

DIEBOLD INC (DIEBOLD) AND WINCOR NIXDORF AG (WINCOR) MERGER INQUIRY

Summary of a call with Royal Bank of Scotland (RBS) during the phase 1 inquiry on 3 August 2016

Sponsorship of suppliers

1. RBS said that Diebold was not a suitable company to sponsor into the market as it had already entered.
2. For RBS the scale of operations and local presence were important when considering potential suppliers. It said that NCR and Wincor knew that there were four to five organisations able to support its devices and provide spare parts, which made it cost-effective for RBS to support a large number of devices. [REDACTED].
3. [REDACTED]. For RBS Diebold had now grown to such an extent that it probably did not require sponsorship. It expected there were a number of organisations able to supply parts and maintenance for Diebold estates.

Situations where RBS might consider sponsorship

4. RBS said it might consider sponsoring a market entrant, and incurring the associated costs and risk, if there was a new type of automation or functionality on offer to drive the future development for ATMs.
5. RBS said the latest procurement round was triggered by the need to migrate existing device systems from Windows XP to Windows 7. [REDACTED] it was difficult for it to definitively assess the benefits and viability of sponsoring a new entrant in a market that may be diminishing.
6. If the market would develop towards more advanced automation, then the possible entrant would have to almost reinvent the ATM with features not yet seen to deliver value. [REDACTED].
7. RBS said a new entrant might deliver value by improving ATM functionality and resilience against crime and fraud – [REDACTED]. [REDACTED]. This alone might increase the provider's competitive strength in the market.

Competition benefits of merger

8. RBS said that NCR and the merged entity may provide sufficient competition in the market. [REDACTED]. It said the existence of a third party in procurement may have created a more competitive marketplace but that it was unclear to what extent it contributed to the end result. [REDACTED].
9. In a scenario where NCR and the merged entity began charging excessive prices or providing a poor quality service, then RBS would have recourse to introduce a number of global suppliers as substitutes. [REDACTED].¹ RBS said that scale was important and that it would want to pilot any new supplier before committing to any investments due to the significant size of the investment and the thousands of devices they have would to cover.

Other global suppliers

10. RBS said other global suppliers included Nautilus Hyosung, KAL and Triton, and that it previously considered [REDACTED], which was an example of an innovative product that they were interested in but decided not to pursue.² [REDACTED]. [REDACTED]. These suppliers were similar to Diebold and Wincor in many ways, however, their scale was in overseas marketplaces and [REDACTED]. RBS said it reached out to these companies to better understand market availability.
11. [REDACTED]. [REDACTED]. [REDACTED]. It was nonetheless difficult to determine which ATMs would be replaced as it would depend on the strategy of each individual branch. The vast majority of ATMs were in its branch network, although it did have some in its remote estate.
12. RBS said that the UK presence of global suppliers would remain an important factor in the procurement process. A company's existing scale would provide confidence when comparing bids – such as demonstrating low fault rates on large amounts of devices.

Four challenges facing a sponsored entrant

13. RBS said every new sponsored entrant would face four challenges. It said this included logistics, IT compatibility between device and platform, maintenance capability, and access to spare parts at a competitive price. The most

¹ [REDACTED].

² [REDACTED].

significant challenge was finding a maintenance provider who understood the product and had the required knowledge and trained staff.

14. The willingness of new entrants to work on these four challenges would need to be weighed against the existing infrastructure and expertise of existing suppliers. [✂].