PUBLIC VERSION

Next Payments PTY LTD
ACN: 160 985 106

P.O. Box 1139
Moorabbin, VIC 3189

Phone: 1300 659 918
info@nextpayments.com.au
www.nextpayments.com.au

20 January 2023

Simon Pomery
Director, Competition Exemptions
Australian Competition & Consumer Commission
17/2 Lonsdale Street
Melbourne VIC 3000

Miriam Kolacz
Assistant Director, Competition Exemptions
Australian Competition & Consumer Commission
17/2 Lonsdale Street
Melbourne VIC 3000

By email: Armaguard-Prosegur-Merger@accc.gov.au

Dear Mr Pomery, Ms Kolacz,

Proposed merger between Armaguard and Prosegur

Next Payments welcomes the opportunity to provide a further submission in response to the vertical issues raised in paragraph 3.83 of the ACCC's Statement of Preliminary Views regarding the proposed merger of Armaguard and Prosegur (the ***Proposed Transaction***). This supplementary submission is set out in Attachment A to this letter.

Unless otherwise noted, defined terms of Next Payments' initial submission are adopted in this supplementary submission.

Confidentiality

Parts of Next Payments' submission that have been highlighted red and are preceded by the word "**CONFIDENTIAL:**" contain confidential and commercially sensitive information of Next Payments and could cause harm to Next Payments if disclosed. Next Payments requests that the ACCC treat that information as strictly confidential and not disclose that information to any person without the prior written consent of Next Payments, except that, in accordance with the ACCC's usual confidentiality regime:

- there is no restriction on the internal use, including future use, that the ACCC may make of confidential information consistent with the ACCC's statutory functions.
- confidential information may be disclosed to the ACCC's external advisors and consultants on the condition that each such advisor or consultant will be informed of the obligation to treat the information as confidential.
- the ACCC may disclose the confidential information to third parties (in addition to its external advisors or consultants) if compelled by law or in accordance with section 89(7) or section 155AAA of the *Competition and Consumer Act 2010* (Cth).

Next Payments would be happy to respond to any further queries the ACCC may have or discuss any matter in relation to its submissions.

Yours sincerely

Tim Wildash
Executive Chairman
Next Payments Pty Ltd
[redacted]

[redacted]

Next Payments PTY LTD
ACN: 160 985 106

P.O. Box 1139
Moorabbin, VIC 3189

Phone: 1300 659 918
info@nextpayments.com.au
www.nextpayments.com.au

Attachment A – Next Payments Supplementary Submission

As set out in its initial submission, Next Payments is very concerned by the Proposed Transaction. Establishing a monopoly will lead to anti-competitive effects and public detriments and, in particular, the foreclosure of downstream competitors in ATM deployment services, such as Next Payments.

The inevitable outcome is reduced services and higher costs, not only for ATM deployers like Next Payments, but also for merchants and end consumers.

The efficiencies that the Applicants claim will be generated by the Proposed Transaction can be achieved without these anti-competitive outcomes and public detriments. Alternative transaction structures can be implemented. For example:

- A requirement to divest the merged entity's ATM networks would remove the potential for anti-competitive vertical foreclosure strategies to be engaged in post-transaction.
- An arrangement that involves the Applicants sharing infrastructure in their CIT service businesses would enable them to reduce costs, while maintaining separate and independent businesses in respect of the supply of CIT services to customers such as banks, ATM deployers and merchants. This may be accompanied by commitments to ensure fair and equitable access to CIT infrastructure for smaller or potential CIT service providers that may compete with the Applicants.

Failing those structural remedies, the only way to avoid the serious anti-competitive effects and public detriments posed by the Proposed Transaction would be to put in place a regulatory regime or form of undertaking that would prevent the merged entity from discriminating against downstream competitors like Next Payments. This would require ongoing non-discrimination obligations to prevent the merged entity from reducing access to CIT services, for example access to wholesale cash and ATM provisioning services, and the regulation of the prices charged by the merged entity for CIT services to competing ATM deployers as well as other customers. However, Next Payments does not consider that this would adequately address the likely anti-competitive vertical issues arising from the Proposed Transaction, in the same way that a divestiture of ATM networks or shared infrastructure arrangement outlined above would.

10 The likelihood that the merged entity will engage in vertical foreclosure strategies with the purpose or effect of limiting or reducing competition from firms who are actual or potential suppliers of:

- **ATM deployment services to merchants**
- **ATM access arrangements and 'ATMs as a service' to financial institutions**
- **ATM maintenance services to financial institutions**
- **independent ATM deployment services**

and if so, how (eg, by increasing prices of CIT services to those competitors above monopoly levels, or by other means).

Next Payments sets out below its responses to the ACCC's queries in relation to the likelihood of various vertical foreclosure strategies by the merged entity in respect of the categories of services that Next Payments supplies: 'ATM deployment services to merchants' and 'independent ATM deployment services'.

(a) ATM deployment services to merchants

Next Payments PTY LTD
ACN: 160 985 106

P.O. Box 1139
Moorabbin, VIC 3189

Phone: 1300 659 918
info@nextpayments.com.au
www.nextpayments.com.au

Next Payments considers it highly likely that the merged entity will engage in vertical foreclosure strategies that have the purpose or effect of limiting competition in relation to ATM deployment services to merchants.

The merged entity will be a monopoly provider of CIT services to independent ATM deployers post-transaction. Next Payments and other ATM deployers rely on these CIT services, particularly ATM provisioning (ie, replenishing ATMs with cash) and first line maintenance services, to continue operating their ATMs. Post-transaction, independent ATM deployers will no longer have the benefit of competitive tension between Armaguard and Prosegur for these CIT services, and the merged entity will be unconstrained by smaller CIT service providers who cannot replicate the scale, scope and range of services provided by the merged entity.

The removal of this competitive tension is highly likely to result in the merged entity:

- **Reducing CIT services:** Reducing or refusing to provide CIT services for independent ATM deployers. Next Payments anticipates the most likely and damaging form of this vertical foreclosure strategy will be a reduction in the frequency and reliability of ATM provisioning by the merged entity, having a direct impact on the uptime (the time that ATMs are operational and able to be used by cardholders) of ATMs deployed by competing ATM deployers. The reduction in uptime will impact independent ATM deployers' ability to deploy ATMs to merchants, as merchants will prefer ATM networks (like those of the merged entity) that are more consistently provisioned and maintained and therefore more reliably provide cash to merchants' customers.
- **Raising CIT service prices:** Raising prices for CIT services, for example by raising the prices the merged entity would charge for ATM provisioning or first line maintenance services that must be performed by the merged entity. As set out in Next Payments' initial submission, CIT service costs comprise a significant proportion of Next Payments' costs, [redacted] An increase in CIT service costs will place significant pressure on Next Payments' profitability and therefore its ability to continue competing for merchant locations.

Next Payments considers there is a significant likelihood of future price increases given the Applicants have indicated CIT service pricing is currently unsustainable. [redacted] Post-transaction, the merged entity will focus on extracting higher revenues from customers that have no choice but to source cash provisioning and other CIT services from them. Next Payments does not have the ability to counter CIT service price increases or service reductions (eg, by shifting to non-cash payment methods, or in-sourcing) and, as set out in its initial submission, also does not have the benefit of contractual safeguards to prevent such vertical foreclosure strategies post-transaction.

Next Payments also considers the merged entity will have an enhanced ability to limit competition from competing ATM deployers through its unique access to ATM transaction data. Post-transaction the merged entity will have access to cash transaction data across the ATM networks it provides CIT services to – including those of its downstream rivals in ATM deployment. This data can be leveraged to accurately forecast cash transactions in a location where the merged entity may bid to provide ATM deployment services to a merchant, in competition with any independent ATM deployers that the merged entity also provides CIT services to. This will remove competitive uncertainty and risks, ie, by allowing it to deploy to locations that it knows achieve greater transaction volumes. The removal of this uncertainty will allow the merged entity to bid without risk and therefore be more competitive than independent ATM deployers for merchant locations, particularly in the highest transaction volume locations.

[redacted]

(b) Independent ATM deployment services

In Next Payments' view the same vertical foreclosure considerations apply to the provision of independent ATM deployment services as in relation to ATM deployment services to merchants. For Next Payments, the supply of independent ATM deployment services is not differentiated from the supply of ATM deployment services to merchants. See the response to question 10(a) above.

11 Whether:

(a) prices or terms for CIT services supplied to competitors in downstream or adjacent markets are likely to worsen following the Proposed Transaction; and

(b) the extent to which such worsening would likely cause independent operators to lose scale efficiencies and/or raise their own prices or to cease supplying the relevant services.

If the Proposed Transaction proceeds it is likely to lead to worse terms of service, particularly a reduction in CIT services and the quality of those services, and higher CIT service prices for independent ATM deployers who will compete with the merged entity's ATM network, and who will rely on the merged entity's upstream CIT services.

As set out above, the Proposed Transaction will result in the removal of competitive tension between Armaguard and Prosegur and a monopoly provider of critical CIT service inputs for Next Payments and other independent ATM deployers. This is highly likely to result in a reduction in the level of service that Next Payments relies on to provide ATM deployment services – particularly in the frequency and reliability of ATM provisioning. It will also likely lead to higher CIT services prices.

The Applicants have indicated that they face high fixed costs, excess capacity in their CIT service infrastructure and networks, and declining pricing and revenues. In this context, Next Payments considers it highly likely that the merged entity will seek to extract higher revenues post-transaction by engaging in vertical foreclosure strategies, including reducing CIT services for competing ATM deployers. A reduction of services and service quality standards may be imposed through more onerous terms for competing ATM deployers. This will reduce costs for the merged entity and extract higher revenues as the merged entity will provide fewer services and the foreclosure of competing ATM deployers will drive ATM deployment business to the merged entity. Next Payments also anticipates that the merged entity will raise the price of CIT services from customers for whom there is no viable alternative to source critical cash provisioning and other CIT services, ie, independent ATM deployers, retailers, and smaller CIT service providers who rely on wholesale cash access from the merged entity. CIT service costs form a significant part of Next Payments' overall costs, at

Next Payments PTY LTD
ACN: 160 985 106

P.O. Box 1139
Moorabbin, VIC 3189

Phone: 1300 659 918
info@nextpayments.com.au
www.nextpayments.com.au

[redacted]. These costs are increasing due to factors including price increases from CIT service providers (noted in the response to question 10(a) above) and interest rate increases which impact the costs of cash supply for ATM deployers.

In relation to the impact of worse CIT service prices or terms post-transaction, Next Payments considers these will be:

- **Ceasing to supply services, particularly in remote or regional locations:** Reduced CIT services or higher CIT service costs will require Next Payments to reconsider its ability to deploy ATM services in locations that experience lower transaction volumes. These sites are generally located in remote or regional locations and are less profitable. Next Payments may need to cease supplying cash withdrawal facilities in such areas. Next Payments will also likely find it difficult to deploy ATMs in locations where it competes with the merged entity's ATM networks, as it will face reduced CIT services in those locations in the form of less frequent or reliable ATM provisioning.
- **Higher fees:** An increase in CIT service costs will directly impact Next Payments' profitability. Next Payments considers this will likely lead to an increased need to raise ATM transaction fees, and / or reduce payments made to merchants for ATM deployment, to cover these costs.
- **Reduced efficiencies:** Next Payments has to date been able to establish efficiencies in its processes through the competitive tension between Armaguard and Prosegur. [redacted] If this competitive tension is removed, Next Payments anticipates that such efficiencies will be lost as the merged entity will insist on control of such CIT services, raising costs for Next Payments and reducing its ability to manage its network efficiently.
- **Reduced service improvements / innovations:** Next Payments invests most of its free cash flow in high levels of service and innovations in its ATM network and adjacent offerings (eg, cash reconciliation tools for merchants). These high levels of service and innovation are required to compete for merchant customers. A worsening of Next Payments' CIT service costs or terms post-transaction will significantly reduce Next Payments' ability to continue these services and innovations. Next Payments would be required to raise prices, and / or to divert investment in services to covering higher CIT service costs and to preserving basic functionality of its ATM network.

As set out in Next Payments' initial submission, the impact of reduced CIT services or higher CIT service prices will impact consumer access to cash provided by independent ATM deployers. This will particularly impact the substantial number of consumers who rely on cash for their day to day needs (which is disproportionately comprised of older or more vulnerable consumers). Reduced access to cash will also impact retailers who seek to attract consumers by offering cash as a means of payment. For many retailers, particularly smaller retailers, shifting to greater acceptance of card-based or digital forms of payment incurs higher costs, for example through payments to third parties payments providers such as Visa and Mastercard.

Higher CIT service prices will also involve higher wholesale cash costs for smaller CIT service providers. Such providers often service remote or regional locations and rely on access to wholesale cash from the Applicants. Following the Proposed Transaction, such service providers will likely face higher prices or reduced services in relation to wholesale cash supply. This will reduce their ability to service communities in these locations, further reducing access to cash – particularly in areas that are experiencing bank branch closures.