Competition & Markets Authority

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

Summary of hearing with Cardtronics on 21 October 2016

Background

1. Cardtronics focused on the procurement, installation, and end-to-end maintenance of automated teller machines (ATMs). It began operating in the North American market and then entered the UK market around ten years ago, acquiring a number of ATM businesses in the UK during that time. Cardtronics scale had enabled it to provide a comprehensive service that included the sourcing of ATM sites to ensuring that ATM hardware was available and functioning. Cardtronics had three main customer groups; the public who used its ATMs, retail businesses and banks.

2. Cardtronics did not manufacture ATMs and so obtained its hardware from a range of suppliers, including NCR, Wincor, suppliers specialising in refurbished units and from banks returning older ATMs to the market. Neither did Cardtronics manufacture ATM software which it purchased from the original equipment manufacturer (OEM).

Hardware and software market

3. The ATMs in Cardtronics estate operated the software provided by the OEM, which often varied due to its age. Cardtronics had considered operating multi-vendor software across different manufacturers' ATMs but this was not possible largely due to cost. Upgrading its ATM estate to permit a multi-vendor platform would involve considerable costs in terms of software and hardware.

4. The components of the ATMs in Cardtronics estate were continually upgraded. The oldest unit in its estate was [✂] years old. Cardtronics sought to keep its ATMs running with new software or spare parts. Cardtronics typically did not encounter any difficulty in obtaining spare parts from hardware manufacturers or from the refurbished market. If spare parts were no longer widely available then it retired specific models of ATM as these were difficult to maintain.

5. [✂].

6. Cardtronics growth was driven predominantly by the acquisition of ATM estates from banks. In the process it acquired a large number of units, of which as many as [✂] were not economically viable (either because they were older, or, because Cardtronics did not want to support that particular hardware) and therefore replaced. As a consequence Cardtronics managed an estate of ATMs consisting of different hardware and software.

7. Cardtronics tended to buy newer ATM models for internal installations because the price differential between new and refurbished machines was small. However, the opposite was true for through-the-wall ATMs because there was a significant price difference between new and refurbished machines. Banks were increasingly relying on internal multi-functional devices that were not currently provided by independent ATM deployers (IAD) which operated cash dispensing ATMs. Cardtronics thought it was possible that IADs might start operating multi-functional devices in the future. Banks considered factors other than price when selecting a model of ATM, such as the preference for new ATMs to reflect its branding and marketing.

8. Cardtronics preferred to replace through-the-wall ATMs with machines that matched the size of the aperture because widening the aperture incurred significant cost.

Relationship with market participants

9. Cardtronics relationship with NCR and Wincor was multifaceted, in that they were simultaneously Cardtronics suppliers, customers and competitors. Cardtronics bought hardware and software from them and competed to manage ATM estates, while also providing them with engineering and cash services. NCR and Wincor hardware was embedded in its estate. Cardtronics did not procure any maintenance services from Wincor but did receive software support.

10. The hardware manufacturers were aware that Cardtronics acquired second hand machines and so kept the pricing of their ATMs at a competitive level. Cardtronics had bought ATMs from Hyosung until it received a better price from NCR. The ATMs Cardtronics had bought from Hyosung were used in the [✂], lower-transaction level market, typical of convenience stores. Hyosung had more sophisticated hardware available but Cardtronics had not utilised this as it was not embedded in its estate.

Current market conditions

11. Cash withdrawal numbers from ATMs (the LINK cash machine network) in the UK had peaked, plateaued and then fallen approximately 2% last year. [✂]. The number of ATMs, however, had increased because being more efficient in terms of cost had enabled IADs such as Cardtronics to position ATMs in more convenient locations for customers.

12. Transactions outside branch networks had been increasing but transactions in bank branch networks had been decreasing. There had been a fall in the number of ATMs in branches but Cardtronics believed that larger decreases in ATM numbers in branch would follow over time. While the total number of ATMs might decrease, maintaining an estate of ATMs would still be a viable business proposition. However, Cardtronics thought that downward pressure on interchange might reduce the incentive to install new ATMs in the future. Cardtronics noted that one bank had proposals to radically redesign interchange with the purpose of saving money by reducing the number of its ATMs, which would be detrimental to the consumer, but did not think this would occur.

13. There was debate within the industry as to whether the current ATM model would be economically sustainable if cash withdrawals fell significantly or interest rates increased and this was reflected in higher costs and interchange fees. The UK's ATM network differed from the rest of the world in terms of access and being free at the point of use. Cardtronics believed that banks might have historically kept their ATM estates to manage the risk that the LINK system might change. It also considered that many large banks had diminished their remote ATM estates.

Barriers to entry and expansion

14. Overseas manufacturers without a historic presence experienced a number of issues entering and operating in the UK market, including above average shipping times and prices. Cardtronics believed that banks had a general preference for ATM manufacturers with a UK presence and a reputable service record in the local market. It was conceivable that IADs might start running the internal multi-functional devices used in banks in the mid-to-long-term.

15. Having technical expertise locally was critically important, making it much easier for firms to find the right solutions to any problems they faced. Hyosung, for example, had been far less responsive than other hardware

manufacturers in relation to preparation for the introduction of polymer £10 notes.

16. Hardware manufacturers without a UK presence could seek a local partnership, but there were significant problems in terms of acquiring the necessary scale for the partnership to be economically worthwhile. For example, Cardtronics could sponsor entry but it was inconceivable that it would be replacing the number of machines needed to compensate bringing in a partner. It was more likely that a bank might be in this position (eg in the case of an upgrade).

17. Certification and testing hardware after software upgrades was a potential barrier to entry. Incremental change of an ATM's components required less testing compared to new hardware that hadn't previously featured in the UK market. The certification process Cardtronics had undertaken with Diebold in relation to its Phoenix software had taken around [✄] and cost around [✄]. Testing served not only to introduce individual new products, but to expand the options available for Cardtronics in terms of different software (which might have a significant effect on engineering costs) and hardware (eg Diebold had some multi-functional devices which might suit Cardtronics future strategy).

Views on the merger

18. Cardtronics had limited business with Diebold and so it was unlikely that the merger would have a significant impact on procurement because there were alternative, independent software providers in the market. The refurbished market also represented an alternative way to obtain ATMs and spare parts, thereby exerting competitive pressure on the merged entity.

19. A combined Diebold and Wincor might apply more pressure on IADs to provide upgrades or purchase new machines. It was foreseeable that pressure on one segment of the market might impact another, as it had multifaceted relationships with Diebold and Wincor.

20. The merger had the potential to limit the availability of multi-platform software packages as both Diebold and Wincor competed in that market. This might be overcome by the availability and market entry of software producers outside the ATM specific market.

21. Cardtronics did not foresee the merger radically changing the market, but thought that the merged entity might become a better competitor to NCR.