

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

### **Summary of hearing with Cennox on 13 October 2016**

#### **Background**

1. Cennox was a service provider in the automated teller machine (ATM) industry. Its provision included installing and refitting ATMs and equipment for bank branches, remote estates, and independent vendors.
2. Cennox acquired second-hand cash machines from banks around the world. It refurbished spare parts and used them to maintain second-hand ATMs still in use by UK independent ATM deployers (IADs). It also offered break-fix services for the IAD sector including free-to-use ATMs and the ATMs found in convenience stores. Its service provision also included providing the signage around ATM installations and other estate management.
3. Cennox supplied ATM security products to banks such as the equipment needed to protect against card skimming. Equipment purchased from NCR, Wincor or Diebold might subsequently be fitted with its security products.
4. Cennox carried out maintenance services for original equipment manufacturers (OEMs) and some IADs. It did not carry out maintenance services for Diebold as it was a new entrant that carried out its own maintenance to its two UK bank customers as part of a package that included software and installation.

#### **The market for ATM servicing and hardware**

5. Cennox said it was difficult to compete in servicing when banks sought to bundle its hardware and servicing together from one supplier. It was possible for service providers to partner with other hardware or software providers in order to compete with original equipment manufacturers OEMs.
6. Cennox had made three to four significantly sized bids for service contracts with IADs, of which it had won two. The failed bid was because it was unable to access the necessary software to conduct diagnostic tests of the hardware.
7. Cennox had made one bid for a service contract with a bank but the OEM supplying the bank's hardware would not commit to the warranty of its products unless the bank also purchased break-fix servicing. Due to this the

bank withdrew from the tendering process, despite Cennox expressing its willingness to cover the warranty cost within its tender.

8. The main issues Cennox faced in winning service contracts with banks was credibility, maintaining software and spare parts and providing a high quality service. Cennox had the operational capacity to provide these services with the exception of accessing the spare parts and software that were withheld by the OEMs. Without the support or backing of an OEM, it was unlikely that a service provider would be able to enter the market for servicing banks ATMs. OEMs sought to ensure that service providers and banks did not enter into a contract together in order to increase the value of its own hardware and service bundles. It was common for OEMs to act as the only supplier of spare parts to its new machines, which were favoured by banks over second hand equipment. Partnering with OEMs looking to enter the market was a possible way to ameliorate the issue.
9. Cennox said there was precedent in the market for incumbent OEMs making it difficult for potential rivals to access its software in order to enter the market. This was overcome due to pressure from the banks themselves. It said the actual hardware provided by varying OEMs were of comparative quality and was not itself a barrier to enter the market.
10. Cennox said that the market for bank customers was of a significantly higher value than the IAD market as it cost ten times more to maintain a bank ATM due to the higher failure rate from a larger number of daily transactions.
11. Cennox said banks were risk averse and had displayed an unwillingness to procure equipment from OEMs that did not have a demonstrable presence in the UK.

#### **Cennox [REDACTED]**

12. Cennox could act as a distributor in order for a new OEM to introduce its hardware to banks and IADs in the UK. [REDACTED].
13. [REDACTED].
14. [REDACTED].
15. [REDACTED].
16. [REDACTED].
17. [REDACTED].

### **Current market conditions**

18. Cennox said that any cost estimates for entering the market had a wide range, from 10 to 2,000 machines, depending on the options available to an OEM entering the market. The lower range represented a trial that could be conducted cheaply within a narrow geographical region.
19. Rolling out between 1,000 and 2,000 machines was required to introduce a new hardware supplier and build a UK network of support. Such an approach would incur other costs including training qualified engineers to service the new machines. For Cennox competing in the bank market required training its network of engineers, or possibly procuring existing engineers by acquiring the servicing arm of an established market participant.
20. Cennox said it incorporated the historical data of breakdowns and replacing spare parts when it priced a bid for an existing estate of ATMs. It said an IAD would want a fixed price per year for each machine. It said this cost included engineer on-site repairs and maintenance, as well procuring spare parts to keep an ATM running.
21. Cennox said that it was common for the IAD sector to rely on second-line maintenance providers for all their spare parts, irrespective of warranty, within the contract price.

### **Possible entrants**

22. Cennox said it was unlikely that an OEM would be fully active in the UK within the next few years following the merger. It did not see the market as being big enough for another OEM unless the circumstances were favourable to them.