
The Proposed Acquisition of ACM by Armourguard

A competitive effects and public benefits
assessment

RBB Economics, 27 March 2024

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1 Introduction and summary

1.1 Introduction

- 1 The “Proposed Acquisition” involves the acquisition of ACM (NZ) Limited (“ACM”), a subsidiary of Linfox Pty Ltd (“Linfox”), by Evergreen NZ Holdings (“Evergreen”). Both ACM and Evergreen’s subsidiary Armourguard Security (NZ) Unlimited (“Armourguard”) provide cash-in-transit (“CIT”) and precious cargo services to customers in New Zealand.
- 2 RBB Economics has been engaged by Armourguard to prepare an economic expert report that considers whether the Proposed Acquisition would not be likely to result in a substantial lessening of competition (“SLC”) in any relevant market and/or give rise to sufficient public benefit to outweigh the competitive harm arising from the Proposed Acquisition.

1.2 Summary

- 3 Having defined separate national markets for CIT services and precious cargo services, the main focus of this report is on the effects of the Proposed Acquisition in these relevant markets.
- 4 The main issue raised by the Proposed Acquisition is how the “with and without test” should be applied. The “with and without test” requires a comparison of the likely state of competition if the Proposed Acquisition proceeds (the scenario with the Proposed Acquisition, often referred to as the factual) with the likely state of competition if it does not (the scenario without the merger, often referred to as the counterfactual).
- 5 Usually, the best guide of what would happen without a proposed merger is what is currently happening in the relevant market (which is the status quo). However, in some cases, taking the state of competition prevailing at the time of the proposed merger as the benchmark for analysis could risk attributing a future change in the level of competition to that merger, when the real cause is some other development that is unrelated to the proposed merger and likely to occur regardless of that merger.

6 [REDACTED]

7 [REDACTED]

- [REDACTED]

¹ Where we refer to “the Parties” in this report, we are referring to ACM and Armourguard.

[Redacted]

- [Redacted]

- [Redacted]

- [Redacted]

- [Redacted]

8 [Redacted]

9 [Redacted]

10 [Redacted]

11 [Redacted]

- [Redacted]

- [Redacted]

- 12 Our finding is that the “with and without” test should assume [REDACTED]
[REDACTED]
[REDACTED] In other words, the Proposed Acquisition would not be likely to result in a substantial lessening of competition in the markets for CIT and precious cargo services.
- 13 Although this means that that there is no competitive harm from the Proposed Acquisition that needs to be outweighed by public benefits, we identify several public benefits arising from the Proposed Acquisition, assuming a hypothetical counterfactual [REDACTED]
[REDACTED] These are:
- The Proposed Acquisition will remove duplicative fixed costs [REDACTED]. Even after accounting for integration/restructuring costs associated with the Proposed Acquisition, this will lead to a saving in net present value (NPV) terms of \$3.3 million [REDACTED]
[REDACTED]
 - The Proposed Acquisition will [REDACTED] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
 - The Proposed Acquisition will [REDACTED]
[REDACTED]
 - [REDACTED]

1.3 Structure of this report

- 14 The rest of this report is structured as follows.
- Section 2 provides information on the services provided by the Parties and on the Parties’ competitors.
 - Section 3 defines the relevant markets for the purpose of assessing whether the Proposed Acquisition is likely to substantially lessen competition. It also provides estimates of the Parties’ shares of supply in the relevant markets.
 - Section 4 assesses the likely competitive effects arising from the Proposed Acquisition, focussing on the likely state of the world without the Proposed Acquisition.
 - Section 5 discusses the public benefits that are likely to arise as a consequence of the Proposed Acquisition.

2 The Parties' activities and other suppliers

2.1 The Parties

2.1.1 The Parties offer a full range of CIT and precious cargo services

15 Both Parties offer a comprehensive range of CIT and precious cargo services throughout New Zealand.

- **Cash transport services**, which refer to the physical transport of cash to and from customer locations and cash processing centres (i.e., the sites at which CIT companies count, balance and fitness sort cash).
- **Cash processing services**, which involve the counting and balancing of collected cash, and the payment of that cash into customers' bank accounts, as well as fitness sorting (i.e., checking to see if notes are fit for use) and the detection of counterfeit money.
- **Cash administration services**, which include cash management services and cash funding. Cash management services include the settlement of customers' accounts after collection and processing (i.e., exchanging the customers' cash for digital money), as well as forecasting services, and discrepancy management. Cash funding includes providing the daily electronic transfer of funds deposited by customers in safes or bags [REDACTED]
[REDACTED]
[REDACTED] Cash funding also includes providing funding balances for some ATMs and reconciling daily electronic funds transfers to the physical cash collected.
- **Ancillary (first-line) maintenance services**, which involve the processing and fixing of immediate operational faults with ATMs and other self-service devices, such as cash and card reader jams, as well as providing general cleaning of ATMs. These services are ancillary to the Parties' core CIT services, i.e. they typically do not supply first-line maintenance services on a standalone basis but rather offer it as part of a broader package of CIT services. For example, ANZ and Kiwibank, who procure maintenance services separately, use NCR (a provider of software, hardware and maintenance services for ATMs and other devices) rather than either of the Parties. [REDACTED]
[REDACTED]
- **Precious cargo services**, which include the transportation and storage of valuable goods that are not New Zealand cash, such as diamonds and jewellery, bullion, high end luxury goods, foreign banknotes, and medicinal cannabis. It is a door-to-door service that can involve international as well as national transportation. For international services, the Parties work with freight forwarders and international cargo transport services to ensure the valuables reach their destination securely.

2.1.2 The Parties are present at both levels of the cash distribution system

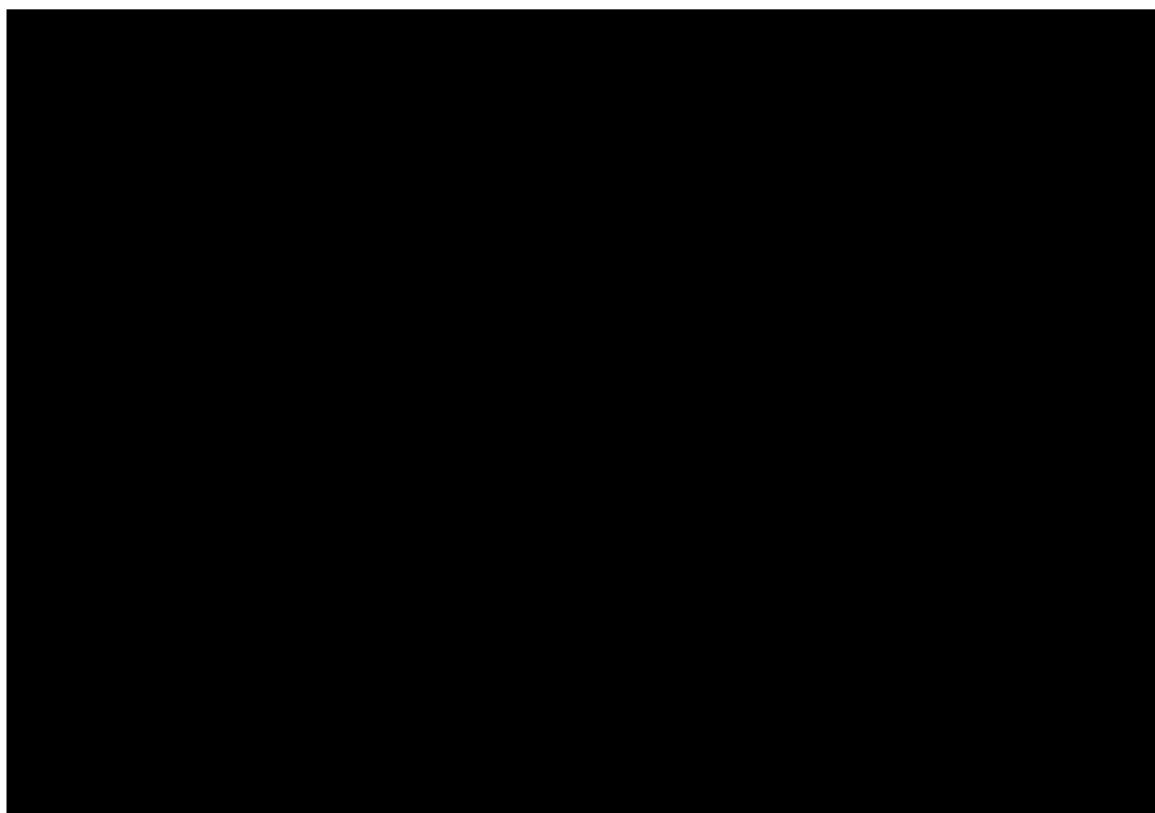
- 16 By carrying out the cash transport, processing and administration services outlined in section 2.1.2, the Parties play an important role in the New Zealand cash distribution system at both the wholesale and retail level.
- 17 Wholesale cash distribution refers to the bulk movement of cash between the RBNZ and processing centres, banknote fitness sorting, and the daily reporting of cash holdings on behalf of the major banks. It also includes the services that facilitate interbank trading between the major banks.
- 18 Of the five major banks, [REDACTED], while [REDACTED]. The Parties also provide wholesale services to the RBNZ.
- 19 Retail cash distribution refers to the transport of banknotes between processing centres and customer locations where cash is then made available to the public (i.e., bank branches, ATMs, and retailers), as well as any cash processing and administration services associated with servicing these retail locations. As well as providing retail services to the major banks, the Parties also provide retail services to a wide range of customers, including other banks, government customers, retailers, gaming venues and hospitality venues.

2.1.3 The Parties have a physical presence throughout New Zealand

- 20 [REDACTED]
- 21 [REDACTED]
- 22 [REDACTED] below shows the location of the Parties' processing centres. [REDACTED]

² We define FY 2023 as the 12-month period from July 2022 to June 2023. We do similarly for other financial years; for example, we define FY 2022 as the 12-month period from July 2021 to June 2022. This [REDACTED]

Figure 1: The Parties' processing centres



2.2 Other suppliers

- 23 The other providers of CIT and precious cargo services in New Zealand are much smaller than the Parties. The largest third-party provider is Direct Security Services (“DSS”), a family-run business that has been in operation for over 20 years. There also other smaller providers, such as Security North, which provides CIT services in the Whangarei and Northland regions.
- 24 Major CIT and precious cargo customers generally do not use these other providers. This is for a number of reasons.
- 25 First, these other suppliers have limited or no processing capabilities and do not offer a broad range of cash administration services. Major CIT customers demand a bundle of these services from their CIT provider.
- 26 Second, these other providers do not offer a national service. This means customers with a national presence would have to use multiple providers if they wanted to use these other providers. However, major customers generally want a “one-stop-shop” for their CIT or precious cargo needs.
- 27 Third, these other providers generally do not have semi-armoured vehicles, nor do their drivers wear protective body vests or body cameras. Major customers generally expect these security measures from their CIT or precious cargo provider.

- 28 Fourth, these other providers do not have the comprehensive CIT insurance required to cover the bulk cash movements that are generally associated with servicing major customers.
- 29 Fifth, these other providers do not have the IT infrastructure to meet the CIT demands of major banks.
- 30 Sixth, we understand that these other providers do not have the resources to invest in their own full-time staff and procedures to detect and deter money laundering and terrorism financing, as required under New Zealand's Anti-Money Laundering and Countering Financing of Terrorism Regulations.

3 Market definition and market shares

3.1 Market definition

- 31 For the purpose of assessing the effects of the Proposed Acquisition, we define two relevant markets: the supply of CIT services in New Zealand and the supply of precious cargo services in New Zealand.
- 32 For ease of reference, we do not split CIT services into the constituent product components for the purpose of market definition. Cash transport, cash processing, cash administration and ancillary (first-line) maintenance are not substitutes from the perspective of consumers (i.e. they are not demand-side substitutes). However, customers generally procure these products together from a single provider. This is reflected in the fact that the two main CIT providers (i.e. the Parties) offer all of these services and that those suppliers who do not (namely DSS and other third-party CIT suppliers) are very small.
- 33 Nor do we consider it necessary to split CIT services into separate markets based on the level of the supply chain. CIT services can be segmented at the functional level into services that facilitate wholesale cash distribution and those that facilitate retail cash distribution. However, the only two suppliers of wholesale services – the Parties – are also suppliers of retail services. Moreover, customers of wholesale services generally do not procure wholesale services separately; in particular, the major banks procure wholesale and retail services together. For ease of reference, therefore, we consider a single market for wholesale and retail CIT services.
- 34 In the case of precious cargo services, these are generally not procured alongside other CIT services. This reflects the fact that precious cargo customers often don't require CIT services and generally require precious cargo services on an ad hoc basis. We therefore consider precious cargo services to be in a separate market to CIT services for the purpose of our assessment.
- 35 Finally with respect to market definition, we do not consider it appropriate or necessary to define geographic markets narrower than a single New Zealand-wide market. As explained in section 2.1.3, the Parties have a physical presence throughout New Zealand, including both the North Island and the South Island. While some small providers may only offer services in certain regions, as explained in section 2.2, these providers do not compete for the major customers that account for the vast majority of the Parties' revenues. We therefore would not expect any meaningful variation in competitive conditions across regions within New Zealand.

3.2 Market shares

- 36 Table 1 presents the shares in the New Zealand CIT market. These are based on a combination of the Parties' actual revenues and the Parties' best estimates. As Table 1 confirms, ACM and Armourguard are the only two main providers of CIT services in New Zealand, with a combined market share of around ■ per cent.

Table 1: Market shares in the market for the supply of CIT services in New Zealand, FY 2023

Supplier	Revenue (\$m)	Share
ACM		
Armourguard		
Combined		
DSS		
Others		
Total		100%

Source: RBB analysis; ACM; Armourguard.

Notes: Revenues and shares rounded to the nearest integer.

- 37 Table 2 presents the shares in the New Zealand precious cargo market. These are based on a combination of the Parties' actual revenues and the Parties' best estimates. As Table 2 confirms, ACM and Armourguard are the only two main providers of precious cargo services in New Zealand, with a combined market share of around ■ per cent.

Table 2: Market shares in the market for the supply of precious cargo services in New Zealand, FY 2023

Supplier	Revenue (\$m)	Share
ACM		
Armourguard		
Combined		
DSS		
Others		
Total		100.00%

Source: RBB analysis; ACM; Armourguard.

Notes: Revenues rounded to the nearest two decimal places, shares rounded to the nearest integer.

4 The with and without test

38 This section discusses the role that the “with and without” test plays in a competitive assessment and presents our findings on the test that should be used to assess the competitive effects of the Proposed Acquisition.

39 The “with and without test” requires a comparison of the likely state of competition if the Proposed Acquisition proceeds (the scenario with the Proposed Acquisition, often referred to as the factual) with the likely state of competition if it does not (the scenario without the merger, often referred to as the counterfactual).³

40 The NZCC’s Mergers and Acquisitions Guidelines state that often the best guide of what would happen without the merger in question is what is currently happening in the relevant market (which is the status quo). However, in some cases, taking the state of competition prevailing at the time of the merger as the benchmark for analysis could risk attributing a future change in the level of competition to a merger, when the real cause is some other development that is unrelated to the merger and likely to occur regardless of the merger.

41 [REDACTED]

42 [REDACTED]

- [REDACTED]
- [REDACTED]

43 [REDACTED]

4.1 [REDACTED]

44 [REDACTED]

³ NZCC Mergers and Acquisitions Guidelines, May 2022, para 2.29.
⁴ [REDACTED]
⁵ [REDACTED]

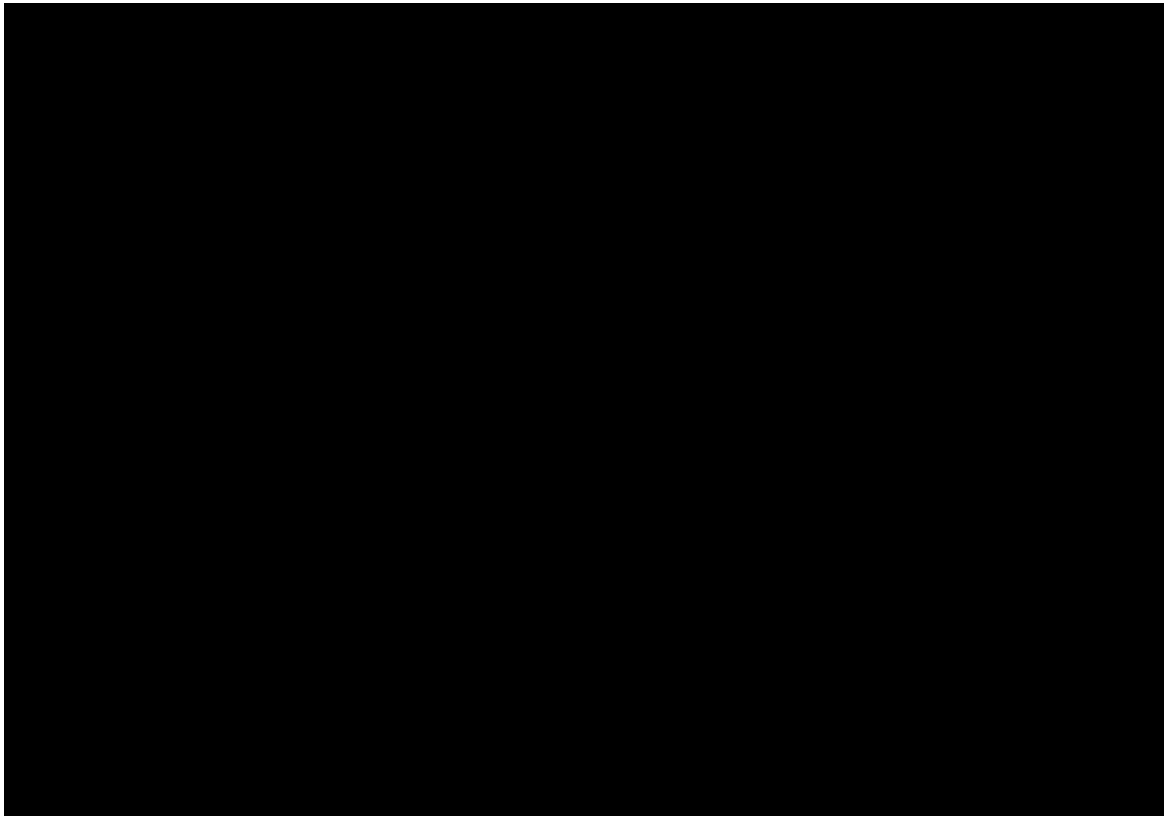
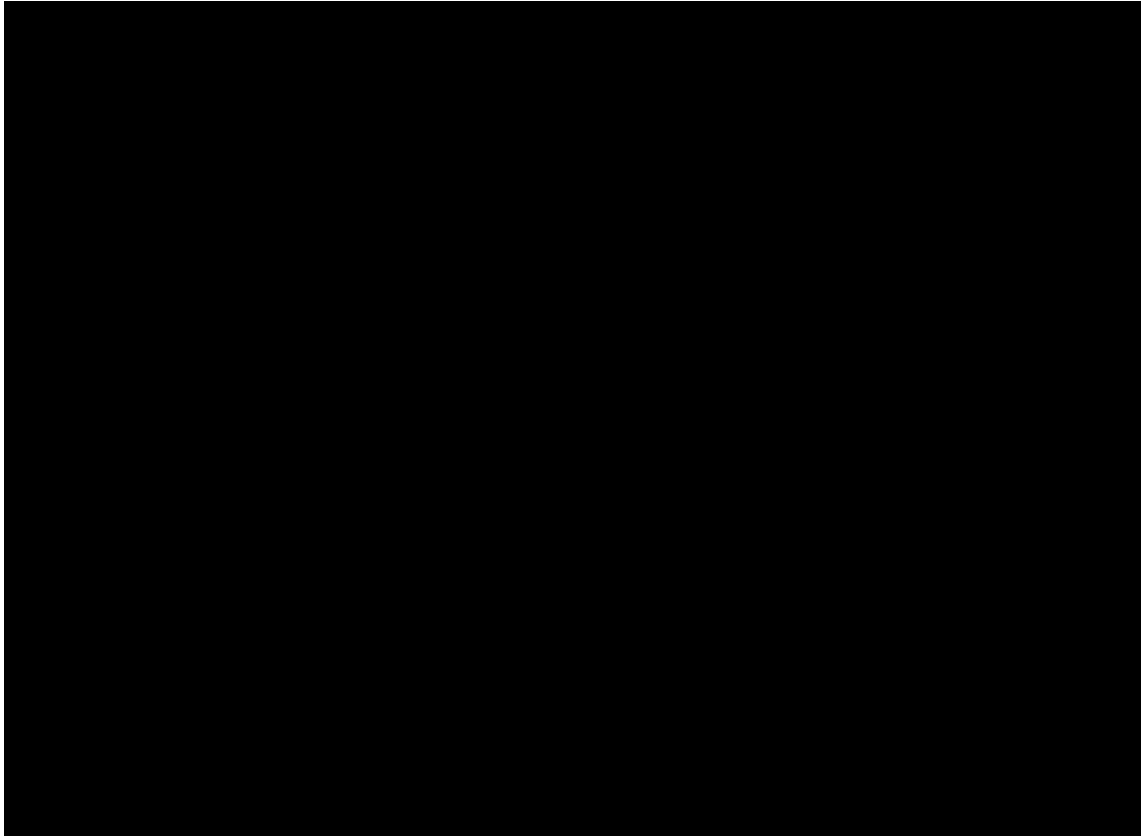
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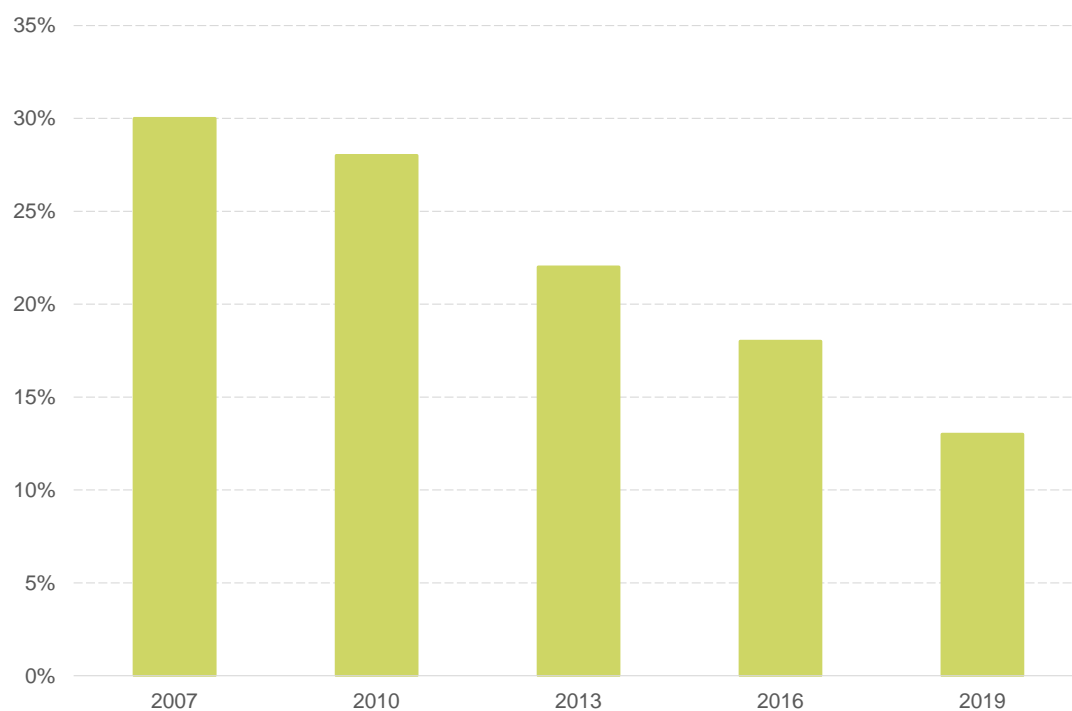
46 [REDACTED]
[REDACTED] [REDACTED] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

6 [REDACTED]
[REDACTED]



47 [REDACTED] the reduction in demand for cash as a means of payment. Figure 5 below shows that the share of consumer payments made using cash decreased significantly between 2007 and 2019 (the most recent year for which this data is available), from 30 per cent to 13 per cent.^{7 8}

Figure 5: Share of household payments made using cash, 2007-2019



Source: RBB analysis; RBNZ.

48 Since 2019, the available evidence suggests that demand for cash as a means of payment has decreased further.

- First, according to the RBNZ, the share of consumers who sometimes pay for everyday items with cash decreased from 96 per cent in 2019 to 63 per cent in 2021.⁹
- Second, the COVID-19 pandemic has led to online shopping (which typically does not involve cash payments) and contactless payment methods becoming increasingly popular with consumers.^{10 11}

⁷ Collection of 2022 data as part of the (triennial) expenditure component of the Household Economic Survey was disrupted by COVID-19 restrictions.

2023 data has been recorded in lieu of undisrupted 2022 data, with its release expected in early 2024 – see:

⁸ <https://www.stats.govt.nz/information-releases/household-expenditure-statistics-year-ended-june-2019/>

RBNZ, Future of Money – Cash system redesign, November 2021, p. 23.

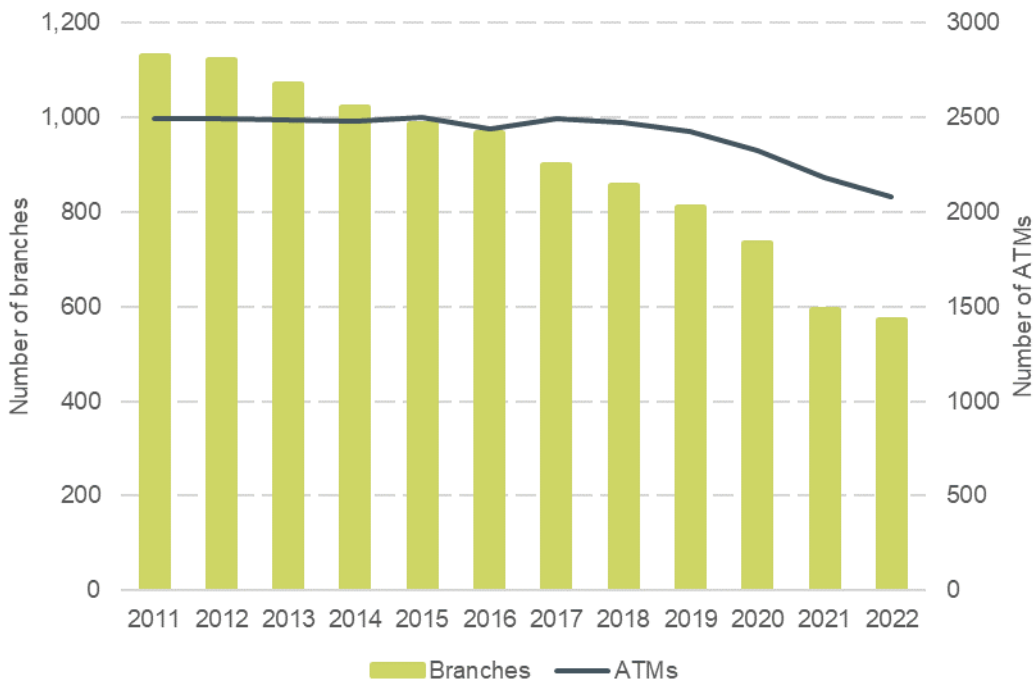
⁹ <https://www.rbnz.govt.nz/hub/news/2022/03/cash-system-redesign-essential-to-support-changing-usage>.

¹⁰ RBNZ, Future of Money – Cash system redesign, November 2021, p. 19.

¹¹ <https://www.rbnz.govt.nz/money-and-cash/money-and-cash-resources/impact-of-covid-19-on-cash-use-in-new-zealand>.

- Third, the number of branches and ATMs operated by the five major banks has continued to decrease since 2019, as shown in Figure 6 below.¹² Meanwhile, the number of branches with reduced opening hours has grown.¹³

Figure 6: Number of branches and ATMs operated by the five major banks, 2011-2022



Source: RBB analysis; RBNZ, *Future of Money - Cash System Redesign (Issues Paper, November 2021)*, p. 13; KPMG, *NZ Financial Institution Performance Survey – Banks 2022 Review (March 2022)*, p34-5; KPMG, *NZ Financial Institution Performance Survey – Banks 2023 Review (March 2023)*, p74-5.

Notes: Underlying data from KPMG. 2011-20 data extracted from RBNZ report, which cites KPMG as source for 2011-20. 2021 and 2022 data extracted from 2022 and 2023 KPMG reports.

- Fourth, the number of self-service checkouts has grown significantly since 2019 and a much greater proportion of these (around 70 per cent versus only around 20 per cent in 2019) accept only cards.¹⁴

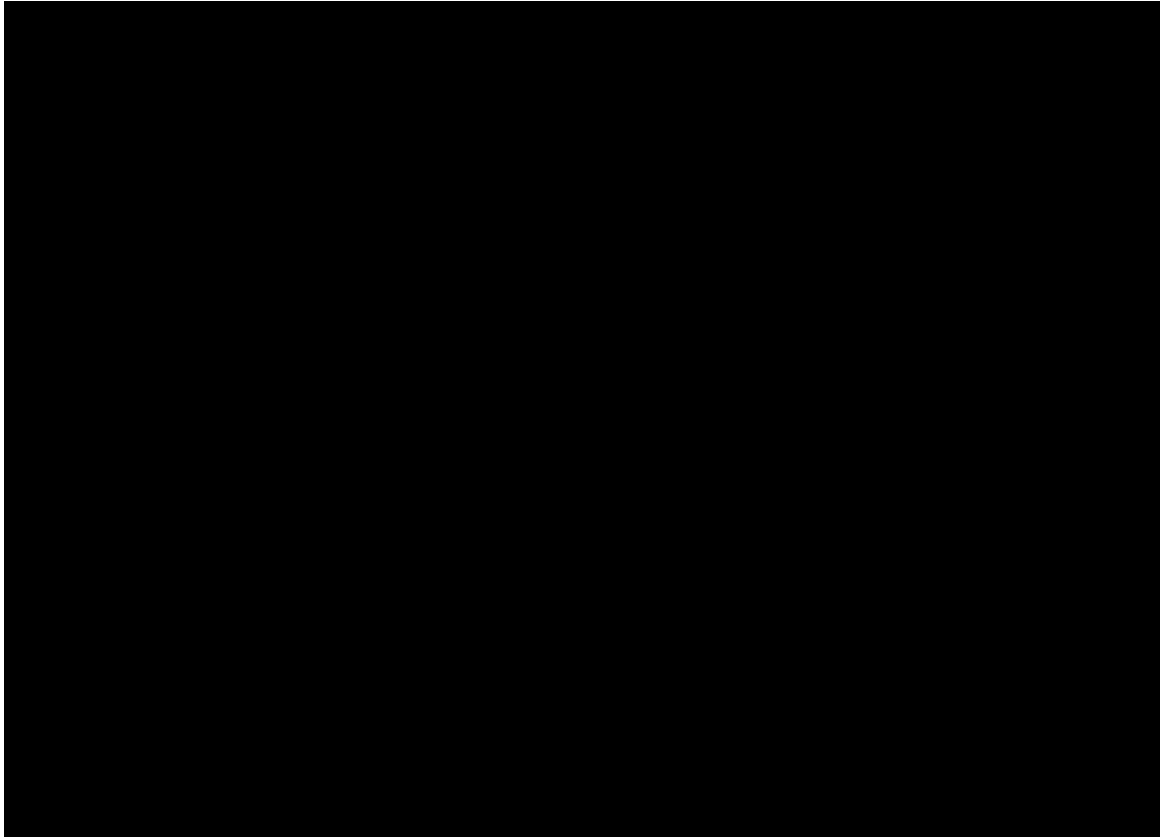
49 [REDACTED]

¹² RBNZ, *Future of Money – Cash system redesign*, November 2021, p. 13; KPMG, *NZ Financial Institution Performance Survey – Banks 2022 Review (March 2022)*, p34-5; KPMG, *NZ Financial Institution Performance Survey – Banks 2023 Review (March 2023)*, p74-5.

¹³ <https://www.rbnz.govt.nz/money-and-cash/money-and-cash-resources/impact-of-covid-19-on-cash-use-in-new-zealand>.

¹⁴ <https://www.rbnz.govt.nz/money-and-cash/money-and-cash-resources/impact-of-covid-19-on-cash-use-in-new-zealand>.

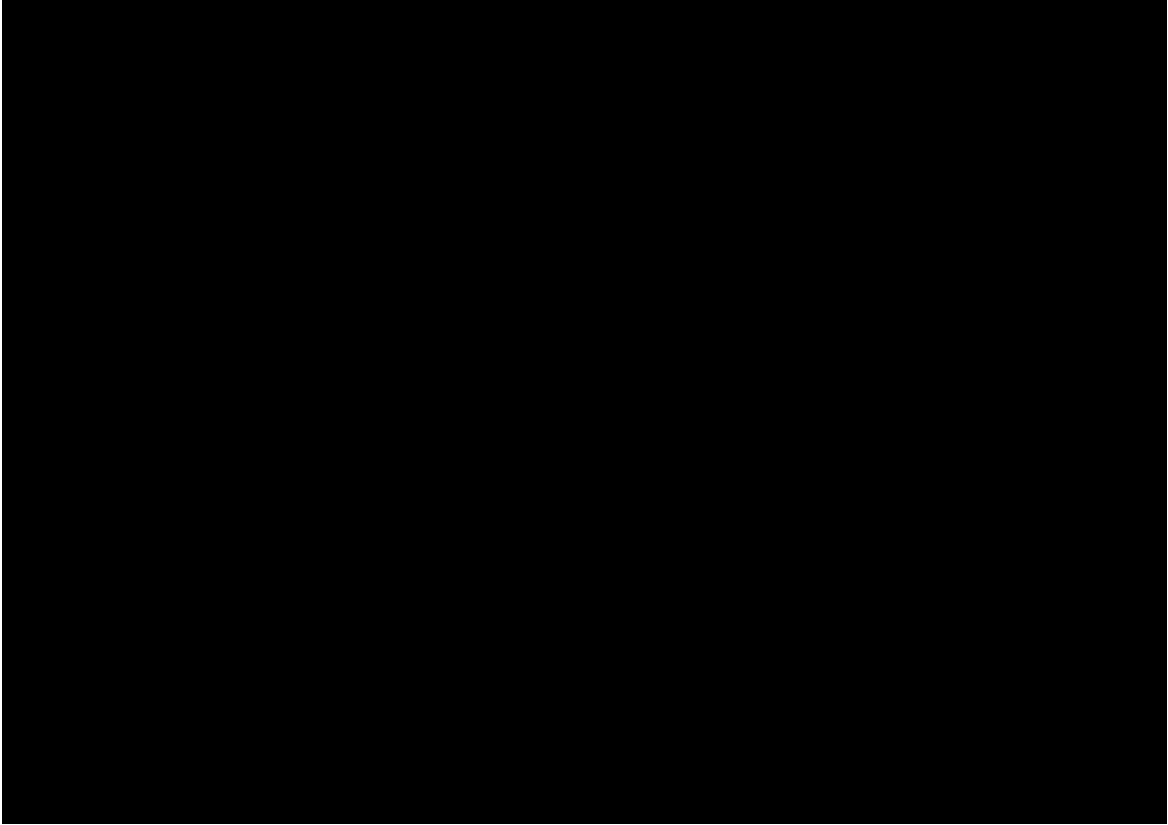
¹⁵ [REDACTED]



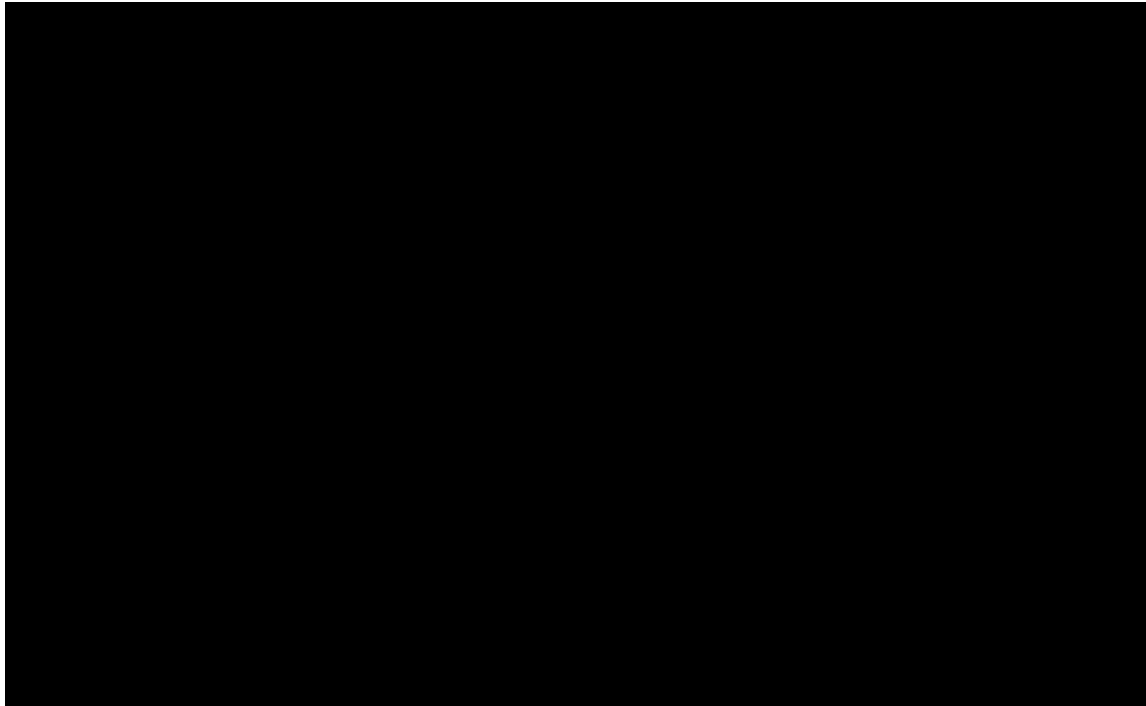
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¹⁶ [Redacted footnote text]



52 [REDACTED] below shows, Armourguard's capex over recent years [REDACTED]
[REDACTED] For example, over the past five
calendar years, Armourguard's capex totalled [REDACTED]
[REDACTED]



53 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] based on the evidence, what we find is that [REDACTED]
[REDACTED] We
measure this in two ways.

54 One measure of whether a firm has been reinvesting sufficiently is the net book value of a firm's fixed assets, expressed as a percentage of their gross book value ("NBV/GBV"). The gross book value of an asset is essentially the acquisition cost of that asset at the time the firm acquired it. Meanwhile, the net book value of an asset deducts from the gross book value any accumulated depreciation associated with that asset. The net book value of an asset will decline over time due to accumulated depreciation unless a firm invests in a new asset to replace it. When the accumulated depreciation associated with an asset equals its gross book value (so that its net book value is zero), the asset is said to be at the end of its useful life. The lower the NBV/GBV, therefore, the greater the share of a firm's assets that are at (or near) the end of their useful life and the greater the reinvestment needed to renew a firm's asset base. Additionally, if the NBV/GBV decreases from one year to the next, this means that the firm is not investing enough to cover the depreciation accumulated in that year.

55

[REDACTED] as explained

below:

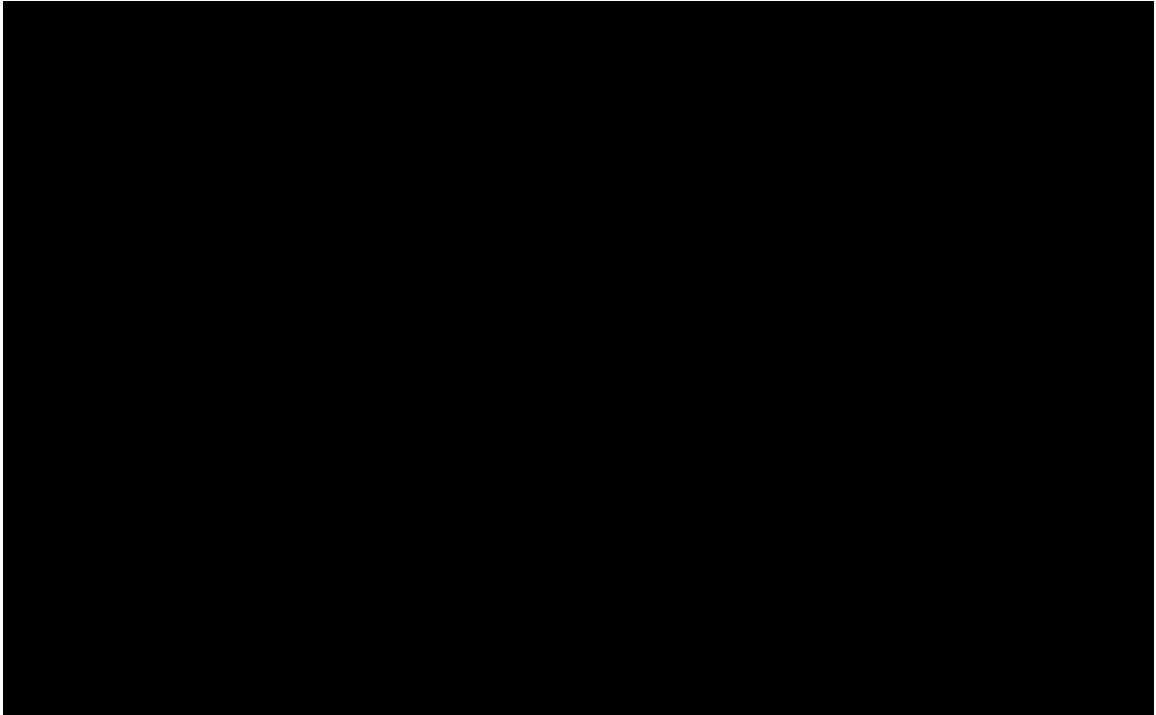
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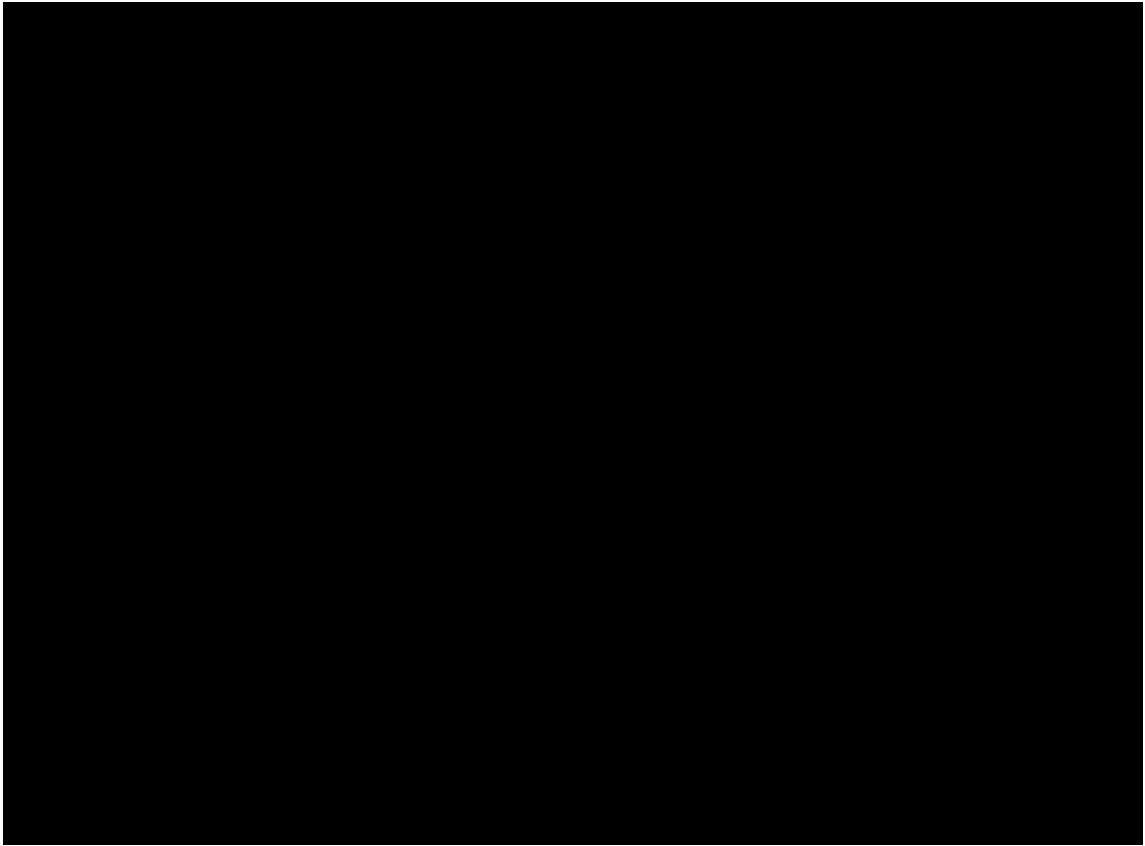
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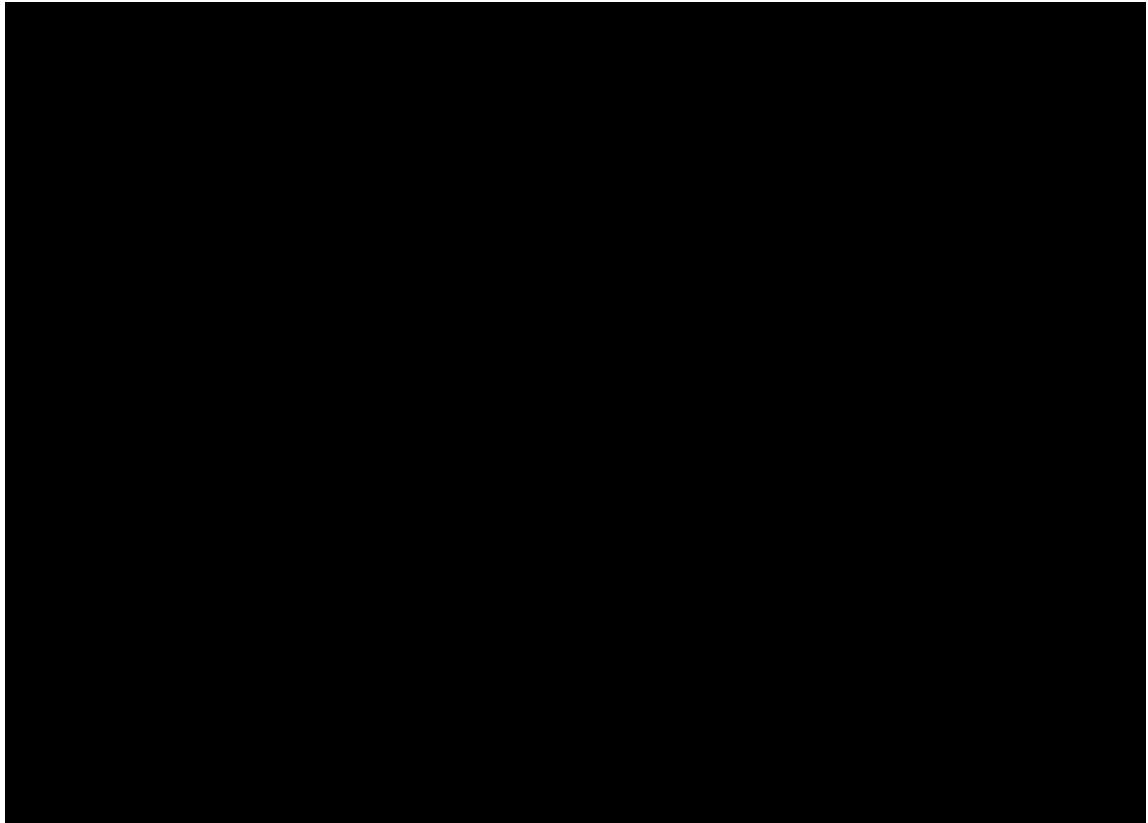
¹⁹ [REDACTED]
²⁰ Based on Armourguard's fixed assets as at December 2022. In calculating the average age, we weight each asset by its gross book value.



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²¹ By "service window" we mean the window of time within which a provider offers collections and deliveries.

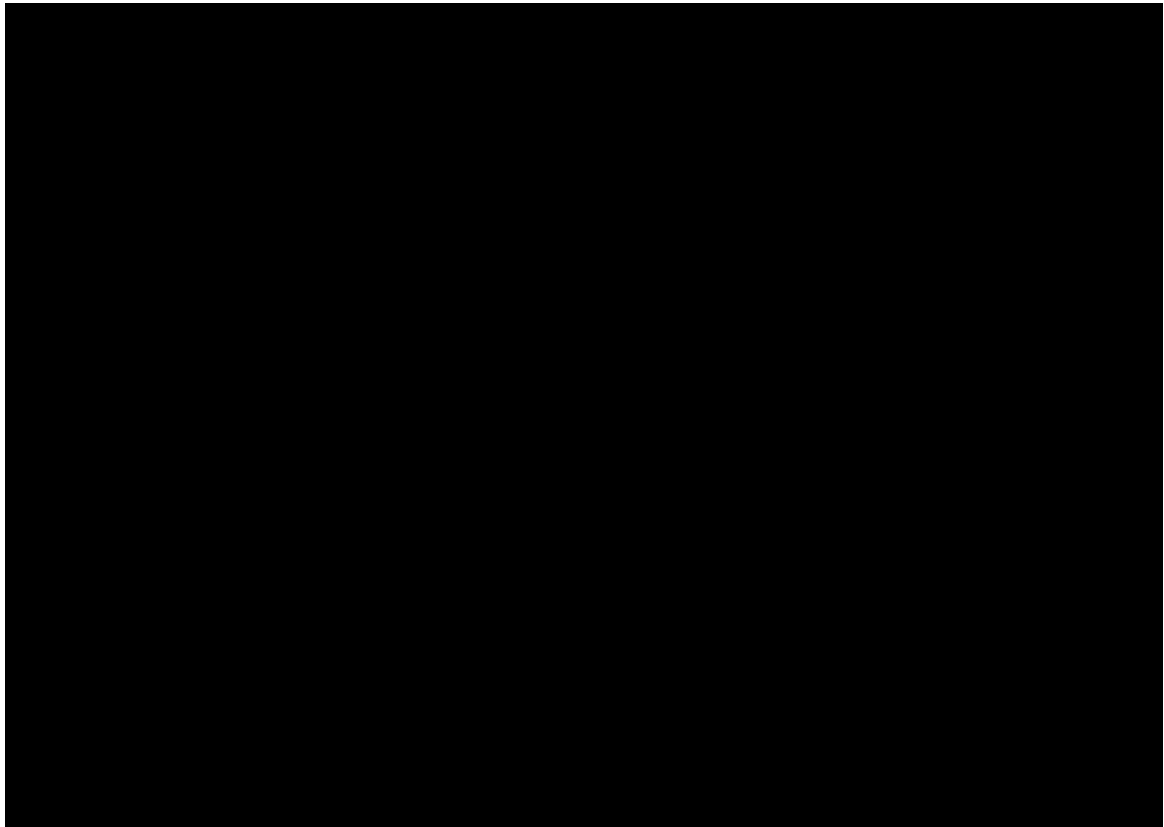


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4.1.2 [Redacted]

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61 [Redacted]
[Redacted]
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- Armourguard recently forecast capex over the next few years [REDACTED]
[REDACTED] However, as explained in section 4.1.1 above, Armourguard has [REDACTED]
[REDACTED]

[REDACTED]

67 [REDACTED]
[REDACTED]
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4.1.2.2 [REDACTED]

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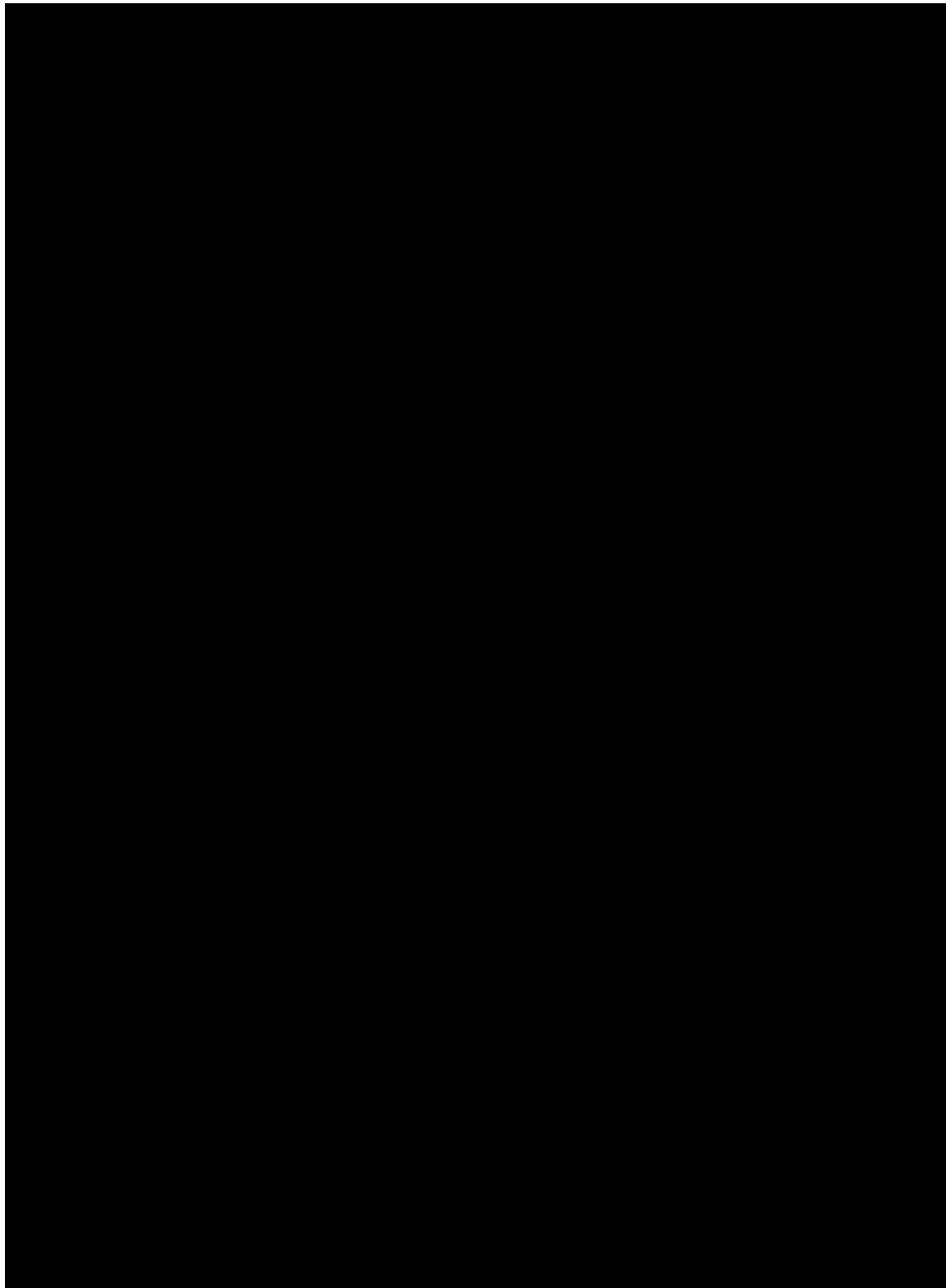
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4.2

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4.2.2 The IRR model

80 The model that we use to test whether a firm is able to generate an economic return – and therefore whether it has an incentive to operate in the relevant markets over the medium to long term – is an IRR model.

81 An IRR model looks at the capital investment or outlay needed to establish an economic activity and the free cash flows generated by that activity. Given that those cash flows will take place over time, they need to be discounted to give the NPV of the activity. The IRR is the discount rate that would yield an NPV of zero.

82 The IRR generated by the model can be compared to the firm's cost of capital to assess the long-term viability of an economic activity. If the IRR is at or higher than the cost of capital, this would suggest that the returns from the activity are sufficient to compensate for the returns forgone by not investing in an alternative activity (the opportunity cost of capital). Conversely, if the IRR is lower than the cost of capital, this would imply that returns to that activity are insufficient to compensate for the opportunity cost of capital, and hence the activity is unable to generate a positive economic return.³¹

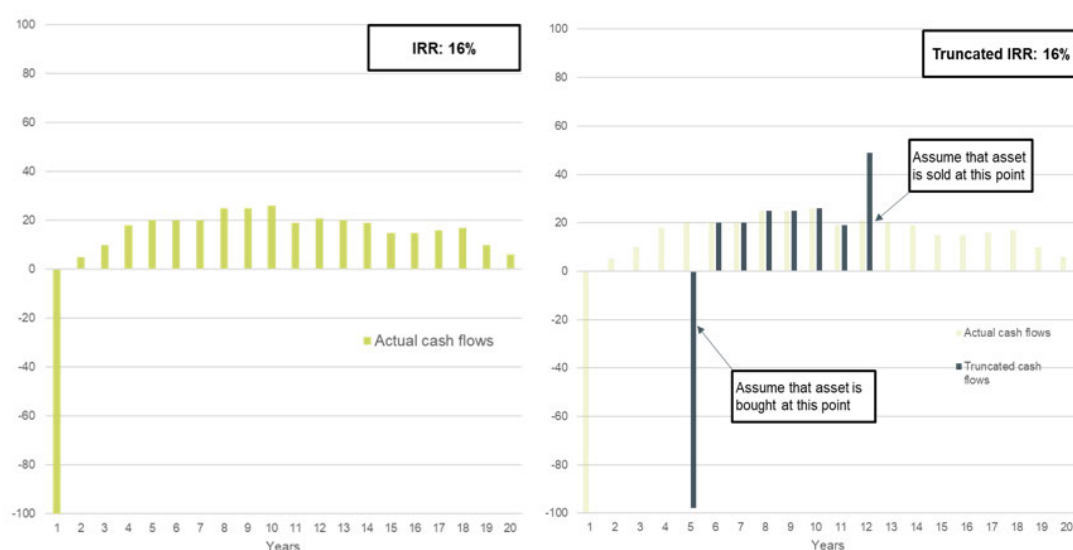
83 A key issue when using an IRR model is that it requires a full set of free cash flows over the lifespan of an economic activity. This could be unrealistic as such an IRR for ongoing activities would require accurate forecasts of future free cash flows over the entire lifespan of these activities. However, a truncated IRR can be calculated over a period less than the full life of an asset, which can be used to examine the profitability of the activity over the concerned

³¹ OXERA (2003), 'Assessing Profitability in Competition Policy Analysis', *Office of Fair Trading Economic Discussion Paper 6*, at pages 41-43.

period. The truncated IRR is the discount rate that makes the discounted value of all free cash flows and the value of assets at the end of the analysis period equate with the value of assets at the start of the analysis period.³²

- 84 Figure 15 below illustrates the difference between (on the one hand) an IRR model using data that reflects all of the firm’s outlays and cash flows and (on the other hand) a truncated IRR.

Figure 15: Truncated IRR – an illustrative example



Source: RBB analysis.

- 85 The chart on the left-hand side shows all the financial information for the firm in question. It shows that \$100 was outlaid in year 1 to establish the activity, which then generated a series of free cash flows over the lifetime of the activity. At the end of the activity’s life, which is assumed to be 20 years in this example, the value of the capital is zero. The IRR or discount rate that would generate an NPV of zero in this case is 16 per cent.
- 86 The chart on the right-hand side shows how a truncated IRR would work. If – as is usually the case – data over the entire life of the activity is unavailable, an estimate of the IRR can be made using a shortened or truncated period. In this example we can estimate what capital would be required in year 5 to generate the relevant free cash flows from year 6, use the cash flows from year 6 to year 12, and then estimate the terminal value of the capital (that is, the value assuming the asset is sold) at the end of year 12. As the value of the assets at any stage of the activity’s life should reflect the discounted cash flow, the truncated IRR that generates an NPV of zero in this case is also 16 per cent.

³² OXERA (2003), ‘Assessing Profitability in Competition Policy Analysis’, *Office of Fair Trading Economic Discussion Paper 6*, at page 43. Our approach is consistent with the approach discussed in this paper. Especially, truncated IRR is calculated as:

$$A_0 = \sum_{t=1}^{t=N} \left(\frac{C_t}{(1 + IRR)^t} \right) + \frac{A_N}{(1 + IRR)^N}$$

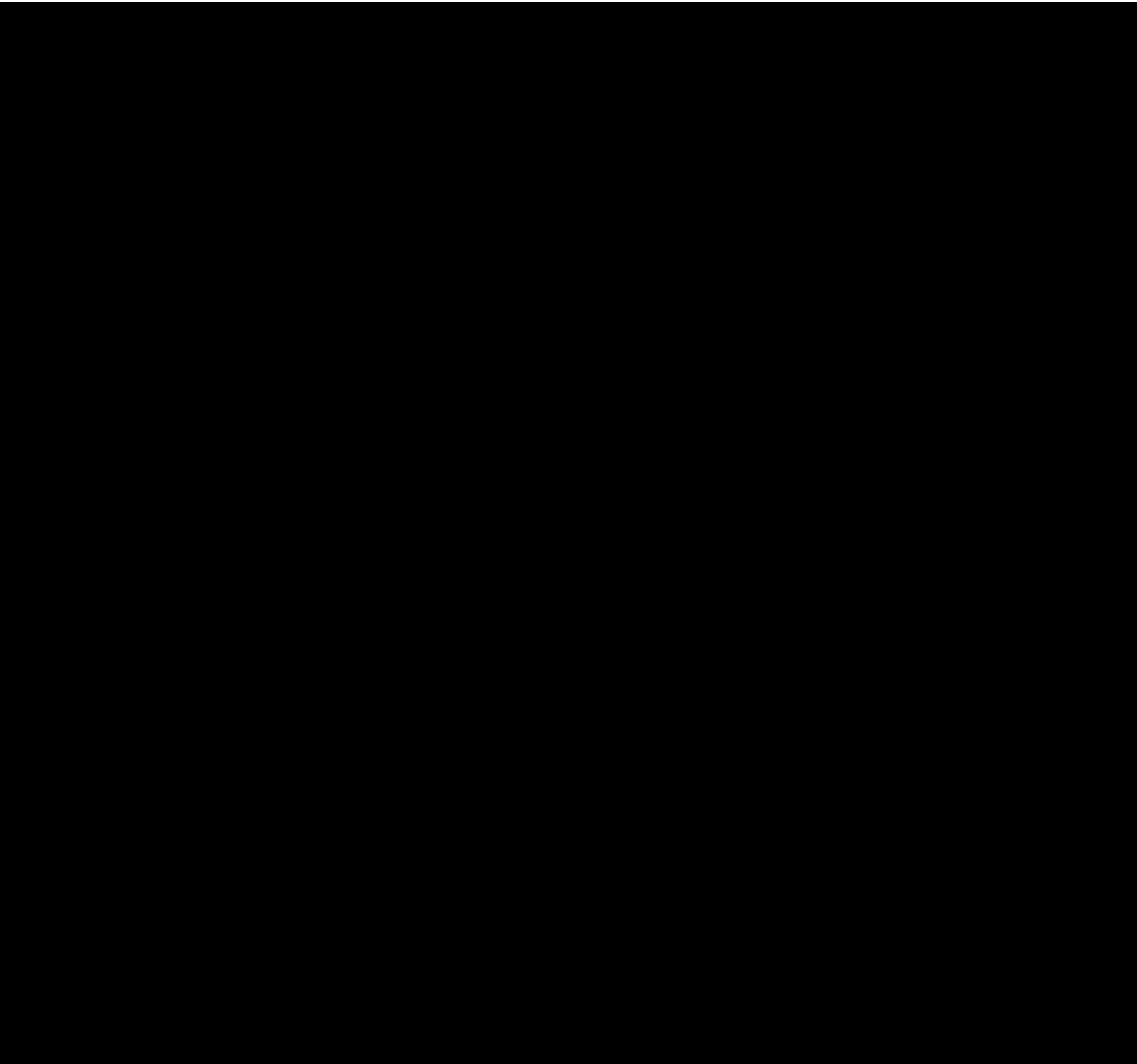
Where A_0 is the opening value of assets at the start of the period assessed and A_N is the closing value of the assets at the end of the period, IRR is the truncated IRR and time period $t = 1, 2, \dots, N$.

4.2.3

87

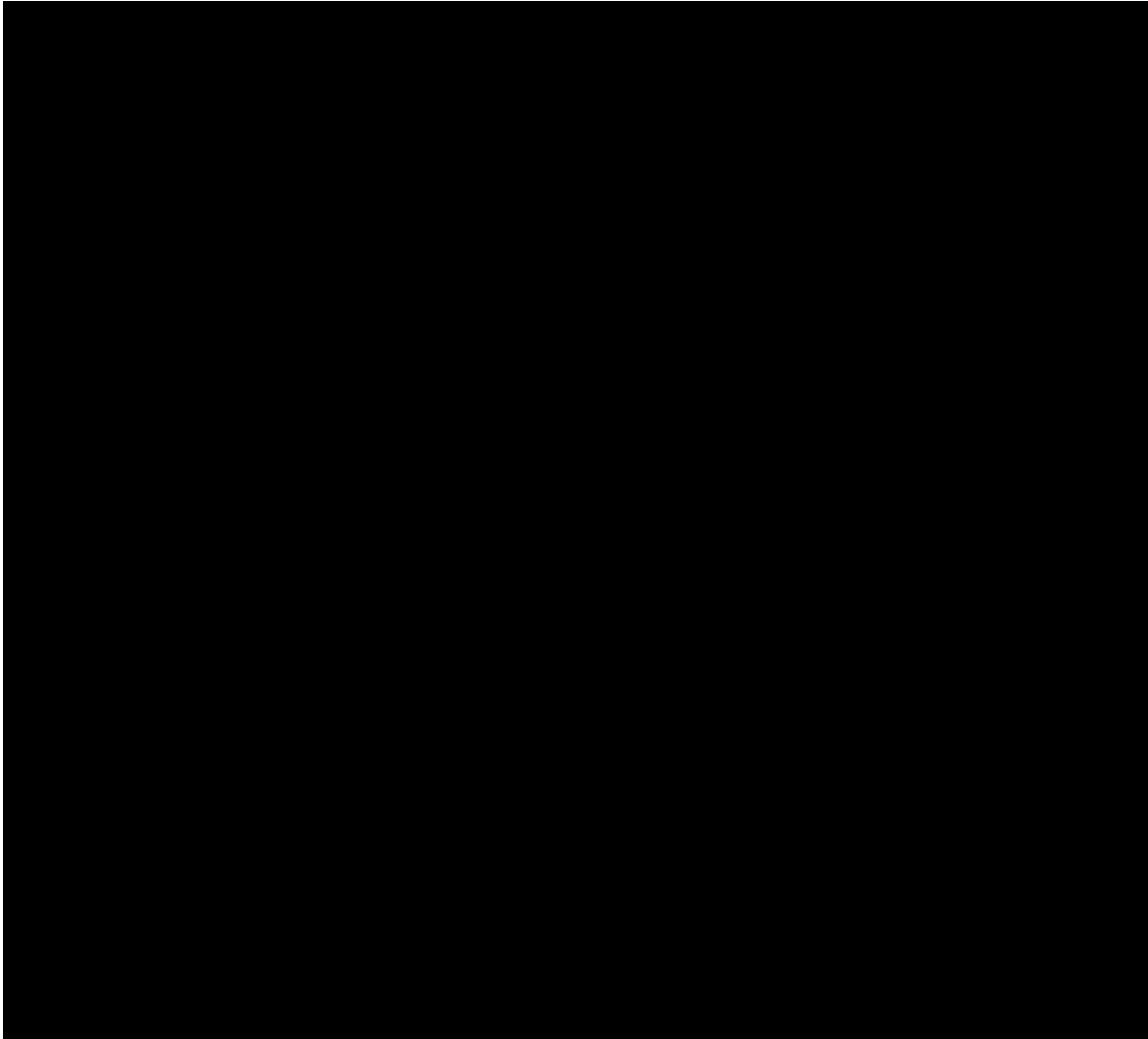
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³³ We use free cash flows after tax and before interest payments for this IRR analysis, as well as the other IRR analyses in this report. This is because free cash flows after tax and before interest payments should be used if the IRR is compared with the weighted average cost of capital. See OXERA (2003), 'Assessing Profitability in Competition Policy Analysis', Office of Fair Trading Economic Discussion Paper 6, at page 47: "to calculate the (post-tax) IRR for debt and equity, the cash flows after tax and before interest payments are used (this is then comparable with the post-tax weighted average cost of capital, or WACC)."

90



4.2.4 Could the relevant markets sustain two providers?

■ [REDACTED]

92 We test this by preparing an IRR analysis that combines the assets, revenues, and costs of [REDACTED] Armourguard [REDACTED], and testing whether the combined entity would be able to earn an economic profit. If this combined entity can generate a rate of return higher than its cost of capital, then we would assume that the relevant markets can sustain (at least) both firms. If the combined entity is unable to generate a rate of return higher than its cost of capital, that would suggest that the relevant markets are not able to generate enough of a return to sustain both firms. In other words, it would suggest that there is no split of revenues and costs across the firms that make up the combined entity that could enable both firms to have an IRR above the WACC.

93 The two scenarios that we consider are:

- The first is a forward-looking IRR model that tests whether the markets for CIT and precious cargo services now are able to sustain at least two firms, [REDACTED]
- The second is a historical IRR model which measures the economic return available to a combined entity [REDACTED] in 2015 assuming that the combined entity invested at that time. If that combined entity was able to generate an IRR at or above its cost of capital that would suggest the markets for CIT and precious cargo services were, in the past, able to sustain at least two firms.

4.2.4.1 The forward-looking (truncated) IRR model

94 The forward-looking IRR model tests whether a firm looking to invest today, which effectively combines the operations of Armourguard and ACM, would generate an IRR at or above its cost of capital. In other words, we examine whether there is any allocation of revenues and costs across both firms which will enable both firms to generate an economic return. The data we have used for this model is the following:

- **Free cash flows.** We obtained free cash flows for Armourguard for all calendar years between 2021 and 2026, and we obtained free cash flows for ACM for all financial years between FY 2022 and FY 2026. We estimate Armourguard's free cash flow for each financial year by taking the average of the free cash flows from two adjacent calendar years.³⁴
- **Capital outlay.** For this analysis, we assume the initial value of both ACM's and Armourguard's assets is only \$1. In other words, we are testing whether a third party could generate an economic return if they were effectively gifted both ACM's and Armourguard's assets.
- **Terminal value.** We assume that the terminal value of Armourguard's assets is [REDACTED].³⁵ We assume that the terminal value of ACM's assets is [REDACTED], consistent with the analysis in section 4.2.1 above.

95 The capital outlay, free cash flows and terminal value for the forward-looking IRR model are presented below.

³⁴ For example, the free cash flow for FY 2022 is calculated by taking the average of Armourguard's free cash flows for calendar year 2021 and calendar year 2022.

³⁵ [REDACTED]

96

97 What this means is that a firm looking to invest today, which effectively combines the operations of Armourguard and ACM, would not generate an IRR at or above its cost of capital. In other words, we find that there is no allocation of revenues and costs across both firms which will enable both firms to generate an economic return going forward.

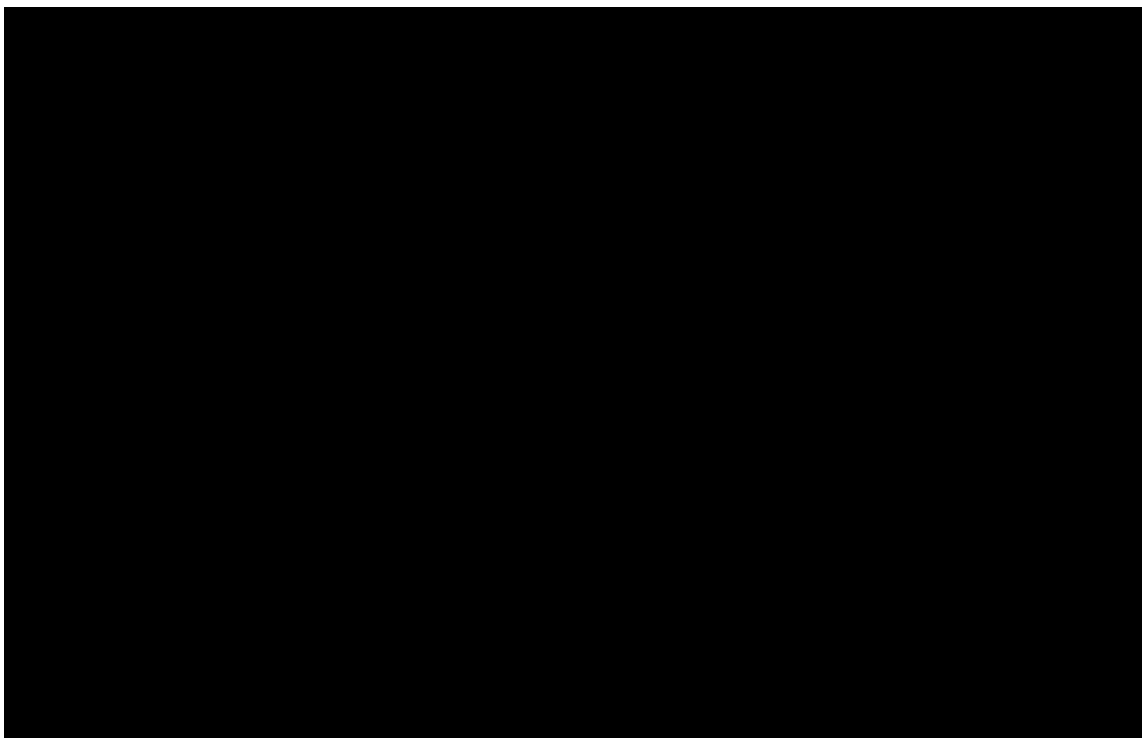
4.2.4.2 The historic (truncated) IRR model

98 The historic IRR model uses data from FY 2015 (which is the first year for which we have data from both Parties) and tests whether a firm made up of the combined operations of Armourguard and ACM looking to enter the CIT and precious cargo markets at the end of FY 2015 and providing these services from FY 2016 through to FY 2022 would have generated an IRR at or above its cost of capital.

99 If the combined firm, as at the end of FY 2015, would have been able to generate a return above its cost of capital this would suggest (1) that the investment was rational and a firm would have faced an incentive to enter (or remain in) the relevant markets and (2) that there were sufficient returns available to sustain both Parties. The data we have used is:

- **Free cash flows.** We use the Parties' free cash flows between FY 2016 and FY 2022. As with the forward-looking IRR analysis (see section 4.2.4.2 above), we estimate Armourguard's free cash flow for each financial year by taking the average of the free cash flows from two adjacent calendar years.³⁶
- **Capital outlay.** We use the net book values of ACM's and Armourguard's assets as at the end of FY 2015 as a proxy for the capital outlays needed to enter the relevant markets: [REDACTED] and [REDACTED] respectively.
- **Terminal value.** We assume that the terminal value of Armourguard's assets is [REDACTED]. To get an estimate for the terminal value of ACM's assets we use the same methodology we use for the analyses in sections 4.2.3 and 4.2.4.1 above to get an estimate for the [REDACTED].

100 The capital outlay, free cash flows and terminal value for the historic IRR model are presented below.



101 [REDACTED] above shows that the combined entity invested [REDACTED] in FY 2015 and generated the free cash flows in the period FY 2016 through to FY 2022. The value of the assets of the combined firm at the end of the period (that is, in FY 2022) is assumed to be [REDACTED].

³⁶ For example, the free cash flow for FY 2022 is calculated by taking the average of Armourguard's free cash flows for calendar year 2021 and calendar year 2022.

³⁷ [REDACTED]

- 102 The IRR for this scenario is [REDACTED]. Given that the weighted average cost of capital for Armourguard and ACM is [REDACTED] and [REDACTED] respectively, we find that the markets for CIT and precious cargo services as at the end of FY 2015 could have sustained both Armourguard and ACM. In FY 2015, the projections were that there would have been sufficient revenues to enable both Armourguard and ACM to have an IRR above the WACC. In other words, historically, the revenues and costs were in the past shared across both Parties in a way that meant that both firms could operate profitably and earn a return above their cost of capital. As the forward-looking IRR model above shows (see section 4.2.4.1), this is not the case today.

5 The Proposed Acquisition will also give rise to public benefits

103 In case the NZCC does not come to the same conclusion we do regarding an SLC (namely that it is unlikely), presumably on the basis that it cannot rule out some short-term lessening of competition that it considers would constitute an SLC, we also consider the public benefits that are likely to arise from the Proposed Acquisition.

5.1 Approach to assessing public benefits

104 New Zealand's courts have broadly defined public benefits to include anything of value to the community generally. This includes, as one principal element, the achievement of the economic goal of efficiency.³⁸

105 There are three facets of economic efficiency: allocative efficiency, dynamic efficiency and productive efficiency.

106 Of particular relevance to the present case is the concept of productive efficiency. Productive efficiency occurs when a given set of products are produced at the lowest possible cost (given the technologies currently available).³⁹ For example, an acquisition can increase productive efficiency by taking advantage of economies of scale. There are economies of scale when unit costs of production fall with the total quantity produced.⁴⁰ If firms have to incur fixed costs to produce a product, there is duplication of fixed costs across firms supplying that product. An acquisition can reduce those duplicative fixed costs, thereby availing of economies of scale and, in the process, increasing productive efficiency.⁴¹

107 The NZCC's Authorisation Guidelines recognise that productive efficiency gains, by freeing up resources that can be put to alternative uses, are a public benefit. Moreover, the Authorisation Guidelines recognise that such efficiency gains do not need to be passed on to consumers by way of lower prices in order for them to be counted as a public benefit – albeit the NZCC may choose to place more weight on the public benefit if the productive efficiency gains are likely to be distributed widely.⁴²

108 As for whether a public benefit (for example, a productive efficiency gain) is merger-specific, it is necessary to consider what the likely counterfactual is. [REDACTED]

[REDACTED] Based on this counterfactual, we find that an SLC arising from the Proposed Acquisition is unlikely and that therefore an assessment of the Proposed Acquisitions' likely public benefits is unnecessary.

³⁸ *Air New Zealand and Qantas Airways Limited v Commerce Commission* (2004) 11 TCLR 347 (HC), para 319; *Telecom Corporation of New Zealand Ltd v Commerce Commission* (1991) 4 TCLR 473 (HC), paras 527-530 citing *Re Rural Traders Co-operative (WA) Ltd* (1979) ATPR 40-110, para 18,123.

³⁹ Bishop, S. and Walker, M., *The Economics of EC Competition Law: Concepts, Application and Measurement*, 2010, p.25. Motta, M., *Competition Policy: Theory and Practice*, 2004, p. 55.

⁴⁰ Motta, M., *Competition Policy: Theory and Practice*, 2004, p. 2, fn 3.

⁴¹ Motta, M., *Competition Policy: Theory and Practice*, 2004, p. 51.

⁴² NZCC, *Authorisation Guidelines*, June 2023, pars 84-86.

109 However, in the event that the NZCC cannot rule out some short-term lessening of competition that it considers might constitute an SLC, for the purpose of assessing the public benefits that are likely to arise from the Proposed Acquisition, [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

5.2 The public benefits arising from the Proposed Acquisition

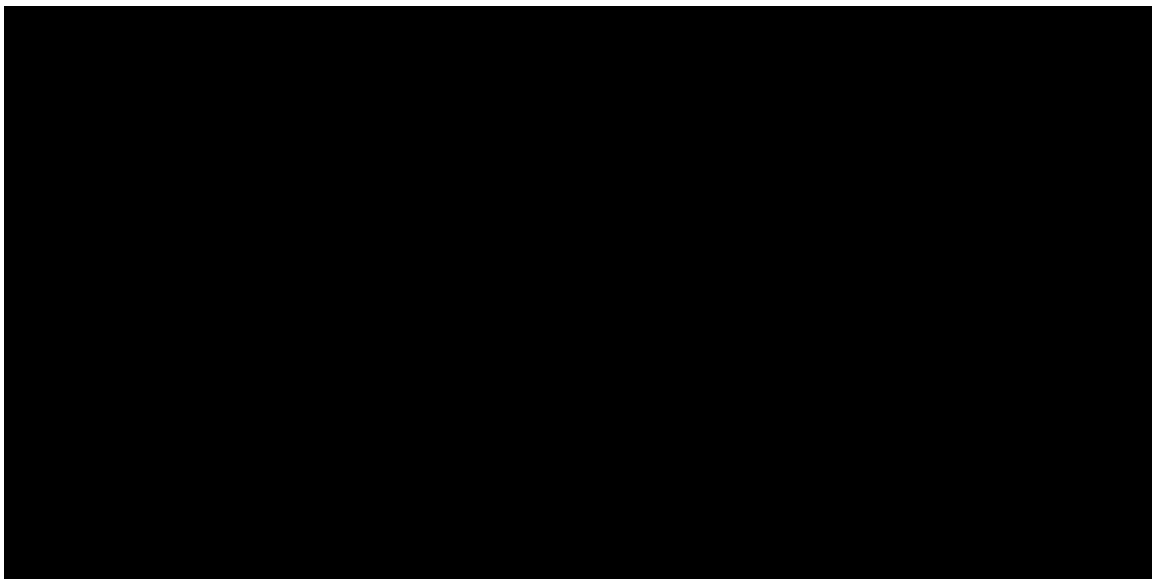
5.2.1 The Proposed Acquisition will remove duplicative fixed costs

110 The Parties both incur large fixed costs so that they can both offer end-to-end CIT services nationally. This leads to a lot of duplicative fixed costs. For example, [REDACTED]
[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]
[REDACTED]

111 Combining the Parties' CIT operations will mean that the duplication of costs within cash distribution – which was tolerated before but has now become unsustainable - can be avoided.

112 Removing this duplication will increase productive efficiency and likely result in significant cost savings. In fact, Armourguard estimates that by Year 3 post-completion (i.e., post completion of the Proposed Acquisition), the removal of these duplicative costs will save the merged entity [REDACTED]⁴³

113 Additionally, in the long run, the cost savings from the Proposed Acquisition are expected to outweigh the integration/restructuring costs associated with the Proposed Acquisition. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]



⁴³ [REDACTED]

- [REDACTED]

114 This NPV of [REDACTED] could be fully attributed to the Proposed Acquisition if ACM would continue to operate indefinitely absent the Proposed Acquisition. [REDACTED]

[REDACTED]

46 47

5.2.2 The Proposed Acquisition will increase the efficiency of interbank trading

115 As explained in section 2.1.2, the Parties offer services to facilitate interbank trading. Interbank trading arises when one of the major banks sells surplus cash to another major bank who is short on cash. The Parties facilitate such trading in a few ways.

- First, if the Party in question stores cash for both banks at the same processing centre, the Party can perform an interbank trade on behalf of both banks without physically transporting any cash.
- Second, if the Party in question stores cash for both banks but not at the same processing centre, the Party can perform an interbank trade by physically transporting cash between two of its own processing centres.
- Third, if the Party in question stores cash for one of the two banks wishing to make a trade and the other Party stores cash for the other bank, the Party in question can perform an interbank trade by physically transporting cash between one of its own processing centres and one operated by the other Party.

116 The first type of trade mentioned above is the most efficient way to execute an interbank trade. This is because it avoids the costs associated with physically transporting cash between processing centres.

117 However, there is a limit to which the Parties can perform this first (most efficient) type of interbank trade. This is because, of the major banks, [REDACTED], while [REDACTED]. This means that if, for example, [REDACTED] wants to trade [REDACTED], cash must be physically transported between the Parties' processing centres.

⁴⁴ More specifically, we let $WACC_{pre} = WACC_{post}/(1 - r)$, where $WACC_{pre}$ is the pre-tax WACC, $WACC_{post}$ is the post-tax WACC and r is the tax rate.

⁴⁵ [REDACTED] Assuming a post-tax WACC lower than Armourguard's estimate would mean that the recurring synergies are discounted less and would therefore result in a greater estimate of the NPV of the net cost savings arising from the Proposed Acquisition.

⁴⁶ The NPV of starting to realise the net cost savings in two years' time takes the NPV of starting to realise the net cost savings now and discounts it by the same pre-tax WACC to account for it only occurring in 2 years' time.

⁴⁷ The NPV values presented here are rounded to the nearest one decimal place. However, the NPV of the net cost savings resulting from the Proposed Acquisition is calculated using unrounded values.

125 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

126 Secondly, by generating substantial cost savings that will feed through to the merged entity's future free cash flows (see sections 5.2.1 and 5.2.2), the Proposed Acquisition will ensure that the merged entity has both the ability and incentive to invest in any additional vehicles and equipment necessary to maintain service quality levels.

5.2.4 [REDACTED]

127 As explained below, we find that there is a risk that, absent the Proposed Acquisition, [REDACTED]
[REDACTED]

128 [REDACTED]
[REDACTED] This is because, as we discussed in section 2.2, other providers of CIT and precious cargo services are much smaller and do not have the same capabilities as the Parties.

129 To avoid any disruption of services, Armourguard would have to sign up vastly more customers than it is used to. For example, [REDACTED]
[REDACTED]
[REDACTED]

130 It seems likely that [REDACTED]
[REDACTED] for at least a couple of reasons:

- Firstly, [REDACTED]
[REDACTED]
- Secondly, negotiations with large customers are typically lengthy processes. For example, [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]