

# Statement in support of application for merger authorisation

## RE: PROPOSED MERGER BETWEEN LINFOX ARMAGUARD PTY LTD AND PROSEGUR AUSTRALIA HOLDINGS PTY LTD

### PROSEGUR AUSTRALIA HOLDINGS PTY LTD

Co-Applicant

Statement of: **Michael Douglas Shipton**

Address: Level 1, 61-65 Epping Road, Macquarie Park, NSW 2113

Occupation: Managing Director and Chief Operating Officer at Prosegur Australia Pty Ltd

Date: 31 January 2023

**The document contains confidential information which is indicated as follows:**

**[Confidential to Prosegur: ...]** for Prosegur Australia Holdings Pty Ltd and its related bodies corporate.

Document number	Details	Paragraph	Page
1	Statement of Michael Douglas Shipton in support of the joint application by AMA and Prosegur Australia for authorisation of the Proposed Transaction.	1 to 67	4 to 26
2	Confidential Annexure MDS01.	27	11
3	Confidential Annexure MDS02.	30	12
4	Confidential Annexure MDS03.	32	13
5	Confidential Annexure MDS04.	33	13
6	Confidential Annexure MDS05.	34	13
7	Confidential Annexure MDS06.	39	15

<b>Document number</b>	<b>Details</b>	<b>Paragraph</b>	<b>Page</b>
8	Confidential Annexure MDS07.	42	16
11	Confidential Annexure MDS08.	52	19
12	Confidential Annexure MDS09.	66(a)	24
13	Confidential Annexure MDS10.	66(a)	24

## CONTENTS

A.	Introduction	4
A.1	Qualifications and employment history	4
A.2	Responsibilities at Prosegur Australia	5
B.	PAPL's cost cutting	7
C.	Attempts to subcontract with AMA	10
C.1	Coin transport and processing in Victoria and Tasmania	12
C.2	Regional subcontracting	14
C.3	Bendigo cash centre sharing	18
C.4	Mount Isa subcontracting	19
C.5	Port Hedland subcontracting	19
D.	Other sub-contracting arrangements	20
E.	The Proposed Transaction	21

## A. INTRODUCTION

1. I am the Chief Operating Officer (**COO**) and Managing Director of Prosegur Australia Pty Ltd (**PAPL**).
2. I make this statement in support of the joint application for merger authorisation lodged by Linfox Armaguard Pty Ltd (**AMA**) and Prosegur Australia Holdings Pty Ltd (**Prosegur Australia**) on 27 September 2022 with respect to a proposed merger between the parties (**Proposed Transaction**).
3. This statement (including its annexures) contains information which is confidential to Prosegur Australia and its related entities, and, in some instances, to third parties. Disclosure of the confidential information contained in this statement (including in any annexures) would cause prejudice to Prosegur Australia and its related entities.
4. I make this statement based on my own experience and knowledge of Prosegur Australia's operations and the cash-in-transit (**CIT**) industry both in Australia and globally as set out in sections A.1 and A.2 below, a review of relevant records which are made and kept in the normal course and for the purposes of the Prosegur Australia business and enquiries made of relevant staff. Where matters are not within my personal knowledge, the contents are true to the best of my knowledge and belief.
5. Where I refer to Prosegur Australia in this statement, I am also referring generally to Prosegur Australia and its controlled entities, unless specifically stated otherwise.

### A.1 Qualifications and employment history

6. I hold a Bachelor of Commerce, Marketing and Business Administration from the University of Natal, Durban (1991), and a Master of Business Administration from the University of Potchefstroom, South Africa (2001).
7. I have over 15 years' experience working in banking technology, financial logistics, security, cash settlements and processing industries in Australia, South Africa, Indonesia and Kenya.
8. I have been the COO and Managing Director of PAPL since October 2021. Prior to this role, between July 2019 and October 2021, I held the position of Asia Pacific Regional Operations Director for Prosegur Cash S.A., (**Prosegur Cash**).
9. Prior to commencing my role for Prosegur Cash, I have also held the following positions:
  - (a) Managing Director at Impro Technologies between May 2017 and July 2019, an access control company in Durban, South Africa, where I had overall responsibility and oversight of the profitability, budget setting, financial reporting and strategy for the business;

- (b) Operations Director at G4S in Kenya between June 2015 and April 2017, a cash processing, cash logistics and security business where I had overall responsibility and oversight of the budgeting and profitability, and oversaw the restructuring of the business including the redesign of its cash logistics model;
  - (c) Country Managing Director at G4S Indonesia between July 2013 and May 2015, where I was directly responsible for five companies in the security, cash processing and logistics industry, including financial responsibility, oversight of complex CIT and security bids and the development of the executive and management teams;
  - (d) Group Executive (sales and marketing) at SBV Services Johannesburg between July 2012 and June 2013, a cash processing and logistics company partnering with the central bank, where I was responsible for business development and client relationships;
  - (e) Executive Head of Cash In Transit at SBV Services Johannesburg between January 2005 and June 2012, where I was responsible for developing safety systems to reduce deaths, injuries and losses to the company, and developed and launched the first complete end to end service for the management of ATMs to the South African Banking Industry.
10. Between January 2009 and June 2013, I also sat on the Board of a Nigerian CIT company, RCMS, which is owned by SBV Services.
11. I have also held management level positions at Bokomo Foods Botswana (2003-2005), Sefalana Milling Botswana (1998-2003), Premier Milling (1992-1998) and Tongaat Food Distributors (1991-1992).

## **A.2 Responsibilities at Prosegur Australia**

12. In my roles as COO and Managing Director at PAPL, I am responsible for:
- (a) total profit and loss for PAPL;
  - (b) setting policies, procedures and the strategic direction for PAPL, including pricing policies;
  - (c) managing the Executive Committee, the senior leadership team within PAPL, including shared service departments such as finance, human resources, sales and marketing, risk and IT;
  - (d) the operation of PAPL's business lines, which include CIT services (cash transportation, cash processing and related CIT products and services), device monitoring and maintenance services, ATM networks and valuable cargo transport services;
  - (e) compliance and financial reporting; and

- (f) reporting to Prosegur Cash management including the Prosegur Cash CEO on the strategic direction and financial performance of PAPL.
13. As COO and Managing Director at PAPL, I report directly to Heath White, CEO of Prosegur Germany and part of Prosegur Cash management, who in turn reports to Jose Antonio Lasanta Luri, CEO of Prosegur Cash. I currently supervise all Executive Committee personnel and operations personnel of PAPL. Prosegur Australia also operates the Precinct Hub Pty Limited (**Precinct**) business, which is led by Matthew Sykes, CEO of Precinct, who also directly reports to Heath White in that role. The Precinct business comprises the non-branch Westpac ATM network acquired by Prosegur Australia.
14. Between July 2019 and October 2021, my role as the Asia Pacific Regional Operations Director for Prosegur Cash was different to my current role as COO and Managing Director of PAPL. Whereas now I have direct responsibility for the success of the Australian PAPL business, my responsibilities for Prosegur Cash were more supervisory and supportive, and included:
- (a) the implementation of Global best practice within the Prosegur Cash businesses in the Asia Pacific region including Australia;
  - (b) supporting all business units to achieve set targeted KPIs and profitability targets;
  - (c) monthly review of business unit performance and mentoring the leadership teams in each of the Asia Pacific countries in which Prosegur Cash operates;
  - (d) assisting and supporting day-to-day operational issues and directly managing the Australian operations team;
  - (e) setting financial forecasts for the Australian business, with stretch targets for the Executive Committee; and
  - (f) providing direction for the Australian business to redirect its business strategy into alternative revenue streams to ensure the relevance of the Australian business in the future, specifically in the financial technology space.
15. As the Asia Pacific Regional Operations Director, I reported directly to Janine Copelin, who was the Regional Managing Director for the 'rest-of-the-world', which included the Asia Pacific region and Australia. Although she did not officially hold the title, at the time I joined Prosegur Cash, Janine was also acting as the Managing Director of the Australian business. I took on the role of COO and Managing Director for the Australian business in 2021.

## B. PAPL'S COST CUTTING

16. I commenced my role as the Asia Pacific Regional Operations Director in July 2019, with the task to address the impact of the changing payments landscape and improve the financial performance in the region. Although my role covered all countries in the Asia Pacific region where Prosegur Cash had a presence, my focus was on the Australian business which was the worst performing of all the Asia Pacific countries.

17. I am aware that PAPL had significant losses in 2018, largely due to the loss of a major customer, ANZ. At the time of commencing my role as the Asia Pacific Regional Operations Director in 2019, I saw from the Australian income statements that the loss of the ANZ contract had meant that significant business revenue had been lost in 2018 without the business having been able to remove costs to seek to offset the revenue reduction. **[Confidential to Prosegur: [REDACTED]**

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

18. As a result of the poor financial state of the Australian business, since July 2019, I have been involved in developing, overseeing and / or implementing numerous cost cutting initiatives directed towards bringing PAPL back to profitability. **[Confidential to Prosegur: [REDACTED]**

[REDACTED]

(a) [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

(b) [REDACTED]  
[REDACTED]

(c) [REDACTED]

(d) [REDACTED]  
[REDACTED]

(e) [REDACTED]

(f) [REDACTED]

(g) [REDACTED]

(h) [REDACTED]

(i) [REDACTED]

(j) [REDACTED]

(k) [REDACTED]

(l) [REDACTED]

(m) [REDACTED]

(n) [REDACTED]

19. Because of the cost-cutting measures, I am performing two executive roles within the business – as both the COO and the Managing Director of PAPL. There are also many other employees who, similarly, are performing multiple roles or have increased responsibilities where previously those responsibilities would have sat within a separate role. This has been the result of both formal restructuring as well as from reallocating roles and responsibilities when staff have left the business but have not been replaced. **[Confidential to Prosegur: [REDACTED]]**



(a) [REDACTED]

(b) [REDACTED]

(c) [REDACTED]

(d) [REDACTED]

20. I have also chosen not to replace certain key staff in an effort to reduce costs. **[Confidential to Prosegur: [REDACTED]**

21. In the 12 months leading up to July 2022, with the assistance of staff in the Operations team, I also explored whether closing cash centres, and rationalising PAPL's cash centre network, would reduce business costs and improve the financial position of the Australian business. **[Confidential to Prosegur: [REDACTED]**

[REDACTED]

22. [REDACTED]

23. [REDACTED]

24. While PAPL's costs have reduced as a result of the cost-cutting measures that have been implemented since July 2019, this has been nowhere near sufficient to return the business to break even. **[Confidential to Prosegur: [REDACTED]**  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] ] On the other hand, I consider that the Proposed Transaction would allow the parties to remove excess capacity, increase the density on routes and significantly decrease costs, putting the merged entity on a profitable footing.

**C. ATTEMPTS TO SUBCONTRACT WITH AMA**

25. Throughout 2021 and the beginning of 2022, PAPL explored with AMA a number of different arrangements in an attempt to reduce the level of losses experienced in the business.



[REDACTED]

**C.1 Coin transport and processing in Victoria and Tasmania**

28. The first initiative explored with AMA was the proposal in Victoria and Tasmania regarding bulk coin movements. **[Confidential to Prosegur:** [REDACTED]  
[REDACTED]  
[REDACTED] ]

29. I considered that PAPL may be able to realise savings by outsourcing bulk coin movements in both Victoria and Tasmania to AMA. By outsourcing the coin transport and processing work to AMA, I believed AMA would achieve efficiency gains (through greater volumes) that would be passed on to PAPL in the form of lower prices.

30. **[Confidential to Prosegur:** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

31. [REDACTED]  
[REDACTED]

[REDACTED]

32.

[REDACTED]

33.

[REDACTED]

[REDACTED]

34.

[REDACTED]

[REDACTED] PAPL was unable to come to an agreement on commercial grounds and declined the opportunity for AMA to provide subcontracting work to PAPL.

**[Confidential to Prosecur:** [REDACTED]

35. [REDACTED]

**C.2 Regional subcontracting**

36. [Confidential to Prosegur: [REDACTED]]

37. [REDACTED]  
we explored a proposal for PAPL to provide cash transport and cash processing services for AMA in a number of regional and remote locations, [Confidential to Prosegur: [REDACTED]]

- (a) [REDACTED]
- (b) [REDACTED]
- (c) [REDACTED]
- (d) [REDACTED]
- (e) [REDACTED]
- (f) [REDACTED]
- (g) [REDACTED]
- (h) [REDACTED]
- (i) [REDACTED]
- (j) [REDACTED]
- (k) [REDACTED]

38. I considered the potential benefit of providing these services to AMA was to enable PAPL to drive efficiencies through additional volume and revenues on its regional routes, many of which had become increasingly unprofitable as a result of a reduction in density (i.e., volume).

[Confidential to Prosecur: [REDACTED]

[REDACTED]

39.

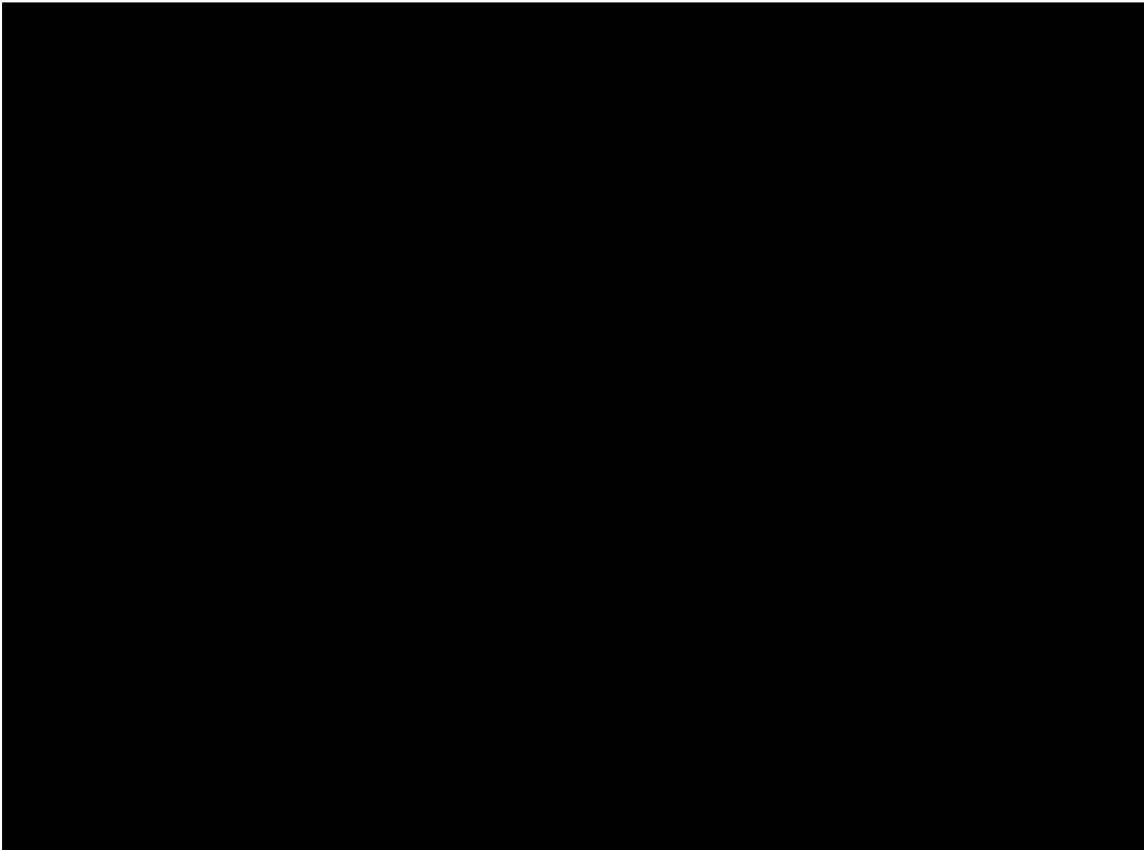
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

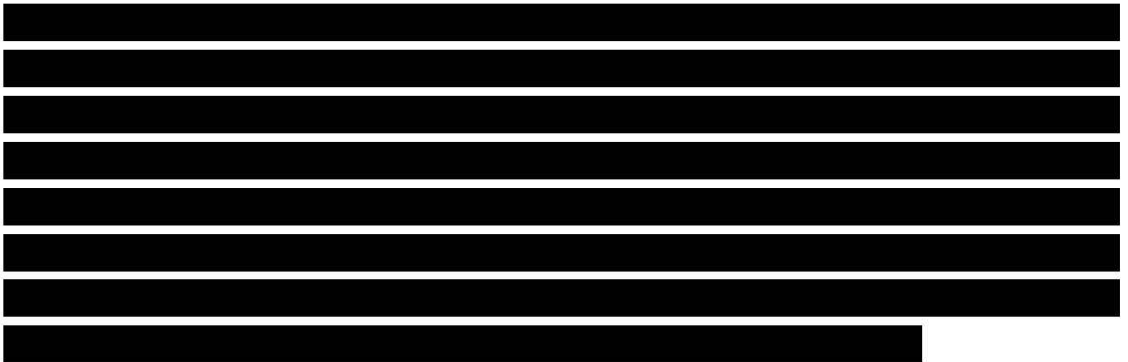
[REDACTED]



40.



41.



42.





[Redacted]

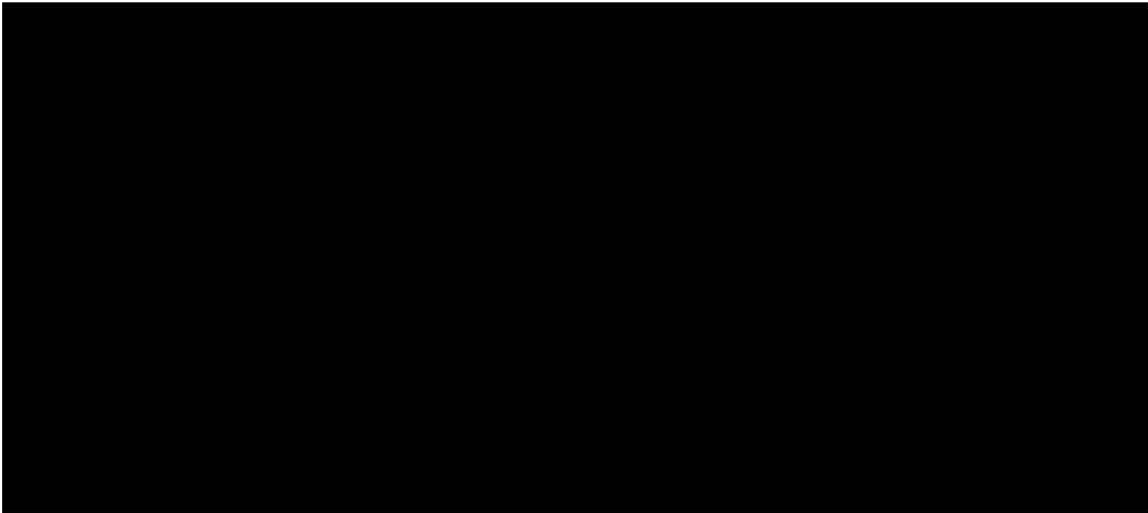
[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]



43. [Redacted] ] AMA rejected the Revised Proposal.

44. [Confidential to Prosegur: [Redacted]  
[Redacted]  
[Redacted]  
[Redacted]  
[Redacted]  
[Redacted] ]

### C.3 Bendigo cash centre sharing

45. [Confidential to Prosegur: [Redacted] ]  
proposal to share a single cash centre in Bendigo. Both AMA and PAPL had cash centres in Bendigo. [Confidential to Prosegur: [Redacted]  
[Redacted]  
[Redacted] ] I therefore proposed to AMA that the parties explore sharing space in PAPL's cash centre. [Confidential to Prosegur: [Redacted]  
[Redacted]  
[Redacted] ] In my view, there would be savings to both parties from sharing rental, security and utility costs.

46. [Confidential to Prosegur: [Redacted]  
[Redacted]  
[Redacted] ] However, no further action was taken in relation to exploring this proposal [Confidential to Prosegur: [Redacted]  
[Redacted] ]

**C.4 Mount Isa subcontracting**

47. PAPL does not own or operate a cash centre in Mount Isa. All cash processing and CIT transport services in this area are outsourced to AMA, which has been providing these services for at least 10 years and before Prosegur entered Australia through its acquisition of Chubb Security Services Pty Ltd in 2013.

48. The prices that PAPL pays AMA for cash transportation and processing services at Mount Isa are significantly greater than the price PAPL charges its customers for this service.

**[Confidential to Prosegur:** [REDACTED]  
[REDACTED]  
[REDACTED]

49. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

**C.5 Port Hedland subcontracting**

50. Prosegur operates a cash centre in Port Hedland, where it processes cash collected in the region. It outsources cash collections to a third-party, **[Confidential to Prosegur:** [REDACTED]  
[REDACTED]

51. Until recently, it is my understanding that AMA outsourced cash collections in Port Hedland and was using air transport to move its cash from Port Hedland to its cash centre in Perth for processing. **[Confidential to Prosegur:** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

52. On 25 August 2022, AMA and PAPL executed an agreement for PAPL to provide cash processing services for AMA in Port Hedland. **[Confidential to Prosegur:** [REDACTED]  
[REDACTED]  
[REDACTED]

53. [REDACTED]

**D. OTHER SUB-CONTRACTING ARRANGEMENTS**

54. PAPL currently subcontracts CIT transportation services to subcontractors other than AMA in some metropolitan and regional locations and has been exploring whether subcontracting in additional areas may enable it to further reduce costs.

55. However, in some locations where PAPL has sub-contracting arrangements in place, PAPL is charged by the subcontractor a fee greater than it charges the customer for provision of the service. For PAPL's customers that require a national service, a fee applied in metropolitan regions may not be profitable in regional areas where there is less density on routes, a reduced volume of cash and where the costs of servicing the customer are higher. Although PAPL may subcontract in order to reduce the costs of servicing this region (i.e., the cost of a subcontractor would be less than the costs of servicing the region itself), the lack of density on these routes means that subcontractors still require prices above what is charged to the customer to remain profitable. In some other locations where the price charged to sub-contractors exceeds the price charged to a customer, PAPL's margins are often quite low.

56. **[Confidential to Prosecur:** [REDACTED]

---

<sup>1</sup> **[Confidential to Prosecur:** [REDACTED]

[REDACTED]

57.

[REDACTED]

58.

[REDACTED]

## E. THE PROPOSED TRANSACTION

59. As discussed in section B, I consider that PAPL has exhausted avenues for cost cutting that will have any appreciable impact on the business and does not have any further scope to materially improve business efficiencies or reduce costs going forward.

60. As discussed in section C, I have also explored options with AMA to see whether there are opportunities to share cash centre networks and address spare capacity in the industry in an effort to return PAPL to profitability. **[Confidential to Prosegur:** [REDACTED]

[REDACTED]

(a) [REDACTED]

(b) [REDACTED]

61.

[REDACTED]

[REDACTED]

62. Even if PAPL was able to negotiate arrangements with AMA (or other service providers) where PAPL were to provide services to AMA (or vice versa) in regional and rural areas, I consider that those arrangements would not fix PAPL's financial position. **[Confidential to Prosegur:**

[REDACTED]

(a) [REDACTED]

(b) [REDACTED]

(c) [REDACTED]

(d) [REDACTED]

(e) [REDACTED]

(f) [REDACTED]

63. While PAPL subcontracts transportation services to other service providers in certain metropolitan and regional locations, as I discuss in section D above, the cost of these arrangements are often greater than the revenue PAPL is receiving, or, are in areas where volumes and revenue are small.

64. I do not consider exiting regional or remote areas is a feasible option as PAPL's largest customers require a national service with a national footprint and a consistent service offering. In my view, a regional joint venture between the parties would also not be feasible because:

(a) Armaguard and Prosegur have different operating platforms and reporting processes that would be difficult to integrate, and the parties would need to perform cross-platform

reconciliations to provide customers with complete information on all services provided nationally;

(b) the joint venture would have to operate separately to the PAPL and AMA businesses, introducing additional costs relating to governance, staff, management and operations – in the current industry environment, I do not consider it sensible to be adding costs into the industry;

(c) pricing by the regional joint venture would have to be based on the actual costs of operating regional services and are not able to be cross-subsidised by other profitable parts of AMA or PAPL's business; and

(d) whilst a joint venture may remove excess capacity in regional areas and provide financial relief on regional routes, it only addresses a part of the overcapacity, density and overall profitability issues, which also extend to operations on metropolitan routes, in addition to adding costs as discussed above.

65. While PAPL has undertaken substantial cost cutting by exhausting all avenues for cost cutting that will have any appreciable impact on the business, it is still generating significant losses. I consider that the Proposed Transaction is the only viable solution left for PAPL if it is to remain in Australia. In my view, there is excess capacity in the CIT industry and the volume of cash is not sufficient to support the national infrastructure of two CIT providers in a shrinking market.

66. **[Confidential to Prosegur:** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

(a) [REDACTED]  
[REDACTED]  
[REDACTED]  
  
[REDACTED]  
[REDACTED]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

- (i) [Redacted list item]
- (ii) [Redacted list item]
- (iii) [Redacted list item]

[Redacted text block]



[Redacted]

[Redacted]

[Redacted]

(b)

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

67.

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Signed by Michael Douglas Shipton

on 31 January 2023

[Redacted]

Signature of Michael Douglas Shipton