

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: **Matthew Stephen Sykes**

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Date: 23 September 2022

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 Matthew Stephen Sykes in support of the joint application by AMA and Prosegur Australia for authorisation of the Proposed Transaction.	1 to 151	4 to 53
2	Confidential Annexure "MS01", being a list of each of Prosegur Australia's cash centres.	41	16
3	Annexure "MS02", being a spreadsheet containing an analysis of cash as a percentage of total payments over time.	99	32
4	Annexure "MS03", being a copy of a SMH article titled 'Small changes as Woolies ditched controversial trial of cashless stores', published 2 March 2021.	101(b)	34
5	Confidential Annexure "MS04", being a document containing examples of the cost impact on density changes on Prosegur Australia's regional and metropolitan routes.	117	39
6	Annexure "MS05", being a copy of Prosegur Australia's response to the RBA's Review of Banknote Distribution Arrangements Issues Paper, dated 6 th February 2022.	121(a)	42

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7	Confidential Annexure " MS06 ", being a copy of Precinct Hub Pty Limited's submission on the Regional Banking Taskforce's Issues paper, dated 18 th December 2021.	121(b)	42
8	Annexure " MS07 ", being a copy of a 2015 report prepared by the Centre for Social Impact, titled 'Eight Years on the Fringe'.	122(a)	42
9	Annexure " MS08 ", being a copy of a 2019 report prepared by CBE in the United Kingdom titled the 'Access to Cash Review'.	122(c)	42
10	Annexure " MS09 ", being a copy of a 2020 report prepared by RMIT and Swinburne University of Technology titled 'Measuring Australia's Digital Divide'.	122(d)	43
11	Annexure " MS10 ", being a copy of a 2021 report tabled by the Dutch Minister for Finance, commissioned by the Dutch Central Bank and prepared by McKinsey & Company, titled 'The future of cash infrastructure in the Netherlands'.	122(e)	43
12	Confidential Annexure " MS11 ", being a copy of a submission by Prosegur Australia to the Road Safety Remuneration Tribunal during its 2014 inquiry into the CIT industry.	127	44
13	Annexure " MS12 ", being a copy of the ASIAL cash in transit Code of Practice.	130	44
14	Confidential Annexure " MS13 ", being a spreadsheet containing an analysis of the cost of cash to retail customers.	151(a)	50
15	Annexure " MS14 ", being a copy of a media release by the New Zealand Bankers' Association titled 'Regional Banking Hubs Pilot'.	151(f)	53

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A. INTRODUCTION

1. I am the Chief Strategy Officer (**CSO**) of Prosegur Australia Pty Ltd (**PAPL**) and Chief Executive Officer (**CEO**) of Precinct Hub Pty Ltd (**Precinct**).
2. I make this statement in support of the joint application for merger authorisation that will be lodged by Linfox Armaguard Pty Ltd (**AMA**) and Prosegur Australia Holdings Pty Ltd (**Prosegur Australia**) 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, such as information relating to discussions with 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. Unless otherwise stated, I make this statement based on my own experience and knowledge of Prosegur Australia's operations as CSO of PAPL and CEO of Precinct, my involvement and experience in the Prosegur Australia business and cash-in-transit (**CIT**) industry in Australia for almost a decade, and my professional education, as set out in section A.1 below. Where matters are not within my personal knowledge, the contents are true to the best of my knowledge and belief, and I identify the source of my information.
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 Business, Accounting and Management from the University of Technology, Sydney (1999), and a Graduate Certificate in Commercial Law from Deakin University (2004). I also hold a Master of Business Administration in Human Resource Management and Leadership (2012) and a Doctor of Philosophy in Management (2020), both from the Macquarie Graduate School of Management.
7. I am a Chartered Accountant, accredited through Chartered Accountants Australia and New Zealand.
8. I have almost a decade of experience working in the CIT industry in Australia both for Prosegur Australia (the holding company of PAPL and Precinct) and its predecessor, Chubb Security Services Pty Ltd (**Chubb**). At Prosegur Australia, I have held the role of:
 - (a) CSO (referred to also at times by other titles such as General Manager Strategy) of PAPL since February 2014 and, between December 2013 and February 2014, the role of Post Merger Integration lead at PAPL;

- (b) CEO of Precinct since October 2021 and, between November 2020 and October 2021, the role of Business Lead at Precinct.
9. I am also a Company Director at Precinct (since 10 September 2019) and at Prosegur Asset Management Pty Ltd (**PAMPL**) (since 1 July 2016) (see also the corporate structure in section B.1, below).
10. Prior to commencing my employment at Prosegur Australia, I held the following positions:
- (a) General Manager Commercial at Chubb between September 2013 and December 2013, just prior to the Prosegur Group's acquisition of Chubb, where I was responsible for commercial review of contracts and preparation of pricing for customer bids;
 - (b) Chief Operating Officer and Director of Marketing and Communications at Pottinger between November 2008 and December 2013, a financial and strategic advisory firm where I had responsibility and oversight of all day-to-day firm operations and delivery of financial and strategic advice to clients;
 - (c) Chief Financial Officer (**CFO**) at Hal Group between January 2006 and October 2008, an information technology and consulting firm where I was responsible for finance and accounting, directing strategy, overseeing funding and funder relationships, managing compliance, credit and risk and directing a number of operating companies within the group. As part of this role, I was also CFO of Technology Leasing Limited which is Hal Group's lease finance business. Prior to becoming CFO of Hal Group, I held the role of General Manager of Finance at Hal Group between November 2004 and December 2005; and
 - (d) finance management level positions at Grace International School (2002-2004) and audit and assurance positions at Crowe Horwath Australia (1999-2002), Ernst & Young (1998-1999) and HLB Mann Judd (1995-1998).

A.2 Responsibilities at Prosegur Australia

11. I currently hold dual roles as CSO of PAPL and CEO of Precinct. I also hold dual directorial roles as a Director at Precinct and at PAMPL.
12. My responsibilities as CSO of PAPL have evolved over time. Since around August 2019, I have been responsible for:
- (a) analysing and understanding the CIT industry including customers and competitors, with a particular focus on the future of the industry and future of cash;
 - (b) developing new products, projects and solutions to benefit our customers;

- (c) leading acquisitions and other strategic partnerships;
 - (d) exploring opportunities to improve the sustainability of PAPL and introduce alternate business and revenue streams to reduce PAPL's reliance on logistics and cash processing;
 - (e) acting as the main liaison for discussions between PAPL and the RBA with respect to payments policy, its current inquiries and the future of cash in Australia; and
 - (f) responsibility for all legal affairs except employment and industrial relations.
13. Between February 2014 and around August 2019, in addition to having the responsibilities referred to in paragraph 12 above, my role included:
- (a) supporting the sales, marketing and business development functions, including in respect of pricing and negotiations with customers. For example, I was responsible for leading the pitch preparation, pricing and commercial negotiations with Westpac's deal team in responding to the Westpac request for proposal (**RFP**) in 2017-18 (which I discuss in section C.2 below); and
 - (b) sales enablement, particularly in relation to bid strategy and tender preparation.
14. I was also closely involved in Prosegur Australia's acquisitions of Toll Secure in 2016 and Cash Services Australia Pty Limited in 2017. I was the local project lead for both acquisitions, working with and supporting Prosegur Group's corporate development team in initiating, negotiating and completing the acquisition, including due diligence activities, valuation modelling and contract negotiation.
15. Separately, in my role as CEO of Precinct, I am responsible for:
- (a) total profit and loss for Precinct;
 - (b) financial management;
 - (c) overseeing strategy, product and market development for Precinct;
 - (d) regulatory compliance and approvals;
 - (e) customer and RBA engagement in relation to the development of multibank transactional banking solutions;
 - (f) operational management; and

(g) reporting to Precinct's ultimate parent entity and Board on the strategic direction and financial performance of Precinct.

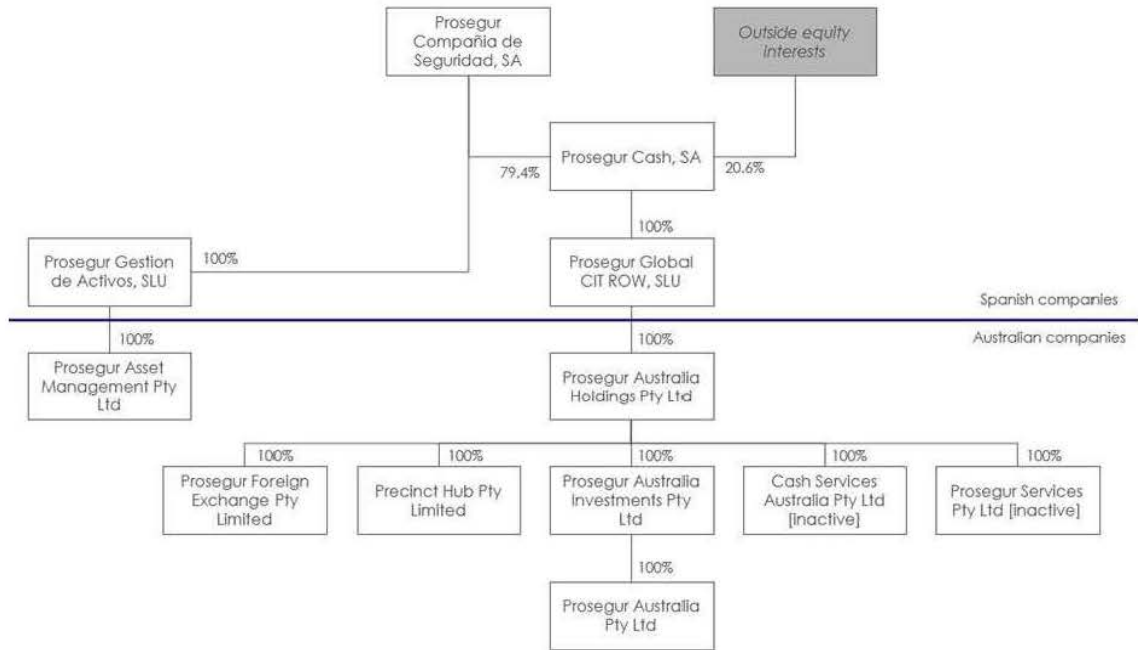
B. OVERVIEW OF PROSEGUR AUSTRALIA

16. Prosegur Australia is a proprietary limited company headquartered in Sydney, Australia (ACN 166 656 739).
17. Broadly, Prosegur Australia operates in the Australian CIT and associated security and cash processing services industry, offering to customers on a national basis, CIT services, device management and maintenance services and, to a limited extent, valuable cargo transport services. Prosegur Australia also owns and operates two networks of ATMs. The services provided by Prosegur Australia are described in further detail in section B.3 below.

B.1 Corporate structure

18. Prosegur Australia is a holding company for entities which comprise the Prosegur Australia business. Prosegur Australia is ultimately wholly-owned by Prosegur Cash S.A (**Prosegur Cash**), which in turn is majority owned and controlled by Prosegur Compañía De Seguridad S.A (**Prosegur Parent**). Both Prosegur Cash and Prosegur Parent are listed on the Madrid and other Spanish Stock Exchanges.
19. In this statement, I refer to Prosegur Group to refer generally to Prosegur Cash and Prosegur Parent, unless stated otherwise.
20. Figure 1 below is a corporate structure chart for Prosegur Australia as at 15 July 2022.

Figure 1: Prosegur Australia corporate structure



21. Prosegur Australia has five subsidiaries in Australia:

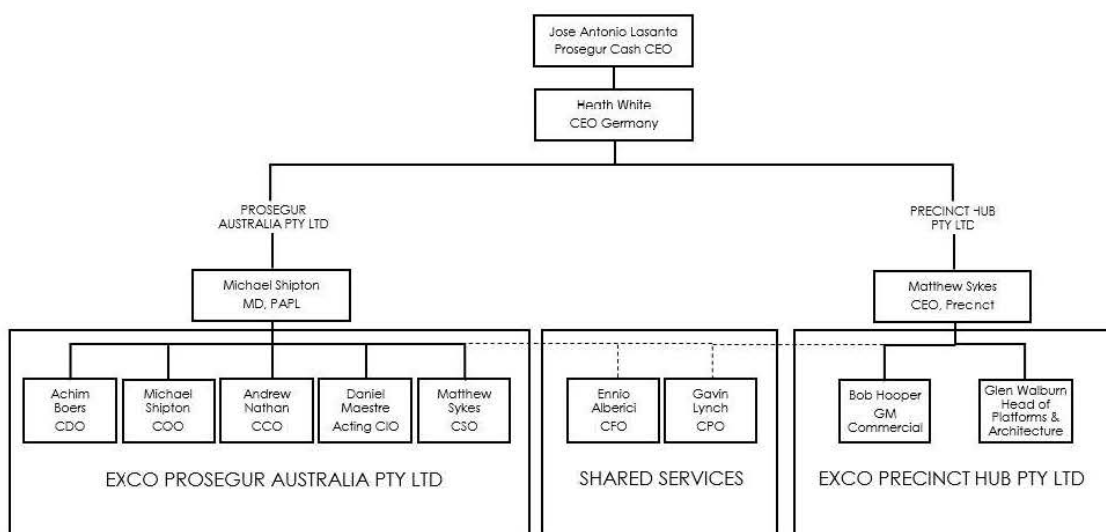
- (a) Prosegur Australian Investments Pty Limited, which is the holding company of PAPL (Prosegur Australia Pty Limited) - the company that operates Prosegur Australia's CIT, device monitoring and maintenance, independent Kwikcash and white label ATM network, and valuable cargo transportation business lines in Australia (see sections B.3.1 to B.3.4, below);
- (b) Precinct (Precinct Hub Pty Limited), which is the company that operates Prosegur Australia's Precinct business in Australia, which predominantly comprises the Precinct ATM network (see section B.3.5, below);
- (c) Prosegur Foreign Exchange Pty Limited (**PFX**), which is the company that operates Prosegur Australia's retail foreign exchange business (see section B.3.5.2, below);
- (d) two additional companies whose operations have now been absorbed into PAPL, and no longer provide any services in Australia, being:
 - (i) Cash Services Australia Pty Limited; and
 - (ii) Prosegur Services Pty Ltd.

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

B.2 Management structure

23. Prosegur Australia's management structure is largely organised by business function. A chart showing the management structure for PAPL and Precinct is provided in Figure 2 below.

Figure 2: PAPL and Precinct management structure



24. As shown in Figure 2:

- (a) Michael Shipton is the Managing Director of PAPL. In my role as CSO of PAPL, I (and the other executive committee members) report directly to Mr Shipton. Prior to Mr Shipton, I reported to Janine Copelin (who was the Regional Managing Director with country-level responsibility for Australia between March 2019 and June 2021) and, before that, to Michael Smith (who was the Managing Director from prior to Prosegur Group's acquisition of Chubb to March 2019);
- (b) Precinct operates as a separate entity to PAPL with separate reporting lines. In my role as the CEO of Precinct, I report directly to Heath White, the CEO of Prosegur Germany. The CFO (Ennio Alberici) and CPO (Gavin Lynch) of PAPL also provide shared services to Precinct but they do not report directly to me.

B.3 Business lines

25. Prosegur Australia has four key business lines, which are organised by operation and operated through PAPL:

- (a) **CIT**: This includes cash transportation, processing, forecasting, and related CIT products and services (see section B.3.1);

- (b) **Device monitoring and maintenance:** This includes device monitoring, first- and second-line ATM maintenance, other device maintenance and guarding services (see section B.3.2);
- (c) **ATMs:** This includes Prosegur Australia's Independent Kwikcash and white label ATMs (see section B.3.3). Precinct also operates an ATM business (see below);
- (d) **Valuable cargo transportation:** This includes Prosegur Australia's valuable cargo transport and valuables storage services (see section B.3.4).

Beyond these business lines, Prosegur Australia has recently sought to diversify its business and has engaged in a process of developing three new products and technologies, being its Precinct business, closed loop payments solution and the retail foreign exchange services. The closed loop payment solution is operated through PAPL, whilst the Precinct business and retail foreign exchange services are operated through Precinct and PFX, respectively. The main current business of Precinct is the operation of an ATM network, which was acquired from Westpac in 2019 but did not start operating until 2020 (see section B.3.5).

26. Each of these business lines is discussed in sections B.3.1 to B.3.5, below.

B.3.1 CIT

27. CIT includes:

- (a) cash transportation;
- (b) cash processing;
- (c) forecasting;
- (d) the Cash Today solution; and
- (e) the Wombat app.

B.3.1.1 Cash transportation

28. Prosegur Australia transports cash between customer sites (e.g., bank branches, ATMs and retail businesses) and cash centres. Prosegur Australia's drivers collect the cash from the customer site and transport it by either an armoured, semi-armoured or soft-skin vehicle to one of Prosegur Australia's cash centres for processing (see section B.3.1.2, below). The reverse also occurs - cash is delivered from cash centres to the customer site when they require cash replenishment.

29. Prosegur Australia also provides:

(a) some limited recarry services, where it will collect sealed cash bags from customers and transport those bags to a bank branch. These sealed cash bags are a banking product developed and promoted by each of the big four retail banks (NAB, Westpac, ANZ and Commonwealth Bank) to their respective business customers; and

(b) bulk cash movements, **[Confidential to Prosegur: [REDACTED]**
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

30. Except for recarry services, cash transportation services are usually acquired by customers together with cash processing and other related services (these services are discussed in sections B.3.1.2, B.3.1.3 and B.3.2 below). **[Confidential to Prosegur: [REDACTED]**
[REDACTED]
[REDACTED]
[REDACTED]

31. Prosegur Australia provides cash transportation services using its fleet of armoured trucks, semi-armoured vehicles, soft-skin vehicles and coin trucks. Prosegur Australia also has a fleet of cars and vans that are dedicated to performing maintenance services (discussed further in section B.3.2.1, below).

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

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

(b) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

34. [Redacted]

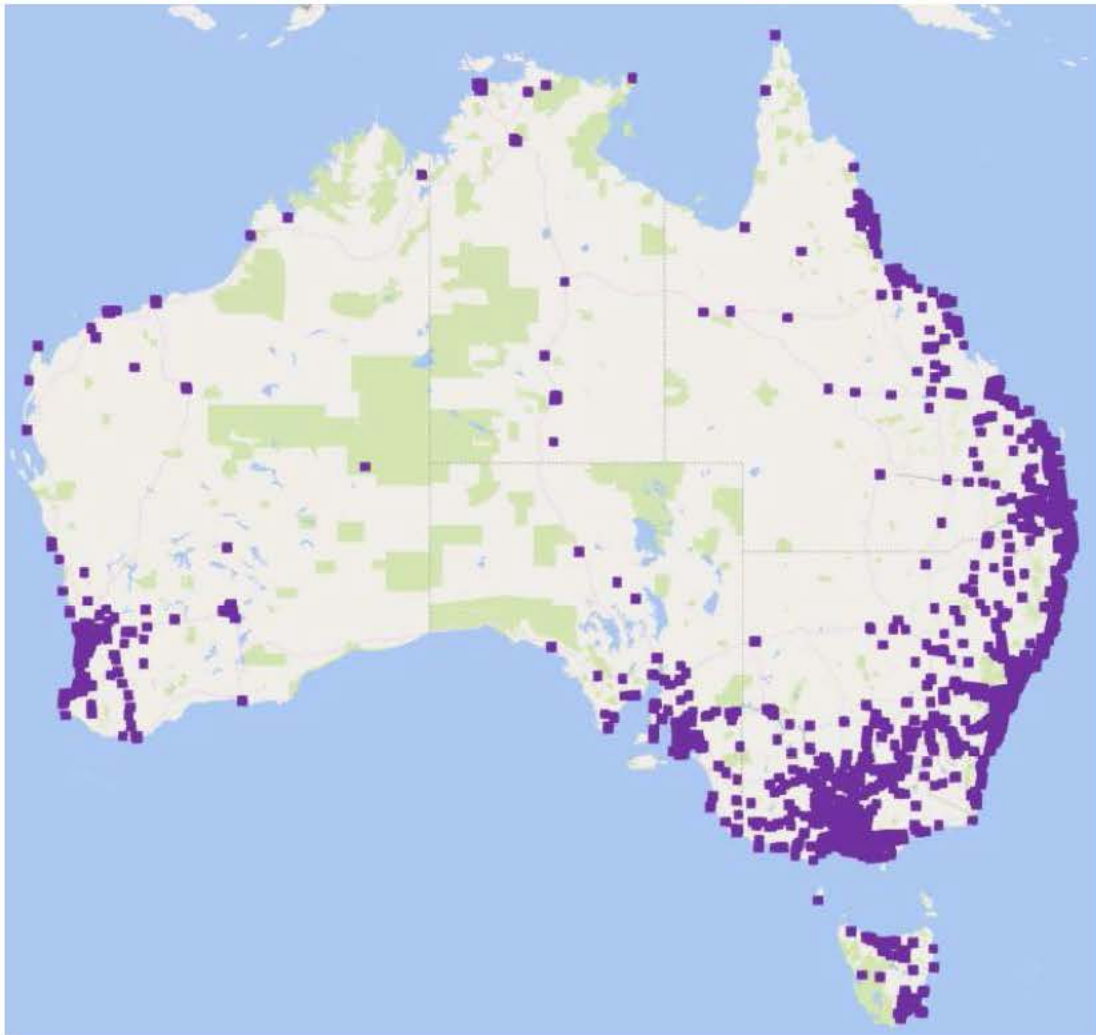
(a) [Redacted]

(b) [Redacted]

35. [Redacted]

36. Prosegur Australia’s cash transportation services are provided nationally. The company services well over 20,000 locations across Australia, as shown in the map at Figure 3. This includes such remote locations as Thursday Island QLD, King Island TAS, Weipa QLD, Charleville QLD, Warburton WA, Tom Price WA, and Paraburdoo WA.

Figure 3: Prosegur Australia service coverage



37. Routes can change daily depending on the customer(s) being serviced that day, as well as for safety reasons, such as route randomisation to reduce predictability on routes and prevent robbery events. Prosegur Australia has an automated system that provides daily route suggestions, which are then reviewed and subject to change by Prosegur Australia employees.

38. Prosegur Australia's drivers will often travel for extended periods of time across great distances to provide the cash transportation services. **[Confidential to Prosegur:** [REDACTED]

[REDACTED]

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

(b) [REDACTED]

(c) [REDACTED]

(d) [REDACTED]

B.3.1.2 Cash processing

39. Cash processing involves the counting, management, and verification of cash collected from customer sites (e.g., bank branches, ATMs and retail sites) as well as the preparation of cash to be delivered to customer sites. The verification services involve checking the cash for counterfeits as well as quality / fitness sorting.
40. Cash processing is performed at one of Prosegur Australia's RBA approved cash centres. Prosegur Australia has a national network of 26 cash centres. Figure 4 below shows the location of each of Prosegur Australia's cash centres (although there is only one point shown for Melbourne, there are two cash centres operating in Melbourne – the Clayton and Kensington cash centres).

(c) [REDACTED]
[REDACTED].

43. [REDACTED]:

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

(b) [REDACTED]
[REDACTED];

(c) [REDACTED];

(d) [REDACTED];

(e) [REDACTED];

(f) [REDACTED]
[REDACTED]

(g) [REDACTED].

44. [REDACTED]
[REDACTED].]

45. When cash arrives at the cash centre, Prosegur Australia may undertake any (or all) of the following cash processing services for a customer:

- (a) counting, sorting and verification of the value of cash collected from the customer;
- (b) deposit reconciliation services, where Prosegur Australia will reconcile the actual value of cash within all or a specific cassette, register / till or bag against the customer's expected value of cash;
- (c) quality and counterfeit checking of the cash;
- (d) customer bank account settlement; and
- (e) discrepancy management, where Prosegur Australia will reference CCTV footage and other documentary evidence of processed cash in instances of discrepancy or dispute over the reconciled or settled amount with a customer.

46. [Confidential to Prosegur: [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED].

47. [REDACTED]
[REDACTED]
[REDACTED].

48. [REDACTED]
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B.3.1.3 Cash forecasting

49. In addition to cash transportation and processing, Prosegur Australia also provides cash forecasting services. The forecasting services support Prosegur Australia’s CIT and device management and maintenance services (see section B.3.2 below). Prosegur Australia uses sophisticated modelling technology, which is capable of forecasting and modelling the timing for cash transportation services for a specific customer, for certain locations, and on specific devices. Where cash forecasting is performed well, it results in an optimised cost of cash for customers, by minimising the total of CIT transport costs and the customer’s cash holding costs (e.g., their cost of working capital). The service is typically charged [Confidential to Prosegur: [REDACTED]].

B.3.1.4 Cash Today

50. As part of its CIT service, Prosegur Australia also provides a Cash Today service where it installs cash automation machines at a business premises to allow daily deposits to be made securely. Prosegur Australia also refers to this as its ‘SmartSafe’ solution (and previously Kwikbank). The machines accept coin or note deposits and movements in the balance of cash in the machines

is able to be viewed in real time. Some Cash Today machines utilise recycling technology, which means that they recycle notes and coins that have been deposited allowing customers to draw those funds out to prepare floats for retail cash registers. This reduces CIT events (as there are less change orders) and improves efficiency at the customer site. A Prosegur Australia armoured vehicle is then able to collect the cash when the machine is full, which it monitors and forecasts. The business can have the value of a same-day service without moving the cash out of the business and without the need for CIT services to be performed daily.

B.3.1.5 Wombat cash App

51. Prosegur Australia provides customers with an app called Wombat. The basic version of the app is used by customers to schedule services, place change orders, and perform other interactions with Prosegur Australia. A more sophisticated version of Wombat can provide a complete cash management solution that eliminates trips to the bank and gets deposited funds into a customer's account quicker. Wombat allows customers to order and deposit business cash online 24/7 from any location. Customers can secure deposits into uniquely barcoded Prosegur Australia deposit envelopes and then register those deposits into the Wombat app. The registered deposits are credited to the customer's account and will then be collected by Prosegur Australia on scheduled service days. Change orders can also be dropped off at the same time.
52. Customers who subscribe to the Wombat app can, for an additional fee, also have access to the next-day day value service. These customers will have funds registered with Prosegur Australia settled and credited to their nominated account the next day, meaning that the customer does not have to wait for cash to be collected or deposited at the bank. Prosegur Australia will then collect the secured funds on scheduled service days and drop off change orders at the same time.

B.3.2 Device monitoring and maintenance

53. The device monitoring and maintenance business line includes:
 - (a) device monitoring;
 - (b) first-line maintenance on ATMs;
 - (c) limited second-line maintenance on ATMs;
 - (d) maintenance on other devices; and
 - (e) guarding services.

B.3.2.1 Device monitoring

54. Prosegur Australia monitors ATMs and other devices for faults or other failures. The monitoring process involves adding a piece of software to the device (an 'agent') which actively monitors device health across a wide range of measures and interprets messages from the device. If there is any fault or failure event, the agent sends a message to the monitoring team, who review and determine action. The monitoring process is what instigates any maintenance services for devices.

B.3.2.2 First-line maintenance on ATMs

55. First line maintenance includes services provided to process and fix immediate operational faults such as cash and card reader jams, provision of consumables where required, checking ATM fascia and surrounds for any unauthorised device, providing general cleaning of machines, replacing fascia stickers and marketing panels and ensuring on-site personnel safety and ATM security management. These services can typically be characterised as not requiring parts or tools.

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

57. [REDACTED]

58. [REDACTED]

59. [Redacted text block]

B.3.2.3 Second-line maintenance on ATMs

60. Second-line maintenance involves services for parts and technical failures, from repairing and replacing parts to loading new software or conducting diagnostics on complex issues, and also includes routine preventative machine check-ups. Second-line maintenance services are performed by technicians or engineers who are trained on the service requirements for the range of brands and models of ATMs.

61. [Confidential to Prosegur: [Redacted text block]]

62. [Redacted text block]

B.3.2.4 Maintenance services on other devices

63. [Confidential to Prosegur: [Redacted text block]]

64. [Redacted text block]

[REDACTED]

B.3.2.5 Guarding services

65. Guarding services (which in my experience are always armed services) are provided with CIT and maintenance services. These services comprise guarding services ancillary to CIT and ATM maintenance, including armed escorts where these services are required and providing additional services and / or project support at an ATM. Guarding services are typically required when a maintenance event requires the ATM safe to be opened such that it is possible to freely access the cash held in the ATM.

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

B.3.3 ATM network

67. Prosegur Australia, through PAPL, owns and operates a network of in-venue ATMs (known as its independent KwikCash ATM solution) and white label ATMs. Prosegur Australia, through Precinct, also owns and operates its Precinct network of ATMs, discussing in section B.3.5.1.1, below.

68. Figure 5 shows the location of Prosegur Australia’s independent deployed ATMs in Australia.

Figure 5: Prosegur Australia's independent ATM network



B.3.3.1 Independent Kwikcash ATMs

69. Prosegur Australia purchases ATMs from device manufacturers. Customers (typically clubs, pubs, casinos, but also shopping centres) will approach (or be approached by) Prosegur Australia either requesting or offering that an ATM be placed inside their premises. Prosegur Australia has complete responsibility for the end-to-end operation of the ATM. Prosegur Australia retains ownership of the ATM and will perform all CIT, processing and device monitoring and maintenance services. Prosegur Australia will also perform cash forecasting services on the ATMs.

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

B.3.3.2 White label ATMs

71. White label ATMs are similar to the independent Kwikcash ATM fleet in that Prosegur Australia has complete responsibility for the end-to-end operation of the ATM. White label ATMs allow the customer to:

- (a) determine the exterior and on-screen branding of the ATM;
- (b) agree with Prosegur Australia the services available to users of the ATM (for example, more complex banking transactions such as account transfers); and
- (c) determine the commercial model for users of the ATM.

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

B.3.4 Valuable cargo transport

73. Prosegur Australia also provides valuable cargo transport services to third-parties. This involves the transportation of any valuable goods which are not Australian currency, and includes the transportation of forex and non-cash valuables such as pharmaceuticals, gold, bullion, jewellery and gems. It includes both national and international transportation, utilising road vehicles as well as air transportation. It is a door-to-door service used by both businesses and individuals and, unlike cash transportation, does not necessitate the provision of ancillary services.

B.3.5 New products and technologies

74. **[Confidential to Prosegur:** [REDACTED]
[REDACTED] Prosegur Australia has recently been seeking to diversify its Australian business and has leveraged off the Prosegur Group’s research and development capabilities to trial new technologies and products in the Australian market. These new products and technologies include the:

- (a) Precinct business;
- (b) retail foreign exchange services; and
- (c) closed loop payment service.

B.3.5.1 Precinct business

75. Prosegur Australia's Precinct business currently operates the Precinct ATM network.

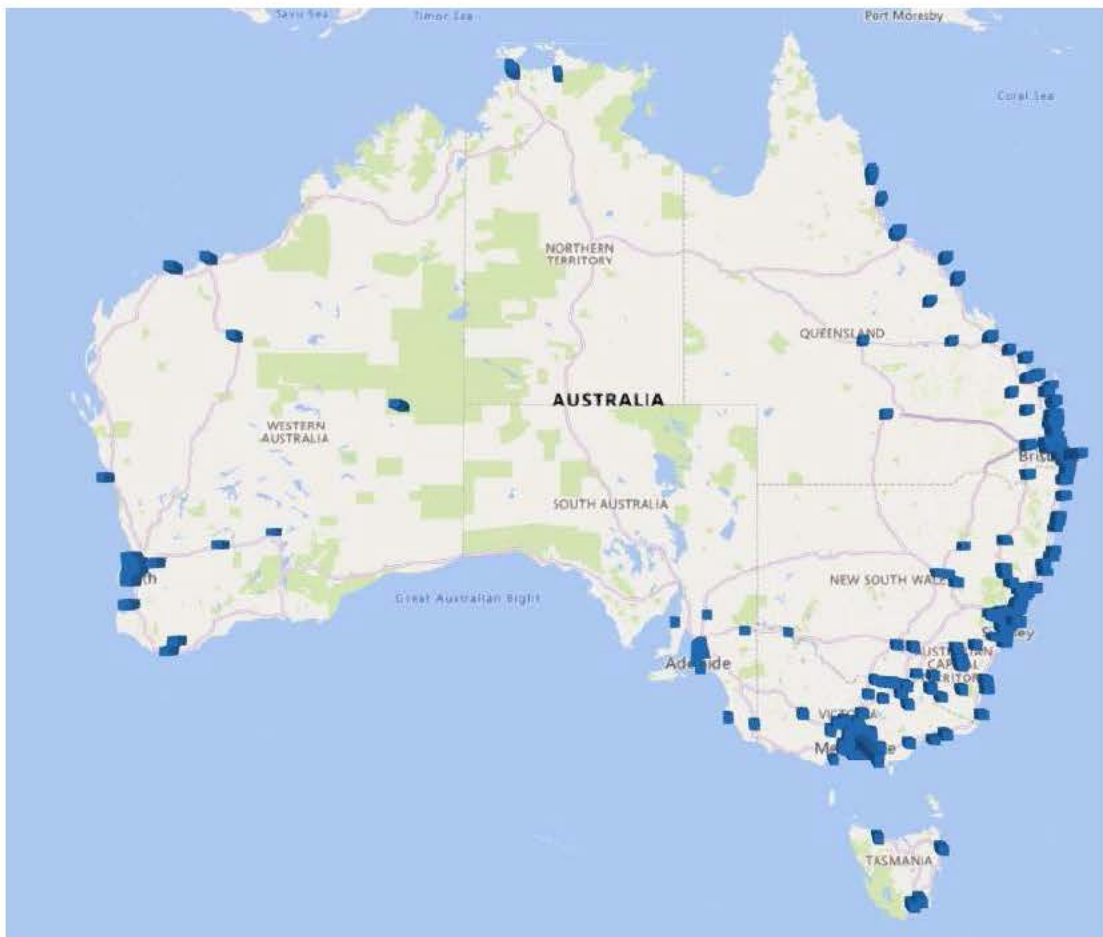
[Confidential to Prosegur: [REDACTED]
[REDACTED]
[REDACTED] (see section B.3.5.1.2, below).

B.3.5.1.1 Precinct ATM network

76. Prosegur Australia acquired the bulk of Westpac's off-site (i.e., non-branch) ATMs in 2019. As a result of the purchase, Prosegur Australia, through Precinct, operates a network of ATMs nationally, which are located offsite from the bank including in high streets, shopping centres, hospitals, offices and transport hubs.

77. Figure 6 shows the location of the Precinct ATMs in Australia.

Figure 6: Location of Precinct ATMs in Australia



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

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84.

[REDACTED]

(a)

[REDACTED]

(b)

[REDACTED]

85.

[REDACTED]

B.3.5.2 Foreign exchange services

86. Prosegur Australia recently established a new line of business and company, PFX. This company now operates retail foreign exchange services at Melbourne Airport. **[Confidential to Prosegur: [REDACTED]]** The services are primarily delivered through foreign currency booths throughout the airport. **[Confidential to Prosegur: [REDACTED]]**

B.3.5.3 Closed loop payment solution

87. Prosegur Australia has recently launched a closed loop payment solution. **[Confidential to Prosegur: [REDACTED]]**

B.4 Customers

88. Prosegur Australia provides CIT, device maintenance and valuable cargo transport services to a range of customers, including banks and financial institutions, supermarkets, other retailers, gambling venues (i.e., casinos, clubs and pubs), ATM network / device owners, government bodies and hospitality venues. **[Confidential to Prosegur: [REDACTED]]**

89. [REDACTED]

90. [REDACTED]

B.5 Subcontracting

91. [Confidential to Prosegur: [REDACTED]]

C. THE AUSTRALIAN CIT INDUSTRY

92. In my view, the CIT industry has undergone significant change over the last decade and, in particular, since around 2017. The current market dynamics and declining cash usage has seen unsustainable pricing leading to large losses and unacceptable business returns for Prosegur Australia and, in turn, Prosegur Cash. [Confidential to Prosegur: [REDACTED]]

93. Based on my experience and observations in my role, I consider the Australian CIT industry is currently characterised by the following key attributes:

(a) **Significant decline in cash use.** There has been a sustained trend towards a decline in the use of cash as a payment method in Australia. This has accelerated as a result of the COVID-19 pandemic and is expected to continue to decline into the future. The decline in cash use has reduced the pool of revenue available to CIT service providers in the industry. The key for CIT service providers, like Prosegur Australia, is to have sufficient volume to support a national network, which becomes increasingly difficult as cash usage declines overall and as a proportion of payments. [Confidential to Prosegur: [REDACTED]]

[REDACTED] (discussed in further detail in section C.1, below).

(b) **Significant and increasing customer power.** I understand that a large share of industry-wide revenue for CIT and related services is held by the largest seven customers in the industry. These customers are the four big banks, Woolworths, Coles and Australia Post. That concentration results in strong customer bargaining power. It also means that any one of these customers can have a significant impact on the density (i.e., number of jobs on a single route) and profitability of CIT services, even before consideration of the price that may need to be offered to win that business. These seven customers typically award their cash services contract to a single CIT company for periods ranging from three to five years, with contracts often running longer through extension options and contract

rollovers. These customers require a national service (which requires a national network of cash centres) and are able to exert significant power in negotiations, which is reflected in onerous contract pricing, service level requirements and other terms on CIT service providers in contracts. **[Confidential to Prosegur: [REDACTED]**
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]] (discussed in further detail in section C.2).

(c) **Challenges in servicing regional communities.** Australia's geography and low population density in many areas makes the national network challenging to operate economically. Declining volumes and market pressures mean many geographic areas are increasingly costly to service. Further, physical transport services have not reduced at the same rate as cash usage, resulting in reductions in the per-trip value of cash being transported. Over time this will get worse, and more regions will be affected. **[Confidential to Prosegur: [REDACTED]**
[REDACTED]
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[REDACTED]
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[REDACTED]
[REDACTED]
[REDACTED]] (discussed in further detail in section C.3).

94. As a result, I consider the industry is at a breaking point where the revenues available to CIT service providers, and prices that customers are willing to pay for these services, are insufficient to profitably maintain multiple national CIT infrastructures.

95. Despite this, in my view, cash remains important for many Australians and is vital as a method of payment. In particular, I have observed from my time in the CIT industry:

(a) **Cash is an essential payment method in Australia.** Cash is a safety net for individuals and Australia. If financial infrastructure or communications systems fail, cash is the alternative system. In times of natural disasters such as cyclones, floods or bushfires there is always an increase in demand for cash. During these times, cash has supported the Australian economy and CIT service providers like Prosegur Australia have found solutions to any delivery challenges (discussed in further detail in section C.4).

- (b) **There is still reliance on cash as a payment method.** There are still certain demographic groups in Australia that appear to rely on cash. This can be by choice (for example some people prefer to use cash for privacy reasons), or by force (for example persons who are digitally excluded, with low access to, or low ability to use, technologies that are used for alternative payment methods to cash). Cash is also more important to persons in regional or remote communities (discussed in further detail in section C.5).
- (c) **There is a need for a safe and secure CIT system.** A secure supply of cash is important for the operation of the Australian economy. The security of the cash supply includes measures taken by CIT service providers to protect the cash (such as use of armoured vehicles and security measures at cash centres) and protect their employees (such as firearms and bullet proof vests in certain circumstances). Whilst the introduction of increased security measures by the major CIT service providers since around 2010 has benefited employees of those companies, there remains no legislative requirements regarding safety. Currently, the significant safety benefits to employees of CIT service providers, and benefits from a reduction of crime and robberies in society as a whole, are realised through investments made by Prosegur Australia and AMA. These investments are becoming increasingly difficult to sustain as profitability in the industry deteriorates (discussed in further detail in section 123(a)).

C.1 Significant decline in cash use in Australia

96. In my roles as CSO of PAPL and CEO of Precinct, I closely monitor cash use in Australia.
97. I am aware from my role, which requires me to be familiar with reports and data prepared by the RBA, that cash use for retail payments has been declining alongside the growing use of electronic payments and that the decline has accelerated since the onset of the COVID-19 pandemic. Examples of RBA reports and data which I have had regard to include:
- (a) the RBA issues paper prepared as part of its review of banknote distribution arrangements and published in November 2021;¹
 - (b) the RBA's research paper prepared using evidence from the 2019 consumer payments survey and published in September 2020;²

¹ The RBA Issues Paper can be accessed on the RBA's website via the following link: <https://banknotes.rba.gov.au/resources/banknote-distribution-consultation/issues-paper/>.

² The RBA's research paper can be accessed on the RBA's website via the following link: <https://www.rba.gov.au/publications/rdp/2020/2020-06/full.html>.

(c) the RBA Bulletin titled 'How far do Australians need to travel to access cash?', published on 17 June 2021;³

(d) the RBA Bulletin titled 'Cash use in Australia: results from the 2019 consumer payments survey', published on 18 June;⁴ and

(e) the RBA's payments statistics, which includes data on ATM cash withdrawals, credit and debit card transactions and merchant fees going back to 1994.⁵

98. I am not aware of any publicly reported or generally available data on cash payments to businesses or cash withdrawals from banks. Therefore, Prosecur Australia has historically used a multiple of 1.5 of cash withdrawals as a proxy for cash payments. This is based on the rationale that, when cash is used by consumers, they will typically receive change from the merchant, and this will cycle some 2-3 times, but at decreasing levels.

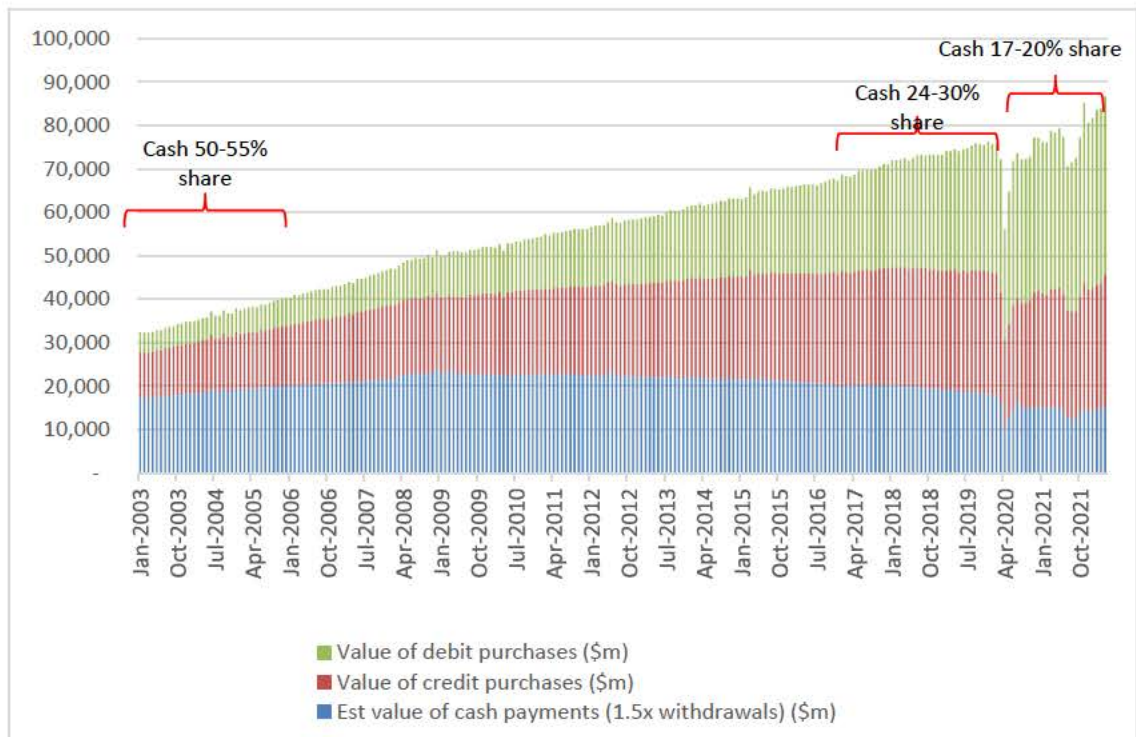
99. Using data extracted from the Reserve Bank of Australia's payment statistics, I have produced Figure 7, which shows the share of the three major payment forms by volume (cash, credit card, debit card) over time. A copy of this analysis is annexed to this statement and marked **Annexure MS02**. Between April 2020 and April 2022, Prosecur Australia estimates that cash has made up between 17% and 20% of total payments by value, excluding any Buy Now Pay Later payment products.

³ The RBA bulletin can be accessed on the RBA's website via the following link: <https://www.rba.gov.au/publications/bulletin/2021/jun/how-far-do-australians-need-to-travel-to-access-cash.html>.

⁴ The RBA bulletin can be accessed on the RBA's website via the following link: <https://www.rba.gov.au/publications/bulletin/2020/jun/cash-use-in-australia-results-from-the-2019-consumer-payments-survey.html>.

⁵ The RBA's payment statistics can be accessed on the RBA's website. The relevant statistics to which I have had regard are "C1: Credit and Charge Cards – Seasonally Adjusted Series", "C2: Debit Cards – Seasonally Adjusted Series", "C3: Average Merchant Fees for Debit, Credit and Charge Cards" and "C4: ATMs – Seasonally Adjusted Series". Spreadsheets containing this data can be downloaded from the RBA's website via the following link: <https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html>.

Figure 7: Cash as a percentage of total payments over time



100. I am also aware from my role that one proxy for cash availability is the number of bank branches and ATMs, which act as key access points for customers who wish to use cash as a payment method. I understand, through data published by Australian Prudential Regulation Authority (APRA), that the number of ATMs and bank branches in Australia has been declining since 2017. APRA publishes, on an annual basis, a detailed listing of the physical banking service channels provided to Australians by authorised deposit-taking institutions (ADIs). This data is referred to as APRA's 'points of presence statistics' and is available publicly on its website.⁶
101. Based on my role and experience in the industry, as well as the data referred to in paragraphs 97 to 100, above, I expect that the decline in cash use will continue over the longer term, but with a reduction in the rate of decline. I anticipate that there will be a number of important drivers for the future levels of cash usage in the community, which highlight the tension between customers for whom cash is important and retailers and banks who are increasingly moving to cashless payments. These include:
- (a) **Access to cash.** The extent to which consumers are able to access cash, principally through ATM networks but also through retail EFTPOS cash-outs and bank branches (or equivalents such as Bank@Post outlets) will be a direct influence on cash usage. If cash is not available at these access points, or if these access points reduce, then cash usage

⁶ APRA's points of presence data can be accessed on APRA's website via the following link: <https://www.apra.gov.au/authorised-deposit-taking-institutions-points-of-presence-statistics>.

will decline. If the CIT industry is not viable, then this may have a direct effect on services to support access to cash and, as a consequence, the presence of access points for cash.

- (b) **Acceptance of cash by retailers.** There is some anecdotal evidence of an increase in the number of retailers that do not accept cash, although my understanding is that all major retailers currently accept cash. There are some consumer groups who still demand cash services, which has influenced business choice for cash acceptance. For example, Woolworths trialled cashless Metro stores in 2020 and 2021, but abandoned the trial due at that time due to consumer backlash. A copy of an article reporting on this is annexed to this statement and marked **Annexure MS03**.
- (c) **Inability of retailers to bank cash.** As bank branches continue to close, retailers will find it increasingly difficult to accept cash as they have no proximal alternatives to deposit cash takings and collect change. The current services offered by Australia Post's Bank@Post will go some way to providing appropriate alternatives.
- (d) **Consumer preferences.** There are a wide range of groups in the community who have a preference for cash as a form of payment some or all of the time. These include a number of vulnerable groups – the elderly, recent migrants, longer term migrants with limited English, indigenous Australians, those with a disability, and lower socio-economic groups. These persons have a need to use cash because other forms of payment are either not available to them or are difficult for them to access and use. In addition, there are those in the community who preference cash for a range of personal reasons, such as privacy concerns, for budgeting, to minimise personal expenditure such as card surcharging and other card fees, etc (this is also discussed further in section C.5, below).

C.2 Increased power of customers

102. As discussed in paragraph 93(b), above, I understand that seven customers – the four big banks, Woolworths, Coles and Australia Post – currently represent a large share of the available industry-wide revenue for CIT services. These seven customers typically award their cash services contract to one CIT company for periods ranging from three to five years and require a national service.

103. **[Confidential to Prosecur:** [REDACTED]
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104. [Redacted text block]

105. [Redacted text block]

106. [Redacted text block]

107. [Redacted text block]

108. [Redacted text block]

109. [Redacted text block]

[Redacted]

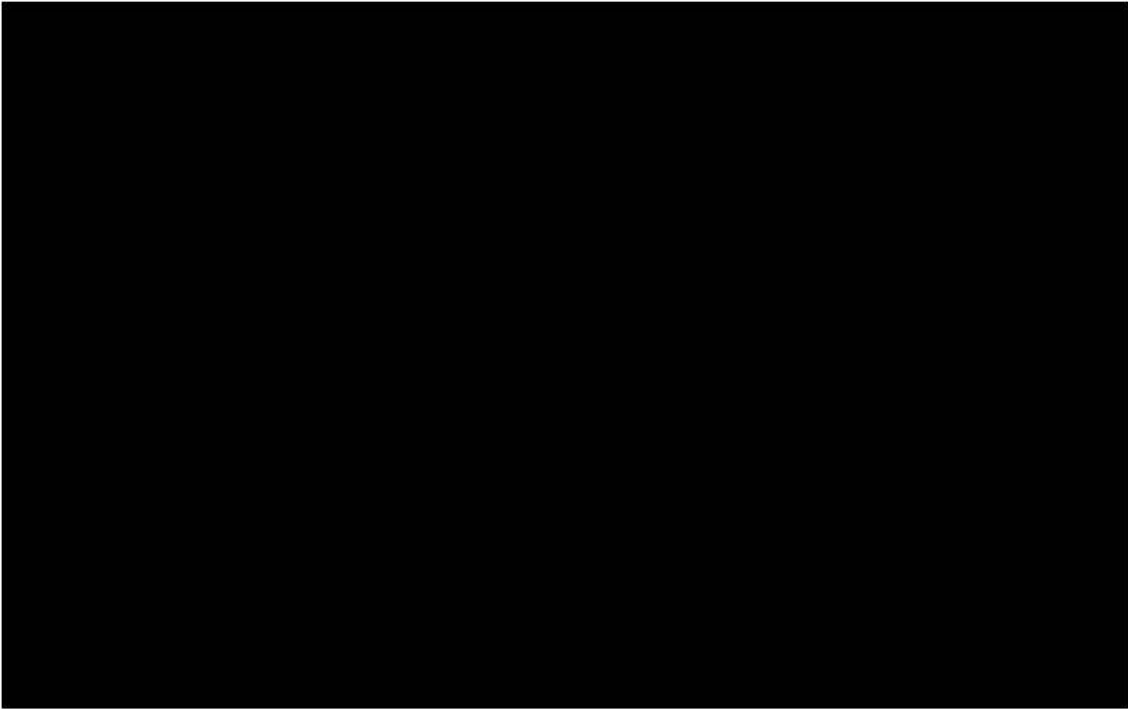
- 110. [Redacted]

C.3 Challenges of servicing regional communities

111. Australia's geography and low population density in many areas makes the national network challenging to operate economically. Declining volumes and market pressures mean many geographic areas, in particular regional and remote communities, are costly to service. Further, physical transport services have not reduced at the same rate as cash usage, resulting in reductions in the per-trip value of cash being transported. Over time this will get worse, and more regions will be affected.

- 112. **[Confidential to Prosecur:** [Redacted]

[Redacted]



113.

[Redacted text block consisting of multiple lines of blacked-out content]

[Redacted]

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114.

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115. [Redacted]

116. [Redacted]

117. [Redacted]

[REDACTED]

(a) [REDACTED]

(b) [REDACTED]

C.4 Cash is an essential payment method

118. I consider cash is a safety net for individuals and Australia and performs an essential disaster recovery function. If financial infrastructure technology or communication systems fail, cash is the only alternative payment system. I have observed that, in times of natural disaster such as cyclones, floods or bushfires, or during system outages (e.g., as a result of cyber-attacks, blackouts or system faults) there is an increase in demand for cash. During these times, cash has supported the Australian economy and it is CIT service providers that have found solutions to any delivery challenges. For example:

(a) **Northern NSW and Queensland floods:** During recent floods in 2022, electronic payment systems were not operating as the telecommunications infrastructure enabling these systems were down. Affected areas, such as areas in Northern NSW near Lismore, Casino and Grafton, relied on cash to transact including for essential supplies such as food, water and fuel. On short notice, under its commercial arrangements with Westpac, Prosegur Australia moved large amounts of cash into the affected regions. Prosegur Australia used its vehicle fleet and helicopters to mobilise this cash.

(b) **COVID-19 pandemic:** During the COVID-19 pandemic, cash demand changed significantly and with very little warning. At the start of the COVID-19 pandemic, cash activity dropped significantly and then rebounded significantly in the space of 2-3 months, while cash demand surged due to cash as a store of wealth and reliable form of payment. Prosegur was able to respond rapidly to the changes.

(c) **NSW fires:** During the 2019 / 2020 fires in New South Wales, the demand for cash in affected communities increased as power outages and system faults had caused a breakdown in electronic payment systems. In response to the increased demand for cash in those affect communities, Prosegur Australia was asked to move large amounts of cash on short notice.

(d) **Payments system outages:** I understand that outages in electronic payments systems are still a common occurrence and have the potential to create major disruptions to payment systems requiring the use of cash. I understand this based on my experience in the CIT industry and my review of the following:

(i) a November 2018 speech by Philip Lowe, Governor of the RBA, titled 'A journey towards a near cashless payments system' given at the Australian Payment summit where he stated that there been a number of serious operational incidents that have interrupted the payments system, including problems with telecommunications companies and at banks;⁷

(ii) a 3 May 2022 copy of a speech given by the RBA's Head of Payments Policy Department, Ellis Connolly, where data was presented showing that there had been material unplanned downtime in the second half of 2021 by providers of electronic payments system.⁸

In my view, the challenge with electronic system downtime is that it impacts all customers who use the network and who require the use the electronic service at the time of the outage. By way of example, if one of the major banks' card payments system went offline, the magnitude of the impact on Australian consumers is far-reaching and significant as none of that banks' business customers across the whole country would be able to accept card payments.

119. In times of crisis, I consider that community confidence is maintained, and businesses and customers are able to continue to transact, when cash access and acceptance is maintained.

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

⁷ Mr Lowe's speech can be accessed on the RBA's website via the following link: <https://www.rba.gov.au/speeches/2018/sp-gov-2018-11-26.html>.

⁸ Mr Connolly's speech can be accessed on the RBA's website via the following link: <https://www.rba.gov.au/speeches/2022/sp-so-2022-05-03.html>.



C.5 Reliance on cash as a payment system

121. Based on my role and experience, I consider there are members of the Australian population that rely on cash, including the elderly, indigenous persons, persons with low socio-economic status and persons in regional or remote communities. I have previously authored submissions, on behalf of Prosecur Australia, that express this view, including:

- (a) Prosecur Australia's response to the RBA's Review of Banknote Distribution Arrangements Issues Paper, dated 6th February 2022 (a copy of which is annexed to this statement and marked **Annexure MS05**); and
- (b) Precinct Hub Pty Limited's submission on the Regional Banking Taskforce's Issues paper, dated 18th December 2021 (a copy of which is annexed to this statement and marked **Confidential Annexure MS206**).

122. In my role, I am also required to familiarise myself with societal and demographic trends that are relevant to my responsibilities including my role in the exploration and development of new products and services. I am familiar with a number of reports and studies that support my view that cash remains vital as a method of payment to members of the Australian population, including:

- (a) a 2015 report prepared by the Centre for Social Impact (**CSI**) titled 'Eight Years on the Fringe', which considers financial exclusion in Australia (a copy of which is annexed to this statement and marked **Annexure MS07**);
- (b) the 2019 RBA research paper containing the consumer payments survey results titled 'Cash Use in Australia', which shows that the elderly, low-income households and persons in regional and remote communities have greater reliance on cash as a method of payment;⁹
- (c) a 2019 report whose preparation was chaired by Natalie Ceeney, CBE, in the United Kingdom titled the 'Access to Cash Review', which considers the impact of a reduction in physical banking and access to cash on communities in the United Kingdom (a copy of which is annexed to this statement and marked **Annexure MS08**);

⁹ The RBA's research paper can be accessed on the RBA's website via the following link: <https://www.rba.gov.au/publications/rdp/2020/2020-06/full.html>.

- (d) a 2020 report prepared by RMIT and Swinburne University of Technology titled 'Measuring Australia's Digital Divide', which analyses levels of digital inclusion in Australia (a copy of which is annexed to this statement and marked **Annexure MS09**); and
- (e) a 2021 report tabled by the Dutch Minister for Finance, commissioned by the Dutch Central Bank and prepared by McKinsey & Company, which looked at possible future challenges with the cash infrastructure in the Netherlands (a copy of which is annexed to this statement and marked **Annexure MS10**).

123. I am aware also, from my own experience having visited regional and remote communities, that cash is particularly important as a payment method in those communities. For example:

- (a) I visited the towns of Agnes Water and Seventeen Seventy in the Wide Bay region of Queensland on 7th June 2022 as part of a trip to understand cash and banking services needs in regional Australia. During my conversations with local businesses and members of the community, while I cannot recall the precise conversations, the substance of the discussion was that many retailers in the town strongly preferred cash, with electronic payment methods tending to be the exception rather than the typical form of payment.
- (b) I visited Pomona, inland on the Sunshine Coast in Queensland, on 8th June 2022 as part of a trip to understand cash and banking services needs in regional Australia. During my time in this town, I observed that there was a high level of cash usage through conversations with local residents and business owners. I also obtained the strong impression, through conversations with local members of the community, that many in the town are struggling from a financial services perspective after ANZ, and then Bendigo Bank, both closed branches in the town. In addition, I was told that some in the community are pushing for better access to financial services in the town.
- (c) I spoke with the mayor of Coonamble in Central Northern NSW at the Local Government Association Conference in Canberra on 21st June 2021. Through this conversation, I understand that there is concern that the remaining banks will close, leaving businesses and residents in the town without easy access to cash.
- (d) I visited Bawley Point and Kiola on the NSW south coast in January 2022 for a personal trip. In these areas, I observed that access to telecommunications is intermittent at best. I understand through conversations with local members of the community that cash is a primary or backup form of payment key to local businesses.

C.6 Need for a safe and secure CIT service

124. I consider that it is important that cash transportation in Australia is safe.

Australia invests heavily to ensure the safety of its employees whilst conducting CIT services. I consider that this level of investment in safety is of true benefit to those employees and to deterring crime and instances of robberies, as offenders are far less likely to target CIT service providers who are armed, wearing body armour and moving cash using appropriately equipped armed trucks. For example, in response to multiple armed robberies or attempted robberies in the years around 2010, Chubb (and then Prosegur Australia) put in place a series of improvements to physical security. Since that time, I am not aware of any robberies, or attempted robberies, involving Prosegur Australia's vehicles in Australia.

132. **[Confidential to Prosegur:** [REDACTED]
- [REDACTED]
- [REDACTED]
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- [REDACTED]
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- (a) [REDACTED]
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- (b) [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

D. THE PROPOSED TRANSACTION

133. I am aware that AMA and Prosegur Australia intend to make a joint application for merger authorisation with respect to the Proposed Transaction.
134. **[Confidential to Prosegur:** [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
135. If the Proposed Transaction is authorised, I consider it will deliver significant benefits to customers and consumers that would not be realised in the event of exit by one or the other provider. These are discussed in paragraphs 136 to 150 below.

136. I consider the Proposed Transaction will avoid the significant costs and disruption associated with a disorderly exit (whether through financial collapse or withdrawal from the market). Based on my experience working in the industry, I consider that an exit by one or the other party would have a significant short to medium term impact on the cash system and in turn on customers and consumers. There would be major disruption to a significant proportion of the industry's customers as the remaining provider(s) would need to very rapidly seek to scale up, transition work and negotiate new contracts. This is something that has been recognised by the RBA in its November 2021 issues paper for its Review of Banknote Distribution Arrangements:¹⁰

Also, should the profitability of an individual CIT company fall to such an extent that it exits the market, cash distribution – and with it access to cash – could be disrupted, at least in the short term.

137. The transition of customers across to the remaining entity (or smaller providers) would take time and likely involve:

- (a) the negotiation of new contracts;
- (b) the need for the remaining provider to scale up in terms of resources and logistics;
- (c) additional route logistics planning (as the remaining provider may not have a cash centre near a customer's location); and
- (d) significant managerial, operational and legal time and focus to execute on the above.

138. **[Confidential to Prosecur:** [REDACTED]
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- (a) [REDACTED]
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¹⁰ The RBA Issues Paper can be accessed on the RBA's website via the following link: <https://banknotes.rba.gov.au/resources/banknote-distribution-consultation/issues-paper/>.

[Redacted]

(b) [Redacted]

(c) [Redacted]

(d) [Redacted]

139. [Redacted]

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[Redacted text block]

141.

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[REDACTED]

144. On the other hand, if the Proposed Transaction was authorised, I understand the CIT operations would become sustainable. I also consider that there would be no disruption to the cash payment system, nor any decrease in access to cash, following the Proposed Transaction.

145. In a merger scenario, based on my experience in other merger and acquisitions in the past, I consider there would be an orderly integration period where there is a dedicated team focused on integrating the businesses separate from those that are ensuring business-as-usual operations.

146. I also consider that the combined entity will be able to leverage the strengths of each party to provide a better service to customers than would otherwise have been provided by either entity alone and without the Proposed Transaction, as described in the following paragraphs.

147. Prosegur Australia sits within the global Prosegur Group, which is one of the leading CIT providers in the world. The Prosegur Group globally invests heavily in the development of new products and technologies in the CIT industry and in related and new businesses. **[Confidential to Prosegur:** [REDACTED]

[REDACTED]

[REDACTED] I consider that a key strength of Prosegur Group is its investment in technology and innovation. Should Prosegur Australia exit the market, Australia would miss out on new and emerging technologies that are being developed and rolled out in CIT industries in other jurisdictions around the world.

148. I consider that AMA's strengths complement Prosegur Australia's strengths. Although I do not consider that AMA would have the same access to new products and technologies, I am aware that the Linfox group has a long history in Australia as a logistics business. In my view, AMA's core strength is its logistics service and its deep understanding of, and relationships in, the Australian CIT and broader logistics industry. Should AMA exit, Australia would miss out on the logistics expertise of the AMA business.

This compares to current merchant fees, which average 0.25% (EFTPOS), 0.51% (Visa and Mastercard debit) and 0.89% (Visa and Mastercard credit) and an overall average of 0.54%. I have estimated merchant fees using the RBA's payment statistics.¹¹ While this suggests there is still some difference between the two costs, cash pricing will come under more sustained pressure because:

- (i) I understand, from my review of the RBA's March 2020 Bulletin titled 'The cost of card payments for merchants',¹² that merchant fees continue to decline, and with the introduction of least cost routing, this decline is expected to continue;
 - (ii) Merchants are currently able to pass on the full cost of merchant fees through a surcharge, whereas it is much harder to pass the cost of cash to customers, making the effective cost of card acceptance for businesses zero;
 - (iii) Cash is generally seen as carrying a higher administrative cost for retailers due to the needs around controls for cash handling, reconciliation, and other processing services.
- (b) Prosegur Australia's business relies on volumes of cash being circulated in the economy and through its network. I consider that Prosegur Australia is incentivised to ensure that cash remains a relevant and widely used method of payment in Australia, and to not take any actions that might accelerate what would otherwise be the current trend towards a decline in cash use. As I see it, this means that Prosegur Australia now, and the merged entity, would be constrained in its ability to increase prices, or reduce service levels, because:
- (i) raising the cost of cash to a level closer to or above the cost of other forms of payment will cause businesses to remove cash as a method of payment - this includes banks, who are increasingly reducing the number of branches and investing heavily in alternative payment methods; and
 - (ii) decreasing service levels may reduce access to cash by business customers, which may incentivise a switch away from cash as a method of payment.

¹¹ The RBA's payment statistics can be accessed on the RBA's website. The relevant statistics to which I have had regard are "C3: Average Merchant Fees for Debit, Credit and Charge Cards". A spreadsheet containing this data can be downloaded from the RBA's website via the following link: <https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html>.

¹² The RBA bulletin can be accessed on the RBA's website via the following link: <https://www.rba.gov.au/publications/bulletin/2020/mar/the-cost-of-card-payments-for-merchants.html>.

Therefore, I consider that other forms of payment impose a significant constraint on CIT service providers. I also consider that this constraint will only increase as new forms of payment are developed, and the cost of providing current forms of payment decrease.

- (c) I consider that existing customer contracts, **[Confidential to Prosegur: ██████████ ██████████]** will provide a constraint following the Proposed Transaction with the prices and terms negotiated pre-Transaction continuing throughout the remainder of the contract term.
- (d) The banks have significant power in the industry and access to significant funds. As discussed in section C.1, the banks are moving towards a 'cashless' society. The power of the banks to influence consumer choice on methods of payment will impose a significant constraint on the merged entity's pricing and service levels to banks, who may otherwise look to reduce their reliance on cash and encourage customers towards alternative methods of payment. Other customers may also choose to no longer accept cash or insource CIT services.
- (e) In addition, the banks (especially the big four banks) have previously demonstrated that they have the means to sponsor new entry, or sponsor the expansion of a current smaller CIT service provider in the industry. For example:
- (i) in around 2006, the banks entered into a joint venture called Cash Services Australia, whereby the banks' demand for CIT services was centralised and put out to tender, in order to achieve more favourable terms. This joint venture was acquired by Prosegur Australia in 2017;
 - (ii) in August 2012, Westpac effectively sponsored the market entry of Toll Secure by awarding it a contract for CIT services;
 - (iii) Westpac has, from time to time, sponsored the expansion of smaller players through awarding subsets of work. This most notably includes Toll Secure's initial growth, but also includes direct relationships with a number of smaller market participants in their direct-to-customer CIT model.

I understand, based on my experience in the industry and through dealings with the major banks, that many of the banks are looking to reduce their reliance on cash as a payment system in favour of other methods of payment. However, to the extent that the banks continue to rely on cash as a method of payment, I consider that they continue to have the means to sponsor new entry, or sponsor the expansion of a current smaller CIT service provider in the industry. In my view, there are enough smaller operators with enough coverage that the banks could support the development of a new domestic player, or the entry of a foreign heavyweight via greenfields or a rollup acquisition of smaller players.

(f) The banks and other customers may also reduce their reliance on CIT services by reducing their cash point footprints, either by no longer accepting cash or by sharing physical locations, which reduces the dependency on CIT services. For example, the banks could close down branches and become cashless, or opt into the existing Bank @ Post services. Should a Precinct hub / bank utility type solution reach the market under the Proposed Transaction, this may also present an option for the banks as an addition to or as an alternative to Bank@Post. Using shared facilities would drastically reduce CIT intensity. This type of approach is already being trialled by ANZ, NAB (trading as BNZ in New Zealand), Commonwealth Bank (trading as ASB in New Zealand) and Westpac in New Zealand (along with two other New Zealand banks). In November 2020, these banks formed a partnership to engage in a banking hub trial. The hubs provided a smart ATM (that provides deposits and withdrawals), phone banking and tablets for online banking. Support staff were available to help customers use the service. The New Zealand Bankers' Association chief executive is currently assessing the effectiveness of the trial. A copy of an article containing information on the trial is annexed to this statement and marked **Annexure MS14**.

(g) Soft-skin providers. Although I consider that the armoured vehicle service will remain necessary for banking customers, who move larger quantities of cash and will prefer an armoured service, it is my view that soft-skin providers are, and will remain, a real constraint on cash transport services to all other customers following the Proposed Transaction. Even today, I observe within the PAPL business that many collections and deliveries performed by our armoured trucks are below the ASIAL Code of Practice threshold for soft skin cash movements, meaning that soft-skin vehicles could be used to make these collections. This is also a practice that I have observed industry wide and in particular for small-medium customers. I anticipate this to continue to grow as the amount of cash in circulation continues to decline, which means that an increasing number of locations will be able to be serviced by a soft-skin vehicle. Some soft-skin providers also have cash processing capability today, though typically with very limited capacity. Even today, I understand that soft-skin providers service some national customers through joint service and subcontract models.

Signed by Matthew Stephen Sykes

on 23 September 2022



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Signature of Matthew Stephen Sykes