

## **COMPLETED ACQUISITION BY DIEBOLD INCORPORATED OF WINCOR NIXDORF AG**

### **Summary of provisional findings report**

**Notified: 20 December 2016**

1. On 30 August 2016, the Competition and Markets Authority (CMA), in exercise of its duty under section 22(1) of the Enterprise Act 2002 (the Act), referred the global acquisition by Diebold, Incorporated (Diebold) of Wincor Nixdorf AG (Wincor) (the Merger) for further investigation and report by a group of CMA panel members (the Group). Throughout this report, where relevant, we refer to Diebold and Wincor collectively as the Parties.
2. Diebold is a US public company and a provider of financial self-service (FSS) products and solutions. These include (i) services; (ii) software; and (iii) hardware (essentially terminals which are also referred to as automated teller machines or ‘ATMs’).
3. Wincor is a German public company serving customers in the financial and retail sectors and provides FSS products and solutions, comprising: (i) hardware (including ATMs); (ii) software; and (iii) IT services. In addition, Wincor also offers ‘point-of-sale’ (POS)<sup>1</sup> solutions and self-service solutions designed for retail customers.
4. ATMs are machines which dispense cash and which may also offer facilities such as cash/cheque deposit, transaction enquiry, printed statement, account-to-account transfer, bill payment or PIN change.<sup>2</sup> Some ATMs also provide options for topping up mobile phones and electronic wallets and making charitable donations, as well as options to withdraw foreign currency.<sup>3</sup> There are two main categories of ATMs – customer-operated and teller-assist.

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<sup>1</sup> POS refers to the point—or location—where a sales transaction takes place, such as a checkout line or retail counter. A POS system is the term used for the combination of computer hardware and software that manages the sales transaction.

<sup>2</sup> Retail Banking Research, (2016) *ATM Hardware, Software and Services 2016*. Volume 1. Introduction section, p iv. This report is referred to as ‘RBR report, 2016’ in the remainder of this paper.

<sup>3</sup> Payments UK, (2016) *UK Cash and Cash Machines*, p11. This report is referred to as ‘Payments UK, 2016’ in the remainder of this paper.

5. In addition to the Parties, there are a number of other competitors in the UK. These include NCR, the largest ATM provider both globally and in the UK, and other competitors including Hyosung, GRGI and Triton. There are around 30 customers who own the ATM installed base in the UK. These include banks and financial institutions, which deploy ATMs in branches as well as at off-branch sites; and independent ATM deployers (IADs) which typically deploy ATMs at various sites, including in shops and supermarkets. Cardtronics, an IAD, is the largest ATM deployer in the UK with a portfolio of more than 16,000 ATMs (approximately 23% of the total). The next largest ATM deployer, NoteMachine, is also an IAD.
6. Following a voluntary public offer to Wincor shareholders, Diebold acquired majority ownership and control of Wincor, including its UK subsidiaries on 15 August 2016 (the 'Merger'). The combined organisation began operating as Diebold Nixdorf on 16 August 2016. In the UK, the Diebold and Wincor brands and operations remain distinct pending the completion of the CMA's review of the Merger.<sup>4</sup>
7. We are satisfied that the Merger has resulted in a relevant merger situation.
8. In order to identify the relevant market within which to examine the competitive effects of the merger, we first defined the product market before examining issues relating to geographic market definition:
  - (a) The assessment of the relevant product starts with the products of the Parties: both Diebold and Wincor overlap in the supply of ATM hardware, FSS software and FSS services in the UK. Our review of evidence from the Phase 1 investigation<sup>5</sup> shows that there are unlikely to be competition concerns in the supply of FSS software and services. We have therefore focused our investigation on the supply of ATM hardware.
  - (b) We sought evidence from customers about the substitutability of different types of ATM hardware: teller-assist ATMs, kiosks and customer-operated<sup>6</sup> ATMs. We found that teller-assist ATMs and kiosks are not substitutes for customer-operated ATMs either on the demand or the supply side. Customers would not choose a teller-assist ATM (which is designed to be used by a bank teller to assist with in-branch transactions) or a kiosk (which does not dispense cash or accept deposits) over a

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<sup>4</sup> The CMA put interim measures (consisting of an [Initial Enforcement Order](#), a ring-fence and derogations) in place on the same date, shortly after the transfer of the shares. These interim measures require Diebold to hold separate the UK operations of Wincor.

<sup>5</sup> [Phase 1 decision document](#).

<sup>6</sup> We use the term customers to refer to the purchasers of ATMs. This is distinct from the term customer-operated ATMs which refers to ATMs used by the public.

customer-operated ATM, as they serve different functions. Similarly, we found that it would not be easy to adjust production and shift capacity to manufacture either teller-assist ATMs or kiosks without incurring significant costs or delay.

- (c) We also sought evidence on the appropriateness of customer segmentation and whether any effect of the merger on competition to supply banks and IADs required a different analysis. We looked at the ATMs sold by the Parties and NCR to banks and IADs, evidence from internal documents and whether customers had different requirements. We also considered the extent of any links between customers' purchases of hardware and purchases of software or services. The evidence shows that suppliers distinguish between banks and IADs and that customers consider suppliers to have different competitive strengths when serving banks or IADs. The evidence also indicated that the strength of preference for bundled products varies amongst customers, and that in any event, customers could choose to unbundle products in the event of a price rise. However, the evidence also shows that differing customer requirements, including any interplay with the purchase of software and services, are not fully explained by whether the customer is a bank or an IAD. We therefore provisionally conclude that there is a tendency for requirements to differ but there are also material overlaps. As a result, we have not defined separate customer markets, or a relevant market for bundled services, but have taken account of these variations in our competitive assessment. We have therefore provisionally concluded that the relevant product market is the supply of customer-operated ATMs.
- (d) In order to define the geographic market, we considered a number of factors: the geographic location of the manufacturing facility of suppliers, availability of local support services and the need for reputation in the UK. Customers generally told us that they did not attach any weight to the location of the manufacturing facility but identified the other factors as important to greater or lesser degrees. We have therefore provisionally concluded that the relevant geographic market includes all suppliers that actively participate in competitive processes to sell customer-operated ATMs, regardless of the extent of their local operations. However, we have sought to take into account variations in customers' requirements and preferences for local operations and the ability of suppliers to compete for customers with those requirements and preferences in our competitive assessment and the assessment of entry and expansion. We therefore provisionally conclude that the relevant market in which to assess the competitive effects of the Merger is the market for the

provision of customer-operated ATMs in the UK, recognising that, within this category, there are variations in the competitive constraints faced by the Parties which are taken into account within the assessment of the competitive effects of the Merger.

9. Before turning to our analysis of the competitive effects of the Merger, we considered what would have happened to the Parties in the absence of the Merger (the counterfactual).
10. In order to make this assessment, we obtained evidence from the Parties about the rationale for the merger and how it was conceived and structured. There is no evidence to suggest that absent the merger one of the Parties would have exited the market, either globally or in the UK, or that Wincor would have looked for another purchaser. Based on this evidence, we provisionally conclude that the most likely counterfactual is that the Parties would have continued to operate on a stand-alone basis, globally and consequently in the UK.
11. We next turned to the assessment of the effects of the merger on competition in the UK. We first examined the nature of competition before the merger, and in particular the bidding processes which characterise the purchase of ATMs and the strength of the constraint imposed on each other by the Parties and by other suppliers.
12. We examined how tenders in the market for customer-operated ATMs work and how this might affect our assessment. In particular we examined whether contracts are tendered through auction processes such as 'first-price' auctions and 'second-price' auctions and as a consequence whether all competitors impose a constraint on suppliers, or whether only the marginal bid (that is, the closest competitor to the winner) is of exclusive importance in constraining the winner.
13. We examined bidding data from recent tenders including information available to suppliers during tenders and the levels of margins that losing suppliers would have expected to realise had they won a tender. We found that tenders in this market tend to proceed on the basis of sealed bids, with more than one round of bidding and with some limited information flow to suppliers about the state of competition at later stages. We also saw evidence that prospective margins on losing bids were similar to prospective margins on winning bids. On the basis of the evidence we have seen we believe that, although these tenders do not fit neatly within the pure 'first price' or 'second price' frameworks set out in the economic literature, suppliers take into account the

risk of losing to multiple bidders when bidding and therefore we consider all suppliers that compete in a tender could exert a competitive constraint.

14. Against this background we looked at additional evidence on the credibility and competitive strength of each supplier's offering. We note that the largest supplier of customer-operated ATMs in the UK is NCR, followed by Wincor and Diebold which has made significant inroads over the last four years following its decision to "re-emerge" in the UK market.
15. While NCR's market share suggests that NCR is by far the strongest competitor for customers of ATM hardware generally, Diebold and Wincor have material shares of supply. Our review of internal documents indicates that Diebold and Wincor appear to take into account the risk of losing to each other, and to NCR, when setting prices and that they only identified themselves and NCR as the main competitive threats with very limited mentions of other suppliers. In addition, our review of bidding data shows that each of NCR, Diebold and Wincor is a strong and credible competitor, representing viable alternatives for customers of ATM hardware.
16. We also assessed customers' views on the competitiveness of other suppliers and their views on the Merger. The evidence we received suggests that other competitors to the Parties, with the exception of NCR, exert a weak constraint. Customers' views on the Merger varied. Some customers were concerned that support for products would no longer be available and that there may be a loss of competition. However, these concerns were qualified if support were to be guaranteed and by the prospect of future entry, as well as reduced transaction costs from having one single supplier and other complementarities between the Parties, such as improved services and software offer.
17. Finally, we considered whether it was likely that entry or expansion by other suppliers and/or buyer power might be timely and sufficient to prevent a substantial lessening of competition (SLC) and whether there were efficiencies that would result in enhanced rivalry.
18. We considered whether reputation, provision of local maintenance services, certification requirements and ability to comply with specific design requirements represented barriers to entry. We provisionally concluded that whilst barriers to entry and/or expansion can be overcome, certain customers, banks in particular, tend to be more demanding in terms of reputation, availability in the UK of reliable and competitive SLM services, local presence in terms of complementary support services and certification. This means that the choice of an entry or expansion strategy by a supplier which does not

address those requirements may place a supplier in a weak position when bidding for contracts with those customers.

19. We considered that some expansion by both Hyosung and GRGI may occur at some point in the future, particularly in the IAD segment.
20. However, on the basis of the evidence we have received, we are of the view that neither GRGI nor Hyosung would expand within the time horizon of around two years, nor do we expect that they would be as strong a competitor as Diebold over the next two years, even if their expansion were timely.
21. We therefore provisionally conclude that any expansion would be unlikely to occur within a time frame or on a sufficient scale to prevent the loss of competitive constraint from the merger.
22. Finally we considered buyer power and came to the view that taken in the round, although there may be options available to customers including switching suppliers, purchasing refurbished ATMs, delaying replacement or encouraging new entry, these all come with a cost. We have however seen no evidence that customers would be willing to financially sponsor an entrant or to assure guaranteed levels of business. We have not seen any evidence that the ability of customers to use size to increase their buyer power would become greater post-Merger compared to the counterfactual. Furthermore, we believe that even in the event that some customers had countervailing buyer power arising from size, this would not protect medium and smaller customers of which there are many in the market.
23. In relation to efficiencies, we have not seen any relevant and specific evidence of how the merger would create an even more competitive entity.
24. In view of the above, and taking into consideration all the evidence we have received during the course of the investigation, on balance, we provisionally conclude that the completed acquisition of Wincor by Diebold may be expected to result in an SLC in the market for the supply of customer-operated ATMs in the UK.