

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

Summary of a call with Glory Global Solutions during the phase 1 inquiry on 19 July 2016

Glory's product in the ATM market segment

1. Glory's core product was the teller cash recycler (TCR). They also had a teller assist unit (TAU). The TAU was an assisted self-service machine with more functionality than a customer operated automated teller machine (ATM).
2. A bank's choice between an ATM and a TAU was largely driven by their strategy. This was connected to branch evolution and ensuring the bank had the right number of staff to serve their customers. Back in 2007 Glory started deploying their TCRs, which were machines that sat between two teller positions. Three or four years ago, branches had up to five TCRs in a branch serving up to ten tellers. However, as banks are currently going through rationalisation programmes, often a branch will only have one or two TCRs. A TAU can only have one customer at a time.
3. There is no real substitution between a traditional ATM and a TAU. Banks would not just replace ATMs with TAUs, it would have to be part of a strategic, forward looking decision by a bank. In 2015, the Retail Banking Research produced a report on Branch Teller Automation.¹ At that time, all the banks were looking at TAUs as the next part of their product base. Certainly these types of machine were starting to grow in popularity now. To integrate TAUs into a bank's network requires significant resource but Glory was already in discussions with the banks about deploying these machines in the UK.
4. Glory said there would always be demand for ATMs, as banks have unstaffed remote sites, and ATMs lent themselves better to out-of-hours availability. Glory did not think that TAUs would eventually replace ATMs.
5. Although Glory could compete for contracts against ATM suppliers by adapting their TAU units, this was not part of their strategy as the cost of an adapted TAU could not compete with the cost of an ATM. Glory used to manufacture ATMs, mainly deployed in Europe, but not in the UK. The TAU

¹ Available at www.rbrlondon.com/reports/tabt15

was a relatively new design, so it was possible that, as they discuss their customers' requirements, adapting the units might be something they do.

6. As the TAU is a relatively new product in the UK, competition was based largely around cost. They were currently talking to customers, trying to get their devices into test branches with a view to getting machines into a pilot program, which would lead to post-pilot projects and further sales. Glory already had two pilots and an order for a third customer pilot program.
7. Prior to 2015, Glory had previously responded to customer requests for proposal to supply ATMs in the UK using an old ATM product, Cash Star. These bids had been unsuccessful. Although Cash Star was still available as a product, Glory would not offer it as part of a tender unless a customer requested it.
8. Glory saw the future of automated banking being around teller-assist machines. Competitors for these machines were Wincor, Arca, Diebold and NCR.
9. As regards bidding for ATM tenders with TAUs, Glory said that it would be likely to be more expensive to use a teller-assisted machine as a customer-operated ATM with a possible cost difference of up to 50%.

Customer requirements and maintenance

10. Glory said that customers sometimes go out to tender for both ATMs and TAUs at the same time. Whether Glory would go for a contract covering both types of device in this situation would vary, as banks usually like to have a contract with one company such as Wincor or NCR.
11. With regards machine maintenance an engineer's skillset could be transferable to customer-operated ATMs but Glory would have to be aware of the costs associated with providing ATM maintenance. Training costs would be significant in addition to licencing and support costs. These costs would likely prevent Glory from being competitive enough and this would be a barrier to entry.
12. Glory said that some banks prefer the manufacturer to service their own devices, rather than a third party provider. Glory could support its own devices but, regarding the likelihood of maintaining devices other than their own, Glory said it would be feasible to support ATM devices if they were looking to expand their service business. However, as they were going through a significant period of growth, it was not an area that they were actively pursuing at the current time. Should they decide to pursue this area of

business they would have to deal with the original equipment manufacturer in order to get the correct training, licencing and parts. The cost of supporting a third party's estate was therefore quite high and it may not be economically beneficial.

13. Should customers continue to prefer ATMs, Glory would have to develop and build a new model. Whilst they already have an ATM product the likes of Wincor and NCR have significant market presence and so it would be debatable whether Glory would be able to gain any foothold with this product. For example, Wincor has the software infrastructure in place and for Glory to attach one of its devices onto their network it would require additional software development and integration work. This would incur a significant cost for Glory. With regards Diebold, Glory said that they provided more traditional ATMs and this has helped them to expand.

Competition in the market

14. Glory said that Wincor was established across a number of banking customers and they observed that customers would only purchase products from suppliers that had a large coverage. For example, NCR or the merging parties. [✂].
15. With regards competition in the UK should the merger proceed, Glory said that they would have to wait and see. However, as Glory's competitors tended to be Wincor, Diebold or NCR, the merger would reduce competitor numbers.
16. Glory takes price into account when trying to win customers and they attempt to establish a market rate. However, they do not sell purely on price alone as while customers wanted the lowest price, it was often not their biggest priority. For example, if Glory were bidding for a new customer, and before they would get involved in any requests for proposal, they would have discussions with the customer to understand their requirements and how Glory could meet those requirements. Glory said that they are not responding to any one competitor when they are looking at their own offer and they were more interested in making sure that the deal would be commercially successful.
17. [✂].
18. In relation to Glory's strategy, it was unlikely that a return to the standard ATM segment would be seen. They were focused on more technical and sophisticated solutions and, as technology evolved, they believed this would be in sync with customer requirements.