



## 1.0 PURPOSE

The purpose of this is to ensure that the organization has clear visibility to the financial results of the CompuSafe product. It has been shown that visibility to the financial results for this product is directly linked to profitability. This means that countries that launch CompuSafe should be able to produce financial reports that indicate the revenue and expenses of the product to the **operating profit** level and that the costs associated with the product should be **fully loaded**. In addition, due to the capital intensive nature of this product the reporting of **EVA** results is also necessary.

## 2.0 SCOPE

This policy applies to all Brink's country level business units that provide CompuSafe service.

## 3.0 RESPONSIBILITY

Continued compliance, successful implementation, and maintenance of financial records are the responsibility of Brink's Corporate Finance (Controller - Financial Planning and Analysis). Regional and Country management are responsible for ongoing monitoring of compliance with these standards. If, after reviewing the document(s), there are questions, please contact the corporate finance group for further clarification and determination.

### IMPLEMENTATION NOTES

*It is recognized that producing these financial reports is complex and that in most cases this reporting will be done in a "manual" fashion. The procedures identified below represent mature reporting processes and may not be practical for every country.*

*Additionally, business models change from country to country and these procedures may need to be adapted to address local conditions.*

*When adopting these standards countries should follow the **principle of materiality** and utilize appropriate efforts to produce reporting that adheres to the purpose identified above.*

*Also, at the early stages of the product's life, it is likely that upfront investments and overhead costs will cause the product to be unprofitable. This is understood by senior management and is acceptable assuming that the country has a defined plan in place move the product to results that meet appropriate profitability goals.*

## 4.0 PROCEDURE

All countries that implement CompuSafe service should measure financial performance (P&L and EVA) on a monthly basis. Reporting should include revenue, operating profit and EVA as follows:

Revenue  
Branch Margin  
Operating Profit

Total Invested Capital  
Invested Capital Charge  
Net Operating Profit After-Tax (NOPAT)  
Economic Value Added (EVA)



Reporting should be included in the normal monthly report for a country and should begin no later than December 2011. Results should be reported in accordance with the following standards:

#### 4.1 REVENUE

CompuSafe is typically sold as a bundled product and includes a number of different components (CIT, money processing, maintenance, parts, safe, etc.). The revenue (and cost) for all of these services should be included as part of the CompuSafe business. This revenue should be included regardless of how it is billed or who it is billed to. This includes revenue that is billed on a monthly basis or “one-time” (i.e. installation or safe sale). Additionally, all ancillary charges or services that are directly related to the provision of the CompuSafe service (stated otherwise, we would not have this revenue if we did not have the CompuSafe business).

Examples:

- The retailer is billed a flat monthly rate of \$600 per month which includes the safe, CIT, maintenance, parts and money processing. In this example the entire \$600 should be included as part of CompuSafe revenue.
  - In the same example, we invoice the customer for the following ancillary charges: customer caused service call (\$150), holiday service of the CompuSafe (\$65), envelope deposits (\$15). As all of the ancillary charges are directly related to the base CompuSafe service all of these amounts should be included as part of CompuSafe revenue.
  - In the same example, we bill the retail customer \$500 for the safe, CIT, maintenance and parts at a monthly rate of \$500. We bill the bank \$100 for the money processing related of the CompuSafe deposit. As the Money processing is directly related to the CompuSafe service, both the \$500 billed to the retailer and the \$100 billed to the bank should be included as part of the CompuSafe revenue.
  - In the same example, we also provide ATM replenishment service to the retailer for \$200 per month. In this case we would include the \$200 for the ATM service as part of the ATM business and include the \$600 in CompuSafe revenue as CompuSafe.
    - Note: If the customer is given a discount for “conjunctive” service (i.e. servicing the ATM and the CompuSafe during the same visit) then the revenue discount should be aligned with the cost allocation. For example, if the cost reduction is allocated to CompuSafe then the revenue discount should also be allocated to CompuSafe. If the cost reduction is allocated to ATM then the revenue discount should be allocated to ATM. If the cost reduction is split then the revenue discount should be split.
- We lease the safe to the retailer for \$200 per month. On a separate invoice we charge the customer \$400 per month for the remaining CompuSafe services (CIT, money processing, maintenance, etc..). Because all of the services are directly related to CompuSafe, all of this revenue (\$600) should be included as part of CompuSafe revenue.
- We sell the safe to the customer for a one-time payment of \$8,000. On a separate invoice we charge the customer \$400 per month for the remaining CompuSafe services (CIT, money processing, maintenance, etc..). Because all of the services are directly related to CompuSafe, all of this revenue (\$8,000 plus \$400 per month) should be included as part of CompuSafe revenue.



## 4.2 EXPENSES

### 4.2.1 BRANCH (OR DIRECT OPERATING) EXPENSES

Branch expenses are costs that can be directly assigned to the product from an invoice, an employee's wages or indirectly allocated based on operating metrics. The business and operating model for CompuSafe differs from country to country and therefore the exact costs that are branch expenses may vary. Direct operating expenses should be reported as part of CompuSafe financial results during the period that they are expensed. Listed below are examples of the types of expenses that may be considered direct operating expenses.

**Safe depreciation** – The depreciation costs associated with the purchase of the CompuSafe unit. CompuSafe units are typically depreciated over a life of 4 to 6 years. In accordance with company policy, the following costs (if material) should be capitalized and amortized over the life of a Brink's owned safe:

- CompuSafe cost – The cost of the CompuSafe unit. This includes any accessories or software associated with the unit
- Shipping – Includes the costs incurred by Brink's associated with shipping the CompuSafe unit (and accessories capitalized above) from the vendor to the customer site
- Installation – Includes the costs associated with installing the CompuSafe at the customer site including any activation or site assessment costs

**Parts** – Parts costs for CompuSafe repair and maintenance. This includes any cost for parts inventory.

**Safe maintenance** – Costs to perform first or second line maintenance on the CompuSafe unit from a third party provider or internally.

**Insurance** – Costs for "special" CompuSafe insurance from a third party. Examples includes insurance for the funds that are in the safe while in the customer location or for the CompuSafe equipment itself while it is in the customer location.

**Software** – Costs for software for the CompuSafe units or for back office systems from third parties that are directly related to the CompuSafe product (i.e. dash board, daily credit posting and reconciliation, etc.). Costs for software for money processing or CIT systems should not be directly allocated to the CompuSafe product, however costs for integration or customization of these systems for CompuSafe should be included.

**Safe Communication** – Any costs related to safe communication. For example, the telecommunications costs for safes to call into central processing systems.

**Bad debt** – Bad debt costs associated with CompuSafe revenue.

**CIT** – Costs for transportation of CompuSafe deposits. CIT costs should be allocated based on the cost per hour for CIT operations multiplied by the amount of time that the stop takes for all



CompuSafe stops during a period. The cost per hour should be fully-loaded (include all variable and fixed costs associated with CIT). Standards for stop times and cost per hour can be used, but should be verified on a regular basis. See Appendix A – CIT and Money Processing costing notes for more information.

**Money processing** – Costs for processing of CompuSafe deposits. Money processing times are based on a cost per hour multiplied by processing time methodology for all deposits that are processed during the period. The cost per hour should be fully-loaded (include all variable and fixed costs associated with money processing). Standards for processing times and cost per hour can be used, but should be verified on a regular basis. See Appendix A – CIT and Money Processing costing notes for more information.

**Other** – Any other direct operating expenses not included above (Examples: De-installation, supplies such as printer paper and envelopes, etc.)

An example of calculating branch margin for the CompuSafe product is included in Appendix B - Canada Branch Margin Reporting Example.

#### 4.2.2 OVERHEAD (SG&A) EXPENSES

SG&A or overhead costs include all of the costs outside of the branch level that are involved in running the business. Examples are: sales, finance, legal, information technology, general management, human resources, etc. SG&A is typically allocated by dividing the total SG&A costs for a country by the total revenue. The resulting percentage is then applied to all products equally based on their revenue.

The CompuSafe product also typically has a high percentage of direct overhead costs. These are people or other expenses included in SG&A that are directly related to the CompuSafe product. In addition to the normal allocation, these expenses should be included in the SG&A cost associated with the product.

Countries that have a large CompuSafe business may take a more sophisticated approach to allocating SG&A costs. See Appendix C – Advanced SG&A Allocation for more details.

#### 4.3 OPERATING PROFIT

Operating profit for CompuSafe equals revenue less expenses as defined in section 4.2 above. This includes all branch and overhead (SG&A) related expenses.

#### 4.4 ECONOMIC VALUE ADDED (EVA)

Given the capital intensive nature of the CompuSafe product, it is important to report EVA in addition to revenue and operating profit. Two components are needed to calculate EVA. Net operating profit after tax (NOPAT) and an invested capital charge.



Invested capital (IC) is calculated as the total net book value of all assets related to the CompuSafe product. This should include all CompuSafe units, any inventory for parts, accounts receivable and any other assets that are directly related to the CompuSafe product (i.e. software or IT hardware). The invested capital figures for the current period should be based on the balance sheet figures from the prior period. For example, invested capital for July would be based on the asset figures from June.

The invested capital charge is calculated as Invest Capital multiplied by an interest rate of 12% per year. For periods of less than one year this rate should be adjusted accordingly. For example, the monthly invested capital charge is calculated as IC multiplied by 1%.

NOPAT is calculated by taking the Operating Profit figures for the period for section 4.3 and removing taxes. A standard tax rate of 37% of operating profit should be used.

EVA is calculated by subtracting the Invested Capital Charge from NOPAT.

Total Invest Capital

Invested Capital Charge (Total Invested Capital times 1% per month or 12% per year).

Operating Profit

Taxes (Operating Profit times 37%)

NOPAT (Operating Profit less Taxes)

EVA (NOPAT less Invested Capital Charge)



## Appendix A – CIT and Money Processing costing notes

The comments below are intended to provide guidance on the methodology to use when determining costs to allocate. Also review the example at the bottom of this section for further guidance on practical implementation of these methods.

- CIT Cost per hour notes:

The CIT cost per hour is calculated by dividing total CIT costs by the number of hours for the operation. The base for hours can be truck hours (the time from when the truck leaves the branch until the time that it returns), crew hours (the time from when the crew begins getting paid until they clock out) or some other similar metric. However, whatever metric that is used should be the same one that is used to determine the stop time (see below).

The CIT cost per hour should be calculated on a **fully loaded** basis. This includes all variable and fixed costs (i.e. building, management, etc.) that are related to providing CIT service at the branch level. Care should be taken to ensure that any costs that are not directly related to CIT are excluded from the CIT cost per hour calculation. For example, costs related to other products (i.e. ATM or Money processing) or costs related to CompuSafe that are included “direct operating expenses” above.

Adjustments should be made in those circumstances where different crew sizes or truck types are used in CIT operations.

- CIT stop time notes:

Stop times are divided into 2 pieces: travel time (the time to get to the service location) and premise (premises) time (the time at the service location).

The CIT travel time for CompuSafe should be based on the same metric that it used for calculating the cost per hour. For example, if the cost per hour is based on truck hours (the time from when the truck leaves the branch until the time that it returns) then the travel time should take into account all truck hours, including any break and meal time. Ultimately, when the time is allocated to all stops it should equal the total travel time.

There are different approaches to determine the travel time associated with a specific stop including; the time from the last stop to this stop, half of the time from the last stop to this stop plus half of the time from this stop to the next stop, etc.. While there is no clear standard approach, it is most appropriate to develop an average travel time for all stops in a certain area. For example, the average travel time for “urban” stops. These are typically stops that are within a certain distance from the branch. Developing an average travel time within the urban area simplifies the process and eliminates discrepancies caused by routing changes. A similar logic can be applied to other geographic areas.

Premise times can be based on: the time from when the truck stops until it starts again (wheels stop to rolling), the time the messenger leaves the truck until he returns or the time the messenger enters the location until he leaves. Regardless of the methodology used, it is important to ensure that the travel time and the premise time use the same method, so none of the route time is missed or double counted.



Due to the consistent nature of CompuSafe service, standard processes can be developed that can provide premise time standards. These standards should be developed in conjunction with operations and should take into account the level of proficiency of the crews (for example, if I am only doing 1 CompuSafe stop every week then I will not be as proficient as someone who is doing 10 every day) and other factors that may significantly impact premises time (for example, the walking distance from the truck to the safe).

- Money Processing cost per hour and time notes:

Money processing cost per hour is typically calculated by dividing total costs by total direct labor hours. The costs used for calculating cost per hour should be **fully loaded**. This includes all variable and fixed costs (i.e. building, management, etc.) that are related to providing money processing service at the branch level.

The processing time for a CompuSafe deposit should be based on the direct labor hours needed to complete the process. As with CIT, care should be taken to ensure that all direct labor hours used in calculating the cost per hour are accounted for after all processing time is allocated (i.e. time for receiving deposits and inventory maintenance).

An adjustment may need to be made if high cost equipment is used in processing some of the deposits in a branch. These costs should be removed from the cost per hour calculation and allocated directly to the deposits that they are used to process.





**Appendix B Canada Branch Margin Reporting Example:**

Brink's Canada currently measures profitability for CompuSafe. They have accomplished this by creating separate CompuSafe branches in their accounting system (one branch for each region). The revenue for CompuSafe is booked directly to these branches as are any "direct operating expenses" associated with the revenue. The "allocated operating expenses" for CIT, money processing and maintenance are transferred from the respective CIT and Money Processing branches to the CompuSafe branch based on standard costs. The standards for the transfers were determined based on sample measurements of the actual amount of time and cost per hour for each transaction type. The transfers reflect cost only and no profit.

The transfers are performed centrally by the accounting group based on the number of stops that are scheduled each month and the number of maintenance calls that were performed. This method allows them to measure CompuSafe profitability.

Canada's model of using standard times/costs is not technically perfect as actual costs may be higher or lower than the standard. However, this model provides a simpler way to measure CompuSafe profitability without having to collect detailed operating information for monthly reporting. Additionally, reporting can be performed to compare the standard cost transfer to the actual cost. Variances from the standard can be analyzed to determine the cause. This type of reporting is used widely in manufacturing environments.

This reporting model is also reinforced by P&L ownership. For example, if the cost transfer for the CIT branch is not adequate to cover the costs then it is likely that the branch manager will identify this.

As noted above, care should be taken to ensure that the standards do not reflect "Perfection standards" (the best level of performance under the best conceivable conditions), but rather reflect "Currently attainable standards" (a good level of performance taking into account normal waste and operating variances.) The standard allocations should be reviewed on a regular basis (at least every 6 months) to ensure that they are accurate.

This model can be adapted to align with "ownership" for the CompuSafe product in each country. In Canada, the regional CompuSafe branch P&Ls are owned by the regional General Managers and also reviewed in consolidation by the product management group. However, the model can be changed so that ownership can be assigned to whichever party makes the most sense in the organization. For example, if CompuSafe branches are established in alignment with every CIT branch, the CIT branch managers can own both P&L's. Results can also be consolidated at the city level for a total business P&L. Alternatively, one consolidated CompuSafe P&L can be developed and can be owned by a central product organization with the local branches only owning the cost transfers and variances from standards.





### **Appendix C – Advanced SG&A allocation (for countries with a large CompuSafe business)**

SG&A or overhead costs include all of the costs outside of the branch level that are involved in running the business. Examples are: sales, finance, legal, information technology, general management, human resources, etc. SG&A is typically allocated by dividing the total SG&A costs for a country by the total revenue. The resulting percentage is then applied to all products equally based on their revenue.

Allocating all of SG&A based on revenue is very easy to administer, but can produce inaccurate results. It is believed that a significant discrepancy can exist by using this methodology for CompuSafe because there are significant SG&A expenses that can be directly allocated to the product and because CompuSafe typically includes a high percentage of outsourced services.

Why should outsourced costs have a lower SG&A burden? The organization provides core products/services (CIT, Money Processing, etc.). Solutions are created by bundling these core products/services and, typically, external (outsourced) functions (FLM, SLM, Software, Safe hardware, etc...). A significant portion of overhead goes primarily towards supporting core products and services (HR, IT, legal, etc...). For outsourced services these "overhead" functions are generally provided by the outsourced partner and are included in the pricing paid to the partner. Resources are required to manage outsourced functions, however these expenses are typically included in the direct SG&A expenses associated with the product.

For example, in the CompuSafe product the production of the safes is outsourced to a third party manufacturer. The manufacturer bears the responsibility for all of the HR, legal, IT, facility and other costs associated with the manufacturing process and our cost to procure the equipment includes an overhead burden from the manufacturer. There are Brink's overhead resources that are required to manage the outsourced vendor. These SG&A expenses are typically included in the direct SG&A expenses that are allocated directly to the product.

By allocating Indirect SG&A costs to these outsourced services we are overstating the cost of products like CompuSafe that have a significant percentage of outsourced services and understating the cost of the core products and services like CIT or Money Processing.

Ideally, SG&A expenses would be allocated through Activity Based Costing or some other similar process. However, these methodologies require sophisticated systems to produce more detailed calculations. Until this is practical, the following adjustments are recommended.

- 1) All SG&A expenses that can be directly allocated to CompuSafe should be totaled and divided by the total CompuSafe revenue to calculate "Direct CompuSafe SG&A as a % of Revenue".
- 2) Any other costs that can be directly allocated to other products should also be identified. All of these "Product Specific SG&A expenses" should be removed from the total SG&A expenses to calculate "Indirect SG&A as a % of revenue".
- 3) Costs for CompuSafe are divided between those that are provided in house and those that are outsourced to third parties to determine the "% of product cost that is outsourced" and the "% of product cost that is in-house". Examples of outsourced costs are; safe manufacturer, parts, maintenance, etc...
- 4) The indirect SG&A % is adjusted to reflect the lower cost of SG&A for outsourced services. This is applied to the % of product cost that is outsourced and the normal indirect SG&A % is applied to the % of product cost that is in house to create a "CompuSafe Indirect SG&A as a % of revenue".
- 5) The "CompuSafe Indirect SG&A as a % of revenue" is added to the "Direct CompuSafe SG&A as a % of Revenue" to calculate the "Total CompuSafe SG&A as a % of Revenue."



***Sample calculation based on US figures***

Direct SG&A for CompuSafe of is allocated to the product at 4.1% of revenue. This is based on all costs that can be directly attributed to the product including; product management/sales support, product operations, safe central, IT and product engineering (R&D).

Indirect SG&A is calculated removing all CompuSafe and other product related costs that can be identified. These are divided by total company revenue to create an Indirect overhead rate of 10.4% of revenue.

For CompuSafe, approximately half (47%) of costs are associated with outsourced functions. These include primarily; the safe equipment, parts, shipping, installation and outsourced maintenance. Note: that as a percentage of the revenue, the outsourced functions represent an even larger percentage due to the return on invested capital required on the equipment.

While indirect SG&A associated with outsourced functions is substantially lower than those performed in-house, it is not 0. As an example, finance processes invoices for the safes that we buy, tracks the assets, etc... While a specific figure would require a more detailed SG&A allocation system as noted earlier, for the purposes of this example it is estimated that outsourced functions incur SG&A at a rate one quarter the level of our in-house services.

Making this adjustment decreases the total amount of revenue that the indirect SG&A expenses are allocated over for the US. As a result, the Indirect allocation rate increases from 10.4% to 11.0%. This is the increase that the core products will incur (0.6% of revenue). The impact on CompuSafe is more significant as the SG&A allocation decreases by \$2.8MM and operating profit improves by 3.3 percentage points. This 3.3% is especially important in a product that needs to earn a return on invested capital.