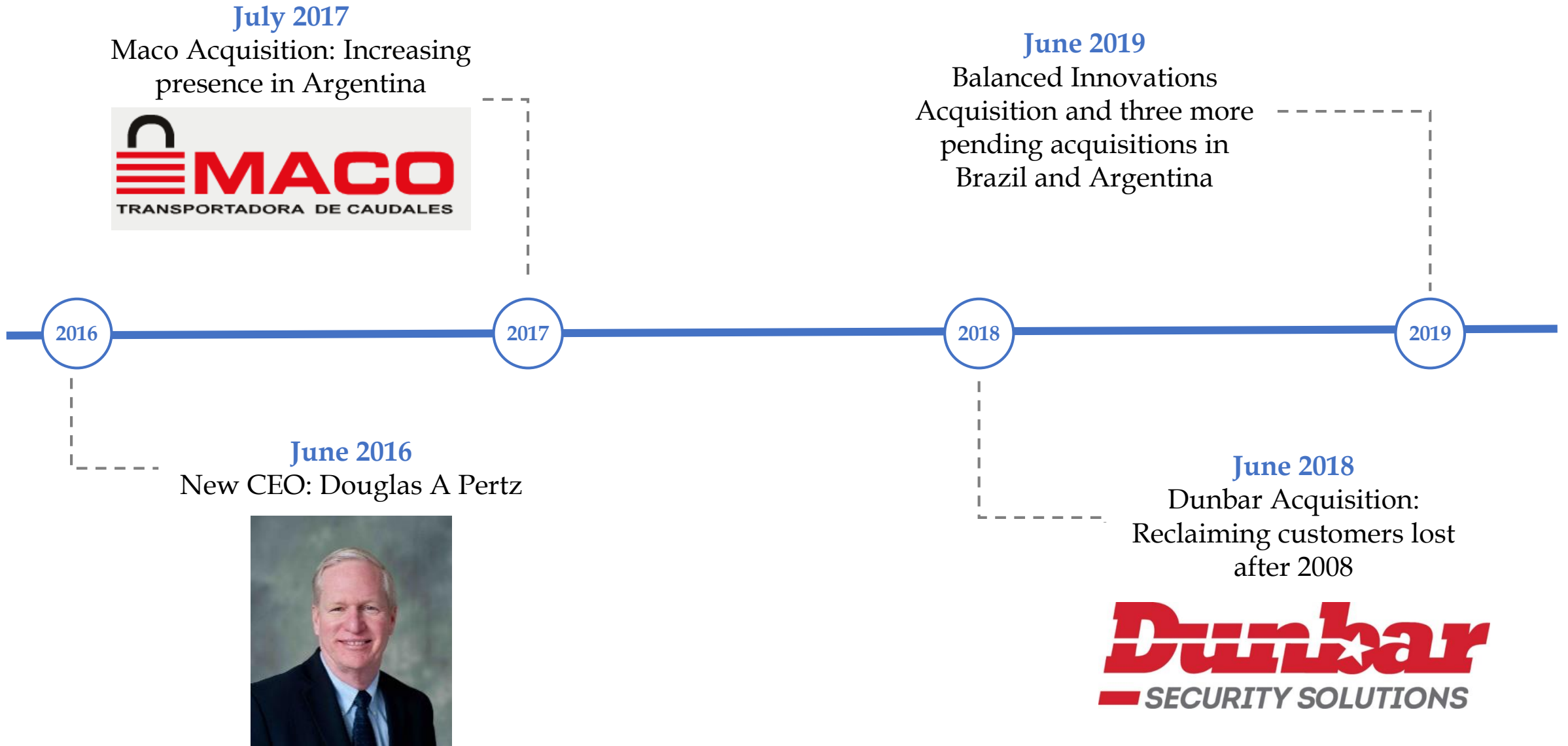
- CEO Since: June 10, 2016
- Previously the CEO of Recall Holdings
- Previously a partner at Bolder Capital
- 20 years of industry relevant experience
- Degree in mechanical engineering from Purdue

### By Geography



### By Segment



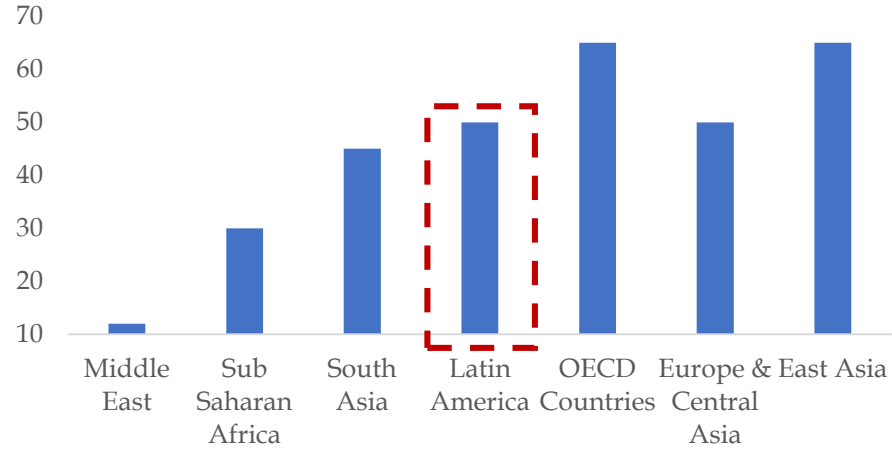


# Industry Overview



Countries with a higher reliance on cash are better markets to operate in

## % of Population that is Banked, Worldwide



## Key Statistics

9.6%

Cash Circulation as % of GDP  
(up from 8.1%)

75%

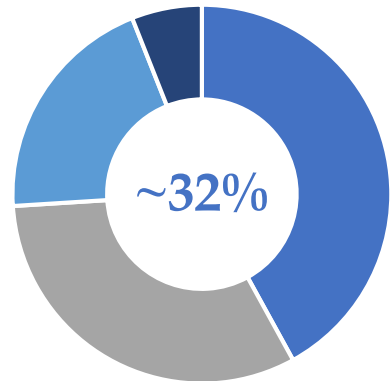
Countries where cash is used in  
at least 50% of transactions

2bn

Total number of underbanked  
people worldwide

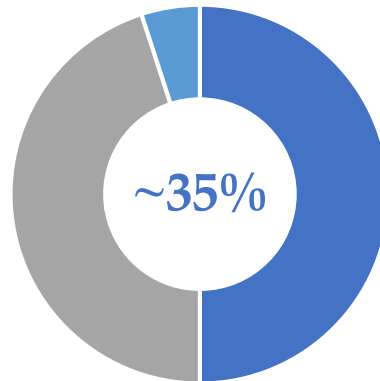
## Key Markets

United States



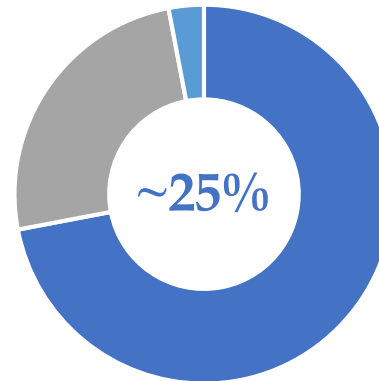
■ Loomis ■ Brinks ■ Garda ■ Other

Mexico



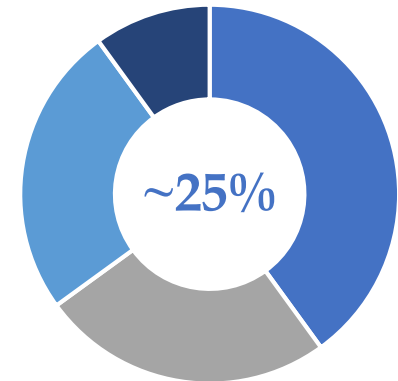
■ GSI ■ Brinks ■ Other

Argentina



■ Prosegur ■ Brinks ■ Other

Brazil



■ Prosegur ■ Brinks ■ Protégé ■ Other



Headlines make it seem like the cash economy is dying

## "Yes To Digital Payment, No To Cash", PM's New Motto For Cashless Economy

Prime Minister Narendra Modi has always been a strong proponent of digital payment and has time and again endorsed digital and cashless economy.

Why you should go cashless now

FT Magazine Global Economy

+ Add to myFT

**'We don't take cash': is this the future of money?**

**Cash Is Dead.**





But, cash isn't dead and won't be for a long time

## A lot of people still use cash out of necessity.

**7%**

Percentage of US households that are unbanked, meaning that no one in the household had a checking or savings account.

**19%**

Percentage of US households that are underbanked, meaning that the household an account at an insured institution but also obtained financial products or services outside of the banking system.

**29%**

Percentage of Americans who don't own credit cards at all.

**New York City, Philadelphia, Washington D. C., and Chicago** are only some of the major U.S. cities that have passed or are considering passing laws to prohibit businesses from going entirely cashless.

## Cash is still a popular method of payment.

**70%** of Americans report using cash on a weekly basis.

"Cash continues to be the most frequently used payment instrument, representing **30 percent of all transactions** and **55 percent of transactions under \$10.**" -The Fed

Although debit cards are the most popular payment method at retail stores across the board, cash remains popular at **discount stores, fast food restaurants, and coffee shops.**

Ultimately, trends in payment innovations are about increasing the choices available to consumers, not getting rid of existing choices.



In which structure would you want to operate?

## Perfect Competition

- Large number of firms
- No market power
- No barriers to enter
- Compete on Price
- Commoditized Product



## Monopolistic Competition

- Large number of firms
- Limited market power
- Low barriers to enter
- Compete on Product
- Differentiated Product



## Oligopoly

- Small number of firms
- Considerable market power
- High barriers to enter
- Compete on Product
- Differentiated Product



## Monopoly

- One firm
- Absolute market power
- Very high barriers to enter
- No Competition
- Unique Product



Increasing power

# Switching Costs



An important indicator of intra-industry competition

Switching costs are the costs that a consumer faces as a result of changing brands, suppliers, or products. Types of switching costs include:



Monetary



Psychological



Effort-Based



Time-Based

## Examples of Switching Costs

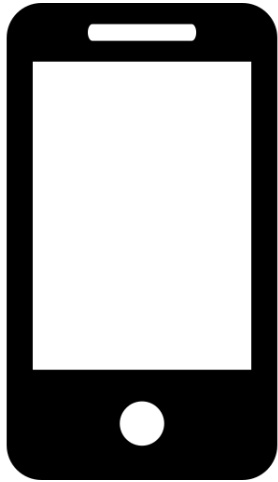
- Significant time and effort necessary to change suppliers
- The risk of disrupting normal operations of a business during a transition period
- High cancellation fees
- Failure to obtain similar replacement of products or services



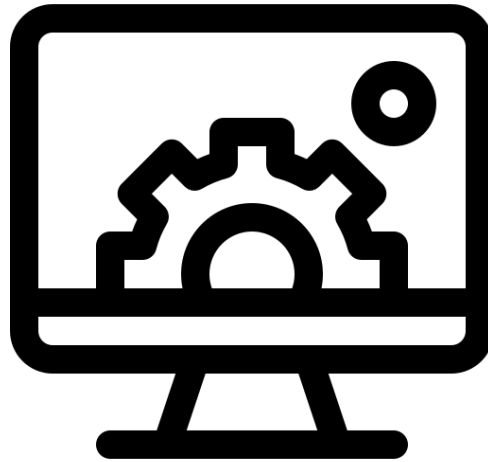
What are examples of products that have high switching costs?



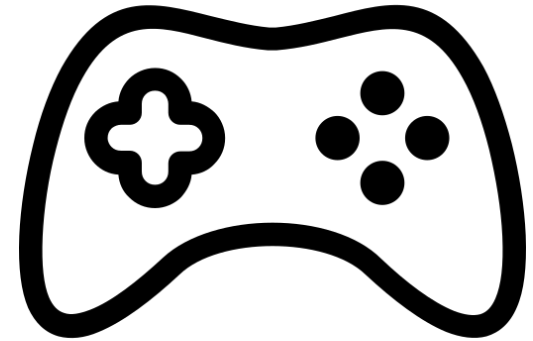
## What are examples of products that have high switching costs?



Cell Phone and Cable Companies



Software Companies



Game Console



Brink's customers face high switching costs

Brink's customers do not necessarily face monetary switching costs, but there are significant **opportunity costs** associated with switching suppliers.

## Why Brink's has Pricing Power

**2-4%**

Secure logistics costs only make up 2-4% of the average retail companies overall costs, which means...

**10%**

A 10% increase in Brink's pricing only results in...

**0.2%**

An average increase in the customers' costs of only 0.2%,

**10%**

And an increase in revenue of 10% for Brink's.

# Look at these three pictures; notice a difference?



You might need glasses if these look different to you...





There is NO differentiation between companies!



# What the hell is this Compusafe thing?



In our view, Compusafe presents a massively missed opportunity by the market

## The Purpose

Brink's manages 34,500 installed Compusafe devices worldwide. Brink's CompuSafe service provides an integrated, closed-loop system for minimizing theft and managing cash. CompuSafe services to a variety of cash-intensive customers including convenience stores, gas stations, restaurants, retail chains and entertainment venues.

## Features



Remote Credit from Financial Institutions

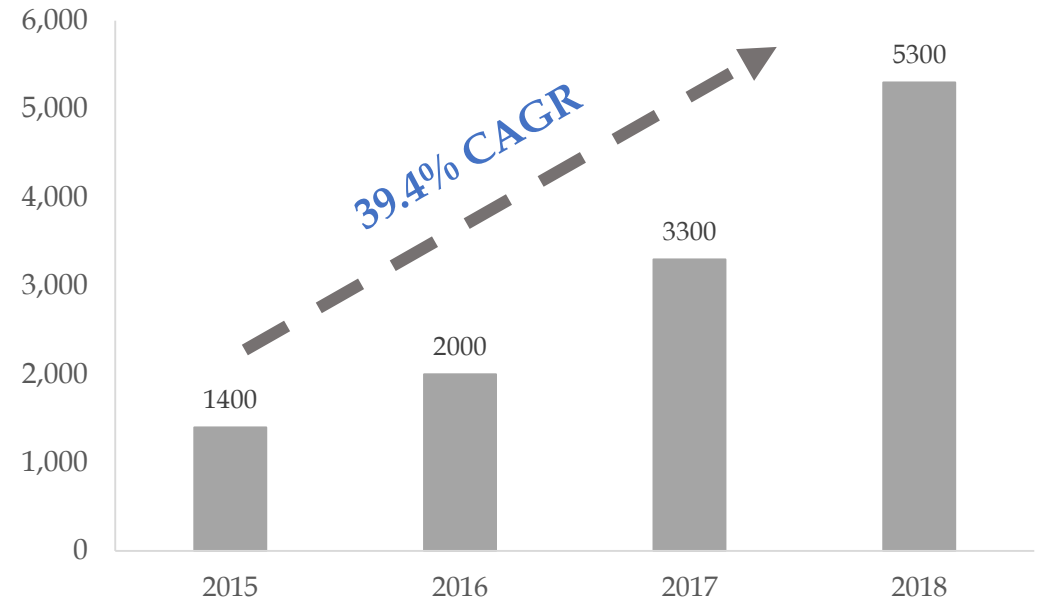


Cash Processing and Verification



Counterfeit-detection technology

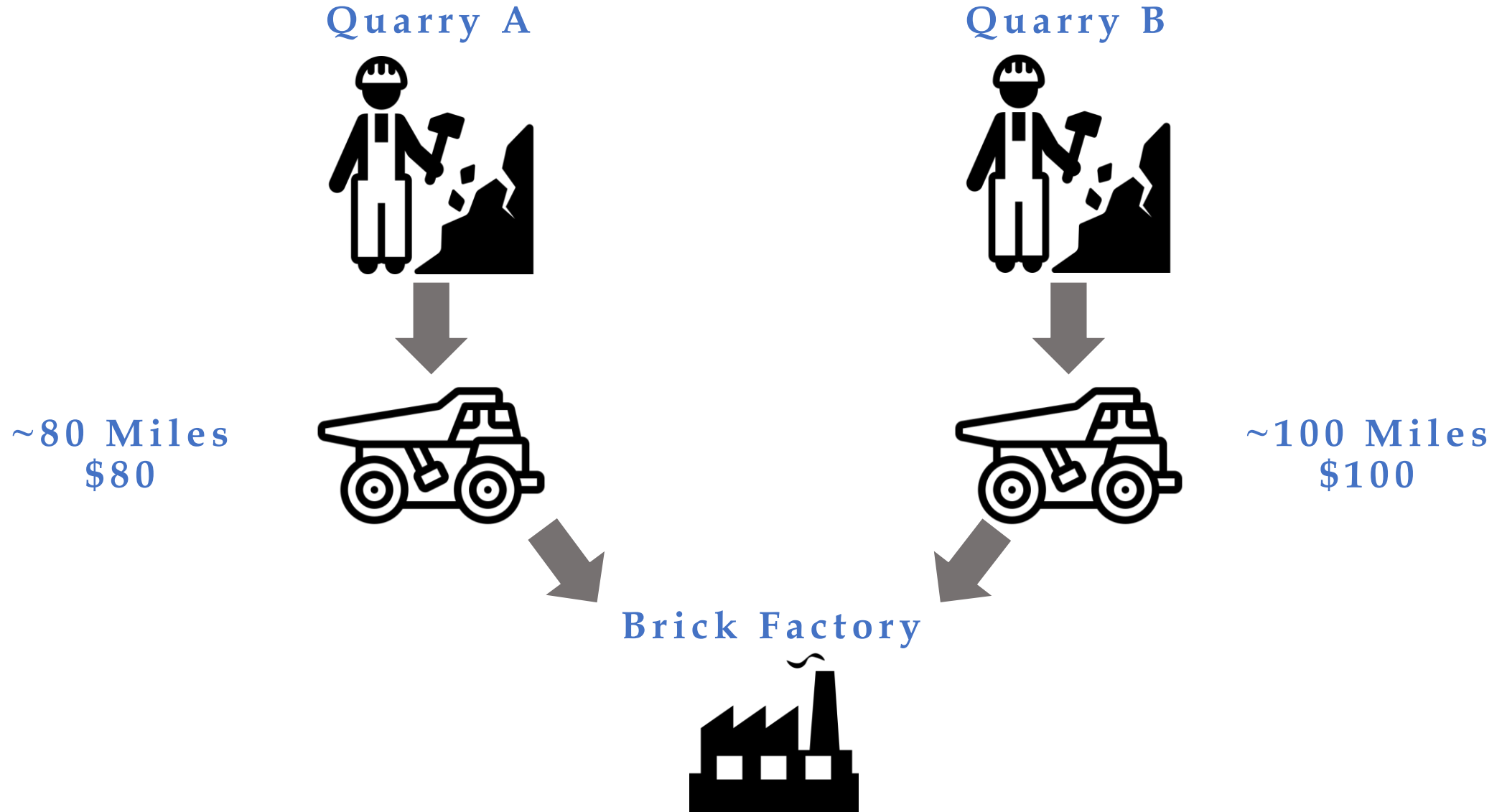
## Compusafe Sales



# What happens in non-differentiated businesses?



Holding quality equal, it's a pricing game



# Brink's first player to differentiate, a big step to grab market share



Balance Innovation acquisition is a massive leap to add value to the Compusafe offering

## The Big Move



In 2Q19 Brink's acquired Balance Innovation, a business that develops and licenses software that provides real-time data to optimize operations for general retail and convenience store industries throughout the United States and Canada. This acquisition enhances Brink's ability to deliver technology-enabled, end-to-end retail cash management services.

### Total Service Realignment

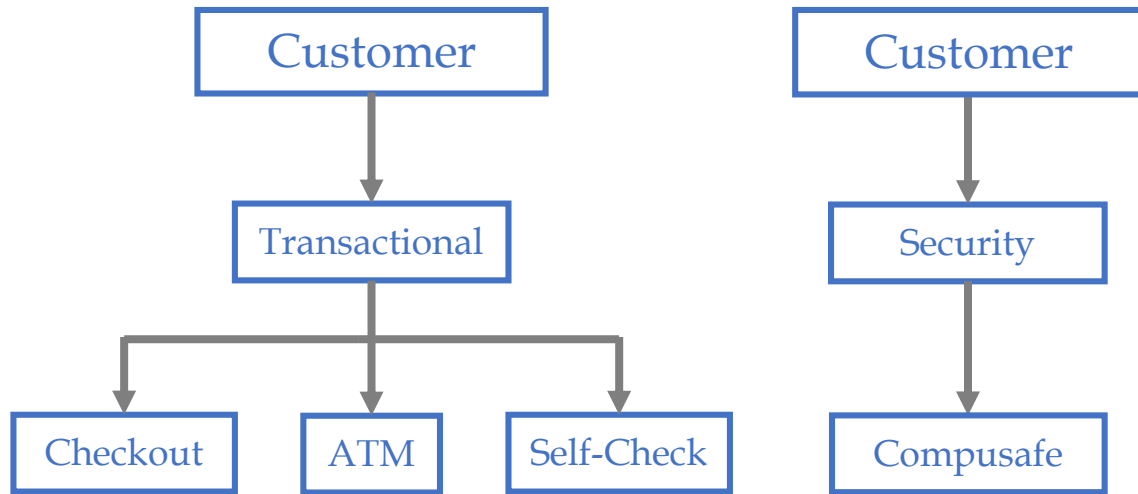
- Brink's is focusing on bridging the gap from being a company's secure logistics provider to their clients cash controls provider
- With this move, Brink's will be able to capitalize through the new value-added focus and move into a more premium space

### Strategy 2.0

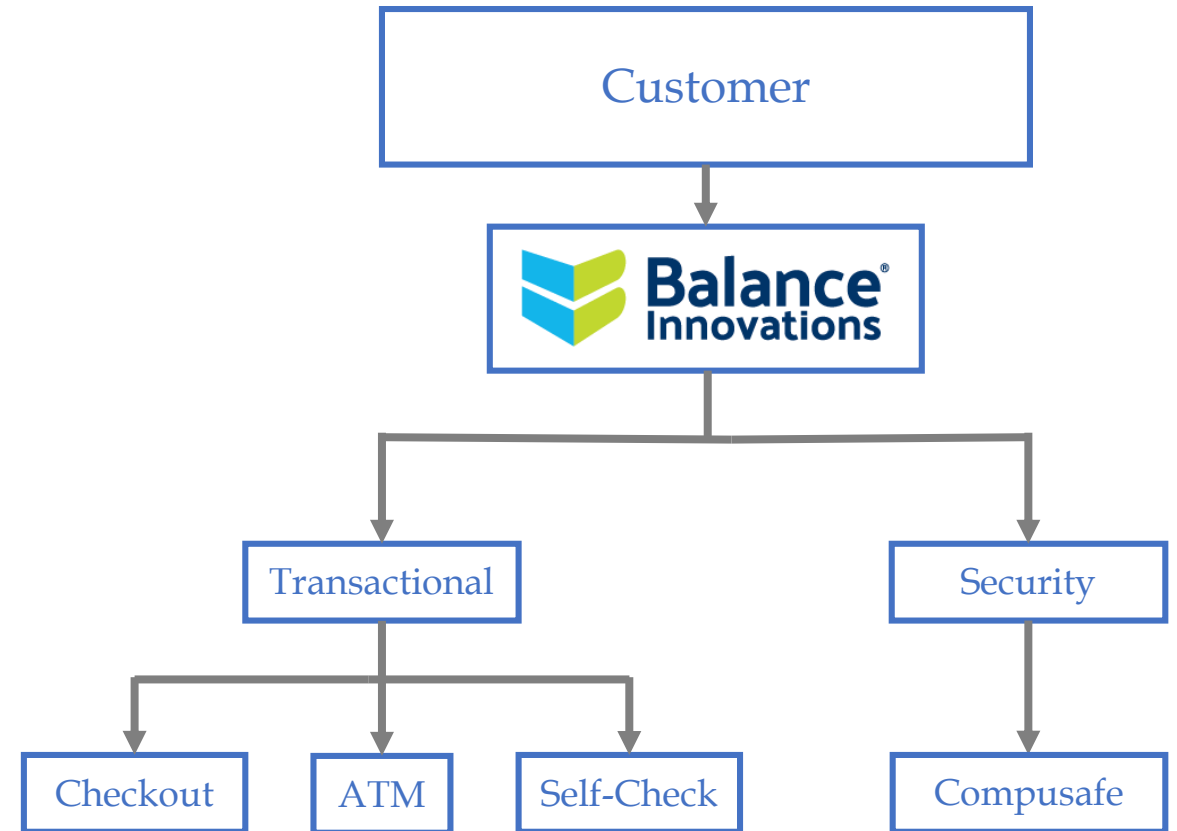
- Increase share with existing customers via a broader array of high-value services
- Acquire new customers with attractively-priced, high-value services
- The company has committed to invest \$20mm in 2H19 in continued technological implementation and improvements



## Before Acquisition



## After Integration



# Higher-value business proposition for Compusafe



Brink's focus on total cash processing will allow for higher pricing with same cost structure

## Keys to the Kingdom

- Brink's will now have a differentiated product compared to its competitors to stand out and allow the company to have a greater value-add for its clients' operations and a selling point to new clientele
- Brink's will become intertwined into a customers' everyday operations through BI's technology creating more concrete switching costs to leaving Brink's for another competitor
- The total cash controls segment is higher margin business than secure cash logistics

## Our Belief



In total, **the Balance Innovation acquisition is the spark necessary to unlock value** for the Compusafe segment and bringing Brink's business model towards total cash processing, a higher margin industry to operate in.



## Argentina Peso

7%

Currently, 7% of Brink's business is in Argentina. On August 9<sup>th</sup>, the **stock fell 11.5%** correlated to the primary election in Argentina.

## The Argentine Paradox

Despite having comparative advantages in economics (fertile land) since their independence from Spain in 1816, they have **defaulted 8 times** and **inflation has gone up to 5000%**.



**Weakened Central Bank** financing her public spending with Non-Transferable letters of credit.



Came to power when **14 peso/\$** Added back the currency controls and brought IMF back in.

On August 9<sup>th</sup>, primary election showed Alberto Fernandez (running mate is Cristina Fernandez) was **up in polls by 15.5%** caused Peso to fall to 42 peso/dollar. **Inflation is up 50%**, 10% increase in unemployment and currency controls are back.

## Brazilian Crisis



On October 28<sup>th</sup>, 2018, Right Wing Candidate **Jair Bolsonaro** was elected as the Brazilian President. Part of the **Global Trend to nationalist** that with Trump, Sebastian Kurz.

BCO operates as a smaller competitor in a **duopoly** with Prosegur. Fear that **BCO will be pushed out is unsubstantiated.**



- Prosegur
- Brinks
- Protégé
- Other

## Political Love Affair

- Bolsonaro and Trump have a **great relationship** which helps United States businesses like BCO.
- Trump tweeted praise of Bolsonaro's inauguration speech on Tuesday and informed the new Brazilian president that **"the U.S.A. is with you!"**
- Bolsonaro even modeled his campaign after Trumps using the slogan **"Make Brazil Great Again"**.



## Stabilization of Argentina

While the peso is volatile, government officials say that inflation should **fall from 55% to 34%** by December 2019. The IMF has pledged a **\$57 billion credit line** to avoid defaulting. Argentina has also **spent \$15 billion in foreign reserves** to stabilize the peso. They have also added **capital controls** to prevent money from leaving Argentina expected to continue with next president



## Smooth Integration of Balance Innovation

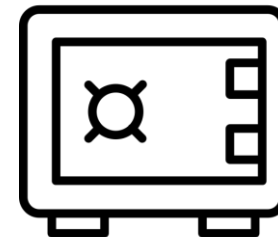
Once the company integrates Balance Innovation FY2020, **BCO will see the value-added service offering lead to increased adoption and margin expansion** for the business



Brink's decision to invest in Balance Innovation is viewed as a mere integration but will allow Brink's to be **more than a mere security company** now they will be a cash management company



With Balance Innovation's already established client base, Brink's will be able to push **Compusafe to customers over its competitors'** products





## What are margins and why are they important?

Year Period	2016	2017	2018	2019	2020	2021	2022	2023												
	2016	2017	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19	3Q19E	4Q19E	2019	1Q20E	2Q20E	3Q20E	4Q20E	2020	2021	2022	2023
	2016	2017	2018	2019	2020	2021	2022	2023												
<b>North America</b>	1210	1254	320	324	383	439	1466	435	443	513.3	559.497	1,950	582	605	635	670	2,493	2642	2788	2913
YOY Change		3.6%					16.9%	35.7%	36.6%	33.9%	27.5%	33.0%	33.9%	36.8%	23.8%	19.8%	27.8%	6.0%	5.5%	4.5%
<b>LATAM</b>	719	925	255	233	216	223	927	230	225	221	265	941	282	302	323	347	1,254	1342	1436	1522
YOY Change		28.6%					0.2%	-9.6%	-3.5%	2.4%	18.6%	1.5%	22.5%	34.0%	46.3%	31.1%	33.2%	7.0%	7.0%	6.0%
<b>Rest of the World</b>	979	1014	279	267	254	246	1044	240	247	252	257	995	264	272	283	297	1,117	1150	1185	1214
YOY Change		3.5%					3.0%	-13.8%	-7.5%	-0.8%	4.5%	-4.7%	10.0%	10.4%	12.5%	15.9%	12.2%	3.0%	3.0%	2.5%
<b>Total Segment Revenue</b>	2,908	3,193	854	824	852	908	3,438	905	914	986	1081	3,886	1,128	1,179	1,241	1,315	4,863	5,134	5,408	5,649
Miscellaneous	112.2	154.1	25.6	25.8	-	-	51.4	-	(0.3)	0	0	-0.30	0	0	0	0	0	0	0	0
<b>Revenue</b>	3,021	3,347	879	850	852	908	3,489	905	914	986	1081	3,886	1,128	1,179	1,242	1,315	4,864	5,134	5,408	5,649
Cost of Revenue	2,400	2,608	694	667	653	690	2,703	703	690	749	822	2,964	869	908	962	1,019	3,758.41	3,979	4,191	4,378
As a % of Revenue	79.5%	77.9%	78.9%	78.5%	76.6%	76.0%	77.5%	77.6%	75.5%	76.0%	76.0%	76.3%	77.0%	77.0%	77.5%	77.5%	77.3%	77.5%	77.5%	77.5%
<b>NA EBIT</b>	40	74	21	26	34	50	130	44	46	59	67	217	76	82	86	94	337	391	432	466
NA EBIT Margin	3.3%	5.9%	6.4%	8.1%	8.8%	11.3%	8.9%	10.1%	10.5%	11.5%	12.0%	11.1%	13.0%	13.5%	13.5%	14.0%	13.5%	14.8%	15.5%	16.0%
q/q change		78.1%					50.0%	57.4%	30.2%	31.2%	6.4%	25.5%	28.4%	28.7%	17.4%	16.7%	21.7%	9.5%	4.7%	3.2%
<b>LATM EBIT</b>	120	183	56	46	46	51	199	43	45	55	66	209	71	75	81	87	313	335	359	380
SA EBIT Margin	16.8%	19.8%	21.8%	19.8%	21.5%	22.7%	21.4%	18.7%	20.0%	25.0%	25.0%	22.3%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
YOY Margin Change		18.0%					8.4%	-14.4%	1.1%	16.4%	10.1%	3.8%	33.9%	25.1%	0.0%	0.0%	12.4%	0.0%	0.0%	0.0%
<b>ROW EBIT</b>	110	115	26	26	31	32	114	24	26	28	30	107	32	34	35	41	142	150	154	158
ROW EBIT Margin	11.2%	11.4%	9.2%	9.8%	12.1%	12.9%	11.0%	9.9%	10.6%	11.0%	11.5%	10.8%	12.0%	12.5%	12.5%	13.8%	12.7%	13.0%	13.0%	13.0%
YOY Margin Change		1.2%					-3.6%	7.8%	8.1%	-9.5%	-11.2%	-1.7%	21.1%	17.7%	13.6%	19.6%	18.0%	2.2%	0.0%	0.0%
<b>Corporate Costs</b>	-55	-91	-30	-22	-15	-28	-96	-26	-29	-33	-36	-123	-38	-41	-43	-46	-169	-180	-189	-198
Corp. EBIT Margin	-1.81%	-2.71%	-3.45%	-2.61%	-1.81%	-3.10%	-2.75%	-2.87%	-3.15%	-3.3%	-3.3%	-3.2%	-3.4%	-3.5%	-3.5%	-3.5%	-3.5%	-3.5%	-3.5%	-3.5%
YOY Margin Change		49.8%					1.7%	-16.6%	20.6%	82.7%	6.6%	15.0%	18.3%	11.1%	6.1%	6.1%	9.9%	0.6%	0.0%	0.0%
<b>Operating Income, adj</b>	216	281	72	76	95	104	347	85	89	109	127	410	140	150	158	175	623	696	756	807
EBIT Margin, non-GAAP	7.1%	8.4%	8.1%	9.0%	11.2%	11.4%	9.9%	9.4%	9.7%	11.1%	11.8%	10.6%	12.4%	12.7%	12.8%	13.3%	12.8%	13.6%	14.0%	14.3%
<b>EBITDA</b>	331	409	106	111	132	142	490	128	133	153	171	584	185	196	206	224	810	894	967	1052
EBITDA Margin	11.0%	12.2%	12.0%	13.0%	15.5%	15.6%	14.1%	14.1%	14.5%	15.5%	15.8%	15.0%	16.4%	16.6%	16.6%	17.0%	16.7%	17.4%	17.9%	18.6%

### Calculation

Revenue - Operating Costs

Revenue

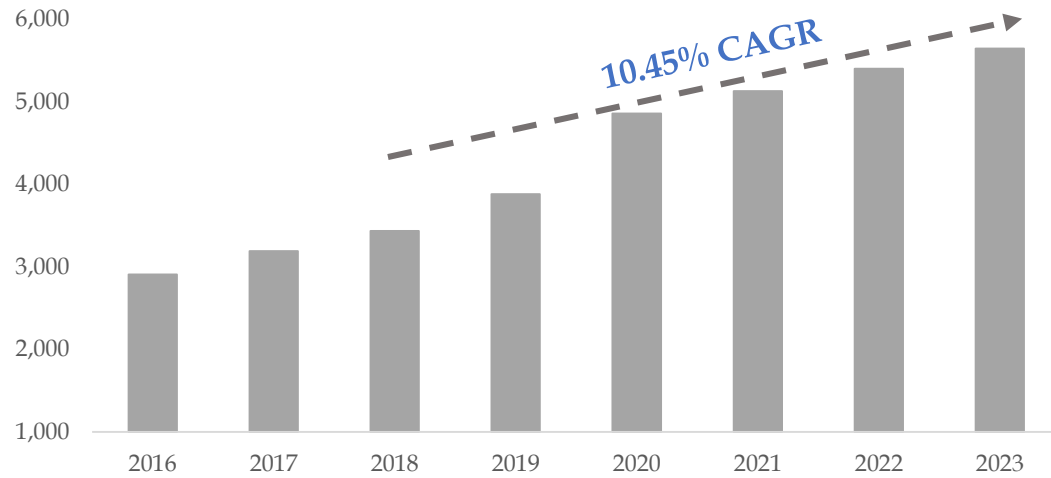
### LATM Margin - Scenario Analysis

LATM Margin	Implied Upside
5%	-36.53%
10%	-19.67%
15%	-2.82%
20%	14.04%
25%	30.89%

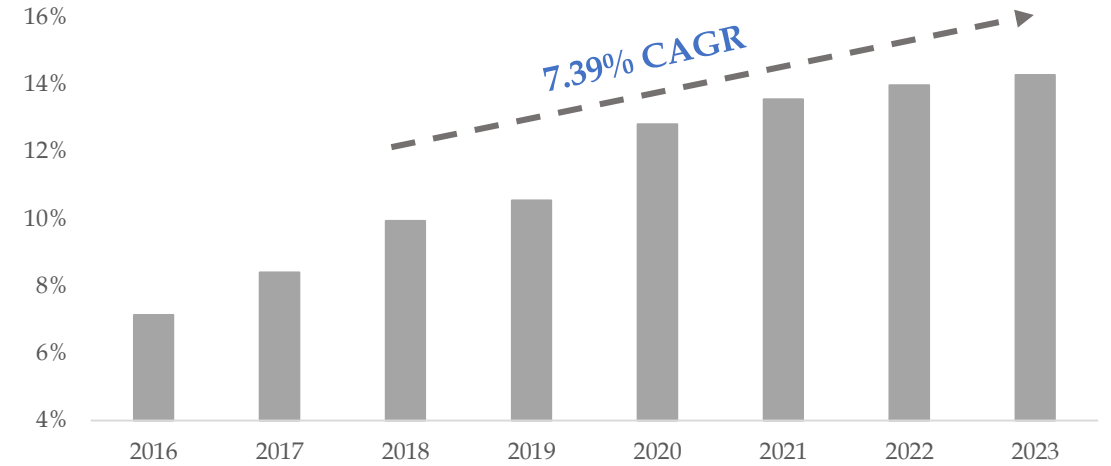




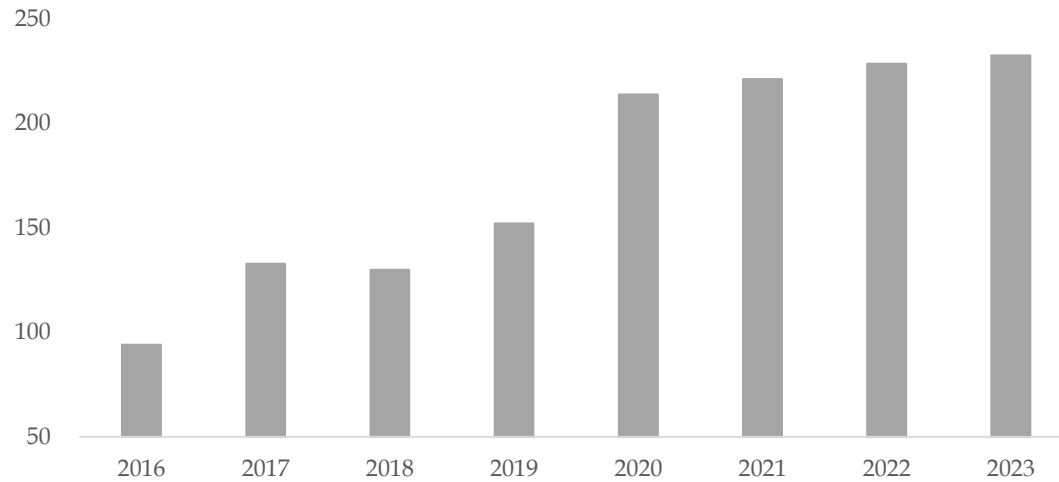
## Revenue Projections



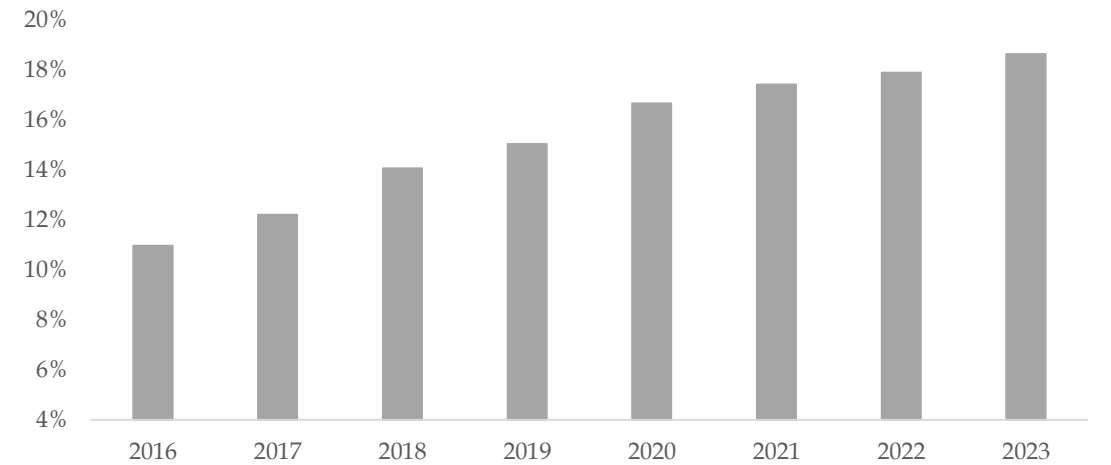
## EBIT Margin



## Capex Projections



## EBITDA Margin



# Valuation



## Cash is King

Discounted Cash Flow Analysis					
	FY19E	FY20E	FY21E	FY22E	FY23E
EBIAT	270	410	458	497	531
Plus: D&A	196	215	230	247	287
Less: Capex	(177)	(250)	(263)	(276)	(287)
Less: Change in NWC	13	(24)	(19)	(40)	(19)
Free Cash Flow	301	351	406	428	512
<b>PV of Cash Flows</b>	<b>290</b>	<b>313</b>	<b>335</b>	<b>327</b>	<b>362</b>
Discount Factor	0.96	0.89	0.82	0.76	0.71
<b>Cumulative Value of FCF</b>	<b>1,627</b>				

Terminal Value	Multiples Method	WACC Analysis
Terminal Growth Rate	1.5%	2021 EBITDA 894
Terminal Value	5,656	PV of 2021 EBITDA 738
Sum of FCF	1,627	Target Multiple <b>9.5x</b>
Enterprise Value	7283	Implied Enterprise Value 7,006
		Cash (7/24/19) 305
Cash	305	Total Debt (7/24/19) 2,051
Debt	2,051	Net Debt 1,746
Net Debt	1,746	Preferred Equity 0
		Minority Interest 15
Implied Market Cap	5,537	<b>WACC 6.57%</b>
Share Count	50	WACC Used 8%
		Implied Market Cap 5,245
Target Price	\$ 110.74	Share Outstanding 50
<b>Implied Upside 30.89%</b>		Target Price \$ 104.90
		<b>Implied Upside 24.00%</b>

## DCF Analysis

Terminal Growth Rate	WACC						
	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%
0.75%	58.39%	42.06%	28.15%	16.17%	5.75%	-3.40%	-11.51%
1.00%	66.07%	48.43%	33.51%	20.73%	9.66%	-0.01%	-8.54%
1.25%	74.48%	55.35%	39.29%	25.62%	13.85%	3.60%	-5.40%
1.50%	83.73%	62.90%	45.56%	<b>30.89%</b>	18.33%	7.45%	-2.06%
1.75%	93.95%	71.18%	52.37%	36.58%	23.14%	11.57%	1.49%
2.00%	105.31%	80.27%	59.80%	42.75%	28.33%	15.98%	5.28%
2.25%	118.01%	90.33%	67.94%	49.45%	33.93%	20.72%	9.33%

## Multiples Method

2021 EBITDA*	Target Multiple						
	7.5x	8.0x	8.5x	9.0x	9.5x	10.0x	10.5x
731	-34.71%	-27.58%	-20.45%	-13.33%	-6.20%	0.93%	8.06%
781	-27.40%	-19.78%	-12.16%	-4.55%	3.07%	10.68%	18.30%
831	-20.08%	-11.98%	-3.88%	4.23%	12.33%	20.43%	28.54%
883	-12.48%	-3.87%	4.74%	<b>13.36%</b>	21.97%	30.58%	39.19%
931	-5.46%	3.62%	12.70%	21.78%	30.86%	39.94%	49.02%
981	1.86%	11.42%	20.99%	30.56%	40.12%	49.69%	59.26%
1,031	9.17%	19.23%	29.28%	39.33%	49.39%	59.44%	69.49%

Q&A

 **BRINKS**



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