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

Summary of a hearing with NCR on 6 October 2016

Background

1. NCR Limited (NCR) had operated in the UK for 120 years. It served retail and financial customers. In recent years it had extended its business to other areas including hospitality, travel, telecommunications and entertainment. NCR group companies operated, directly or through resellers, in around 120 countries providing solutions enabling easier financial transactions and improving consumer experience. NCR provided services to those banks with direct customer relationships and to payment systems providers. It did not tend to deal in wholesale or investment banking.

2. NCR provided automated teller machine (ATM) hardware and software to enable the processing, authorisation and management of each ATM transaction. It also had a services arm which provided maintenance and software management.

3. NCR Corporation established its manufacturing base in the UK in the 1940’s and 1950’s and its research and development facility in the 1970’s. This had given NCR a good UK market presence and its customers had influenced solutions which NCR had developed and exported globally.

Customers and their requirements

4. Bank customers tended to want one maintenance provider for all their devices which meant NCR maintenance staff also serviced Diebold and Wincor hardware. There were also customers that wanted a multi-vendor support model where multiple manufacturers maintained their own machines. There were also third party service providers such as IBM and Fujitsu who had the ability to support NCR’s and Wincor’s machines. In what was a highly competitive market service providers having the capability to deliver the hardware, software and maintenance services was an advantage. NCR noted that single supplier relationships occurred in less than 25% of cases and it was more common for tenders for hardware, software and services to be issued separately. The other customer group, Independent ATM Deployers (IADs), operated a model where they purchased software from the original

equipment manufacturer (OEM) such as NCR, Wincor, Diebold or Nautilus Hyosung (Hyosung).

5. There was a great deal of competition in the maintenance market in the supply of parts and logistics. There was a global supply chain for all the major manufacturers while older machines were disassembled for parts which were refurbished and then reintroduced into the market. The availability of parts continued long after a machine had been withdrawn from manufacture. NCR noted that it had to guarantee the availability of parts for seven years after the last manufacturing period for a particular machine.

6. Other key customer requirements when purchasing ATM hardware and software included functionality, performance, reliability, the cost of replacing equipment and any potential installation costs.

The market for the supply of ATMs

7. The ATM market had seen an increasingly smaller number of transactions being made each year as consolidation in the customer base had occurred. This had contributed to a downward pressure on prices over the last 10 years. According to the Retail Banking Research organisation growth in the market would be relatively small going forward.

8. Customers switched manufacturer based on the value of the product and its strengths and weaknesses. When IADs entered the UK market they started with the operating model that that had been successful in the US. These devices were focused on the convenience store sector, had limited functionality and the consumer had to pay to use the ATM. This approach had changed over the last ten years as the majority of IADs now deployed ATMs that offered the same level of functionality as those supplied by NCR to the whole of the market.

9. As a global provider NCR saw trends in other countries in that there were various operators that were able to provide ATMs with similar levels of functionality. NCR had also noted a growing emphasis on software and services and as a result its recent research and development had been in this area.

10. NCR's main UK competitors were Diebold, Wincor and Hyosung. Glory Global Solutions (Glory) competed with NCR for the same of teller assisted units. Glory also had ATMs within its product portfolio but did not sell ATMs in the UK. Triton had previously competed with NCR in the past but was now less prominent in the UK market. IADs such as Cardtronics and Note Machine,

which have a vertically integrated in-house service model, were securing service business for which NCR would have traditionally competed.

11. The increase in the share of IADs in the UK market could be attributed to the strategies of retail banks and the economics of running an ATM estate. Retail banks were increasingly focussing on the size of their retail bank estates, their branches and their customer experience offering while also trying to reduce costs. This involved banks embarking upon branch transformations, changing the way they served their customers and seeking self-service or assisted service solutions.

12. IADs were focussed on delivering cash at the lowest possible operating cost to maximise their revenues. IADs such as Cardtronics had grown by acquiring other IADs and by taking over the ATMs from bank's remote estates.

13. Diebold had previously left the UK market because IBM, with whom it was in partnership, had exited their relationship. This had allowed Wincor to strengthen its position in the UK market. Diebold re-entered the UK market in 2009 and by building good sales and management teams it had been successful in acquiring sales at the expense of NCR and Wincor. Diebold's success in acquiring the business of global banks such as HSBC and Barclays had helped establish its current position in the market.

14. The technology underpinning ATMs was very different to Teller Cash Recycler (TCR) machines and this determined the differences in usage between the two. ATMs were designed for 24 hour, unattended operation in all-weather environments, while TCRs were located in a bank lobby where a members of staff would assist customers. NCR believed it would be difficult for a company to switch from providing TCRs to ATMs.

15. The supply of software had been a competitive since 2004 and the introduction of XFS software which was a required global standard. This allowed OEMs such as NCR to operate software across its own devices, other manufacturer's devices and also allowed independent software companies such as Auriga and Phoenix, who had been acquired by Diebold, to operate in the market. Some customers had also developed their own software offering. NCR estimated that around 50% of its estate operated its own software and 50 per cent used other provider's software.

Views on competitors

16. Diebold was a global provider and had a good track record of delivering a full range of financial self-service solutions both globally and in the UK. It was good at understanding customer requirements and providing suitable

solutions to match those requirements. Diebold had acquired a number of software companies and so its software strategy was not entirely clear which some customers could consider a disadvantage. Diebold's service offering in the UK was not on the same scale as NCR's which could also be viewed as a weakness. NCR thought that Diebold would be able to build its engineering base as a result of its success in sales to HSBC and Barclays and that it would also be able to develop its service offering by combining with Wincor.

17. Hyosung had a strong market position in China and was starting to consider entries in a couple of European countries. Hyosung offered certain ATMs which had similarities to those offered by NCR, Diebold and Wincor.

18. NCR believed that Hyosung would look to grow its market share in countries with banks that had an international presence supporting a multi-vendor policy, for example, ING in the Netherlands or Unicredito in Italy. As part of this Hyosung would focus on one customer first, developing a country specific model that worked and then slowly expand. Hyosung did have a presence in the UK but this was mainly in relation to sales to IADs. NCR thought it possible for Hyosung to increase its presence in the UK if an opportunity arose.

19. GRG Banking (GRG) had entered the Turkish and Russian markets where there had been significant growth but not the European market where there was negligible growth and the market was based around the replacement of existing ATMs. NCR noted that developing markets were more willing to try different vendors while the more established markets remained with more well established brands. Although GRG had participated in bids for UK-based sales NCR had not seen a change in GRG's UK presence.

Barriers to entry

20. NCR did not believe that ATM functionality was a barrier to entry because all manufacturers adhered to a global set of standards. This also applied to software because the XFS software standard meant that one manufacturer's hardware could operate with a different provider's software. Additionally, there wasn't any UK specific legislation vendors needed to meet. Brand awareness and reputation was important and any new vendors that did not have an established presence in the European market could find this as a barrier.

21. It was an important requirement to have ATMs which could fit into bank apertures (the 'hole in the wall'). Most suppliers did have ATMs compatible with the majority of apertures. If an ATM was too small it was possible to use particular materials to cover the gaps between the ATM and the aperture. If a machine was too big this could be a significant issue and could result in

significant installation costs in order to expand the size of the aperture (especially in the case of listed buildings).

22. To enter a market for the sale of ATM's providers required marketing and servicing capabilities. Third party service providers did not need to be a particular size to enter the market and could partner with a supplier to help facilitate entry. NCR would expect the partner to provide the entrant with access to the required information to maintain its product and to supply parts at a favourable price.

23. Obtaining certification to operate successfully within a customer's IT system typically took about six weeks and cost around £100,000. However, there were no national software certifications in the UK. All manufacturers supported the required global standards and could operate in the UK.

24. Customers who were able to offer large sales tenders and a global presence were able to secure better deals from suppliers than smaller customers.

Efficiencies

25. NCR believed that the merging parties would benefit from synergies in sales and marketing, research, development, investment and the rationalisation of product lines and premises.

Views on the merger

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