

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

Summary of a call with Cardtronics during the phase 1 inquiry on 27 May 2016

Background

1. Cardtronics was an ATM deployer in the UK. It deployed and managed many ATMs and was deploying new ATMs in retail outlets such as supermarkets.

Relationship with Diebold and Wincor

2. Cardtronics had over 4,000 Wincor machines mainly from estate acquisitions from other competitors and had a software maintenance agreement with Wincor for Wincor software. It hadn't purchased any further Wincor machines in recent times due to a combination of price and concerns over software support services. The process of buying an ATM was that a customer buys the hardware and the software that integrates with the existing unit. Until now Cardtronics has always used vendor software on the ATM. Software needed to be upgraded over time and this can be done through the original manufacturer but there were also third party suppliers who offered multi-vendor software.
3. Cardtronics also bought refurbished ATMs. The most common model was made by NCR. NCR had been more competitive on price than Wincor in recent tenders.
4. As well as being a supplier to Cardtronics, Wincor also provided managed services on behalf of retail businesses who house ATMs (eg supermarkets) and competed with Cardtronics in this space. Wincor was also a customer of Cardtronics as Cardtronics offered a cash-in-transit and engineering services to Wincor.
5. In Cardtronics view, Wincor would be interested in providing a managed service for Cardtronics (including customer care and maintenance) but it was imperative for Cardtronics to be cost efficient. Outsourcing to Wincor would bring additional costs hence Cardtronics ran all its servicing internally.
6. Diebold was new to the UK market and had only recently expanded its size and customer base. Their emergence had caused existing suppliers to think

differently about their offering in the UK. Cardtronics had already dealt with Diebold outside the UK.

7. Cardtronics did not deploy Diebold machines, but in order to try and achieve the best possible price from suppliers it was involved in a pilot to deploy new Diebold machines. Piloting new devices took three to four months due to the need to integrate with other software systems. For the trial period, Diebold were also going to provide the field maintenance services, but Cardtronics would operate the cash services. The reason for this was that in order to maintain these machines themselves, Cardtronics would need to stock the devices spare parts and build-up a level of specific knowledge within its own engineering team.
8. In the wider market, Diebold and Wincor both offered hardware, software and engineering and helpdesk services, but would subcontract or partner for cash services. Both Diebold and Wincor had their own in-house maintenance services. Cardtronics believed that Diebold didn't install its machines but subcontracted this service to a third party, whilst Wincor had an in house installation business.
9. Both Diebold and Wincor were focused on providing managed end-to-end services for banks ATM estates.

Other suppliers

10. Nautilus Hyosung (Hyosung) was another supplier of ATMs for Cardtronics historically.
11. Cardtronics stopped purchasing Hyosung machines because the specific unit used was relatively basic, and other vendors ended up being just as competitive on price. Another issue with using Hyosung was that as an overseas supplier, Cardtronics needed to manage the risk that future deliveries could be held in customs by holding large amount of ATM stock. Cardtronics was deploying up to 100 machines a month and required a steady supply of new devices. These issues, combined with the ATM price and the other costs associated with an overseas supplier (eg shipping costs), meant that Hyosung did not offer a price advantage.
12. To Cardtronics knowledge no other customer bought ATMs from Hyosung in the UK.

The market for ATMs

13. Cardtronics has been very busy for the last year with acquisitions and organic growth. Consequently their purchasing strategy had not developed although work was now underway since the appointment of a new COO for its UK business.
14. Over time, Cardtronics needed to upgrade elements of its ATM estate over the next few years. To achieve the best possible price it would need a good selection of ATM suppliers to choose from. There were other manufacturers located in Asia but they did not have a presence in the UK or were in an early stage of development. GRG Banking was a supplier that Cardtronics would consider. Triton was a supplier but Cardtronics did not believe they operated in the UK anymore.
15. The market for the supply of ATMs was predominantly NCR and Wincor. Diebold had emerged as a third possible supplier as it had recently won new customers such as HSBC. This demonstrated that Diebold could be trusted as a supplier.
16. Cardtronics observed that it ran a recent tender for a few hundred ATMs to be deployed in a supermarket. Of the suppliers who submitted offers Wincor could not match prices from NCR. Cardtronics did not have any experience of the prices Diebold offered as they were only in a pilot project with them.
17. There were other costs to take into account when using any ATM vendor. Components or software over time were discontinued, and therefore upgrades were required. Using a third party manufacturer of software would to some extent reduce this issue on the software side. Phoenix was one example of a multi-vendor software provider and this had been acquired by Diebold. Other suppliers of this software that Cardtronics had considered included KAL and Auriga. Wincor also offered multi-vendor software but Cardtronics UK had not recently viewed Wincor's offering.

Sponsoring entry

18. Cardtronics would consider sponsoring a new entrant into the market but did not know whether it would be economically viable for them.

Views of the merger

19. Cardtronics did not have a particularly strong view on the merger. One view was that Diebold's purchase of Wincor could improve the service proposition overall, and that the merged entity might be better able to compete with NCR.

Alternatively it meant one less supplier of ATMs which might be detrimental to Cardtronics during the tender process.