

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

Summary of a call with Auriga SpA during the phase 1 inquiry on 18 July 2016

Introduction

1. Auriga was an independent multi-vendor automated teller machine (ATM) software provider. Their software ran on different manufacturers' devices so when a bank chose its software it could have any application it wanted running on any supplier's hardware.
2. Auriga was a company of 180 people. [REDACTED]. Auriga had built up a lot of knowledge on how to compete and been successful in proving to banks the value of having separate hardware and software. They have recently embarked on an international expansion and have already had success in the UK by providing software to Barclays.
3. In Italy, their strategy has been successful in reducing ATM hardware prices for their bank customers. ATM manufacturers would like their customers to buy their hardware and software combined. Auriga were trying to demonstrate that there was value in buying these components separately.
4. There were three pieces of software needed for ATMs. The operating system, ie Windows; the XFS layer and the application software which would send the same commands to the XFS to give out money irrespective of the device.

Views of the merger

5. Auriga's main concern was a possible reduction in choice. Referring to an example of an independent US software provider (Phoenix) that was purchased by Diebold, Auriga considered that the overall strength of the independent suppliers was being weakened in favour of larger companies. In addition, as Wincor has another competing software product, the merger might reduce choice even further. While it was understandable hardware manufacturers may want to strengthen their offering and continue to offer combined software and hardware packages, the merger risked re-enforcing consolidation in the market against the competition of independent providers.

6. The merger would also impact on competition by having stronger entities in the market with combined capabilities. While there was still some uncertainty as regards the product range the combined entity might pursue, Auriga observed that the market was already shrinking as the parties had started working together instead of competing. This was less visible in the UK as Diebold has only recently become active but those banks, such as Barclays, which have purchased Diebold hardware but used Wincor software would be affected. Also, as Diebold was strong in the US and Wincor in Europe, the merger would strengthen their standing against their main competitor NCR.
7. Auriga was aware of other independent providers, such as Phoenix and KAL, which had various level of success in selling software globally and in Europe. This success had developed over a long period of time. As banks had started investing into other channels, like digital banking, they had realised that the ATM channel was a proprietary element of the service largely because of the hardware manufacturers' protective approach to their future hardware sales. There was therefore cost savings to be made if that environment was opened up. Auriga was raising awareness of this with some success as a number of banks had contacted them over the last one to two years.
8. Auriga did not believe that Pheonix had any presence in the UK. It was also unclear what the software offering of the merged entity would be. At a recent ATM industry conference it was rumoured that is was unlikely that Phoenix software would be offered in the UK and that Wincor's software would be the merged entity's solution. However, Diebold had not stated what the strategy would be. It was nevertheless unlikely that Phoenix would have taken off in the UK, as they only had a small presence in Europe.

The market for ATMs

9. Auriga said that it was easier to sell software in markets where there was plenty of choice in the availability of hardware. The premise was that when the customers have choice between hardware suppliers, they could also pick and mix the software to achieve the right level of cost and performance. Where the market was dominated by one provider it was very difficult to claim that independent software would bring much freedom to the customer.
10. Customers could look at the different parts of the deal to procure ATM's separately and choose a third party supplier if it was the best option available. Auriga observed that in those situations hardware manufacturers could resort to discounts and bundling as they had more resources available to create an attractive package. While independent suppliers could compete, the market was more difficult to compete in when there was limited choice in hardware.

11. [✂].

Barriers to entry

12. There was no clear reason as to why software providers in certain European countries did not enter other markets. Some might prefer a smaller operation or were keen to consolidate locally. Auriga was not aware if any European providers were planning to expand. For Auriga they had saturated the Italian market, and to keep growing they had to expand.

13. [✂].

Innovation in the market

14. Auriga noted there is a distinct difference between the so-called 'cash-and-dash' ATMs that were placed outside supermarkets for cash withdrawal but with little additional functionality and the ATMs located in bank branches with greater functionality. There was a lot of innovation going on in the latter type of ATM and with assisted device terminals.

15. Auriga said that the same parties were active in this more advanced part of the market with the addition of some new entrants. For example, Glory and Arca have specialised in teller recycling machines ('behind-the-counter' devices) from which they have expanded to the 'in-the-branch' terminals, as the customers were moving away from queuing to see a bank teller to use these devices. Traditional ATM manufacturers were making the case that the assisted device terminals need to be more sophisticated and that they are the only ones able to provide those machines. Both Glory and Arca have adapted their traditional mechanisms and have converted them into self-service devices. Both have entered the market with customer-activated and assisted self-service devices. [✂].