

20 October 2022

**Submission in response to Merger between Armaguard and Prosegur.**

Authentic Security Pty Ltd (Authentic) welcomes the opportunity to provide a public response on the requested merger between Linfox Armaguard Pty Ltd (Armaguard) and Prosegur Australia Pty Ltd (Prosegur) to the Australian Competition and Consumer Commission (ACCC).

1. Executive Summary:

1.1 Authentic is a specialist cash and high valuables logistics business, insured and operating in the Cash in Transit (CIT) and Valuable Cargo industries. We are 100% Australian owned.

1.2 Significant market competition between Armaguard and Prosegur diminished their respective revenues and left both parties needing to merge. Authentic revenues and other businesses in this industry are vulnerable to the changing business landscape with the pending merger.

1.3 The Merger will create a monopoly player in the Security Industry; Authentic covet our current market share and rely on the ACCC to carefully consider and understand its consequences. Authentic request considerations and / or concessions in response to the merger to ensure Authentic (and the wider industry) are protected from unacceptable business practices from a dominant player. The industry needs a stable and equitable space to operate business, for both customers and suppliers who wish to participate in the CIT market.

2. About Us:

**Authentic have been servicing the Cash and Valuables Industry since 2007.**

2.1 Authentic have been servicing the Cash and Valuables Distribution Industry, providing CIT services for over 15 years. Our business has consolidated to become the largest second-tier operator in terms of market share in the CIT Industry, acquiring the 'Secutor' business (QLD) in 2017 and the 'ARA' CIT business (VIC) in March 2020. Since these acquisitions we have been adversely affected by COVID-19.

2.2 Authentic have offices across Australia covering CIT armed guards, cash processing, ATM technicians, administration and gaming clearance staff. We are contributors to the economy.

2.3 Authentic is also acquiring the business 'Matrix Security' (28 October 2022) which will create a presence for us in the Western Australia CIT market. This will increase our employee lists and provide general CIT services to the local WA CIT market.

2.4 Authentic process Australian currency throughout our Australian depots and sub-contractor network (excluding our cash drops at local bank branches throughout Australia). We service our customers, including CIT cash pick-ups and cash deliveries, ATM customers that include cash loading/clearing, first line maintenance (FLM) and second line maintenance (SLM), and supporting local Clubs with their gaming clearance. We service mines throughout Australia to pick up gold and silver that is refined and processed to the retail market. Our diversification also includes importing bulk foreign currency and distributing them domestically into customer retail networks and then on to retail customers (we do not process foreign exchange currency)

2.5 Authentic refute the allegation that we have sold our valuable goods service to the Malca-Amit Group.

2.5 Our market segments include;

- Financial Institutions
- Credit Unions
- Federal Departments and Local Councils
- Global foreign exchange and remittance companies
- Hospitality; pubs, clubs, bars, restaurants, nightclubs
- Independent ATM Suppliers; Banktech, Next Payments and others
- Metal refiners and Bullion dealers
- Significant Australian Retailers; supermarkets, newsagencies, liquor outlets
- Sub-contractor to all CIT and Valuable Cargo entities within the industry
- Vaulting Services

### 3. The Industry

#### **Armaguard and Prosegur command significant industry ownership**

3.1 The Reserve Bank of Australia reported in 2021 that Armaguard and Prosegur comprise between 70–90 per cent of the CIT industry's market share. This report also referred to the “issues of a declining revenue base and high costs are becoming increasingly acute for at least the larger CIT players” – (Road Safety Remuneration Tribunal 2015; Parliament of Australia, Rural and Regional Affairs and Transport References Committee 2021).<sup>1</sup>

3.2 While there has been a general decline across the industry in respect to CIT and ATM transactions, we maintain the view the industry will continue to require cash in both spaces, and the industry needs a fair and equitable competitive market space to ensure the customer (particularly in regional areas) can access these services in a cost effective and efficient manner.

3.3 The impact will consolidate the available infrastructure via the merged entity. Authentic maintain an interest in sourcing the local security infrastructure (including trucks), which is likely in excess if the ACCC approves the merger.

3.4 The consolidated entity and majority owner have verbally noted a view that Authentic does not compete in the same industries as the merged entity. Authentic reject this view based on competitive sales offerings and competition in the following industries;

- ATM cashing along with FLM / SLM services
- Hospitality customers (pubs and clubs) – Armaguard recently attending the Australian Gaming Show (AGE)
- Financial services (Major banks and Credit Unions) - whilst minimal, we are active in this market.
- Competing at providing services to the large gold and silver mines and refineries, cash services within the valuable cargo space (e.g. import and export of foreign currency) and diamond & jewellery shows (both Authentic and Armaguard offered services at recent exhibition at the Sydney International Convention Centre)
- Government department and local councils
- Global remittance companies where customers are currently shared
- Global Foreign Exchange suppliers where customers are currently shared

<sup>1</sup> Reserve Bank of Australia – Banknote Distribution Consultation Issues Paper - <https://www.banknotes.rba.gov.au/resources/banknote-distribution-consultation/issues-paper/the-cash-in-transit-industry.html>

4. Competition / Concerns with pending merger

**A dominant player with little competition requires consideration.**

4.1 The Merger has obvious implications for market share in the Security space. The industry is unique in nature and requires specific skills, technology and resources in order to function. The procurement of specialised trucks and tight employment conditions together restrict potential growth in the current market, and a dominant entity has the capability to attract potential suppliers to these resources.

4.2 The Security employment market is also frustrated by a lack of suitably trained guards and the industry now demands greater training and experience to attain the necessary qualifications to carry firearms and work in the Security industry. The saturation of suitably qualified persons to one employer risks the opportunity for other businesses within the market to fairly compete for staff and may be less attractive to those who are training to enter the field.

4.3 Authentic operates under a wholesale facility supplied by Westpac bank at a higher cost margin to other security / CIT suppliers, who have direct access to the Reserve Bank of Australia via the ACCO (Approved Cash Centre Operator). Conversely, Authentic currently rely upon distribution and access to the Westpac cash facility through Armaguard and Prosegur. Authentic require assurances their supply of cash (which is fundamental to our business and our ability to continue to service our customers) be ongoing and secure to ensure our cash channels remain open and available in current frequencies. Any change to this process has significant complications to the effectiveness of our business processes.

4.4 Looking beyond the obvious market share concerns and the dominant resourcing issues described above, a lack of competition within the market is likely to be a disincentive to the development of new technology, business practices and processes, which is driven by a competitive business market.

5. Current market conditions.

**Armaguard and Prosegur are aggressively pursuing staff and market share ahead of the merger decision.**

5.1 Authentic are aware of Prosegur being active in pursuing staff by offering incentives per staff member to engage in employment as licensed Security Guards. We have concerns regarding the timing of this announcement and the viability for them to maintain the staff over the short, medium and long term.

5.2 An Authentic customer has very recently been offered pricing well below our current commercial offering, which would damage our business significantly and could result in staff losses. At a time when operating costs (predominantly wages, fuel and interest rates) have risen sharply in 2022 and look set to continue in the short to medium term; the merged entity's cheap offering to existing Authentic customers is presenting a position of negative operating returns, which we believe is predatory and aimed to reduce our market share and could possibly continue under a merged entity.

6. Summary Position.

**Authentic have concerns on the effect that a dominant player will have to the industry.**

6.1 Authentic acknowledge the perceived view an approved potential merger is beneficial to the proposed merged entities, and whilst Authentic do not have or put forward an agreed position on the legalities of the proposed merger, we put forward our extended concerns for competitive forces that a merged entity would likely create. A lack of competition and the execution of domineering commercial business practices could create higher wages, pinched profitability and market gouging.

6.2 Authentic Security are understandably anxious to the merger, our market share is sufficient to suitors who might be attracted to our portfolio of customers. The role of the ACCC is pivotal to ensure security service levels are maintained, a conducive environment is created for the market to diversify and grow equitably, and that one dominant force is governed to maintain acceptable business practices that allows Authentic and other CIT operators to maintain and grow our Australian owned business.

6.3 Authentic have been anticipating the request for Armaguard and Prosegur to merge (given their difficulties in operating as rivals) and look to the ACCC to protect the industry from the obvious threats on the creation of a dominant player.



6.4 As a minimum Authentic would request that the ACCC consider the following terms – or similar – be conditions applied to any approved merger between Armaguard and Prosegur:

- The merged entity be required to offer to any staff that are made redundant, have their contracts not renewed or have their available working hours reduced by greater than 20% as result of the merger to have their personal contact details shared on a register that would facilitate the ability for other Cash in Transit operators to contact them and offer employment opportunities. We would recommend that this register be provided to the ACCC within 3 months of the merger being approved – any Cash in Transit operators that are seeking to employ staff may then request this information from the ACCC.
- The merged entity be required to provide a register of any vehicles that are surplus to requirements for the merged entity. This register should include details including age, type, kilometres travelled and if required service records of said vehicles that would facilitate the ability for other Cash in Transit operators to bid to purchase any of these vehicles. We would recommend that this register be provided to the ACCC within 3 months of the merger being approved – other Cash in Transit operators then have one month to bid for any vehicles they are interested in purchasing (bids submitted to the ACCC) with the highest bid price for any vehicle representing a successful purchase of the vehicle. Any vehicle/s not bid for may then be disposed of by the merged entity as they deem appropriate.
- An enforceable undertaking by the merged entity to the ACCC that the ACCC best considers and ensures that there is no lessening of competition in the Cash in Transit and ATM services markets, protects Authentic and other Cash in Transit operators from predatory pricing and ensures the timely and reliable delivery of and access to cash from the merged entity to enable Authentic and other Cash in Transit operators to maintain their operations.
- The customer maintains their right to review their supplier of choice (excluding contracts prior to any merger) in a free and equitable market.