
From: M Standish [REDACTED]
Sent: Tuesday, 4 April 2023 10:53 PM
To: Armaguard-Prosegur Merger
Cc: Mergers RU
Subject: '[Maximum Protection]: Armaguard/Prosegur - submission in relation to undertaking

Dear Alex / Louisa,

In regard to the Proposed merger between Armaguard and Prosegur – consultation on proposed undertaking.

Relating to 2. Counterfactual

2.2 - Most recent financials show that the applicants' CIT businesses continue to make losses

The applicants on one hand state that they have been making substantial losses since as far back as 2017, yet since that time Armaguard have transitioned all firearms nationwide from revolver to semi-auto, a large number of new or replacement vehicles have been added to their fleet and both Armaguard and Prosegur have made significant efforts to automate services to clients.

All of these things come at significant expense and some resulted in the reduction of service provision and the reduction in required staffing levels.

These factors contributed to an increase in expenditure, as well as the self-inflicted wounds in regard to chargeable service delivery to clients.

These actions do not reflect in any way companies that are being economically responsible or acting in a manner that protects the long-term viability of their business models.

2.3 - Service degradation at current pricing is inevitable without the proposed transaction.

In our view these are also in large part self-inflicted wounds. Yes, customers do tend to explore what “cheaper” options are out there but realistically, as the only two true national providers, Armaguard and Prosegur, instead of charging for and providing a premium service and then expending efforts toward supplying the things that no other current providers can offer eg: National coverage, cash processing nationally, higher security levels (Armoured services, vaulting facilities) etc. and then delivering them at a quality level that smaller providers cannot supply or compete with, the applicants inexplicably chose to continually try to undercut each other in a “race to the bottom” mentality that placed both of them in their current predicament.

2.4 - It is unlikely that the applicants would return to profitability through further restructuring.

While in their current formats this statement may hold some truth, we are of the opinion that by further restructuring operations eg: diversifying revenue streams, adding other service types, modifying current services, focusing on providing better services as opposed to “cheaper” services, there is a path back to profitability.

2.5.1 - Subcontracting.

While both parties have concluded that this isn't a viable option due to the applicants deciding that as a general rule – subcontracting to each other is their only option, with neither party wanting to be the transactional “loser” so services are sourced at an exorbitant cost. We are of the opinion that subcontracting can certainly be a viable option if structured correctly and in a way that both the principal and the subcontractor can benefit.

Either party has always had the ability (if not the willingness) to source viable subcontracting agreements with other external parties if they chose to but historically both parties have gone out of their way to avoid this and it is now leaving both of them in a bad position.

2.6 - No alternative purchaser would be interested in operating a national CIT network.

Certainly this is true to the extent that the largest CIT players internationally don't show any interest in acquiring the applicants after they have been run into such precarious positions, but to state that no party has indicated an interest in acquiring either applicant on a national basis under the right circumstances is patently untrue.

While we cannot speak for any other company, MP has made enquiries a number of times since 2017 as to the availability of the applicants national operations (as evidenced by provided documentation to the ACCC) & each time was met with a flat rebuttal & told that they had no interest in divesting any part of their operations and that the company was performing well.

This raises the question as to whether either party at any point has had any sort of conversation with any external party regarding : acquisition of their Australian CIT operations?

2.10 - Reputational concerns resulting from disorderly exit are limited and unlikely to deter a decision to exit.

This is true to a certain extent in regard to Prosegur due to the points made in (81(a)). We are of the opinion that this is far from the case in regard to Linfox Armaguard.

We believe that a disorderly exit by Armaguard would have a massively detrimental effect on the reputation and continued viability of Linfox Transport on a national basis, as there is a certain amount of crossover in regard to clients utilising both Armaguard and Linfox Transport services.

If burnt by the CIT portion of the business, what assurances of service continuity would customers have in relation to similar issues not befalling the parent company?

Also non-clients that faced large scale disruption due to an Armaguard exit, would be well aware of the link to Linfox Transport and we would reasonably expect them to shun doing any future business transactions with Linfox post a disorderly CIT exit.

2.11 - Public benefits from proposed transaction with remedies today may not be open in the future as the applicants' businesses continue to degrade.

(84) - In regard to this – Prosegur purchased an aged fleet from Chubb UTC when entering the market and have made little to no attempt at renewing / replacing their fleet at any point since 2013.

Regarding Armaguard – their vehicles are leased & a large number have been replaced after the loss making period began, so we view these statements as untrue.

Annexure B

In relation to Annexure B, It is our view that 2.12 is not only a proposal that is entirely impractical to properly police or enforce adherence by the merged entity, but would reduce the capacity of the merged entity to return to profit due to the self-imposed restrictions that the merged entity is proposing.

3.2-3.5 - Due to 2.12, we also noted that clauses 3.2 to 3.5 create a means for the merged entity to change the terms or withdraw completely from the undertaking directly via the ACCC and without any client / industry consultation.

Relating to the different service improvements, service amendments, innovations etc. put forward by the applicants as part of the undertaking.

The vast majority of these items could have already been introduced to clients, competitors, stakeholders by either or both applicants in their current business models if they had wanted to.

Instead they chose to try and introduce these items as a last ditch sweetener in order to try and get a merger approved that in our view would have a hugely detrimental effect for the vast majority of Australian businesses should it be passed by the ACCC.

As a further means of remedying the current tough climate in the Australian CIT industry, we believe that further intervention is required by regulatory bodies at some point to ensure that businesses MUST accept cash payments if consumers choose to utilise cash as cash is legal tender and all businesses should have no reason not to accept it. We are now at a point where the government needs to put controls in place to ensure that this remains the case.

Kind Regards,

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