

ME/6648/16
COMPLETED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
DIRECTCASH PAYMENTS INC. BY CARDTRONICS PLC

NOTIFICATION TO THE
COMPETITION AND MARKETS AUTHORITY

dated

9 February 2017

Baker
McKenzie.

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Executive Summary

Introduction - Important developments in the UK ATM deployment market

1. This notification relates to the completed acquisition by Cardtronics plc ("**Cardtronics**") of the entire issued share capital of DirectCash Payments Inc. (which is now an unlimited liability company DirectCash Payments ULC) ("**DCP**" and together with Cardtronics, the "**Parties**"). The transaction closed on 6 January 2017 and Cardtronics now exercises sole control over DCP (subject to the provisions of the Initial Enforcement Order, as amended).
2. The transaction relates to the deployment of automated teller machines ("**ATMs**") in the UK. The OFT considered this market with respect to Royal Bank of Scotland Group's acquisition of Hanco ATM Systems Ltd/Hanco ATM Machines BV back in 2004¹ ("**RBS/Hanco**").
3. There have been significant developments in the UK ATM deployment market in the 12 years since RBS/Hanco:
 - (a) the number of ATMs deployed in the UK market grew significantly, mainly due to the increasing presence of independent² ATM deployers ("**IADs**") deploying ATMs at new "greenfield" sites, such as pubs, petrol stations, supermarkets, convenience stores and other retail destinations. Banks or building societies ("**BBSs**") are also bidding for merchant contracts outside their own branch networks. This trend is reflected in the fact that off-site ATMs (i.e. ATMs at sites other than BBS branches) now account for 73% of all ATMs in the UK³;
 - (b) it is now normal to find ATMs deployed by multiple BBSs and IADs within the same postcode. This reflects the position that consumers want convenient access to cash and are agnostic/brand neutral as to the deployer of an ATM, whether BBS or otherwise;
 - (c) "not-on-us" cash withdrawals (where the BBS that holds the consumer's account does not own the ATM in use) accounted for 74% of the total amount of cash withdrawn from ATMs in 2015 (up from around 55% in 2005⁴), with the remainder being made up of BBS "on-us" withdrawals (where the BBS that holds the consumer's account also owns the ATM in use)⁵;
 - (d) the UK ATM deployment market is now overwhelmingly a free to use ("**FTU**") market⁶. FTU machines account for 98% of UK cash withdrawals. FTU machines are deployed by both BBSs and IADs, whereas previously the majority of ATMs deployed by IADs were pay to use ("**PTU**");
 - (e) indeed, the proportion of ATMs that are PTU continues to be in sharp decline - the PTU business model accounts for only 2% of withdrawal volumes⁷ and is falling - due to the significant increase of FTU ATMs and increasing opportunities to use alternative free payment mechanisms (which particularly impacts usage of PTU ATMs);
 - (f) cash is being increasingly replaced by alternative payment mechanisms e.g. contactless card and mobile payments, a very recent development. As a result, over the last five years the use of cash for consumer transactions has begun to fall significantly. The number of cash payments in the UK fell by 1 billion - from 18 to 17

¹ <https://www.gov.uk/cma-cases/hanco-atm-systems-ltd-and-hanco-automated-teller-machines-b-v-royal-bank-of-scotland-group-plc>

² i.e. non bank or building society.

³ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 28.

⁴ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 28.

⁵ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 28.

⁶ FTU ATMs will not be switched to PTU ATMs for the reasons set out below.

⁷ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 54. The number of withdrawals at PTU machines in 2015 was 56 million (out of a total number of withdrawals of 2,797 million).

billion - between 2014 and 2015. By 2025, the volume of cash payments is expected to have fallen by 34% from 2015 levels. The reduction in the use of cash has coincided with the maturing of the UK ATM market. Consequently, cash withdrawals fell by 1.2% in 2015 and the rate of increase in the number of cash machines in the UK is slowing. These changes reflect the following factors⁸:

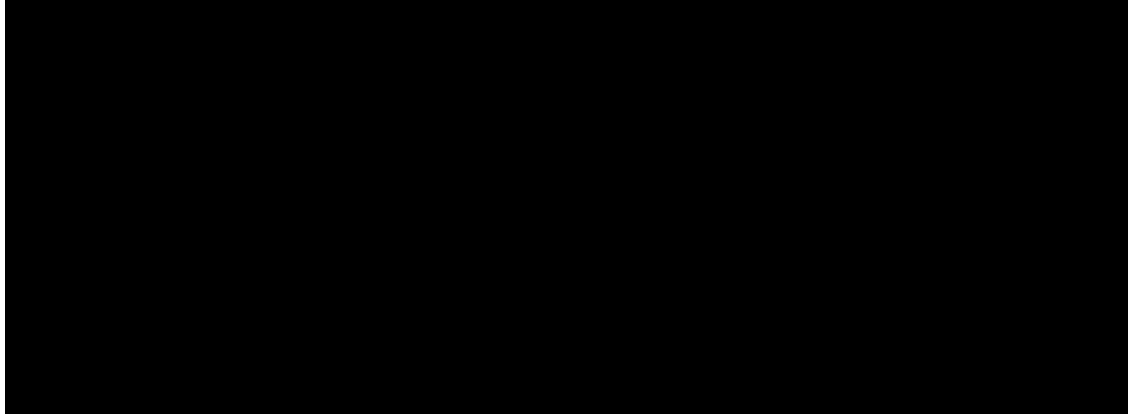
- (i) consumers and businesses becoming more comfortable with cards being used to pay for low value transactions;
 - (ii) increased availability of contactless payment terminals at points of sale;
 - (iii) continued rollout of contactless-enabled cards to consumers;
 - (iv) increased familiarity of consumers with contactless payments following their introduction on transport networks such as Transport for London; and
 - (v) migration of person-to-person payments to mobile solutions;
- (g) reflecting the increasing importance of alternative payment methods, a number of BBSs are concentrating on business strategies other than ATM deployment, resulting in a fall in the number of new ATMs that they deploy; indeed, ATM deployers are increasingly coming across examples of site owners choosing not to host ATMs as they view them as redundant (reflecting the fact that most sites now offer alternative payment methods). For example, Cardtronics [REDACTED]

4. The above market developments provide important commercial context against which the CMA should assess the transaction and are some of the relevant drivers of the transaction. Such market developments are not unique to the UK but do illustrate the changing nature of the competitive pressures and uncertainties the Parties face.
5. Against this background, the Parties submit that the transaction could not give rise to a realistic prospect of a substantial lessening of competition ("SLC") for the following reasons:
- (a) the Parties have a modest combined share of supply of ATM cash withdrawals - less than 20% (Cardtronics - [REDACTED] and DCP - [REDACTED]);

⁸ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 24.

**FIGURE 1:
MARKET SHARES BY ATM CASH WITHDRAWALS**

**2016 (until August)
Shares**



- (b) the Parties face strong existing competition from other ATM deployers, both BBSs - especially RBS, Barclays, Bank of Ireland, Lloyds, HSBC, Santander and Raphaels Bank - and other IADs which have established positions in the market and which compete closely with the Parties, including NoteMachine, Euronet/YourCash and Paypoint;
- (c) the competitive constraint YourCash represents is likely to increase significantly as a result of its acquisition by Euronet. Indeed, Cardtronics understands that earlier in the year Euronet informed Rontec⁹ that it wished to withdraw its ATMs from Rontec's sites. However, following the sale of YourCash to Euronet, this request has been retracted, indicating that Euronet/YourCash intends to be a major competitor and the impact of this sale is already being felt on the market;
- (d) the Parties are not close competitors - Cardtronics focuses upon FTU ATMs in "prestige" higher volume sites whilst DCP is active primarily in the deployment of ATMs (including many PTU ATMs albeit reducing) in lower volume sites e.g. pubs. This is evident by the segment analysis and bidding data analysis in this notification;
- (e) there are few barriers to entry or expansion especially to supplying smaller independent site owners in any given segment where the Parties' presence is appreciable (e.g. social and leisure, as well as services, workplace and mobile destinations);
- (f) large chain site owners (e.g. supermarkets) are in a position to sponsor entry and expansion and/or self-supply at least part of their requirements. For example, Sainsbury's self-supplies ATMs at its stores;
- (g) more generally, site owners of commercially viable sites enjoy significant countervailing buyer power. As a result, it is very difficult for deployers to renegotiate contracts so to reduce commissions paid to site owners - site owners would likely replace any deployer that attempted to do so; and
- (h) deployers face a very challenging environment as a result of the increasing prevalence of alternative payment mechanisms (as noted above) and competition against alternative uses for sites e.g. slot / drinks machines.

⁹ (<http://www.rontec.com/about-us/>)

6. In short, there are multiple choices available nowadays both for consumers and site owners. Therefore, there is no realistic prospect of any SLC arising as a result of this transaction.
7. The above is sufficient for the CMA to conclude that no issues arise in this case. For completeness, the Parties have nevertheless looked at the picture on a very granular local basis to assist the CMA in eliminating any possible concern in a rapid manner. This has been done by way of a postcode analysis and a local effects analysis.
8. The postcode analysis shows that:
 - (a) there are only █ out of █ postcode sectors where a possible reduction in choice exists post-transaction based on a preliminary postcode analysis;
 - (b) in these sectors, it is unlikely that the transaction will result in a prospect of a SLC, given site owners' desire to offer a quality ATM service and the availability of alternative new sites for competitors to deploy ATMs;
 - (c) if, hypothetically, a postcode sector lost access to FTU ATMs or ATMs altogether as a result of the transaction, this would likely lead to rapid new entry by a competing deployer, an increase in the acceptance of contactless payments and the provision of cashback by site owners and moreover would give rise to significant media and political issues: <http://www.frankfield.com/campaigns/cash-machine-charges.aspx> and <https://www.theguardian.com/society/2014/jan/01/poor-people-free-cash-machines>;
 - (d) indeed, LINK incentivises the deployment of ATMs in local areas that it deems underserved by FTU ATMs¹⁰. Thus, the Parties' offerings would be quickly replaced.
9. The local effects analysis shows that¹¹:
 - (a) only █ to █ "2:1" areas can be identified with respect to PTU ATMs in rural areas (rising to just between █ to █ if "3:2" scenarios are included) where the radii used is 500m-2km, which is in line with the internal evidence of Cardtronics (other results with different radii are presented for the CMA's ease of reference and for the purposes of a sensitivity analysis in Annex 15Q);
 - (b) in a very large number of areas (between █ to █) for radii 500m-1km, there is no overlap whatsoever or there will be at least three competitors present post-integration;
 - (c) even taking the worst case scenario radii, namely 500m, there are strong arguments as to why there will not be any SLC in the █ areas where the transactions results in a "3:2" or "2:1" scenario.
10. No vertical or conglomerate issues arise as the Parties do not have a vertical relationship, nor do they supply related products or services.
11. Below the Parties briefly summarise the jurisdictional position and the relevant parts of the merger control assessment, including providing an assessment on the basis of increasingly narrow and artificial segments.

The merger situation and jurisdiction

12. The Parties submit that calculating shares of supply in the market for ATM deployment in the UK on the basis of number of ATMs deployed is not the correct method/frame of reference for the reasons set out below. However, on the basis of such method of calculation, the Parties

¹⁰ <http://www.link.co.uk/financial-inclusion/>

¹¹ At the time of submission of this notification, further work on the local effects analysis is being undertaken (as discussed with the CMA on 7 February 2017).

have a combined share of supply of [REDACTED] and, thus, the share of supply test is met. The turnover test is not met given DCP's low turnover in the UK.

13. The acquisition is notified to the CMA only; no other merger filing thresholds (including the EUMR thresholds) are met.
14. The Parties are of the view that the transaction does not give rise to a risk of a SLC. Nevertheless, the Parties are seeking the CMA's confirmation that it will not make a reference under section 33 of the Enterprise Act 2002 in the interest of legal certainty.

Market Definition

15. ATMs are primarily used by consumers to withdraw cash. There are a number of methods that consumers can use to withdraw cash, including ATMs, debit card cashback, card withdrawals at BBSs or post office counters, cheque encashment and passport withdrawal. The importance of cash is reducing. It will rarely be the case that cash is the only possible payment method for consumer transactions and the use of cash for consumer transactions is falling significantly; being increasingly replaced by alternative payment mechanisms e.g. contactless and mobile payments¹². These alternative payment methods and sources of cash will continue to constrain the Parties' activities post-transaction. The Parties have not, for present purposes, provided details based on the wider market given the nature of the Phase 1 process before the CMA. Notwithstanding this, it is likely the case that, from a consumer's perspective at least, the market is now much wider than cash but, rather, consists of all convenient payment methods.
16. Without prejudice to the above, for the benefit of the CMA the Parties have taken as a starting point the last decision of the CMA and its predecessor in this area, namely the OFT's findings when reviewing RBS/Hanco. If this is taken as the starting point, the Parties submit that the relevant plausible product market is at least as wide as the deployment of ATMs.
17. Whilst this market could hypothetically be further segmented in a variety of ways, as shown below, such segmentation is largely artificial and the Parties do not consider any further segmentation to be meaningful from a market definition perspective.

**TABLE 1:
POTENTIAL SEGMENTATION OF THE ATM DEPLOYMENT MARKET**

Means of segmenting the ATM deployment market	Segments	
Whether consumers are charged	FTU ATMs	PTU ATMs
Merchant market / self supply	IADs and BBSs supplying third parties	BBSs' self supply
Identity of deployer	IADs	BBSs
Destination of ATMs	Multiple segments: BBS branches; post offices; supermarkets, convenience and other retail; social and leisure; motoring and transport; services, workplace and mobile.	
Size of site owner	Large (multiple sites)	Small / Independent
Service model	Processing / merchant refill	Full placement / cash in transit

18. As noted above, the Parties do not consider it appropriate to assess the transaction by reference to these narrow segments not least due to the high degree of supply-side substitutability.

¹² For example, contactless card payments can be used on all bus, tube, tram, DLR, London Overground, TfL Rail, river bus and most national rail services in London, as well as London black cabs: <https://tfl.gov.uk/fares-and-payments/contactless/how-to-use-it>
<https://tfl.gov.uk/info-for/media/press-releases/2016/october/all-london-black-cabs-to-take-cards-and-contactless-payments-from-mond>

19. A segmentation on the basis of the identity of deployer is not appropriate given that both consumers and especially the site owners are neutral as to the "identity" of the deployer. Site owners invite both BBSs and IADs to tender for deploying ATMs in their estates. For example, [REDACTED]
20. The Parties do not consider it appropriate to further segment the market according to destination of ATMs/the category of site-owner (e.g. supermarket, motoring, social, leisure) because:
- (a) the product characteristics of the ATMs deployed by the Parties and their competitors are essentially the same across customer sites, with the principal distinction being between "through-the-wall" machines, which are installed into the fabric of a building, and standalone ATMs which can be installed wherever they can be appropriately connected;
 - (b) this distinction should not be over-stated. All deployers are capable of supplying (through-the-wall and standalone) ATMs to customers across site-owner types using the same ATM hardware and there are no legal, commercial or technical restrictions to them doing so. There are no bespoke ATM types for individual site-owner categories;
 - (c) competition for the deployment of ATMs takes place in essentially the same manner across different site-owner types, albeit that larger site-owners (e.g. supermarket chains) may run a more sophisticated tender process;
 - (d) whilst, for the customer withdrawing cash, it is relevant that ATMs may be either FTU or PTU, this is not a distinction that is meaningful in considering competition for the deployment of ATMs to site-owners, as any ATM deployer can compete for either type of contract. In particular, the Parties note:
 - (i) there is no inherent difference between the services provided to consumers by FTUs and PTUs (the only difference is the fee charged to end-users);
 - (ii) in certain circumstances site owners can choose between PTU and FTU ATMs and there is not necessarily any income differential between the two for the following reasons:
 - (A) though FTU interchange fees are much lower than PTU surcharge fees, FTU ATMs typically enjoy higher transaction volumes (given, inter alia, that the service is free to consumers), which frequently results in FTU ATMs generating more net revenue for site owners than a PTU ATM would; and
 - (B) FTU ATMs typically generate higher footfall to retail sites, thereby potentially benefitting site owners from increased general sales;
 - (iii) there are no technical or network differences between FTU and PTU ATMs, meaning that - subject to any contractual limitations - deployers and site owners can switch from FTU to PTU (and vice versa) with great ease. In their installed estates, deployers very often convert ATMs at customer locations from PTU to FTU with no changes to the hardware or software deployed. For example, [REDACTED]
 - (iv) PTU ATMs are constrained by FTU ATMs; and

- (v) the market (including ATMs deployed by IADs) has moved rapidly towards a FTU model in particular through the conversion of existing PTU ATMs into FTU ATMs. This trend is continuing as retailers continue to make choices about improving their footfall to combat declining transactions at ATMs and the increased use of cash alternatives.
21. It remains the case, as the OFT observed in RBS/Hanco, that ATM deployments may either be full placement, including cash-in-transit (i.e. the deployer also fills the machine with cash either through its own operations, which Cardtronics and NoteMachine provide, or a third party provider) or merchant refill. However, there are very few restrictions on site-owners switching between service models, and from a supply-side perspective the availability of third party service providers such as Loomis or G4S¹³ means that an absence of in-house cash-in-transit does not prevent an ATM deployer from competing for a full placement contract (indeed, DCP does not have its own cash in transit operations and outsources this function).
22. Nevertheless and for completeness, the Parties have set out their shares of supply and provided analysis of the competitive conditions in each hypothetical segment where the Parties' combined share of supply would meet or exceed 25%¹⁴ to assist the CMA in reaching a decision in short order. As will be seen, no substantive issues arise for any such segment.
23. In terms of geographic market, all competitors deploy ATMs across the UK, and site owners invite the same deployers to tender for contracts across the UK. Thus, consistent with the previous decision of the OFT, the Parties submit that the relevant geographic scope of both the plausible product market and narrowest segments is the UK. In any event, no SLC arises even on a narrower geographic basis as explained below under the local effects analysis.

Absence of a SLC

Frame of reference

24. As the CMA is aware, in markets characterised by competition for tendered contracts, shares of supply are not necessarily reliable indicators of the competitive constraints that each market participant represents but merely capture past successes and failures in tender participations. ATM deployers compete to secure sites from site owners, most often through participating in tenders. In such competitive bidding markets, the Parties submit that the number and closeness of bidders are better indicators of competitiveness than shares of supply.
25. When it comes to shares of supply, the Parties submit that the most appropriate frame of reference by which to assess the transaction is, at its narrowest, the total volume of cash withdrawals from ATMs deployed in the UK. Such an approach illustrates the scale of competitors. This frame of reference reflects the characteristics of the ATM deployment sector, the commoditised nature of the service (withdrawal of cash), the presence of national competitors (in particular many of the BBSs) and the awarding of contracts on a national basis. While it does not include the alternative forms of payment (contactless, mobile etc.) and, related, does not indicate the possible alternatives available to site owners and the drivers of such decisions, it is helpful for the CMA's purposes.
26. On this basis, the market shares of the Parties and their competitors are as follows:

¹³ G4S and Loomis are the two main national providers of cash-in-transit ("CIT") services on behalf of IADs, although there are some regional providers, such as RMS in Northern Ireland. Both G4S and Loomis provide CIT services to DCP. [REDACTED]

¹⁴ The Parties are not present in the self-supply or BBS deployer segments. Their combined share of supply does not exceed 25% in each of the FTU, BBS branch and post office segments.

**TABLE 2:
MARKET SHARES BY ATM CASH WITHDRAWALS**

Company	2014		2015		2016 (until August)	
	Volume of withdrawals (millions)	Share	Volume of withdrawals (millions)	Share	Volume of withdrawals (millions)	Share
Cardtronics	█	█	█	█	█	█
DCP	█	█	█	█	█	█
Combined share of cash withdrawals	█	█	█	█	█	█
Barclays	█	█	█	█	█	█
Euronet / YourCash	█	█	█	█	█	█
NoteMachine	█	█	█	█	█	█
Paypoint	█	█	█	█	█	█
RBS Group	█	█	█	█	█	█
Lloyds Banking Group ¹⁵	█	█	█	█	█	█
Bank of Ireland	█	█	█	█	█	█
Santander	█	█	█	█	█	█
HSBC	█	█	█	█	█	█
Others	█	█	█	█	█	█
On-us withdrawals at BBSs	█	█	█	█	█	█
Total	█	100%	█	100%	█	100%

Source: LINK data.

Note: 2016 estimates based on data for Jan-Aug.

27. Table 2 shows the share of supply by number of cash withdrawals. This includes "on-us" and "not-on-us" withdrawals. Whilst the LINK dataset (the only available data) does not include "on-us" withdrawals as they are not processed through the LINK network, the Parties have been able to calculate the total market size using an adjustment to account for the fact that 22% of all ATM cash withdrawals are "on-us"¹⁶. The 22% share of the market that represents on-us withdrawals should be split between BBSs (those listed in Table 2 as well as in the Others category) as they carry out on-us processing but there is no data available to the Parties as to how this split should be made. As a result, the shares of Barclays, RBS, Bank of Ireland, Santander and HSBC are in fact higher than the shares shown in Table 2.

28. The LINK dataset also does not provide withdrawal data split into the hypothetical segments. Therefore, to provide accurate data for these segments, the Parties have provided shares of supply based on numbers of ATMs deployed. The Parties submit that the CMA should give more weight in its considerations to the withdrawal data for the overall market as the number of ATMs deployed significantly overstates the competitive positions of the Parties. DCP █

¹⁵ Cardtronics acquired █ in July 2016. These ATMs accounted for around █ ATM cash withdrawals in 2015. This transaction is not yet reflected in the LINK dataset but, at the time of the transaction, Cardtronics estimated that these ATMs would account for a █ share of ATM cash withdrawals (see Annex 4B). To avoid repetition, this point is not included on each occasion that █ shares of supply are referred to in this notification.

¹⁶ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 28.

██████████¹⁷ This is illustrated in the following table comparing shares of supply on the basis of ATMs deployed and volume of withdrawals respectively:

**TABLE 3:
COMPARISON OF SHARES OF SUPPLY**

Company	SHARE OF SUPPLY	
	Based on # of ATMS deployed	Based on # of withdrawals
Cardtronics	████	████
DCP	████	████
Combined	████	████
Barclays	████	████
Lloyds Banking Group	████	████
RBS Group	████	████
Bank of Ireland	████	████
Santander	████	████
HSBC	████	████
Major BBS combined	████	████
Euronet/ YourCash	████	████
NoteMachine	████	████
Paypoint	████	████
Major IADs combined	████	████
Others	████	████

Source: LINK data.

**██████ LINK transactions + 22% on-us transactions

29. Also, with regard to the destination segments referred to in Table 1, there are the following issues with the way that the LINK data has been categorised:
- (a) the definitions provided by LINK for deployers to categorise their ATMs provide very limited detail - see Annex 12F (LINK scheme ATM file). For example, a mini-supermarket on the High Street could be classified as a convenience store or a supermarket¹⁸. As a result, deployers often categorise ATMs differently. Indeed, Cardtronics ██████████
██████████ and
- (b) deployers update their submissions infrequently and on an ad hoc basis. Therefore, many ATMs may have changed category without being reflected in the LINK data.
30. To overcome (a) in particular, Payments UK¹⁹ groups together similar destination types (e.g. supermarkets, convenience and other retail) according to some commonly observed characteristics. This is a more appropriate segmentation than considering destination types on an individual basis (e.g. supermarkets), although the Payments UK groups/segments are still generalised and somewhat arbitrary and should not be used to draw bright line distinctions.

¹⁷ The Parties submit that the CMA should take into account the fact that this data overstates the significance of the Parties' presence whenever "number of ATMs deployed" data are referred to in this notification. However, to avoid repetition, this point is not included on each such occasion.

¹⁸ This is explained by Payments UK on page 29 of Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016).

¹⁹ Payments UK is a trade association that was launched in June 2015 to support the payments industry. <http://www.paymentsuk.org.uk/>

**TABLE 4:
SUMMARY - SHARES OF SUPPLY BY NUMBER OF ATMS DEPLOYED**

Means of segmenting the market	Whether consumers are charged			Merchant "market" or self supply	Identity of deployer	Destination of ATMs (as per Payments UK Report)					
	Overall	FTU	PTU			Merchant "market"	IADS	BBS branch	Supermarkets, convenience and other retail	Social and leisure	Post office
Cardtronics	■	■	■	■	■	■	■	■	■	■	■
DCP	■	■	■	■	■	■	■	■	■	■	■
Combined	■	■	■	■	■	■	■	■	■	■	■
Barclays	■	■	■	■	■	■	■	■	■	■	■
Lloyds Banking Group	■	■	■	■	■	■	■	■	■	■	■
RBS Group	■	■	■	■	■	■	■	■	■	■	■
Bank of Ireland	■	■	■	■	■	■	■	■	■	■	■
Santander	■	■	■	■	■	■	■	■	■	■	■
HSBC	■	■	■	■	■	■	■	■	■	■	■
Major BBS combined	■	■	■	■	■	■	■	■	■	■	■
Euronet/YourCash	■	■	■	■	■	■	■	■	■	■	■
NoteMachine	■	■	■	■	■	■	■	■	■	■	■
Paypoint	■	■	■	■	■	■	■	■	■	■	■
Major IADS combined	■	■	■	■	■	■	■	■	■	■	■
Others	■	■	■	■	■	■	■	■	■	■	■

31. Please note that, as mentioned above, the Parties combined share by ATMs withdrawals is ■.

Modest combined shares and small increment

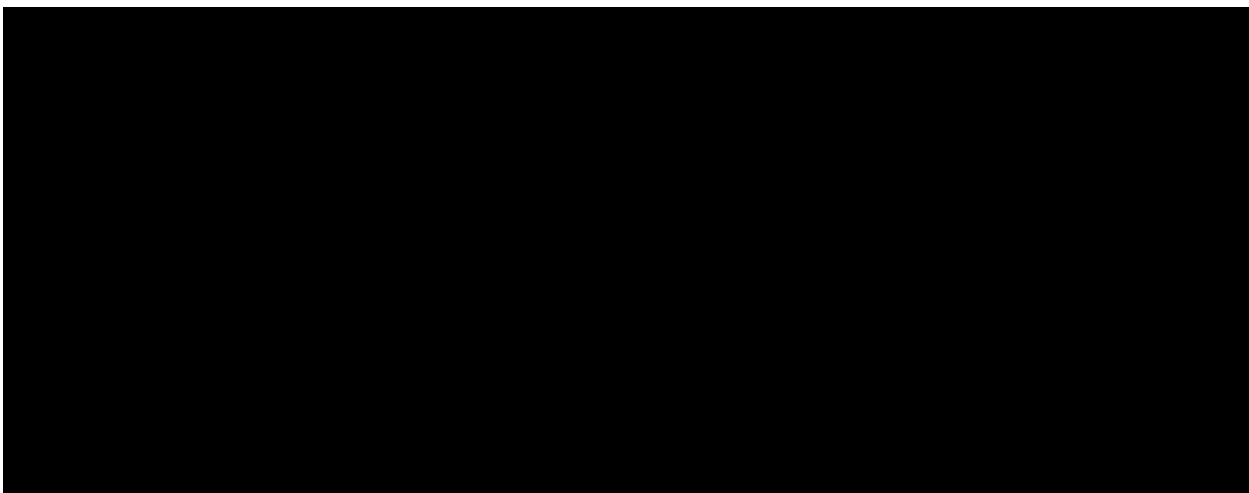
32. No horizontal issues arise in the UK ATM deployment market. The Parties' combined share of ATM cash withdrawals is ■, of which DCP accounts for ■. The Parties' combined share in terms of the number of ATMs deployed is higher at ■, of which DCP represents ■ (with this share driven by its high number of low-volume PTU ATMs). However, as stated above, the use of "number of ATMs" to assess market share significantly overstates the competitive significance of the Parties' presence on the market. Whilst the Parties do not have the data in their possession, this factor is highly likely to be relevant across all segments as the proxy of "number of ATMs" does not take account of the very low volumes that are generated by many of the Parties' ATMs and in particular those of DCP in social and leisure destinations²⁰.

33. In terms of the hypothetical segmentation between FTU and PTU ATMs, no issue arises in FTU ATMs as market shares are modest and the Parties are facing strong competition (as is evident from the pie chart by number of ATMs deployed below):

²⁰ These destination types are described in section 15 below.

**FIGURE 2:
SHARES OF SUPPLY BY NUMBER OF FTU ATMS DEPLOYED**

FTU



34. The combined share of the Parties, even by number of ATMs, is just [REDACTED], with DCP accounting for [REDACTED]. Moreover, the Parties are not close competitors in this segment, as discussed below.
35. In terms of PTU ATMs, the combined share of ATMs deployed is [REDACTED]. However, as discussed above, it is artificial to look at PTU ATMs in isolation. The PTU business model accounts for just 2% of transaction volumes²¹ and is in sharp decline due to the increase of FTU ATMs and increasing opportunities to use alternative free payment mechanisms e.g. contactless card and mobile payments. The real choice for most site owners is whether or not to install a FTU ATM (or use the space for something else e.g. slot / drinks machines). In any event, as noted below, for those that wish to have a PTU ATM, there will be a choice of at least 3 well established competitors post-transaction and there are no barriers to entry/expansion to "FTU deployers" bidding for PTU contracts. Finally, as also explained below, the Parties are not close competitors in the PTU ATM segment.

Strong existing competition

36. The Parties will continue to face strong competition from a number of very credible and experienced ATM deployers both across the market and in any hypothetical segment.
37. The merged entity will continue to compete against BBSs, which deploy at least 40% of ATMs in the UK and account for around 70% of ATM cash withdrawals. Such competitors primarily deploy ATMs in the destinations with the highest withdrawal volumes (typically BBS branches, post offices, supermarkets and other retail destinations). RBS, Barclays, Bank of Ireland, Lloyds, HSBC and Santander have the highest shares of ATM cash withdrawals.
38. Whilst the number of ATMs deployed by BBSs is decreasing, their extensive branch networks, reputational advantages (both with consumers and site owners) and financial leverage from activities in related markets grant them significant competitive advantages over the Parties.

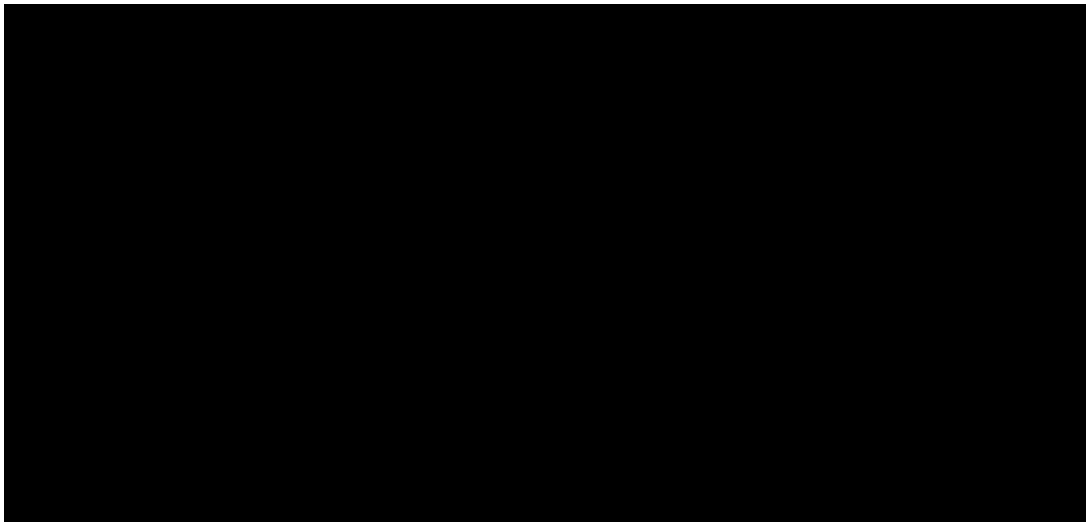
²¹ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 54. The number of withdrawals at PTU machines in 2015 is 56 million (out of a total number of withdrawals of 2,797 million).

They continue to be viewed by the Parties as leading competitors who can expand their presence easily.

39. The merged entity will also face competition from NoteMachine, Paypoint and YourCash (each of which is an established IAD with market shares of [REDACTED], [REDACTED] and [REDACTED] respectively by ATM cash withdrawal volumes and a share of supply of [REDACTED], [REDACTED] and [REDACTED] respectively by number of ATMs deployed), as well as smaller competitors such as Change Group and Raphaels Bank. The CMA will note that YourCash's competitive presence has been strengthened significantly by its recent sale to Euronet. This was announced on 10 October 2016 and the merged entity has a demonstrated appetite for aggressive growth in the deployment of ATMs. Given the timing of YourCash's sale, its competitive strength is not reflected in the share of supply data in this notification, but it will likely have a significant impact on the market going forward due to Euronet's large-scale operational expertise and additional capital for ATM deployments²². These three established deployers (including one that has been strengthened recently) are the Parties' principal competitors in the PTU segment. The following two pie charts summarise the Parties' existing competition both in terms of withdrawals and number of ATMs deployed respectively.

**FIGURE 3:
MARKET SHARES BY ATM CASH WITHDRAWALS**

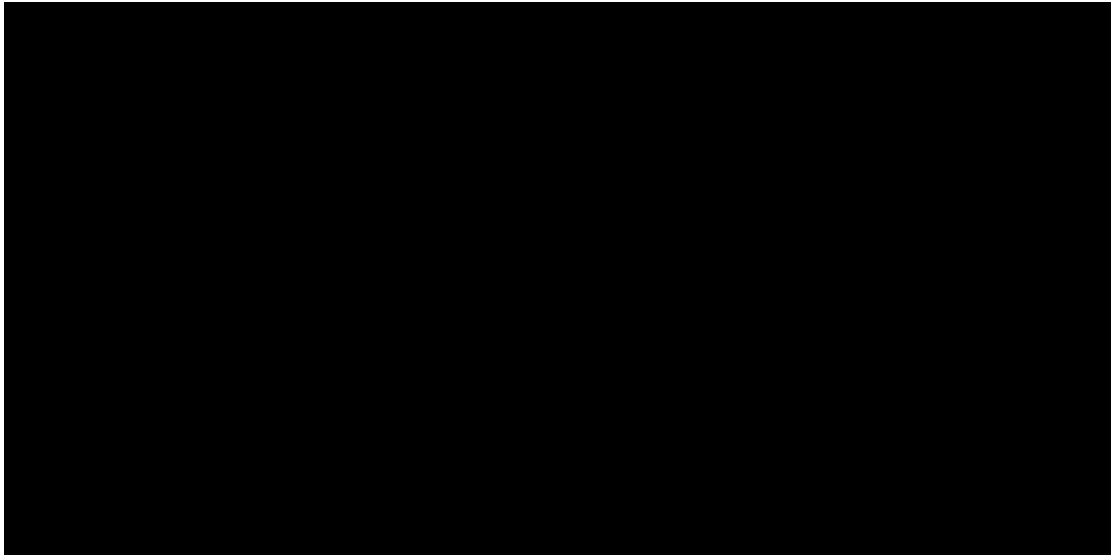
2016 (until August)
Shares



²² The CMA will no doubt wish to obtain relevant information about the integration and competitive plans of the combined business. In the Parties' view, the combined business will be a significant competitive constraint across the whole market and in all hypothetical segments.

**FIGURE 4:
SHARES OF SUPPLY BY NUMBER OF FTU ATMS DEPLOYED**

Overall



40. The strong competition faced by the Parties is demonstrated by the bidding data, which (based on Cardtronics' bidding data) shows that, of the [REDACTED] out of [REDACTED] tenders where the Parties overlap, at least one third party was present in [REDACTED] tenders and at least two third parties were present in [REDACTED] tenders.

The Parties are not close competitors

41. The Parties are not close competitors. The table below sets out an overview of the Parties' competitive positioning and illustrates their different focus.

**TABLE 5:
SUMMARY OF THE PARTIES' COMPETITIVE POSITIONING**

Aspect of Competitive Positioning	Primary Focus	
	Cardtronics	DCP
Destination	Higher volume "prestige" sites typically served by through the wall ATMs and with a tendency to utilise more sophisticated purchasing processes e.g. motorway and transport, convenience, supermarket and other retail destinations. In 2016, Cardtronics' ATMs averaged [REDACTED] withdrawals per machine per month.	Lower volume social and leisure sites such as independent pubs and nightclubs, leisure facilities, holiday parks, and amusement parks with a tendency to use freestanding ATMs. In 2016, DCP's ATMs averaged [REDACTED] withdrawals per machine per month.
Whether consumers are charged	Large majority FTU ATMs.	Slight majority (albeit declining) PTU ATMs.

42. The high degree of complementarity between the Parties' businesses is evidenced by their shares of supply when looked at by segment and the bidding data analysis.

43. Table 4 shows that the substantive overlap between the Parties in the segments is limited. Some of the key messages from this data are as follows:
- (a) the transaction gives rise to increments of [REDACTED] or less - even by number of ATMs deployed - in many segments²³;
 - (b) Cardtronics focuses mainly upon the deployment of ATMs in "supermarkets, convenience and other retail" and "motoring and transport" destinations typically utilising through the wall ATMs, whilst DCP focuses mainly upon "social and leisure" destinations typically utilising freestanding ATMs; and
 - (c) the emphasis of the Parties' consumer charging models are different - Cardtronics deploys [REDACTED] FTU ATMs and [REDACTED] PTU ATMs, whilst DCP deploys [REDACTED] FTU ATMs and [REDACTED] PTU ATMs.
44. In addition, it is worth noting that the share of supply data overstate the closeness of competition between the Parties as it does not adequately reflect the discrepancies within segments. For example, within the social and leisure segment, there is a big difference between a casino or stadium ATM ([REDACTED]) and an ATM in a small bar or nightclub ([REDACTED]).
45. The Parties' complementary positioning is also evident within each of the FTU ATM and PTU ATM segments. This is supported by the Parties' presence in the different sub-segments by destination within each of FTU ATMs and PTU ATMs. For a detailed analysis, see section 15 below.
46. The absence of close competition is further illustrated by the bidding data in the table below.

**TABLE 6:
OCCASIONS THAT OTHER ATM DEPLOYERS BID WHEN CARDTRONICS BIDS**

Year	NoteMachine	Euronet / YourCash	DCP	PayPoint	RBS	Other BBS
2011	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2012	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2013	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2014	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2015	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2016	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Please note that Euronet/YourCash's % is not representative (i.e. underestimates the relevant competitive strength of Euronet/YourCash) given the already felt impact of the acquisition of YourCash by Euronet as explained below under (d).*

Source: Cardtronics' bidding data as of October 2016

47. The bidding data confirms that the Parties are not close competitors:
- (a) in relation to [REDACTED] tenders where Cardtronics bid, DCP was not present in [REDACTED] (64 per cent of those); in other words, DCP bids against Cardtronics in less than a third of the tenders that Cardtronics bids;
 - (b) in relation to the [REDACTED] tenders where both Parties bid, there were at least 2 other competitors in [REDACTED] of these;
 - (c) in relation to the remaining [REDACTED] tenders, there was at least 1 other competitor in [REDACTED] of those tenders; and

²³ These segments are: FTU; supermarkets, convenience and other retail; social and leisure; post offices; and motoring and transport.

(d) the data also shows that NoteMachine bid against Cardtronics in [REDACTED] of tenders (and previously participated in all tenders in which Cardtronics was involved). Further, Cardtronics also faces competition from Euronet/YourCash - the bidding data does not capture the impact of the sale of YourCash to Euronet, the largest European ATM deployer, which is already being felt on the market (increasing competition), as well as RBS and other BBSs.

48. Thus, the bidding data is consistent with the Parties' share of supply analysis which also indicate that the transaction does not raise any concerns.

Significant buyer power

49. Large and small site owners enjoy significant countervailing buyer power given the number and strength of ATM deployers available. Were the Parties to decide to reduce the quality of service, increase their share of commission/worsen the terms or close a particular site, the affected site owner could contract easily with an alternative ATM deployer following a tendering process or direct contact with another deployer.

50. As explained above, ATM deployment contracts are typically awarded by competitive tender. This means that customers have a strong bargaining position as regards their ATM requirements through the way in which they run the tender process, for example by:

- (a) delaying the tender or re-tendering if unhappy with the bids received;
- (b) inviting other deployers to bid or declining to include a particular deployer;
- (c) setting out the terms on which bids must be made; and
- (d) using the asymmetry of information or other bids to negotiate lower prices.

51. Alternatively, site owners (particularly large site owners) have the option of exploring different business models or self-supplying ATMs. For example, Tesco has recently put a number of its ATM sites out to tender. It has indicated that it is interested in bids that cover deployment of ATMs in the traditional sense as well as alternative solutions (e.g. sale of a machine to Tesco with ongoing engineering support). Cardtronics understands that at least 10 bidders have responded to the tender, including ATM manufacturers such as Wincor Nixdorf and NCR.

Low barriers to entry

52. The necessary inputs for deploying ATMs (e.g. cash in transit services) are readily available. As a result, independent site owners (e.g. most social and leisure destinations) can be satisfied easily by any entrant/competitor. Large chain site owners (e.g. supermarkets and in some cases other retail and convenience destinations) may take into account an established reputation as an additional consideration when agreeing to contract with a particular deployer. However, this by no means determines the outcome of a tender and large chain site owners are in a position to sponsor entry and expansion. For example, Raphaels Bank entered the UK ATM deployment in 2014 by winning the tender to deploy ATMs at Transport for London sites. Thus, overall the barriers to entry are low.

53. It remains very easy for newly established IADs to enter the market, especially deploying ATMs with small independent site-owners. An alternative source of new entry is from foreign exchange groups such as Travelex, which could expand its existing ATM deployment level (332 ATMs), and Change Group, which entered the market in 2015 and now has 44 ATMs across branches, convenience, other retail, leisure and transport sites²⁴. It is also worth noting that the majority of the existing deployed base of YourCash in the UK is the result of the entry of US based deployers.

²⁴ http://www.changegroup.com/corp/subTemplate.cfm?page_id=20&includeAction=newsItem&newsID=118

54. The Parties' view on the low level of barriers to entry is supported by the OFT's previous findings in RBS/Hanco. The OFT noted in that case that barriers to entry and expansion in the PTU segment (as then was) are relatively low. This was supported by third party estimates of 2-3 new firms entering the PTU ATM segment per year (Hanco itself was a relatively new entrant having started supplying ATMs in 2000). If anything, the barriers to entry are even lower nowadays. For example, whilst it remains the case that most new entrants will seek to obtain membership of the LINK network (which takes approximately 6 months and a fee to obtain), new entrants (e.g. Euronet) can now also use Visa or MasterCard for their transaction processing or rent LINK membership from an existing LINK member.

Local effects analysis

55. For the reasons set out above, there is no risk of a SLC on the "UK ATM deployment market". The competitive conditions that the Parties experience strongly suggest that an analysis of "local markets" is not appropriate as it would not reflect the competitive conditions that the Parties face (the Parties compete across the UK to secure appropriate sites to deploy their ATMs in competition to each other). Nevertheless, for completeness and in order to eliminate any possible question even on a local level, the Parties have considered potential "local" theories of harm and summarised their analysis for the CMA's benefit.
56. In the view of the Parties, a local theory of harm can be advanced only if the following cumulative conditions are present:
- (a) the Parties are not at present materially constrained by an ATM deployed by a competitor;
 - (b) site owners' incentives are aligned (in a way that would disadvantage consumers) so that, for example, they would each agree to switch FTU ATMs to PTU ATMs when prompted by the Parties; and
 - (c) the local deployment of an ATM by one or more competitors is very unlikely.
57. Only if the above cumulative conditions are met could the Parties in theory (and only in certain localities) agree with site owners to²⁵:
- (a) increase prices for PTU ATMs;
 - (b) turn existing FTU ATMs into PTU ATMs; and/or
 - (c) withdraw otherwise economically viable ATMs.
58. The Parties have undertaken a preliminary analysis of postcode sectors across the UK to identify postcode sectors where this could possibly be the case. In summary:
- (a) there are ■ (out of ■) UK postcode sectors where the Parties deploy ATMs in close proximity and at least one set of their ATMs is not constrained by one or more ATMs deployed by a competitor; and
 - (b) based upon a review of the likely business priorities of each site owner within these ■ postcode sectors, it can be concluded with a reasonable degree of certainty that site owners' incentives would not align (e.g. a convenience store will be more focused on attracting footfall than a pub)²⁶ in ■ postcode sectors (thereby leaving ■ remaining ATMs).

²⁵ The Parties will not have the incentive to reduce quality (ATMs need to work well and have cash otherwise consumers will not use the ATM and the site owner will receive complaints and switch to another deployer) or the ability to increase FTU interchange fees as these are set by LINK's members (the majority of which are major banks). Further details of the way that LINK sets interchange fees are provided on page 15 of Annex 8A (Cardtronics Form 10-K Annual Report).

²⁶ It is usually the case as well that there will be a discrepancy between the incentives of owners of sites with PTU ATMs and sites with FTU ATMs.

59. The Parties have also undertaken a local effects analysis. In summary, this analysis shows that:
- (a) only [redacted] to [redacted] "2:1" areas can be identified with respect to PTU ATMs in rural areas (rising to just between [redacted] to [redacted] if "3:2" scenarios are included) where the radii used is 500m-2km, which is in line with the internal evidence of Cardtronics (other results with different radii are presented for the CMA's ease of reference and for the purposes of a sensitivity analysis in Annex 15Q);
 - (b) in a very large number of areas (between [redacted] to [redacted]) for radii 500m-1km, there is no overlap whatsoever or there will be at least three competitors present post-integration;
 - (c) even taking the worst case scenario radius, namely 500m, any SLC is highly unlikely at the [redacted] areas where the transactions results in a "3:2" or "2:1" scenario for the following reasons:
 - (vi) the centroid ATMs in [redacted] of these areas are at motoring or transport locations which should have a wider radius as consumers are likely to be travelling;
 - (vii) [redacted] of the centroid ATMs are FTU ATMs at supermarkets (where the site owner will not permit their ATMs being switched to PTU);
 - (viii) [redacted] of the centroid ATMs are at sites owned by major landlords that have more than 90% of their ATMs on a FTU basis (so will not permit their ATMs being switched to PTU);
 - (ix) [redacted] of the centroid ATMs compete with ATMs at a BBS branch or supermarket (which are always FTU) within 500m;
 - (x) [redacted] of the centroid ATMs have a competitor ATM within 500m that is deployed at a landlord with 100% of its ATMs on a FTU basis (these are prestige large corporate sites with high footfall that would not permit PTU ATMs);
 - (xi) [redacted] of the centroid ATMs have a competitor FTU ATM closer than the other Party's ATM by more than 150m (thereby suggesting that any diversion will be to the competitor FTU ATM rather than the ATM of the other Party); and
 - (xii) for [redacted] of these centroid ATMs, additional competitors are present if the catchment area is extended 200m beyond the ATM of the other Party's ATM, suggesting that consumers can travel a short distance further to access a competitor ATM;
 - (xiii) even for the areas where none of the above apply ([redacted]), there are strong arguments as to why there will not be any SLC, as set out in detail in Annex 15R.
60. In any event, there is no credible risk of a SLC because:
- (a) site owners are unlikely to accept a reduction in ATM service quality to consumers because they typically look to attract footfall into their sites through the provision of the ATM service;
 - (b) the Parties' activities post-transaction will be constrained given that (i) there will likely always be potential sites for the installation of new ATMs, in particular due to

the availability of freestanding/standalone (i.e. not requiring a hole in the wall²⁷) ATM units and (ii) the barriers to expansion for existing competitors are extremely low.

- (c) PTU ATMs are being replaced by FTU ATMs. It would be irrational for site owners (and the Parties) to seek to convert ATMs in the other direction. Indeed, many site owner contracts (particularly with large site owners) prevent deployers turning FTU ATMs into PTU ATMs and the provision of only FTU ATMs is often one of the main stipulations of tenders;
- (d) ATMs are competing with the increasing use of alternative payment methods. Any switch of ATMs from FTU to PTU, increase in PTU surcharges or reduction in quality would further encourage consumers to switch to these payment methods; and
- (e) if a postcode sector/local area lost access to FTU ATMs or ATMs altogether as a result of the transaction, this would give rise to media and political issues (see the reference to Frank Field above) and would likely lead to rapid new entry by a competing deployer. Indeed, LINK incentivises the deployment of ATMs in local areas that it deems underserved by FTU ATMs²⁸.

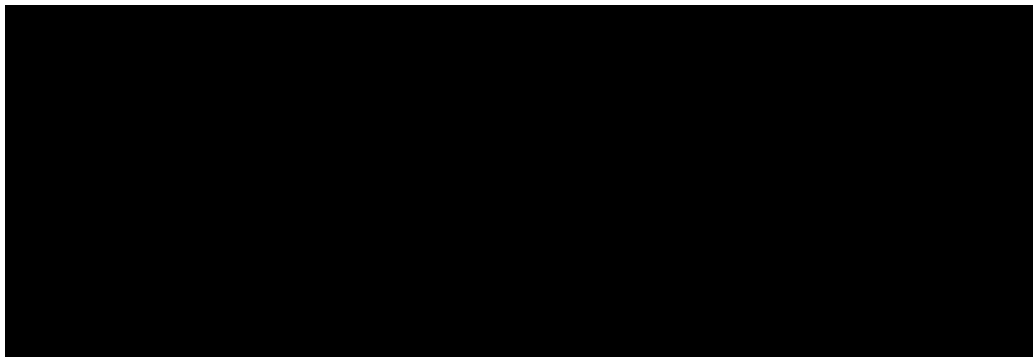
²⁷ DCP estimates as a guide that these ATMs only require a floor space area of approximately 800mm x 1130mm:
<http://www.dcpayments.co.uk/support/frequently-asked-questions>

²⁸ <http://www.link.co.uk/financial-inclusion/>

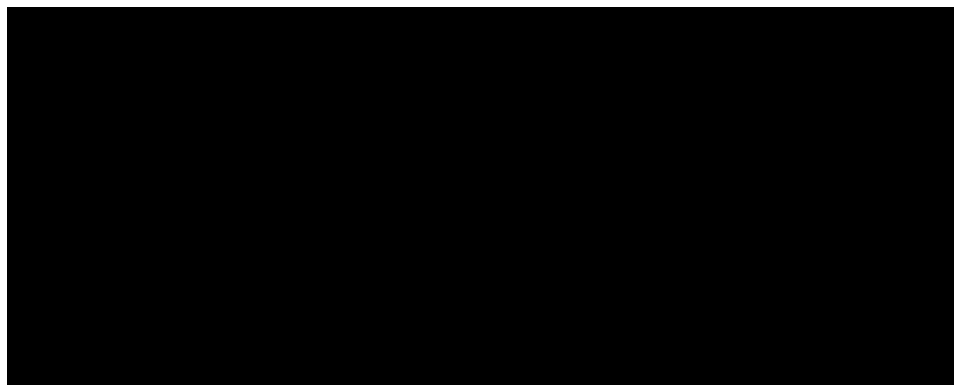
General Information

1. Please provide the name and contact details of:

(a) an individual within each of the merger parties



(b) any authorised representative of each of the merger parties



(c) if not already provided in response to (a) and (b), the person(s) submitting the Notice

Baker McKenzie will submit this notification on behalf of Cardtronics.

(d) the person to whom the CMA should address any correspondence

The CMA should address any correspondence to Baker McKenzie.

The merger situation

See chapter 4 of the Guidance and part 3 of Merger Assessment Guidelines

2. Describe the arrangements by which the enterprises will cease/have ceased to be distinct (the merger), including:

(a) the parties to the merger (the merger parties)

2.1 Cardtronics plc is a public limited company incorporated in England and Wales, with company number 10057418.

2.2 DCP was a public limited company, DirectCash Payments Inc., incorporated under the laws of the Province of Alberta, Canada. Since closing of the transaction, it has become an unlimited liability company incorporated in Alberta under the name DirectCash Payments ULC.

(b) the type of transaction

- 2.3 The transaction involved the acquisition by Cardtronics of the entire issued share capital of DCP. As a result of the transaction, Cardtronics exercises sole control over DCP (subject to the provisions of the Initial Enforcement Order, as amended).
- (c) **consideration**
- 2.4 Cardtronics paid CAD\$19.00 per share in cash to the shareholders of DCP, representing a transaction value of approximately \$460 million in U.S. dollars.
- (d) **key terms**
- 2.5 Please see the Arrangement Agreement, included at Annex 2A.
- (e) **timing**
- 2.6 Completion took place on 6 January 2017.
- (f) **the strategic and economic rationale for the transaction**
- 2.7 As set out in Annex 9A²⁹, the transaction will allow Cardtronics to expand its ATM deployment and related transaction processing business into Australia and New Zealand and increase its presence in Canada and Mexico (this is also the case for the UK but it is not a key element of the strategic and economic rationale). The combination of Cardtronics and DCP will leverage Cardtronics' existing infrastructure and relationships, and drive operating synergies, in particular in Canada and the UK.
- (g) **whether it is being notified in any other jurisdictions and, if so, whether the merger parties are willing to offer a waiver to support coordination between the CMA and the competition authorities in those jurisdictions**
- 2.8 The transaction is not being notified in any other jurisdiction.
- (h) **the ownership structure pre and post-merger, including any pre-merger links between the merger parties**
- 2.9 There were no pre-merger links between the Parties. The acquisition was made by Cardtronics' wholly-owned subsidiary Cardtronics Holdings Limited. As a result of the transaction, Cardtronics exercises sole control over DCP (subject to the provisions of the Initial Enforcement Order, as amended). Cardtronics' ownership structure pre and post-transaction is set out in Annexes 2B and 2C.
- 3. Provide a brief description of the businesses of the merger parties (and, where relevant, their groups).**

Cardtronics

- 3.1 Cardtronics is a UK domiciled public limited company with operations in the US, Puerto Rico, Germany, UK, Poland, Canada and Mexico across the following four key business lines:
- (a) the deployment of ATMs and multi-functional financial services kiosks;
- (b) partnerships with financial institutions to brand selected ATMs and financial services kiosks within Cardtronics' network with the financial institutions' logos and to provide surcharge free access for their banking customers;
- (c) the operation of the Allpoint network, which provides surcharge-free ATM network access to the majority of Cardtronics' ATM network in the US, as well as a portion of

²⁹ Project Alpha presentation for board meeting on 8 October 2016, pages 1 and 6.

its ATMs in the UK, Canada, Puerto Rico and Mexico to customers of approximately 1,300 financial institutions that lack a significant ATM network; and

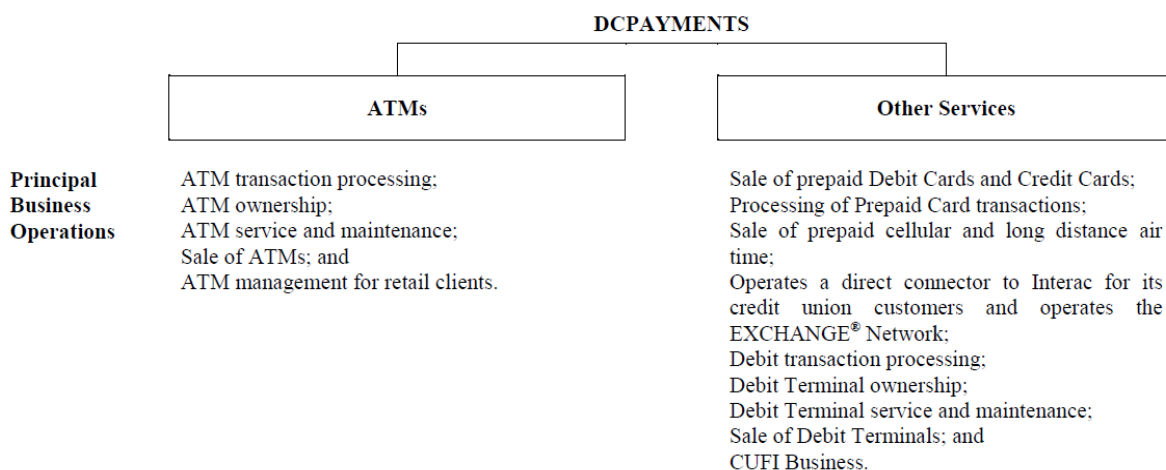
- (d) an electronic funds transfer transaction processing platform that provides transaction processing services to its network of ATMs and financial services kiosks as well as other ATMs under managed services arrangements.

3.2 In the UK, Cardtronics is a fully integrated ATM deployer, offering all related services, including maintenance, transaction processing, reporting and settlement, and trading under the brand names Cashzone and Bankmachine.

DCP

3.3 Prior to the transaction, DCP was a Canadian listed company. It has operations in Canada, Australia, New Zealand, the UK and Mexico. It categorises its operations into two separate lines of business: the ATM deployment business and Other Services as shown in Figure 3A.

**FIGURE 3A:
DCP LINES OF BUSINESS**



3.4 In the UK, DCP's operations consist primarily of the deployment of ATMs³⁰. The bulk of its ATM deployment operations resulted from DCP's acquisition of InfoCash in 2012 and DCP continues to trade under this brand name in the UK (although ATMs are branded DCPATM and all marketing is under DCPayments). As with other actual and potential competitors, growth has been possible and DCP has achieved organic growth of 11.4% since the acquisition³¹. Key site owners that DCP contracts with include [REDACTED]

4. Provide brief details of any other transactions (merger, acquisition, disposal, joint venture) undertaken by:

- (a) **either of the merger parties in the last two years which involve the products or services in any Candidate Market identified in response to question 13,³² and**

Cardtronics

4.1 November 2014 – Acquisition of Co-op Group subsidiary, Sunwin Services Group Limited (a UK-based provider of secure cash logistics and ATM maintenance services) and entry into long-term ATM operating agreement with Co-op food stores in the UK. Cardtronics has provided further detail on this transaction at Annex 4A.

³⁰Annex 8F (DCP Confidential Information Memorandum).

³¹ Annex 8F (DCP Confidential Information Memorandum), page 6.

³²Where this involves a large number of transactions, notifying parties are encouraged to contact the CMA to discuss.

- 4.2 May 2015 – Disposal of the retail portion of Cardtronics' UK cash-in-transit operation to Loomis. Cardtronics will continue to provide cash replenishment and maintenance services for both its owned and third party ATM estates.
- 4.3 July 2015 – Acquisition of Columbus Data Services, LLC. (a US-based transactions processor for ATM deployers and payment card issuers).
- 4.4 July 2016 – Acquisition of 310 off-site ATMs from [REDACTED]. Cardtronics has provided further detail on this transaction at Annex 4B³³.

DCP

- 4.5 October 2014 – Acquisition of outstanding shares of Eze ATM Services Pty Ltd ("Eze") and related ATM assets from Ezeatm Limited. Eze provided ATMs and related maintenance and transaction processing services in Australia.
- 4.6 March 2015 – Acquisition of 220 ATMs deployed at WM Morrison Supermarkets Plc in the UK from HSBC Bank Plc. DCP will provide further detail on this transaction to the CMA by separate cover.
- 4.7 July 2015 – Acquisition of the assets of DSM Connect Pty Ltd ("DSM") from the administrator. DSM is the parent company to OneCash Limited, which was an Australian provider of ATMs and related maintenance and transaction processing services before going into voluntary administration.
- 4.8 December 2015 – Acquisition of the assets of CABM Machines Inc., an ATM deployer in western Canada operating approximately 195 ATM locations in Canada.
- 4.9 February 2016 – Acquisition of a portion of GRG International Limited's Australian ATM business and assets. GRG provided ATMs and related maintenance and transaction processing services in Australia.
- 4.10 September 2016 – Acquisition of the CashCard ATM business and assets (which included ~3,500 ATMs in Australia) from First Data Corporation's Australian operating subsidiary. Currently under review by ACCC³⁴.
 - (b) **both or all merger parties in the last two years (that is, where the merger parties were party to the same transaction).**
- 4.11 None.

Jurisdiction

See chapter 4 of the Guidance and paragraphs 3.1.3 to 3.3.10 of Merger Assessment Guidelines

5. Explain why:

- (a) **a relevant merger situation (as per section 23 of the Act) has been created, or**
 - (b) **arrangements are in progress or contemplation which will result in the creation of a relevant merger situation.**
- 5.1 Cardtronics acquired the entire issued share capital of DCP. Accordingly, the transaction resulted in the Parties ceasing to be distinct as Cardtronics is in a position to exercise sole control of DCP (subject to the provisions of the Initial Enforcement Order, as amended).

³³ As set out in Annex 4B (page 2), these ATMs accounted for around [REDACTED] ATM cash withdrawals in 2015. At the time of the transaction, Cardtronics estimated that if it acquired these ATMs, they would account for a [REDACTED] share of ATM cash withdrawals. This transaction is not yet reflected in the LINK dataset (as of October 2016).

³⁴ <http://registers.accc.gov.au/content/index.phtml/itemId/1199382/fromItemId/750991>

- 5.2 DCP generated CAD 47,430,000 (equating to c. GBP 24,199,000)³⁵ in turnover in the UK in its last reported financial year (ending 31 December 2015). Therefore, the turnover test is not met.
- 5.3 The Parties submit that calculating shares of supply in the market for ATM deployment in the UK on the basis of number of ATMs deployed is not the correct method/frame of reference for the reasons set out below. However, on the basis of such method of calculation, the Parties have a combined share of supply of [REDACTED] and, thus, the share of supply test is met.
- 6. Indicate the annual UK, EEA, and worldwide turnover in the last financial year associated with each of:**
- (a) **the acquirer (including group companies where relevant – see Annex B of the Guidance), and**
- 6.1 Cardtronics' worldwide turnover for the year ending 31 December 2015 was USD 1,200.3 million, of which USD c. [REDACTED] million was generated in the EEA.
- (b) **Target (if not already provided under question 5).**
- 6.2 DCP's worldwide turnover for the year ending 31 December 2015 was CAD 283,713,000 (equating to c. GBP 145,752,000)³⁶. Within the EEA, DCP only generated turnover in the UK. Its UK (and EEA) turnover was CAD 47,430,000 (equating to c. GBP 24,199,000).
- 7. Explain why the transaction is not subject to the European Union Merger Regulation (EU Merger Regulation),³⁷ (highlighting whether it is notifiable in the UK by virtue of the 'two-thirds' rule in article 1(2) or 1(3) of that Regulation).**
- 7.1 The transaction does not trigger the EUMR jurisdictional thresholds. In particular, the combined aggregate worldwide turnover of the Parties is less than €2.5 billion (see the responses to question 6(a) and 6(b) above).

Supporting documents

- 8. Provide:**
- (a) **a press release or report and details of any notifications to listing authorities (for example, for admission to the UK Listing Authority Official List and for admission to trading on the London Stock Exchange) or other documentation evidencing that the merger (or merger proposal) has been made public, and**
- 8.1 Cardtronics' press release is available at the following link:
<http://ir.cardtronics.com/releasedetail.cfm?ReleaseID=991820>
- (b) **a copy of the documents bringing about the merger situation, including any heads of terms, memorandum of understanding, sale and purchase agreement, business purchase agreement or equivalent. Where these are not in final form, please provide the latest draft and keep the CMA informed of any subsequent changes to the document.**
- 8.2 Please see Annex 2A (Arrangement Agreement).
- (c) **If the offer is subject to the City Code, copies of the Offer Document and Listing Particulars. If these are not yet available, provide copies of the latest drafts and supply the final versions as soon as they are issued.**

³⁵Using an average exchange rate of GBP 1 : CAD 1.96

³⁶Using an average exchange rate of GBP 1 : CAD 1.96

³⁷Council Regulation (EC) No 139/2004 of 20 January 2004.

- 8.3 The transaction is not subject to the City Code.
- (d) **for each of the acquirer and acquirer group (if relevant) and Target (or merger parties in the case of a full merger), the most recent annual report and accounts and last set of monthly management accounts.**
- 8.4 Cardtronics' Annual Report for the last financial year (ending 31 December 2015) is provided at Annex 8A. DCP's Annual Report for the last financial year (ending 31 December 2015) is provided at Annex 8B.
- 8.5 Cardtronics' last set of monthly management accounts is provided at Annex 8C (Cardtronics' Form 10-Q Quarterly Report).
- 8.6 DCP's last set of monthly management accounts is provided at Annex 8D (DC Payments Q3 2016 Management Accounts).
- (e) **copies of the most recent business plan of the acquirer and acquirer group (if relevant) and the Target (or merger parties in the case of a full merger). Where any horizontal overlap or vertical relationship involves, for example, a specific division or brand of one or both of the merger parties, a business plan for the relevant division or brand should be provided as well.**
- 8.7 Please see Annex 8E (Cardtronics' LRP Masterfile 21 July 2016).
- 9. Provide copies of any documents (including but not limited to minutes of meetings, studies, reports, presentations, surveys, analyses or recommendations) in either of the merger parties' possession which:**
- (a) **have been prepared by or for, or received by, any member of the board of directors (or equivalent body) or senior management or shareholders of either merger party (whether prepared internally or by external consultants), and**
- (b) **either:**
- (i) **set out the rationale for the merger (including but not limited to the benefits of, and/or investment case for, the acquisition), or**
- (ii) **assess or analyse the merger with respect to competitive conditions, competitors (actual and potential), potential for sales growth or expansion into new product or geographic areas, market conditions, market shares and/or the price to be paid. This should include but not necessarily be limited to post-merger business plans or strategy (including integration plans and financial forecasts) and Information Memoranda prepared by or for the merger parties and in either of their possession that specifically relate to the sale of the Target. If no such Information Memoranda exist, explain what information or document(s) given to any of the merger parties is meant to serve the function of an Information Memorandum.**

Indicate (if not contained in the document itself) the date of preparation and the identity and role of the author(s) within the merger parties or external consultants.

- 9.1 Please see Annexes 9A (Project Alpha presentation for board meeting on 8 October 2016) and 9B (Project Alpha board update 10 October 2016).
- 10. Provide:**
- (a) **copies of documents (including but not necessarily limited to reports, presentations, studies, analysis, industry/market reports or analysis – including**

customer research and pricing studies) in either merger parties' possession and prepared or published in the last two years which set out the competitive conditions, market conditions, market shares, or competitors in the industry or business areas where the merger parties have a horizontal overlap as identified in response to question 12 below.

- 10.1 Please see Annexes 10A (ATM Innovation Research Report - 2016), 10B (Cardtronics White Paper "The Value of Cash on the High Street"), 10C (Payments UK Report - UK Cash & Cash Machines 2016), 10D (Payments UK Report - UK Consumer Payments 2016), 10E (Payments UK Report - UK Payments Markets 2016), 10F (ATM Market Report Q2 2016) and 10G (Cardtronics' Market Story - September 2016).
- 10.2 DCP will provide any relevant documents directly to the CMA by separate cover.
- (b) **any marketing and advertising strategy documents generated by, or on behalf of, either of the merger parties in the last year and which relate to the product(s) or service(s) where the merger parties have a horizontal overlap as identified in response to question 12 below.**
- 10.3 Deployers' approaches to marketing to new site owners typically comprise the following:
- (a) national direct mail campaigns using data that has either been purchased from third parties or accumulated over the years as a result of previous campaigns;
 - (b) Business Development Managers are regularly on the road and will often cold call. They are provided with marketing materials for these purposes;
 - (c) representatives often attend national and regional events and exhibitions such as the National Convenience Show, Pro Retail Show, Symbol Trade Days, etc.;
 - (d) advertisements are placed in national and regional magazines such as Asian trader, Costcutter Magazine, Convenience Store Magazine, Forecourt Trader, Independent Retail News, etc.;
 - (e) deployers' websites advertise their service offerings. Deployers may also purchase Google Ads.
- 10.4 For examples of Cardtronics' marketing materials, please refer to Annexes 10H to AD. For examples of DCP's marketing materials, please refer to Annexes 10AE to 10AL. Please also refer to the marketing documents that DCP provided by separate cover directly to the CMA.

Counterfactual

- 11. If the notifying parties consider that the CMA should assess the competitive effects of the merger against a counterfactual other than the current or pre-existing competitive situation, please describe that counterfactual and explain why the notifying parties consider it should be used for that assessment.**
- 11.1 The Parties do not consider that any counterfactual scenario other than the current competitive situation needs to be considered in respect of the transaction.
- 11.2 Nevertheless, (and as noted above) when assessing the transaction, the CMA should take into account the strengthening of YourCash's competitive presence arising from its sale to Euronet. This is not reflected in the (historic) share of supply data contained in this notification but it will have a significant impact on the candidate market(s).
- 11.3 In response to the CMA's question regarding the status of the LINK network in the RFI of 24 January 2017, Cardtronics notes that the LINK members met on 26 January 2017 to discuss the LINK interchange fee. The proposal on behalf of certain financial institutions to lower the

interchange fee was withdrawn and the members instead agreed to establish a working group to explore a possible way forward for the sustainability of the LINK interchange setting mechanism. Therefore, the risk of an agreement not being reached, such that (possibly) some LINK members could break away and start charging, is not current.

11.4 For more details, please see:

- (a) LINK press release - <http://www.link.co.uk/media/news-releases/link-update-on-cash-machine-interchange-discussions-thursday-26th-january-2017/>
- (b) the minutes of the LINK meeting, which will be uploaded in due course at <http://www.link.co.uk/about-link/link-governance/>

11.5 Cardtronics remains committed to the FTU model in the UK. It does not have any information relating to the working group beyond what is in the LINK press release.

11.6 In any event, Cardtronics' acquisition of DCP is extremely unlikely to have any impact upon the debates between members of the LINK network or the overall outcome of those debates. Cardtronics/DCP do not have sufficient voting rights even combined to affect the LINK interchange fees as these voting rights are controlled by the financial institution LINK members.

Market definition

See section 5.2 of Merger Assessment Guidelines

12. Describe the product(s) or service(s) and geographic area(s) where the merger parties overlap, where they have a vertical relationship, or where they supply related products/services.

Introduction

12.1 Cash is currently the most commonly used means for consumers³⁸ to pay for goods and services in the UK³⁹. It is primarily used for spontaneous convenience payments (as opposed to regular or planned payments⁴⁰). For example, cash represents over eight in ten payments made in newsagents⁴¹. However, it will rarely be the case that cash is the only possible payment method (as illustrated for spontaneous payments in Figure 12A) and, as noted in the discussion of market trends below, the use of cash for consumer transactions is falling significantly; being increasingly replaced by alternative payment mechanisms which benefit from very heavy investment (most notably contactless payments, mobile payments and email payments⁴²).

³⁸ Businesses make limited use of cash.

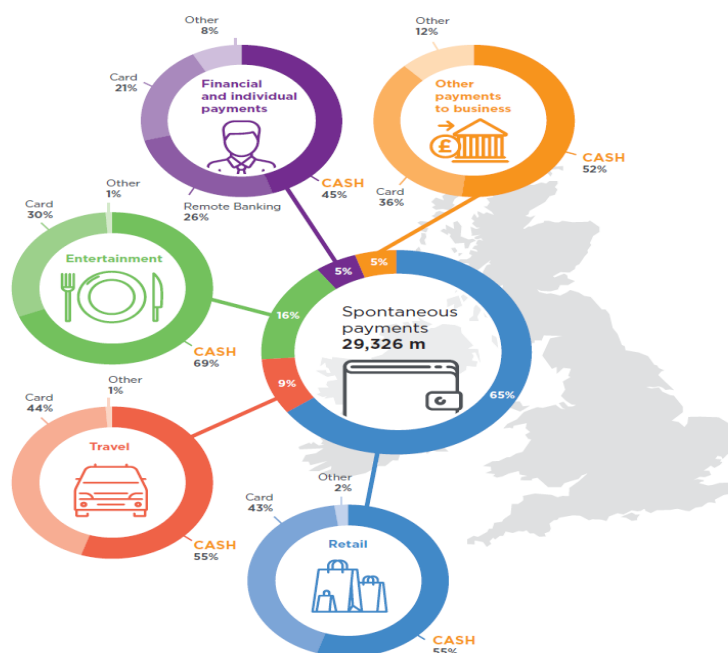
³⁹ Payments UK "2016 UK Cash & Cash Machines: Trends in cash payments, cash machine deployment and usage, and other forms of cash acquisition." (See Annex 10C), page 8.

⁴⁰ Electronic payment methods are the primary means for making regular payments, such as utility bills or mortgage payments, whilst debit/credit cards are used for planned (in particular high value) payments.

⁴¹ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 14.

⁴² Payments at retail locations in particular are also being replaced as consumers move to online shopping.

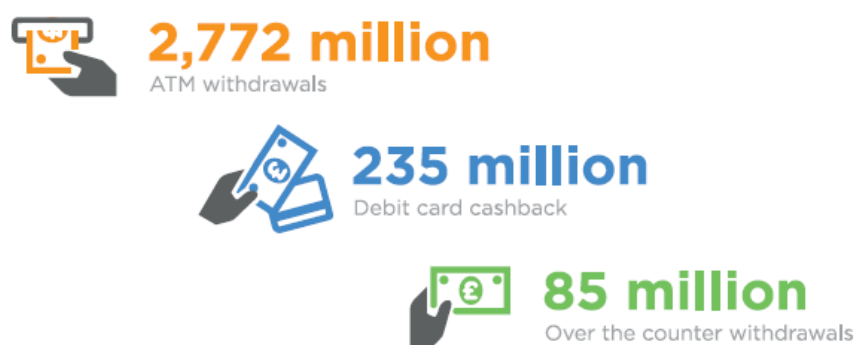
**FIGURE 12A:
METHODS OF MAKING SPONTANEOUS PAYMENTS
(BY NUMBER OF TRANSACTIONS)**



Source: Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 51.

12.2 There are a number of methods that consumers can use to withdraw cash, including ATMs, debit card cashback, card withdrawals at BBSs or post office counters, cheque encashment and passport withdrawal. However, as shown by Figure 12B, ATM withdrawal currently remains the most common method⁴³.

**FIGURE 12B⁴⁴:
NUMBER OF CONSUMER CASH WITHDRAWALS
VIA DIFFERENT METHODS IN 2015**



Source: Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 12.

12.3 The primary function of customer-operated ATMs is to dispense cash, although they also perform a range of other functions⁴⁵ e.g. maintenance of a customer's bank account, payment of bills, topping up of mobile phones and making charitable donations (as well as dispensing foreign currency at some locations e.g. airports).

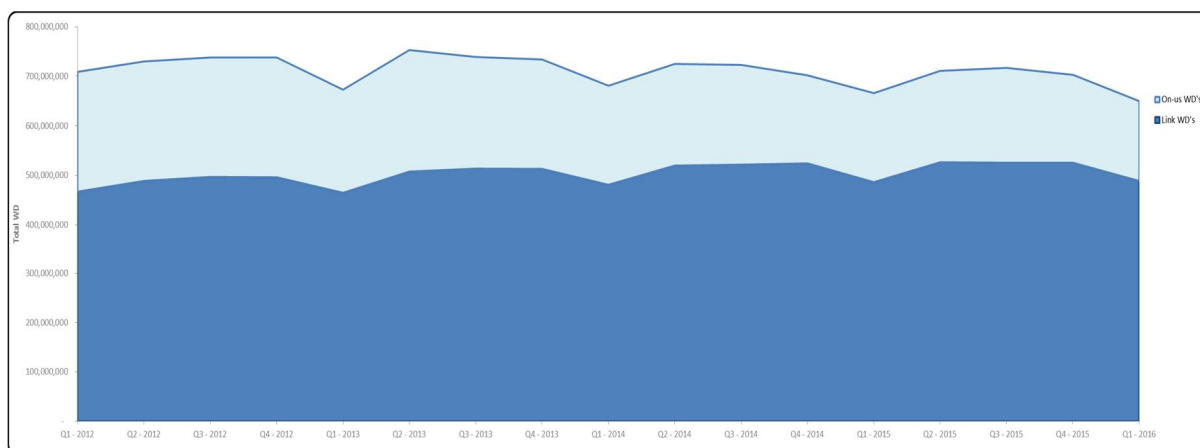
⁴³ This is likely to change over the next ten years - see e.g. Figure 12H below.

⁴⁴ The Parties note the slight discrepancy between the total number of ATM withdrawals reported by Payments UK and the total withdrawal volumes calculated from the granular LINK transaction data and reported in Tables 2 and 15A (i.e. 2,647 million); the Parties are unable to determine the cause of the difference.

⁴⁵ These other functions are also increasingly being replaced by, for example, online banking apps.

12.4 When ATMs were first deployed by BBSs in the 1960s, each BBS limited withdrawals from its ATMs to its account holders only. These are referred to as "on-us" transactions. However, over time, the LINK network was developed to allow debit or credit cards issued by one BBS to be used at ATMs of other BBSs (and from July 2000 to allow IADs i.e. deployers that were not affiliated with any particular BBS to process transactions on cards issued by any BBS LINK member). These are known as "not-on-us" transactions. Figure 12C shows the proportion of on-us to not-on-us (i.e. LINK) transactions in recent years.

**FIGURE 12C:
VOLUME OF CASH WITHDRAWALS - ON-US VS NOT-ON-US (LINK) TRANSACTIONS**

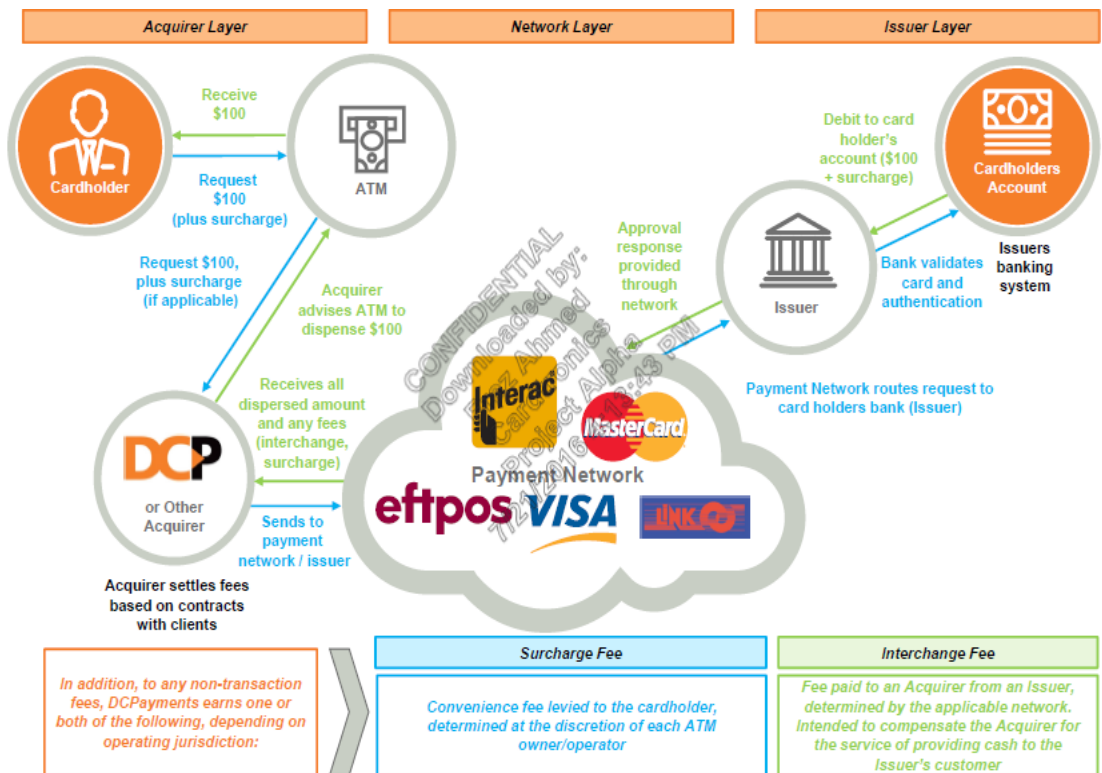


Source: Annex 10G (Cardtronics' Market Story Report - September 2016).

12.5 The process for "not-on-us"⁴⁶ cash withdrawals is set out in Figure 12D below. A cardholder requests a withdrawal amount at the ATM, which transfers a signal to the "acquirer" (which may be the ATM deployer or a third party payments processor). If the transaction is "not-on-us", this signal is passed to the payments network, which routes the request to the cardholder's BBS (the "issuer"). The BBS validates the card and authentication method and approves the transaction. This message is transferred back through the network to the acquirer. The ATM then dispenses cash to the cardholder.

⁴⁶ For "on-us" transactions, the acquirer and issuer is the same BBS. Therefore, the transaction is not processed through a third party payment network such as LINK.

**FIGURE 12D:
ILLUSTRATIVE PROCESS FOR THE WITHDRAWAL OF CASH FROM AN ATM**



Source: Annex 8F (DCP Confidential Information Memorandum), page 27.

- 12.6 As shown in Figure 12D, if a consumer uses an ATM owned by an ATM deployer for a "not-on-us" cash withdrawal then the deployer earns a transaction fee⁴⁷ in the form of (i) a consumer surcharge if the ATM is PTU or (ii) a per transaction 'interchange fee' paid by the BBS that issued the consumer's card if the ATM is FTU⁴⁸.
- 12.7 The interchange fees set by LINK are as shown in the table below. LINK has determined that deployers should receive an additional £0.10 on withdrawals at financial inclusion sites. It should be noted that (i) financial inclusion sites account for less than 3% of locations (fewer than 2000 of the approximately 70,000 ATM sites in the UK)⁴⁹ and (ii) PTU ATMs account for only 2% of ATM withdrawals⁵⁰.

**TABLE 12A:
LINK INTERCHANGE FEES**

Type of Transaction	Rate
Withdrawal	0.2890
Withdrawal in financial inclusion area	0.3890
Enquiry	0.1870

⁴⁷ In addition to these fees, and depending upon the service model agreed with the site owner, deployers can earn revenue from processing and maintenance fees, margins on exchange rates and margins on the sale of ATMs and ATM parts.

⁴⁸ The LINK network rules specify that an ATM can generate either a consumer surcharge or an interchange fee for deployers, but not both. In 2015, consumer surcharges were typically around £1.70 to £1.80 whilst the interchange fee (which is set by LINK) was £0.274 for withdrawals (and £0.172 for balance enquiries and declined transactions). The average monthly transaction volume in the UK per ATM in 2015 remains 3,347 transactions but this varies significantly between FTU and PTU sites (only 2% of transactions occur at PTU ATMs).

⁴⁹ The progress made by the LINK Financial Inclusion Programme is detailed in Annex 10AM (LINK Financial Inclusion Programme).

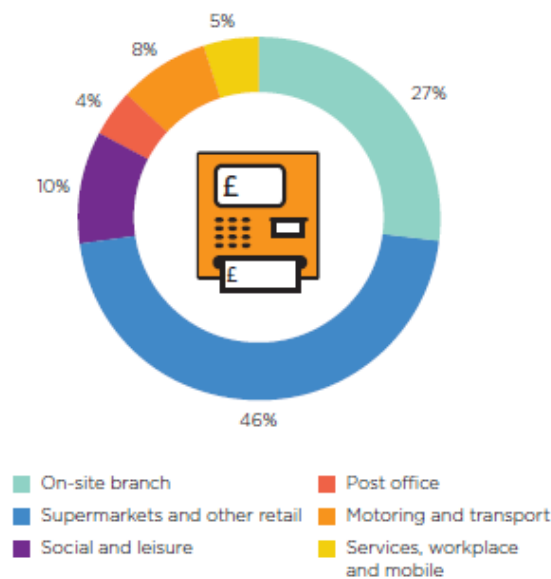
⁵⁰ See Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 54.

Rejected transaction	0.1870
Surcharged withdrawal (i.e. PTU)	0.0000

12.8 ATMs are deployed in a very wide range of sites, including convenience stores, bars, pubs, nightclubs, workplace areas, sports facilities, hardware stores, recreation centres, hotels, restaurants, retail stores, petrol stations, loan/cheque cashing locations, supermarkets, bingo halls, transport hubs, bowling centres and BBS branches.

12.9 The destinations of ATMs in the UK as at the end of 2015 are set out in Figure 12E.

**FIGURE 12E:
DESTINATIONS OF ATMS**



Source: Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 29.

12.10 The ATM destination categories in Figure 12E are drawn from the Payments UK Report entitled "UK Cash & Cash Machines 2016" (Annex 10C). This groups together destinations for ATM deployment that have some commonly observed characteristics (albeit generalised and somewhat arbitrary if used to draw bright line distinctions⁵¹).

12.11 BBSs deploy FTU ATMs in their branches ("on-site"), although they are also active in the merchant market, contracting with third party site owners to host FTU ATMs "off-site". Within "off-site" locations, BBSs have been particularly active in deploying FTU ATMs at post offices, supermarkets, convenience and other retail, motorway and transport locations where there are particularly high volumes of cash withdrawals (e.g. RBS deploys ██████ ATMs at supermarkets and Bank of Ireland deploys over ██████ ATMs at post offices in the UK).

12.12 When first deploying ATMs, IADs focused upon PTU ATMs in off-site locations where there had not previously been an ATM ('greenfield' locations, such as social sites). This increase in the number of off-site PTU ATMs expanded consumers' access (for a fee) to cash in locations where there may not otherwise have been access to BBS branches or ATMs. However, IADs

⁵¹ For example, an ATM located at a petrol forecourt taken over by a supermarket chain may be classified in the supermarket, convenience and other retail category or the motorway and transport category depending on how the deployer chooses to classify its ATMs when submitting data to LINK (see page 29 of Annex 10C).

have now expanded into deploying FTU ATMs at all destination types, (even destination types dominated by BBSs e.g. DCP deploys [REDACTED] ATMs at supermarkets).

- 12.13 When considering whether to host an ATM, site owners have the option of selecting from one of the two service models set out in Table 12B⁵².

**TABLE 12B:
TYPES OF SERVICE MODEL**

	Processing / Merchant Refill	Full Placement / Cash in Transit
Description	Deployer provides processing services (including the provision of maintenance and service support) for an ATM owned, maintained and cash-loaded by the site owner or a third party.	ATM is owned, maintained and cash loaded by the deployer. This type includes contracts to manage bank-branded ATMs.
Considerations for deployer	Interchange/surcharge, service, parts and maintenance fees earned by deployer. Contracts have lower absolute margins than full placement arrangements but infinite IRR (given no upfront capital).	Full placement contracts have all applicable fees. Higher margins for deployers than processing contracts. Have to bear ATM replacement costs.
Considerations for site owner	Attractive to site owners who want to own the ATM and earn a larger share of the surcharge/interchange fee from the deployer (as fewer services are provided by the deployer). Site owners may not have cash to fill an ATM. Site owners have to bear ATM replacement and maintenance costs, as well as the associated inconvenience of arranging this themselves.	Contracts in high demand given cost to load cash is the largest ATM expense.

- 12.14 Full placement ATMs are increasingly preferred as reflected in the fact that the number of merchant refill ATMs fell from 6,322 to 5,947 during the course of 2015⁵³. Whilst the economics of the different service models are roughly the same, more site owners appear to prefer having cash available at all times, and not having to manage their cash needs.

- 12.15 Regardless of the destination type or service model, contracts typically involve deployers paying the site owner a share of transaction fees and/or fixed up-front or monthly payments (either per site owner or per ATM), according to the demands of the site owner. For the purposes of this notification, we refer to such payments as "commission"⁵⁴.

- 12.16 Taking Cardtronics' process as an example, [REDACTED]

- 12.17 The level of the commission offered would only change were there to be a change in the operation of the ATM e.g. a surcharge drop or increase (PTU ATMs), a change of the LINK interchange fee (FTU ATMs) or a change from PTU to FTU (or vice versa).

- 12.18 More specifically, the following factors impact the level of commission paid to site owners:

⁵² However, in practice this should be seen as a continuum as deployers often agree contracts with site owners that combine aspects of both models at the request of the site owner ("Partial Placement").

⁵³ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 30.

⁵⁴ In addition to this commission, site owners can benefit from: (i) consumers being attracted to their site; (ii) ATMs facilitating payment for their goods or services; and (iii) where the merchant refill model is employed, assistance with cash recycling.

- (a) site owners receive a larger commission per transaction on PTU ATMs but FTU ATMs typically generate significantly higher transaction levels. Therefore, when determining whether to host a PTU or FTU ATM, a site owner will consider both the commission per transaction and the likely transaction levels at the site. Higher transaction levels associated with FTU ATMs could mean that consumers have more cash to spend at the site, another factor that many site owners will take into account;
- (b) the fee charged by PTU ATMs varies (e.g. consumer surcharges typically range from £1 to £2 depending upon the ATM site), which directly affects commission amounts;
- (c) commission levels are typically tiered according to the number of transactions realised by the ATM/site owner e.g. a site owner is paid £1.40 per transaction (out of a £1.80 PTU surcharge), rising to £1.50 when more than 1000 transactions take place at a site in a month; and
- (d) large or medium site owners typically obtain a higher commission (reflecting their higher buyer power) than small independent site owners.

12.19 The other key terms of site owner contracts are also flexible and tailored to suit the demands of the site owner. Nevertheless, it is possible to make the following general comments:

- (a) for large/medium site owners (e.g. supermarkets or convenience store chains), the typical contract length is 3-4 years, whilst small independent site owners (e.g. social site owners) typically agree terms of 3-6 years;
- (b) as discussed in more detail in the product market definition section of this notification, under certain circumstances small independent site owners have the right to switch between PTU and FTU, as well as between processing and full placement service models (sometimes subject to the consent of the deployer⁵⁵). This is not the case for large/medium site owners but this is because they rarely host PTU and processing ATMs and rarely request the option to do so;
- (c) some site owners opt for "mixed" contracts to host PTU and FTU ATMs and full placement and processing ATMs e.g. 5 of a site owner's ATMs will be PTU processing ATMs whilst the remaining 10 will be FTU full placement ATMs; and
- (d) generally options for site owners to switch deployer mid-contract are limited (e.g. it is possible to switch in circumstances such as when the deployer is bankrupt). However, at the end of the contract term, there are virtually no barriers to switching.

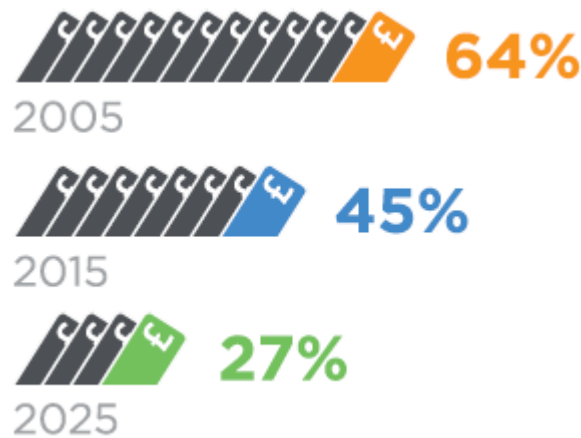
Trends in the ATM deployment market

12.20 The ATM deployment business model is threatened by shifts in technology reducing demand for cash. Whilst cash still accounts for 45% of the total volume of payments in the UK, the number of cash payments in the UK fell by 1 billion (from 18 to 17 billion) between 2014 and 2015. Indeed, by 2025, the volume of cash payments is expected to have fallen by 34% from 2015 levels⁵⁶. The recent trend and future predictions are shown in Figure 12F.

⁵⁵ This is rarely refused as the interests of the site owner and the deployer are typically aligned, in particular when selecting the most appropriate charging method.

⁵⁶ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 9.

**FIGURE 12F:
USE OF CASH
(AS A PERCENTAGE OF TOTAL VOLUME OF PAYMENTS)**



Source: Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 10.

- 12.21 The reduction in the use of cash has coincided with the maturing of the UK ATM market⁵⁷. Consequently, cash withdrawals fell by 1.2% in 2015 and the rate of increase in the number of cash machines in the UK is slowing (the total number rose by 1.3% in 2015 to 70,270⁵⁸). These changes reflect the following factors⁵⁹:
- (a) consumers and businesses becoming more comfortable with cards being used to pay for low value transactions;
 - (b) increased availability of contactless payment terminals at points of sale;
 - (c) continued rollout of contactless-enabled cards to consumers;
 - (d) increased familiarity of consumers with contactless payments following their introduction on transport networks such as Transport for London; and
 - (e) migration of person-to-person payments to mobile solutions (including Paym⁶⁰).
- 12.22 Furthermore, changes in the ATM market are being felt unevenly across the industry such that there have been significant shifts in terms of the identities of deployers, locations of ATMs and charging methods.
- 12.23 The strong position of BBSs is being challenged by IADs. Whilst the majority of transactions have always been made at BBS ATMs and BBSs maintain sizeable ATM estates in their branches and at other locations (e.g. railway stations, shopping centres and supermarkets), the number of ATMs that they deploy is falling, whilst the number of IAD ATMs is increasing. This shift reflects:
- (a) the decision of some (but not all) BBSs to close branches and concentrate on business strategies other than ATM deployment. This reflects the increasing importance of alternative payment methods, which has resulted in a fall in the number of new ATMs deployed by BBSs and the rationalisation of existing estates. It also reflects the increasing importance of alternative payment methods (see market trends below); and

⁵⁷ Annex 8A Cardtronics Form 10-K (Annual Report) for FY 2015, page 39.

⁵⁸ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 10.

⁵⁹ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 24.

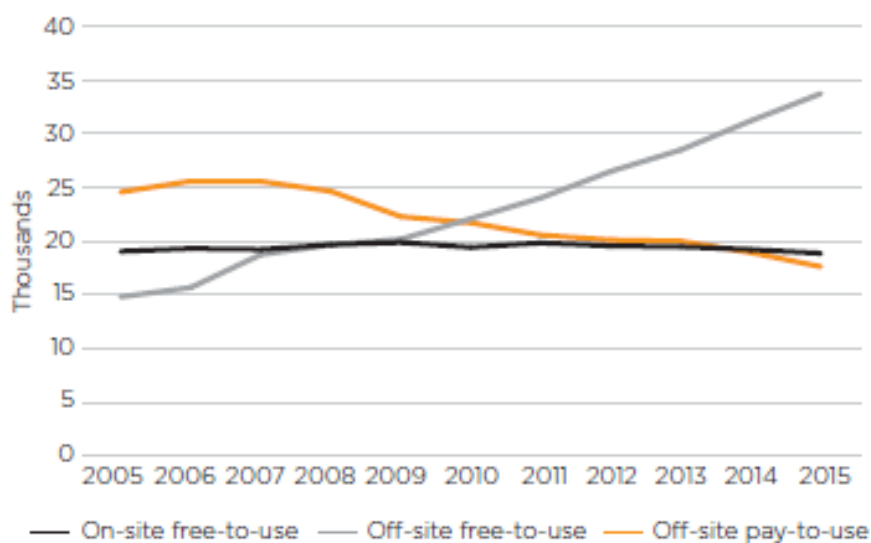
⁶⁰ Paym is the UK's mobile payments service, offered by seventeen banks and building societies. Consumers can use it to pay friends, family and small businesses using just their mobile number – no sort code or account number needed. For additional details please see <http://www.paym.co.uk/>

(b) IADs deploying ATMs at sites where there wasn't an ATM previously ("greenfield sites"), as well as at former BBS estates ("brownfield sites").

12.24 Reflecting this shift, IADs now deploy ATMs at off-site locations that were previously occupied by ATMs of Santander, HSBC, Lloyds Banking Group, Nationwide Building Society and The Co-operative Bank and deploy ATMs in BBS branches, such as at Metro Bank and Williams and Glyn Bank (part of the RBS group). The move by IADs to deploy ATMs at brownfield sites has meant that consumers have not suffered a reduction in access to ATMs following the rationalisation of ATM estates by BBSs. It also means that it is no longer the case that IADs and BBSs deploy ATMs at different destinations.

12.25 The change in the strategic priorities of some BBSs and the expansion of IAD deployed ATMs has also resulted in a shift in the location of ATMs from on-site to off-site destinations. The number of on-site ATMs has been falling, reflecting widespread BBS branch closures, whilst the number of off-site ATMs has increased due to IADs increasing deployment of ATMs at greenfield sites. At the same time, there has been a shift from PTU ATMs to FTU ATMs. The number of PTU ATMs has been falling due to the conversion of existing PTU ATMs into FTU ATMs, new ATM sites usually being filled with a FTU ATM, competition from increased numbers of ATMs and pressures that are affecting the entire ATM market (e.g. cashless payments). The combination of these changes is shown in Figure 12G.

**FIGURE 12G:
NUMBER OF MACHINES
SPLIT BY CHARGING METHOD AND LOCATION**



Source: Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 29.

Product Market Definition

Introduction

12.26 The Parties submit that the product market should be defined as the deployment of ATMs. Within the ATM deployment market, there are a number of hypothetical segments, as shown below in Table 12C.

**TABLE 12C: POTENTIAL SEGMENTATION
OF THE ATM DEPLOYMENT MARKET**

Means of segmenting the ATM deployment market	Segments	
Whether consumers are charged	FTU ATMs	PTU ATMs
Merchant market / self supply	IADs and BBSs supplying third parties	BBSs' self-supply.
Identity of deployer	IADs	BBSs
Destination of ATMs	Multiple segments according to Payments UK: BBS branches; post offices; supermarkets and other retail; social and leisure; motoring and transport; services, workplace and mobile. These segments could be further segmented according to the LINK data into the following destination types: BBS branches; post offices; supermarkets; convenience; other retail; social; leisure; motoring; transport; services; workplace; and mobile.	
Size of site owner	Large (multiple sites)	Small / Independent
Service model	Processing / merchant refill	Full placement / cash in transit

12.27 The Parties do not consider it appropriate to assess the transaction by reference to these narrow segments not least due to the high degree of supply-side substitutability.

12.28 All competitors deploy ATMs across the UK. Thus, the Parties submit that the relevant geographic scope of both the plausible product market and narrowest candidate product markets is the UK. In any event, no SLC arises even on a narrower geographic basis.

Past decisional practice

12.29 The OFT considered the ATM deployment market when reviewing RBS/Hanco. The OFT:

- (a) found that the market is no wider than the deployment of ATMs i.e. it does not include BBS counter services or cash-back on the basis that they do not provide 24 hour access and ancillary services;
- (b) considered whether to segment the market by reference to PTU or FTU ATMs (at the time of the decision nearly all BBS branch ATMs were FTU whilst nearly all IAD ATMs were PTU) but ultimately left the market definition open; and
- (c) noted the distinction between processing (merchant refill) and full placement (cash in transit) service models but did not treat these as distinct segments as consumers are unlikely to be able to distinguish between them and site owners face few restrictions on switching between them.

12.30 Furthermore, the CMA is currently reviewing Diebold, Inc.'s acquisition of Wincor Nixdorf AG ("**Diebold/Wincor**")⁶¹ in the upstream market for the supply of ATMs. In its Phase I decision⁶², the CMA formed the preliminary view that:

- (a) IADs generally install ATMs in locations where the number of transactions per ATM is lower than average (e.g. in social destinations) and look to site owners to replenish cash supplies in those machines (i.e. processing contracts);
- (b) BBSs expect their on-site ATMs to be used by consumers to carry out a wider range of ATM transactions than IADs (e.g. deposits, statement requests, and so on). On-site ATMs will therefore require a higher level of functionality;

⁶¹ <https://www.gov.uk/cma-cases/diebold-wincor-nixdorf-merger-inquiry>

⁶² <https://assets.publishing.service.gov.uk/media/57ea5d0a40f0b606dc000004/diebold-wincor-decision.pdf>

- (c) the deployment by IADs of on-site ATMs is not a significant trend in the UK and is not sufficient to significantly diminish any distinction drawn between IADs and BBSs; and
- (d) IADs have moved rapidly towards a free-to-use model (as per BBSs), demand the full spectrum of ATM products and are equally as likely to purchase Diebold and Wincor's ATMs as BBSs, often for the exact same types of deployment.

12.31 In light of these points, the CMA assessed the competitive effects of the merger on the supply of customer-operated ATMs to BBSs and IADs together, but took differences between BBSs and IADs into account in its competitive assessment.

Whether consumers are charged (FTU v PTU)

- 12.32 The Parties submit that it is not appropriate to segment the ATM deployment market by reference to FTU and PTU ATMs for the following reasons.
- 12.33 There is no inherent difference between the services provided to consumers by FTUs and PTUs (the only difference is the fee). Therefore, typically, when choosing whether to install a PTU or FTU ATM, the main factor for both deployers and site owners is the revenue that is likely to be generated at that particular site under each model.
- 12.34 There is no inherent revenue differential between PTU or FTU ATMs – FTU interchange fees are lower than PTU surcharge fees but, depending upon the location, this may be outweighed by the fact that FTU ATMs typically enjoy higher transaction volumes (given, inter alia, that the service is free to consumers). Therefore, the choice usually depends upon both Parties' and site owners' views of the likely withdrawal volumes that could be achieved at that location. In addition, site owners may take into account the potential for a FTU ATM in particular to attract footfall to their sites and therefore generate additional in-store revenues.
- 12.35 Where withdrawal volumes are expected to be very low, a PTU ATM may be the only economically viable type of ATM for a particular site. In these circumstances, deployers are unlikely to offer a FTU ATM. However, where both PTU and FTU could be economically viable, site owners are given the choice and appropriate economics/business case as to whether to locate a PTU or FTU ATM at their site, in order to meet their objectives in deploying an ATM⁶³.
- 12.36 Deployers cannot dictate the choice of PTU or FTU ATMs. Where deployers believe that a particular type of ATM is more appropriate for a site, they may offer a more competitive commission/fee to encourage the site owner to choose that type. However, where this is contrary to a site owner's preferences, the site owner is likely to ignore this and select a competing offer from a rival deployer (many site owners are approached several times over the course of a year by competing deployers).
- 12.37 The competitive landscape for surcharge fees is primarily influenced by the proximity of other nearby PTU ATMs. Variation normally also reflects the level of FTU competition in the vicinity, which may force deployers to reduce the surcharge fee to remain competitive or even remove the fee entirely i.e. switch to FTU. A typical surcharge fee is around £1.75, unless the fee is tailored for an event or a different fee is specifically requested by the site owner (usually to cover the site owner's costs of refilling the ATM in a merchant fill contract).
- 12.38 When making an offer to a potential site owner, the deployer will decide on the most appropriate surcharge, based on likely withdrawal volumes, competition and other ATMs in

⁶³ For the avoidance of doubt, this is not a specific document. [REDACTED]

the vicinity⁶⁴. However, site owners always have the choice of a number of deployers, should they not agree with the deployer's decision/offer.

12.39 The level of the surcharge agreed at the outset of the contract can be adjusted by the deployer during the term of the contract. However, the deployer's unilateral ability to make such changes is subject to the following contractual and business/practical limitations:

- (a) contractually, deployers usually have the ability to amend the level of a surcharge, although this option is rarely used (typically where the ATM is underperforming) and is limited to specific circumstances. For example, Cardtronics [REDACTED] and [REDACTED]
- (b) in order to minimise the risk of being replaced by a rival deployer at the end of the contract term, deployers will try to accommodate a site owner's view regarding a change to the surcharge. For this reason, even though site owners do not usually have the contractual right to request changes to the level of the user surcharge, they sometimes make such requests.

12.40 There are no technical or network differences between FTU and PTU ATMs, meaning that (subject to any contractual and business/practical limitations) deployers and site owners can switch from FTU to PTU (and vice versa) rapidly and with great ease:

- (a) an ATM can be converted from PTU to FTU virtually instantly. This only requires re-programming the ATM, which can be done remotely by the deployer; and
- (b) converting an ATM from FTU to PTU can take up to six weeks because, in addition to re-programming the ATM, new branding must be applied to its exterior in order to comply with LINK regulations⁶⁵.

12.41 The costs of re-programming an ATM are negligible (£10 charge from LINK). Where new branding is required for the move from FTU to PTU (see b. above), an engineer is sent out. For new branding, Cardtronics pays around [REDACTED] for an internal ATM or [REDACTED] for a TTW ATM. Accordingly, Cardtronics rarely converts ATMs from FTU to PTU. The same branding exercise is usually desirable when switching from PTU to FTU in order to advertise the fact that the ATM is now free to use. Cardtronics [REDACTED] Similarly, DCP typically [REDACTED]

12.42 Typically, Cardtronics can switch an ATM from FTU to PTU (or vice versa) where [REDACTED]

12.43 [REDACTED]

⁶⁴ For the avoidance of doubt, the Parties do not have any internal documents that refer to specific brand/competitor ATMs in the context of discussions about the surcharge price. Cardtronics notes that the LINK website is generally used to determine the proximity of other ATMs.

⁶⁵ When converting from PTU to FTU, deployers may opt to re-brand the exterior of the ATM to highlight to end users that there is no cost associated with using the service.

12.44 The majority of Cardtronics' site agreements [REDACTED]

12.45 Switching between PTU and FTU ATMs (and vice versa) usually becomes appropriate as a result of changing market dynamics e.g. a new FTU ATM being placed in the vicinity. These may feed into a site owner's request for a switch either following a site owner noticing these changes or at the suggestion of a competing deployer. Even where there is no contractual right to switch, site owners often make requests and hold the upper hand in any negotiations as they can refuse access or remove power from an ATM should they not get their way. Moreover, they have a credible threat of not renewing the contract/switching deployer at the end of the term if their request is not granted.

12.46 As requested by the CMA in RFI 1, the Parties set out the changes in withdrawal volumes at Cardtronics' ATMs following certain PTU/FTU-related events.

TABLE 12D: CHANGES IN WITHDRAWAL VOLUMES

	Number of sites affected	FY 2015 Average Monthly Withdrawals	FY 2016 Average Monthly Withdrawals	% Change
Surcharge price increase at PTU machine	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Surcharge price decrease at PTU machine	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Changing an FTU machine to a PTU machine	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Impact on PTU site when a FTU is deployed in the vicinity	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Impact on PTU site when another PTU is deployed in the vicinity	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

12.47 Please note the following regarding Table 12D:

- (a) the source data is provided in Annex 12A (CMA Analysis 090117) and Annex 12B (CMA Queries 020217). It is generated by Cardtronics' internal Phoenix system⁶⁶, which is reconciled with Vocalink data and compares the surcharge as of 6 January 2017 with historical withdrawal reports for each PTU ATM;
- (b) the historical withdrawal reports used for compiling this data state whether or not one of the events listed in Table 12D has occurred but do not state the date of the event. As a result, the event could have taken place at any point during FY15 or FY16.

⁶⁶ Details of the information collected by the Phoenix system and DCP's equivalent system are provided in Annex 12C.

Therefore, in most cases, withdrawal volumes for FY15 or FY16 will include at least some withdrawals before and after the event. Nevertheless, Cardtronics submits that the data in aggregate show the broad trends that appears to follow each event; and

- (c) there are multiple reasons why surcharge prices can be reduced. These can be categorised as:
- (i) "Contractual" – customer enforced due to market and environment changes or a change of ownership that may have taken place with the business/property. Even where customers have no contractual right to switch, they often make requests and hold the upper hand in any negotiations as they can refuse access or remove power from an ATM should they not get their way. Moreover, they have a credible threat of not renewing the contract/switching deployer at the end of the term if their request is not granted; and
 - (ii) "Competition" – the customer has been approached by a competitor with a competing offer *or* a competitor has installed another ATM within close proximity (thereby affecting ATM usage levels).

12.48 As noted above, the market (including ATMs deployed by IADs) has moved rapidly towards a FTU model in particular through the conversion of existing PTU ATMs into FTU ATMs. This trend is continuing:

- (a) the proportion of ATMs that are PTU is falling significantly as existing PTU ATMs are being converted to FTU ATMs and new ATM sites are typically being filled by FTU ATMs;
- (b) the PTU segment in terms of withdrawal volumes is also diminishing for IADs, site owners and consumers. Indeed, in 2015, PTU ATMs accounted for only 2% of ATM withdrawals⁶⁷; and
- (c) with regard to the acquisitions made by the Parties in the last two financial years (see paragraphs 4.2 and 4.6 above), (i) none of the ATMs were PTU, (ii) none of the ATMs were subsequently converted to PTU and (iii) none of the Parties' existing ATMs were converted to PTU as a result of the acquisitions.

12.49 Annex 12D (Cardtronics' Flip Analysis) contains a list of Cardtronics' sites that have been converted from PTU to FTU (or vice versa) and the reason for the change. In addition to the "Contractual" and "Competition" reasons described above, deployers may also take a "Business" decision when an ATM is deemed economically unviable, whereby that deployer may try to change the surcharge rather than removing the ATM from the site, which is a costly exercise.

12.50 As requested by the CMA in the RFI of 24 January 2017, the Parties note that:

- (a) Cardtronics does not monitor nor collect information relating to its ATM surcharge prices in any systematic way⁶⁸. Determining the revised surcharge (including considering whether to switch to FTU) [REDACTED].
- (b) DCP does not collect information specific to surcharge as part of its general business practice. In particular, DCP does not retain or record details of the surcharges charged by its competitors. The transition from PTU to FTU will generally be

⁶⁷ See Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 54. Nevertheless, there are a number of competitive pressures that will continue to exist post-transaction even in relation to PTU (if looked at in isolation).

⁶⁸ The Phoenix system does record surcharge rates for individual ATMs/customers but this data is not monitored in any systematic way, if at all.

something a site owner seeks if *they* think they can increase footfall. DCP generally

DCP may instigate a change from FTU to PTU where

Merchant market

- 12.51 BBSs deploy ATMs at their own branches but also at third party sites. In contrast, by definition, IADs only deploy ATMs at third party sites. This could be the basis for a hypothetical "merchant market" segmentation i.e. considering ATMs deployed at third party sites and excluding self-supply. However, the artificial narrowing of the ATM deployment market in this manner is inappropriate.
- 12.52 Whilst BBSs are the only entities capable of self-supply, the full range of leading competitors in the plausible ATM deployment market compete in the hypothetical merchant market. For example, the merchant market includes all IADs but also RBS, Barclays and HSBC (which each have large ATM estates at supermarkets and transport hubs) and other BBSs that could easily supply third party site owners.
- 12.53 Similarly, from a BBS site owner's perspective, self supply and outsourcing are competing options as on-site ATMs are increasingly being deployed by IADs. For example, Williams and Glyn Bank (part of RBS) has outsourced its on-site ATMs to NoteMachine.
- 12.54 Even when comparing on-site ATMs deployed by BBSs with off-site IAD ATMs, there are very few differences both on the demand and supply side (for the reasons set out below in the discussion of deployer identities), such that any distinction is artificial.
- 12.55 From a consumer perspective, there is no difference between an on-site ATM that has been deployed by a BBS and an on-site ATM deployed by an IAD as:
- (a) on-site ATMs are almost always FTU, and
 - (b) the ATMs are purchased from the same ATM manufacturers (see Annex 17 RBR Report), do not differ in terms of functionality and are connected to the same network (LINK).

Identity of deployer

- 12.56 The Parties submit that the distinction between BBS and IAD off-site ATMs has fallen away significantly since RBS/Hanco. Reflecting the state of the market today, a hypothetical segmentation by deployer identity would be inappropriate for the following reasons:
- (a) consumers are likely to be brand neutral as regards the identity of deployers when comparing ATMs in the same destination type⁶⁹. Indeed, there is virtually nothing to distinguish ATMs of BBSs and IADs in the same destination;
 - (b) site owners invite both BBSs and IADs to tender for their estates and site owners are also neutral as to the identity of the deployer. As noted below,

⁶⁹ Annex 10A (ATM Innovation Research Report), page 14 suggests that trustworthiness and reliability influenced the choice of only 3% of consumers surveyed. The Parties submit that, to the extent that consumers have a preference, this will invariably be for BBS brands, which consumers are more familiar with.

- (c) IADs consider themselves as in competition with BBSs when competing for attracting site owners. For example, the Parties view a number of BBSs as within their top competitors - see e.g. Annex 15D;
- (d) both BBSs and IADs predominantly deploy FTU ATMs (over 55% of IADs' ATMs are FTU⁷⁰) and the trend for IADs to focus increasingly upon FTU ATMs is expected to continue for the foreseeable future;
- (e) reflecting the similarities, BBSs are increasingly out-sourcing their on-site ATMs to IADs (although this could easily be reversed if BBSs desired to do so);
- (f) there are no legal or technical restrictions preventing BBSs from deploying ATMs in destinations that were historically the focus of IADs (e.g. single site convenience stores);
- (g) the majority of withdrawals continue to be made at ATMs deployed by BBSs (see Table 2 of the DMN⁷¹) and BBSs continue to deploy ATMs at the full spectrum of customer / location types (see Table 4). In particular, they maintain large ATM estates at their branches and at other high volume locations, albeit these continue to decline; and
- (h) whilst some BBSs have been exiting the merchant market (reflecting the current market trends described above), several remain (in particular RBS, Bank of Ireland, HSBC and Barclays) and bid against the Parties. For example, as noted above, [REDACTED] Others would be likely to return, in particular if an opportunity arose that would be beneficial for a wider commercial relationship with a particular site owner.

12.57 With regard to (g), Cardtronics notes that, in so far as it understands the position, BBSs appear to have a slightly different business model to IADs:

- (a) all IADs are generally looking to deploy ATMs; the main driver is the economic viability of the particular site. Thus, the business model is one of scale, efficiency and cost-effectiveness. Different IADs have different focuses (to date) including Cardtronics and DCP. As also previously noted, the Parties would expect YourCash to alter its strategy following its recent acquisition by Euronet; and
- (b) the BBSs are reducing costs - and in substance transferring these to third parties including IADs - by generally deploying fewer new ATMs, rationalising their existing estates and/or focusing on their on-branch estates or high footfall locations such as transport hubs. This strategy reflects:
 - (i) the increasing importance of alternative payment mechanisms;
 - (ii) the cost cuts that can be generated by closing branches and removing off-site ATMs; and
 - (iii) their awareness that third parties will compete to deploy ATMs at economically viable sites.

12.58 Nevertheless, BBSs continue to participate in tenders. The Parties have no real visibility of their precise decision-making process in this regard and must assume that they are a credible threat on any given tender for any given customer and at any given location. Indeed, the BBSs could target any customer or location type, given their reputational advantages (both with consumers and site owners), financial resources and presence in related markets.

⁷⁰ Annex 10C (Payments UK Report - UK Cash & Cash Machines 2016), page 53.

⁷¹ This combines on-us and off-us withdrawals. Cardtronics also notes that a large proportion of off-us withdrawals are generated at Tesco supermarkets.

Destination based on Payments UK report

12.59 As referred to above, Payments UK groups together the LINK destination types into the categories detailed in Table 12E.

**TABLE 12E:
PAYMENTS UK CATEGORISATION OF LINK DESTINATION TYPES**

Category	Description ⁷²	Key Characteristics
On-site branch	Premises belonging to a LINK network member where that member conducts banking services (i.e. BBS branches).	ATMs are always FTU and generally have high transaction volumes. Most ATMs are self-supplied by BBSs at their branches. The deployment of on-site branch ATMs by IADs typically takes place under full placement contracts following sophisticated tender processes. In these circumstances, fees/commission levels are generally the key decision criteria, provided the level of quality meets a defined standard level.
Post offices.	Post office branches.	ATMs are always FTU and deployed under full placement contracts following sophisticated tender processes. High transaction volumes. Fees/commission levels are generally the key decision criteria (provided the level of quality meets a defined standard level).
Supermarkets, convenience and other retail	This grouping comprises: <ul style="list-style-type: none"> • convenience stores (i.e. local stores and newsagents); • supermarkets; • other retail (i.e. shopping centres, retail parks and department stores). 	Supermarket ATMs and chain convenience ATMs (e.g. WHSmiths) are mostly FTU and under full placement contracts following sophisticated tender processes. They have high transaction volumes. Single site convenience and other retail outlets have a larger proportion of PTU ATMs deployed under processing contracts following engagement with a deployer without a tender procedure. They have lower transaction volumes.
Social and leisure	This grouping comprises: <ul style="list-style-type: none"> • social sites (pubs and nightclubs); • leisure sites including cinemas, casinos, bingo halls, bowling alleys, holiday parks and theme parks. 	Typically, single site with a higher proportion of low volume PTU ATMs deployed under processing contracts. There are exceptions e.g. large pub and restaurant chains, which tend to have sophisticated tender procedures as a result of their size and the value of their sites.
Motoring and transport	This grouping comprises: <ul style="list-style-type: none"> • motoring sites (i.e. petrol stations and service stations); • transport sites (railway stations, underground stations, bus stations, airports, ferries and ferry ports). 	Typically, multi-site with high levels of withdrawals. Transport sites tend to have FTU ATMs deployed under full placement contracts. There is more variability with respect to motoring destinations e.g. chains of petrol stations franchised from major oil companies as opposed to family-owned businesses.
Services, workplace and mobile	This grouping comprises: <ul style="list-style-type: none"> • service sites (public buildings such as council offices, hospitals and military bases); • workplaces (where the public do not have access to the ATMs). 	Typically, single site with a higher proportion of low volume PTU ATMs deployed under processing contracts following engagement with a deployer without a tender procedure.

⁷² These descriptions are based on the individual destination types listed in the guide that LINK provides to ATM deployers when requesting data for the LINK dataset (see Annex 12F).

- 12.60 Although theoretically it is possible to segment ATM destinations into these categories, in practice it is arbitrary to draw bright line distinctions not least as the destination types do not fit squarely into categories. For example, whilst chain convenience store contracts will tend to apply to a nationwide ATM estate, some convenience stores focus on particular regions or even one site and have contracts more similar to site owners in other hypothetical segments (such as services). At the same time, leisure destination contracts may tend to cover only one ATM site but some (e.g. with casino operators) will cover multiple sites across the UK and are tendered using sophisticated purchasing models, as is the norm for destination types such as supermarkets and BBS branches. Therefore, any firm categorisation is arbitrary.
- 12.61 To the extent that segmentation is done on this basis, the approach adopted by Payments UK of grouping together similar destination types (e.g. supermarkets, convenience and other retail) is more appropriate than considering the destination types adopted by LINK (e.g. supermarkets) individually as it mitigates the following issues with the LINK data:
- (a) categorisations are often imprecise and LINK/deployers often do not ensure consistency in classification - the definitions provided by LINK for deployers to categorise their ATMs provide very limited detail see Annex 12F (LINK Scheme ATM File). For example, a mini-supermarket on the high street could be classified as a convenience store or a supermarket⁷³. As a result, deployers often categorise ATMs differently. Indeed, Cardtronics [REDACTED] and [REDACTED]
 - (b) categorisations are often out of date - deployers update their submissions infrequently and on an ad hoc basis. Therefore, many ATMs may have changed category without being reflected in the LINK data.

Destination based on LINK data

- 12.62 The LINK dataset does not group together destination types. Instead, it allocates ATMs to the following individual destination types: on-site branch; post offices; supermarkets; convenience stores; other retail; social; leisure; motoring; transport; services; workplace; and mobile. It is inappropriate to segment the ATM market on this basis for the following reasons:
- (a) consumers experience essentially the same service regardless of destination type as ATMs at all destination "categories" are purchased from the same ATM manufacturers, do not differ significantly in terms of functionality (i.e. they are capable of providing the core cash withdrawal function to the same standard) and are connected to the same network (LINK);
 - (b) consumers will typically have a range of destination types to choose from when looking to withdraw cash e.g. within a town or village there are usually at least two ATM destination types e.g. pubs, supermarkets, and BBS branches - and most 'local' consumers will have good knowledge of the location of a variety of ATMs;
 - (c) all deployers are capable of deploying ATMs at all destination types. There are no legal, commercial or technical restrictions preventing any deployer from deploying at on-site or other destinations. Whilst smaller ATM deployers may not have the reputation or existing support infrastructure (e.g. maintenance services) to instantly deploy at supermarkets or BBSs, they can and have overcome these hurdles relatively easily over the course of tenders by pricing aggressively and procuring critical support infrastructure from third party suppliers (for example, G4S and Loomis can provide cash in transit services to ATM deployers); and

⁷³ This is explained by Payments UK on page 29 of Annex 10C.

- (d) BBSs tend to deploy only a limited number of ATMs at destinations other than branches, supermarkets and transport locations but there is no technical reason why they cannot change this approach and this is by no means a rule. For example, Bank of Ireland, Barclays, Lloyds, RBS, Yorkshire Bank and Clydesdale Bank deploy ATMs at many different destination types (e.g. other retail).

Size of site owner

- 12.63 Whilst it is not appropriate to segment the ATM deployment market by destination type, the characteristics of the destination types (see Table 12E) suggest that destination types could be categorised into groupings representative of typical site owner size. Accordingly, an attempt could be made to segment the market into (a) site owners with multiple sites and more sophisticated purchasing processes and (b) site owners with one or very few sites.
- 12.64 However, the variation within destination types (in particular the convenience destination type⁷⁴) makes allocating them to a particular size of site owner category inappropriate and any results arbitrary.
- 12.65 In any event, it would not be appropriate to draw any firm distinction for the following reasons:
- (a) consumers experience essentially the same service regardless of the size of the site owner. ATMs at all destination "categories" are purchased from the same ATM manufacturers, do not differ significantly in terms of functionality (i.e. they are capable of providing the core cash withdrawal function to the same standard) and are connected to the same network (LINK);
 - (b) consumers will typically have a range of sites (of differing sizes) to choose from when looking to withdraw cash e.g. within a town or village there are usually at least two ATM destination types e.g. pubs, supermarkets, and BBS branches; and
 - (c) all deployers are capable of deploying ATMs at sites of different sizes. Smaller ATM deployers may find it harder to deploy at supermarkets or BBSs due to their scale but they can and have overcome any hurdles relatively easily over the course of tenders by pricing aggressively and procuring critical support infrastructure from third party suppliers (for example, G4S and Loomis can provide cash in transit services to ATM deployers).

Service model

- 12.66 There are two distinct "service models":
- (a) processing/merchant refill - deployers provide processing services (including the provision of maintenance and service support) for an ATM owned, maintained and cash loaded by the site owner or a third party; and
 - (b) full placement/cash in transit - deployers own, maintain and load cash for site owners.
- 12.67 However, depending upon the requirements of the specific site owner, the services provided can consist of:
- (a) providing a connection to Vocalink in order to process transactions through the LINK network;
 - (b) providing a connection to other international schemes (such as Visa, Mastercard or Discover Card) to process transactions which do not go through the LINK network;

⁷⁴ For example, there is a significant discrepancy between large chain convenience stores and small independently run corner stores.

- (c) purchase of the ATM on behalf of the merchant (i.e. deployer owned) or purchase of the ATM and then sale to the merchant (i.e. merchant owned);
- (d) installation of the ATM at the site;
- (e) maintenance of the ATM on an ongoing basis; and
- (f) cash loading of the machine (where the site is not covered by a merchant refill contract).

12.68 Site owners are always provided with the services at points (a) and (b) above, whereas the services covered under points (c)-(f) are dependent upon the requirements of the specific site owner. Typically, merchants purchase ATM machines or agree to host a deployer-owned ATM and then, if required/relevant to their business model, they receive cash-in-transit ("CIT") services as part of a bundle. Some merchants may prefer to purchase CIT services separately or provide their own in-house CIT services. For example, DCP has [REDACTED] corporate site owners that provide their own cash in-house. DCP notes that this type of arrangement is common in special event organisations that provide services for festivals, such as Glastonbury or V-Festival.

12.69 Cardtronics does not currently deploy the 'processing services model' where only (a) and (b) are requested by a merchant. Cardtronics typically provides full service merchant fill and CIT models. DCP deploys a 'processing services model' where only (a) and (b) are provided. However, this is not a material part of DCP's business. Table 12F shows the Parties' understanding of which competitors are active in each of the possible different segments of the ATM deployment market⁷⁵.

**TABLE 12F:
PRESENCE OF COMPETITORS IN POSSIBLE SEGMENTS OF THE ATM
DEPLOYMENT MARKET**

Competitor	Sale of ATMs	Installation of customer-owned ATMs	Installation of deployer-owned ATMs	Transaction Processing ⁷⁶	Maintenance	Service Support	Cash in Transit ⁷⁷
Cardtronics	x	x	✓	✓	✓	✓	✓
DCP	✓	✓	✓	✓	✓	✓	✓ (Outsourced)
Barclays	x	x	✓	✓	✓ (Outsourced)	✓ (Outsourced)	✓ (Outsourced)
Euronet/ YourCash	✓	✓	✓	✓	✓	✓	✓ (Outsourced)
NoteMachine	x	x ⁷⁸	✓	✓	✓	✓	✓
Paypoint	✓	✓	✓	✓	✓	✓	x

⁷⁵ The Parties note, however, that they have limited knowledge of their competitors' service offerings so they cannot guarantee the accuracy of Table 12F.

⁷⁶ This service consists of a deployer providing a connection to Vocalink and international schemes to enable transactions to be processed.

⁷⁷ For completeness, the Parties note that Cardtronics and NoteMachine also outsource a small proportion of their respective cash in transit services.

⁷⁸ Although it should be noted that the Parties believe that NoteMachine may install customer-owned ATMs at Williams & Glyn Bank.

Competitor	Sale of ATMs	Installation of customer-owned ATMs	Installation of deployer-owned ATMs	Transaction Processing ⁷⁶	Maintenance	Service Support	Cash in Transit ⁷⁷
					(Outsourced)		
RBS Group	x	x	✓	✓	✓ (Outsourced)	✓	✓ (Outsourced)
Lloyds Banking Group	x	x	✓	✓	✓ (Outsourced)	✓	✓ (Outsourced)
Bank of Ireland	x	x	✓	✓	✓ (Outsourced)	✓ (Outsourced)	✓ (Outsourced)
Santander	x	x	✓	✓	✓ (Outsourced)	✓	✓ (Outsourced)
HSBC	x	x	✓	✓	✓ (Outsourced)	✓ (Outsourced)	✓ (Outsourced)

12.70 The Parties' revenues generated in each of the segments identified in Table 12F above are provided as Annex 12G (Cardtronics' Revenues) and Annex 12H (DCP's Revenues).

12.71 As the LINK data is not categorised by service model, the Parties have considered whether it would be possible to use destination types as a proxy based on their common characteristics more closely resembling a particular service model. However, this is necessarily imprecise as some destination types⁷⁹ will have site owners contracting on the basis of different service models.

12.72 In any event, it is inappropriate to segment the ATM deployment market according to service models (as noted in RBS/Hanco) for the following reasons:

- (a) consumers are extremely unlikely to be able to distinguish between service models because they obtain the same service in terms of price, quality, range and speed of service under all service models;
- (b) site owners face few restrictions between adopting different service models⁸⁰ and are typically given the right to switch between them in their contracts; and
- (c) all deployers are able to provide both service models to site owners. For example, even where smaller IADs do not have in-house cash in transit or maintenance capabilities, they can engage third party service providers (such as Loomis and G4S), which can actually result in cost advantages (reflecting the massive economies of scale that such providers benefit from by providing cash in transit services to a myriad of industry sectors)⁸¹. This also means that barriers to entry are low.

Geographic market

⁷⁹ For example, chain convenience stores will typically agree full placement contracts, whilst independent corner stores may prefer processing contracts.

⁸⁰ For example, if a site owner does not have the technical expertise to maintain an ATM, there are third party maintenance providers available.

⁸¹ For example, Loomis charges █████ per cash in transit drop, compared to Cardtronics' in-house charge of internal customers of █████ per drop.

- 12.73 In RBS/Hanco, the OFT identified the UK as the relevant geographic market for the assessment of a concentration in the ATM deployment market on the basis that there are no geographic restrictions on where an ATM provider can locate a machine, provided that there is access to a telephone line or mobile link to access the LINK Network.
- 12.74 The Parties submit that the geographic market continues to be national today⁸² as suppliers are active throughout the UK and the set of competitors is consistent across all regions. Furthermore:
- (a) there are no differences in terms of preferences for ATM functionality across regions;
 - (b) as noted in RBS/Hanco, there are no restrictions within the UK regarding the placement of ATMs (they can be sited anywhere that there is a telephone line or mobile link to access the LINK network);
 - (c) the same LINK certification and software applies across the UK;
 - (d) tenders are typically centralised for all of a site owner's locations; and
 - (e) the Parties' profit margins per ATM do not vary significantly across regions of the UK;
 - (f) the Parties' prices for PTU ATMs do not vary significantly across regions of the UK. Whilst there is a range from £0.90-£1 up to £10, very few ATMs are at either end of the spectrum⁸³, with the vast majority being within the range £1.41-£2;
 - (g) with respect to Cardtronics, [REDACTED]
 - (h) DCP [REDACTED]

12.75 As requested by the CMA in the RFI of 24 January 2017, the Parties have provided details (as follows), which confirm that their sales team operate on a national basis.

12.76 Cardtronics' data is collected in two ways:

- (a) [REDACTED] and
- (b) [REDACTED]

12.77 [REDACTED]

12.78 For DCP, all customer data is [REDACTED]

⁸²This is supported by the CMA's findings in *Diebold/Wincor Nixdorf*.

⁸³ The fees in the upper range are primarily accounted for by ATMs located in gentlemen's clubs.

⁸⁴ Search Engine Optimisation/Search Engine Marketing.

(a) [REDACTED]

(b) [REDACTED]

13. Identify (and explain the rationale for identifying):

(a) **the narrowest candidate product/service and geographic market(s) where the merger parties overlap, and (if the parties have a vertical relationship or supply related products/services)⁸⁶ the narrowest candidate product/service and geographic market(s) at each level of the vertical supply chain and for each related product/service (the Narrowest Candidate Market(s)).**

13.1 Please refer to the response to question 12. above.

(b) **any other plausible candidate product/service and geographic market(s)⁸⁷ where the merger parties overlap, have a vertical relationship, or supply related products/services (together with the Narrowest Candidate Market(s), the Candidate Market(s)).**

13.2 None.

Horizontal effects

See sections 5.4 to 5.5 of Merger Assessment Guidelines

14. Provide a description of how competition works in each Candidate Market where the merger parties overlap.

14.1 As noted above, competition between deployers of ATMs is focused primarily upon securing sites to deploy ATMs. Price competitiveness (expressed in total commission to be earned from deployed ATMs) is normally the primary factor for site owners when choosing between deployers. Site owners will also require that deployers can provide a basic level of service. Therefore, in addition to competing aggressively on price, Cardtronics seeks to persuade site owners that it can offer a high quality service. It seeks to differentiate itself by reference to [REDACTED]

[REDACTED]

14.2 The service models and differences in contractual terms, as well as site owners' approaches to purchasing, are set out in detail in section 12. However, it is useful to give a brief overview on how competition works in the ATM deployment market again here, highlighting trends/variations within the segments identified above.


14.3 Deployers typically respond to tenders for larger site owners in the convenience, supermarket, BBS branch, transport and other retail destination categories. These site owners' procedures are likely to be more formalised, reflecting the size of their estates (although most site owners

⁸⁵ [REDACTED]

⁸⁶These are products or services which do not lie within the same market, but which are nevertheless related in some way; for example, because they are complements (so that a fall in the price of one product/service increases the customer's demand for another), or because there are economies of scale in purchasing them (so that customers buy them together).

⁸⁷This may include, for example, the products/services and geographic area(s) in the Narrowest Candidate Market(s) together with other products/services and geographic areas that might be considered substitutes with such products/services and geographic area(s).

of whatever size in these destination types will hold some form of tender process). These site owners typically want deployers to meet high minimum quality standards (including for support and maintenance standards). All deployers can meet these standards and, thus, they compete primarily on fees.

- 14.4 Chain site owners, such as supermarkets, often have a procurement department at their head office, which is responsible for running a structured tender process for their entire ATM network. This process typically takes between 2 and 6 months to complete and may require multiple face to face meetings and conference calls. Typically, the process is as follows:
- (a) the site owner sends formal bid documentation (with a timeline for responding) to deployers;
 - (b) deployers submit their bids;
 - (c) the site owner conducts a shortlisting exercise, whereby shortlisted companies are invited to present their solution face to face with the site owner;
 - (d) the site owner selects a preferred supplier and contract negotiations commence;
 - (e) once the negotiations have completed, the contract is managed by the part of Cardtronics' business that is responsible for ATM service and income.
- 14.5 Smaller, independent site owners in the social and leisure categories (and independent convenience stores) are more likely to contact several deployers to ask for a quote without a formal tender process. Alternatively, 
- 14.6 The balance of price negotiations can vary. For example, some site owners may focus on price (commission), whilst others will factor in support and service considerations more prominently. Deployers' offers take into account these requirements, which are inherently linked with the site owner's profile/business focus, as well as the number of ATMs to be deployed, the deployer's price lists and the potential benefits to the site owner (e.g. increased footfall).
- 14.7 A description of the steps and timeframe involved in reaching an agreement with a new independent site owner are set out in Annex 14A (Non-corporate sales process). Cardtronics response to a RFP from John Lewis Partnership is also provided - see Annex 14B (Cardtronics JLP Proposal). Cardtronics' response was required to allow it to advance to the next stage of negotiations where contract and commercials were finalised. Details of the structures of the Parties' respective sales teams and how they operate are provided in Annexes 14L-N.
- 14.8 Furthermore, Tables 14A and 14B show the proportion of its business that each Party has won through tenders⁸⁹.

⁸⁸ 

⁸⁹ Please note the following points apply to the data in Tables 14A and 14B: (i) Contracts won through tenders include tenders that were public and early renewals where the Parties were benchmarked against a competitor. They do not include early renewals where the Parties' offerings were not benchmarked against a competitor; (ii) Cardtronics' data covers tenders that were concluded between 1 January 2015 and 31 December 2016. The contract value is based on estimated annualised revenue.

TABLE 14A: CARDTRONICS CONTRACTS WON THROUGH TENDERS

	Total	Won through tenders	Share won through tenders
Number of site owner agreements in place	■	■	■
Contract value (million)	■	■	■
Number of ATMs	■	■	■

TABLE 14B: DCP CONTRACTS WON THROUGH TENDERS

	Total (over 3 year period)	Won through tenders (over 3 year period)	Share won through tenders
Number of site owner agreements in place	■	■	■
Contract value (million)	■	■	■
Number of ATMs	■	■	■

14.9 Please note the following about the methodology for Tables 14A and 14B:

(a) In Table 14A:

- (i) 'Total' refers to new corporate channel customer agreements that Cardtronics won/retained in the UK between 1 January 2015 and 31 December 2016;
- (ii) 'Won through tenders' refers to the number (out of the Total) of corporate channel customer agreements that were won/retained through tenders. Agreements are counted toward this number where they were won via (i) tenders that were public and (ii) early renewals where Cardtronics was benchmarked against a competitor.

(b) Table 14B should be read as follows:

- (i) 'Total' refers to new and existing customer agreements that DCP won/retained in the UK between 1 January 2014 and 31 December 2016;
- (ii) 'Won through tenders' refers to the number (out of the Total) of customer agreements that were won/retained through tenders. Agreements are counted toward this number where they were won via (i) tenders that were public and (ii) early renewals where DCP was benchmarked against a competitor;
- (iii) DCP also notes that ■ of the ■ customer agreements in the 'Won through tenders' column were with existing customers. These ■ customer agreements accounted for ■ million of the ■ million contract value and ■ of the ■ ATMs listed in the 'Won through tenders' column.

14.10 The value of a site to a deployer is primarily determined by the number of withdrawals that can be expected from ATMs located on that owner's sites. The key factor affecting this is location⁹⁰ as consumers prioritise convenience over other factors when choosing ATMs to

⁹⁰ Annex 8A (Cardtronics Form 10-K Annual Report 2016), page 7.

use⁹¹. Therefore, deployers compete to deploy ATMs at locations that provide high visibility and high retail transaction volumes, such as convenience stores, petrol stations with convenience stores, grocery stores and chemists, transportation hubs (e.g. airports and train stations), and other major regional and national retail outlets.

14.11 Cardtronics does not conduct surveys or analysis of ATM users' activities. However, it is of the view that walking distances to ATMs are likely to depend upon the type of location and the individual involved. Therefore, when Cardtronics is identifying locations at which to place new ATMs (whether in rural or urban areas), it is guided by the following criteria⁹²:

- (a) [REDACTED] and [REDACTED]
- (b) PTU machines are ideally not to be placed within [REDACTED] metres of a FTU ATM [REDACTED]

14.12 It should be emphasised that this is guidance, not a strict requirement. Indeed, it is not followed on all sites as there may be other reasons to place an ATM in a particular location (e.g. particularly high volumes of potential transactions in central London). The Parties also note that, in the context of examining financial inclusion access, the Toynbee Hall research report refers to 1 km as the industry-agreed standard for financial inclusion access⁹³.

14.13 Therefore, deployers compete to identify types of businesses/areas that are likely to attract high volumes of potential ATM users (i.e. a high footfall site) and/or potential ATM users that are particularly likely to want cash. On this basis, they identify specific businesses that might be interested in hosting ATMs. For example, if Cardtronics would like to target convenience stores, [REDACTED]. To determine whether an ATM might be viable at this location, Cardtronics considers:

- (a) [REDACTED]
- (b) [REDACTED]
- (c) [REDACTED]
- (d) [REDACTED]

14.14 Alternatively, Cardtronics may identify a high footfall area that would be appropriate for a TTW or standalone external ATM. Cardtronics [REDACTED].

14.15 When an area has been identified, Cardtronics will approach a variety of stores, including the following: [REDACTED].

⁹¹ Annex 10A (ATM Innovation Research Report), page 14.

⁹² See Annex 14C (BDE Target Market).

⁹³ See Annex 15P (Toynbee Hall LINK Research Report).

14.16 For further details of the Parties' approaches to identifying locations and site owners, please refer to Annex 14C (BDE Target Market), Annex 14D (Pound Place - Site Information) and Annex 14E (Pound Place - Site Survey).

14.17 Pricing will then take into account [REDACTED].
 [REDACTED] Deployers pay site owners a share of transaction fees and/or fixed up-front or monthly payments (either per site owner or per ATM), with the amount determined by this analysis. For example, supermarkets are often able to obtain large fixed payments (in addition to a relatively high share of transaction fees) reflecting the larger number of transactions that are likely to take place at their sites and the "prestige" associated with such high profile deployments.

14.18 As discussed in section 12, the other key terms of site owner contracts are flexible and tailored to suit the demands of the site owner. However, there is some variability in the typical terms, as set out in Table 14C.

**TABLE 14C:
TYPICAL KEY CONTRACT TERMS**

	Owner of multiple sites	Owner of one site
Typical destination types	Supermarkets, transport, post offices, BBS branches, motoring, other retail.	Service, leisure, workplace, convenience and other retail (independent sites).
Contract duration	3-4 years	3-6 years
Right to switch between FTU and PTU	Rarely host PTU ATMs and rarely request the option to do so.	Generally give the site owner the right to switch subject to the consent of the deployer ⁹⁴
Right to switch between service models	Rarely use processing service models and unlikely to request the option to do so.	Generally give the site owner the right to switch subject to the consent of the deployer
Exclusivity	Less common.	Often permit deployers to have exclusivity at their sites (this typically covers ATMs but can also extend to the provision of cashback) ⁹⁵
Deployers' right to remove ATMs if surcharge fees or interchange fees are reduced or eliminated as a result of changes by LINK/other regulatory action.	Common	Very common.

14.19 For examples of Cardtronics' typical contracts, see Annexes 14F-H. DCP's standard contracts are provided as Annexes 14I-K.

14.20 For completeness, the Parties note that ATMs are not differentiated with regard to ATM users because, due to strict industry regulation and LINK compliance, all deployers must offer the same features at their ATMs, i.e. balance enquiries and cash withdrawals.

⁹⁴ This is rarely refused as the interests of the site owner and the deployer are typically aligned, in particular when selecting the most appropriate charging method.

⁹⁵ Annex 8A (Cardtronics Form 10-K Annual Report 2016), page 12.

15. **For each Candidate Market where the merger parties overlap, explain to what extent the merger may give rise to unilateral effects (see section 5.4 of the *Merger Assessment Guidelines*), that is, to what extent it is likely to cause loss of competition. Include:**
- (a) **information on the competitive constraint posed by each of the merger parties on each other,**
- 15.1 Please see the response to question 15.2(c) below, especially on closeness of competition.
- (b) **information on the competitive constraint posed by the other principal suppliers in the Candidate Market(s). Include the merger parties' and each of their principal competitors' shares of supply (by value and volume) specifying the total market size(s) together with an explanation as to how these are calculated**
- 15.2 Please see the response to question 15.2(c) below.
- (c) **a discussion of the extent to which the merger parties' products or services are substitutes and any supporting data (including, in sectors in which it is relevant, bidding data).**

Overview

- 15.3 The Parties submit that the only relevant plausible product market is the deployment of ATMs. Whilst, as noted above, this market could hypothetically be segmented in a variety of ways, such segmentation is largely artificial.
- 15.4 Also, the Parties do not consider it appropriate to assess the transaction by reference to these narrow segments due to the high degree of supply-side substitutability. Potentially, only the distinction between FTU and PTU ATMs could be meaningful and is taken into account by the Parties but only on a static basis. Nevertheless, the Parties have set out their shares of supply and provided analysis of the competitive conditions in each hypothetical segment where the Parties' combined share of supply would meet or exceed 25%⁹⁶ (share of supply data for all potential segments is provided in Annex 15A). No substantive issues arise for any such segment.
- 15.5 To further aid the CMA's understanding of the market, the Parties have also provided a pivot table (Annex 15B)⁹⁷, which allows the CMA to review the shares of supply of the Parties and their competitors on all potential hypothetical segments (even where the segments are not appropriate) and combinations of segments (even where they clearly would not give rise to a SLC). It confirms that the Parties will continue to face significant existing competition no matter how segments are delineated (even on an unrealistic or arbitrary basis). Accordingly, the transaction does not raise a realistic prospect of a SLC regardless of the market definition employed.

Shares of Supply and Existing Competition on all candidate markets/segments

Frame of reference/limitations of share of supply analysis

- 15.6 In markets characterised by competition for tendered contracts, shares of supply are not necessarily reliable indicators of the competitive constraints that each market participant represents but merely capture past successes and failures in tender participations. ATM deployers compete to secure sites from site owners most often through participating in tenders. In such bidding markets, the Parties submit that the number and closeness of bidders are better indicators of competitiveness compared to shares of supply.

⁹⁶ As noted above, the Parties have significantly lower shares of supply by number of cash withdrawals. However, LINK does not provide cash withdrawal volume data for some of the segments referred to in this section 15.

⁹⁷ An explanation of how the dataset in Annex 15B was constructed is provided as Annex 15C (CL Methodology Note for Pivot Table).

- 15.7 When it comes to shares of supply, the Parties submit that the most appropriate frame of reference by which to assess the transaction is, at its narrowest, the total number of cash withdrawals from ATMs deployed in the UK. Such an approach illustrates the scale of competitors. This frame of reference reflects the characteristics of the ATM deployment sector, the commoditised nature of the service (withdrawal of cash), the presence of national competitors (in particular many of the BBSs), the awarding of contracts on a national basis and consumers being generally unconcerned about the location of ATMs. Whilst it does not include the alternative forms of payment (contactless, mobile, etc.) and, related does not indicate the possible alternatives available to site owners and the drivers of such decisions, it is helpful for the CMA's purposes.
- 15.8 Table 15B below shows shares of supply by volume of cash withdrawals. This includes "on-us" and "not-on-us" withdrawals. Whilst the LINK dataset (the only available data) does not include "on-us" withdrawals as they are not processed through the LINK network, the Parties have been able to calculate the total market size using an adjustment to account for the fact that 22% of all ATM cash withdrawals are on-us. The 22% share of the market that represents on-us withdrawals should be split between BBSs (those listed in Table 15B as well as those listed in the Others category) as they carry out on-us processing but there is no data available to the Parties as to how this split should be made. As a result, the shares of Barclays, RBS, Bank of Ireland, Santander and HSBC are in fact higher than is shown in Table 15B.
- 15.9 The LINK dataset does not provide cash withdrawal data split into the hypothetical segments. Therefore, to provide accurate data, the Parties have provided shares of supply based on number of ATMs deployed. The Parties submit that the CMA should give more weight in its considerations to the cash withdrawal data for the overall market as the number of ATMs deployed significantly overstates the competitive positions of the Parties. DCP [REDACTED]
- [REDACTED] This is illustrated in the following table comparing shares of supply on the basis of ATMs deployed and volume of withdrawals respectively:

**TABLE 15A:
COMPARISON OF SHARES OF SUPPLY**

Company	SHARE OF SUPPLY	
	Based on # of ATMS deployed	Based on # of withdrawals
Cardtronics	[REDACTED]	[REDACTED]
DCP	[REDACTED]	[REDACTED]
Combined	[REDACTED]	[REDACTED]
Barclays	[REDACTED]	[REDACTED]
Lloyds Banking Group	[REDACTED]	[REDACTED]
RBS Group	[REDACTED]	[REDACTED]
Bank of Ireland	[REDACTED]	[REDACTED]
Santander	[REDACTED]	[REDACTED]
HSBC	[REDACTED]	[REDACTED]
Major BBS combined	[REDACTED]	[REDACTED]
Euronet/ YourCash	[REDACTED]	[REDACTED]
NoteMachine	[REDACTED]	[REDACTED]
Paypoint	[REDACTED]	[REDACTED]
Major IADs combined	[REDACTED]	[REDACTED]
Others	[REDACTED]	[REDACTED]

Source: LINK data .

** [REDACTED] link transactions + 22% on-us transactions

15.10 Also, with regard to the LINK destination segments referred to in Table 12B, there are the following issues with the way that the LINK data has been categorised:

- (a) the definitions provided by LINK for deployers to categorise their ATMs provide very limited detail (see Annex 12E). For example, a mini-supermarket on the High Street could be classified as a convenience store or a supermarket (see page 29 of Annex 12E). As a result, deployers often categorise ATMs differently. Indeed,

[REDACTED]

and

- (b) deployers update their submissions infrequently and on an ad hoc basis. Therefore, many ATMs may have changed category without being reflected in the LINK data.

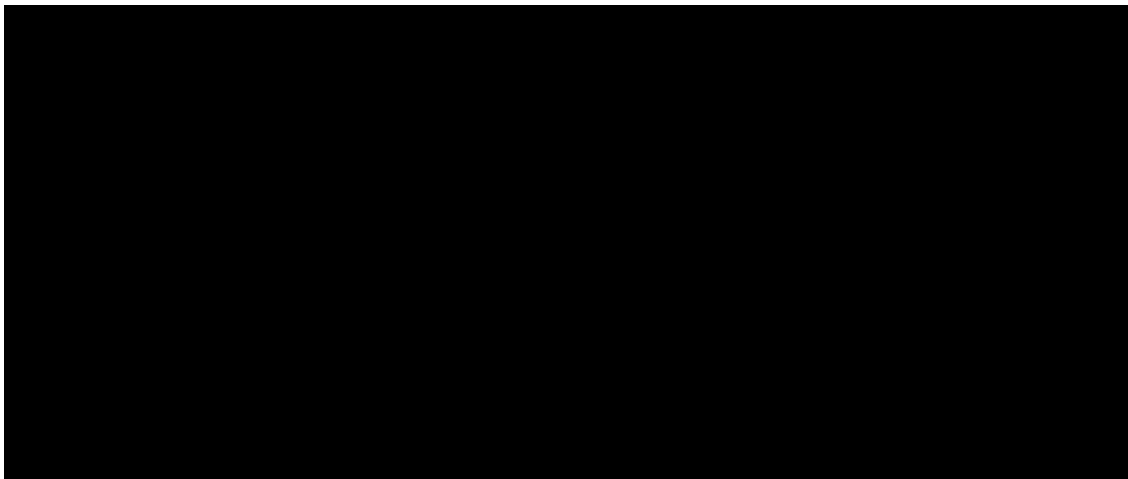
15.11 To overcome (a) in particular, Payments UK groups together similar destination types (e.g. supermarkets, convenience and other retail) according to some commonly observed characteristics. This is more appropriate than considering destination types on an individual basis (e.g. supermarkets), although these groups are still generalised and somewhat arbitrary if used to draw bright line distinctions.

Overall Market

15.12 The Parties' shares in the UK ATM deployment market are shown in the pie chart below and Tables 15B and 15C.

**FIGURE 15A:
MARKET SHARES BY ATM CASH WITHDRAWALS**

**2016 (until August)
Shares**



**TABLE 15B:
MARKET SHARES OF THE UK ATM DEPLOYMENT MARKET
(BY NUMBER OF ATM CASH WITHDRAWALS)**

Company	2014		2015		2016 (until August)	
	Volume of withdrawals (millions)	Share	Volume of withdrawals (millions)	Share	Volume of withdrawals (millions)	Share
Cardtronics	█	█	█	█	█	█
DCP	█	█	█	█	█	█
Combined share of all cash withdrawals	█	█	█	█	█	█
Barclays	█	█	█	█	█	█
Euronet / YourCash	█	█	█	█	█	█
NoteMachine	█	█	█	█	█	█
Paypoint	█	█	█	█	█	█
RBS Group	█	█	█	█	█	█
Lloyds Banking Group ⁹⁸	█	█	█	█	█	█
Bank of Ireland	█	█	█	█	█	█
Santander	█	█	█	█	█	█
HSBC	█	█	█	█	█	█
Others	█	█	█	█	█	█
On-us withdrawals at BBSs	█	█	█	█	█	█
Total	█	100%	█	100%	█	100%

Source: LINK data.

Notes:

1) 2016 estimates based on data for Jan-Aug.

2) "On-us" withdrawals are calculated assuming LINK "not-on-us" withdrawals comprise 78% of all withdrawals. The source for this figure is the Payments UK report "2016 UK Cash & Cash Machines" (Annex 10C). The figure is provided on page 27 of the report.

⁹⁸ Cardtronics acquired █ in July 2016. These ATMs accounted for around █ million ATM cash withdrawals in 2015. This transaction is not yet reflected in the LINK dataset but, at the time of the transaction, Cardtronics estimated that these ATMs would account for a █ share of ATM cash withdrawals (see Annex 4B). To avoid repetition, this point is not included on each occasion that █ shares of supply are referred to in this notification.

**TABLE 15C:
SUMMARY - SHARES OF SUPPLY BY NUMBER OF ATMS DEPLOYED**

Means of segmenting the market	Whether consumers are charged			Merchant "market" or self supply	Identity of deployer	Destination of ATMs (as per Payments UK Report)					
	Overall	FTU	PTU			Merchant "market"	IADS	BBS branch	Supermarkets, convenience and other retail	Social and leisure	Post office
Cardtronics	■	■	■	■	■	■	■	■	■	■	■
DCP	■	■	■	■	■	■	■	■	■	■	■
Combined	■	■	■	■	■	■	■	■	■	■	■
Barclays	■	■	■	■		■	■	■		■	■
Lloyds Banking Group	■	■	■	■		■	■	■	■	■	■
RBS Group	■	■	■	■		■	■	■		■	■
Bank of Ireland	■	■	■	■		■	■	■	■	■	■
Santander	■	■	■	■		■	■				■
HSBC	■	■	■	■		■	■	■		■	■
Major BBS combined	■	■	■	■	■	■	■	■	■	■	■
Euronet/YourCash	■	■	■	■	■	■	■	■	■	■	■
NoteMachine	■	■	■	■	■	■	■	■	■	■	■
Paypoint	■	■	■	■	■		■				
Major IADS combined	■	■	■	■	■	■	■	■	■	■	■
Others	■	■	■	■		■	■	■	■	■	■

15.13 As shown by Tables 15B and 15C, no horizontal issues arise in the UK ATM deployment market. The Parties' combined share of ATM cash withdrawals is ■, of which DCP accounts for ■. The Parties' combined share in terms of the number of ATMs deployed is marginally higher at ■, of which DCP represents ■⁹⁹.

15.14 The Parties will continue to face strong competition from a number of very credible and experienced deployers.

15.15 The merged entity will continue to compete against BBSs, which account for around 70% of ATM cash withdrawals¹⁰⁰. Such competitors primarily deploy ATMs in the destinations with the highest withdrawal volumes (typically BBS branches, post offices and supermarkets and other retail destinations). RBS, Barclays, Bank of Ireland and Lloyds have the highest shares of ATM cash withdrawals.

15.16 Whilst the number of ATMs deployed by BBSs is decreasing, their extensive branch networks, reputational advantages (both with consumers and site owners) and financial leverage from activities in related markets grant them significant competitive advantages over the Parties.

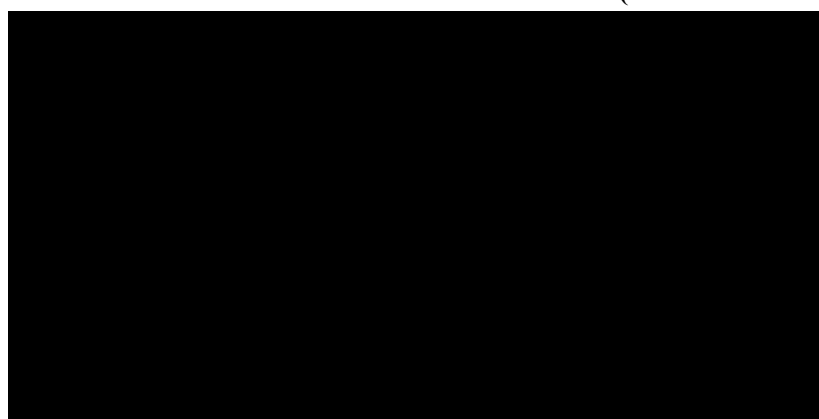
⁹⁹ As noted above, the use of "number of ATMs" to assess market share significantly overstates the competitive significance of the Parties' presence on the market.

¹⁰⁰ The LINK data does not capture BBS "on-us" cash withdrawals. Therefore, BBSs' share of all ATM cash withdrawals is likely to be significantly higher.

They continue to be viewed by the Parties as leading competitors who could expand their presence easily.

- 15.17 The merged entity will also face competition from NoteMachine, Paypoint and YourCash, each of which is an established IAD with market shares of [REDACTED], [REDACTED] and [REDACTED] respectively by ATM cash withdrawal volumes and a share of supply of [REDACTED], [REDACTED] and [REDACTED] respectively by number of ATMs deployed. The CMA will note that YourCash's competitive presence has been strengthened significantly by its recent sale to Euronet. This was announced on 10 October 2016 and the merged entity has a demonstrated appetite for aggressive growth in the deployment of ATMs. Given the timing of YourCash's sale, its competitive strength is not reflected in the share of supply data in this notification, but it will likely have a significant impact on the market going forward due to Euronet's large-scale operational expertise and additional capital for ATM deployments¹⁰¹. Indeed, Cardtronics understands that earlier in the year Euronet informed Rontec¹⁰² that it wished to withdraw its ATMs from Rontec's sites. However, following the sale of YourCash to Euronet, this request has been retracted, indicating that Euronet/YourCash intends to be a major competitor and the impact of this sale is already being felt on the market. These three established IADs (including one that has been strengthened recently) are the Parties' very strong competitors in the PTU segment.
- 15.18 In addition, there are a large number of "Others" competing in this market (as shown in Figure 15B). These are typically BBSs or foreign exchange providers e.g. Travelex, Sainsbury's Bank, TSB, Yorkshire Bank, ChangeGroup, Clydesdale Bank and Raphaels Bank¹⁰³.

**FIGURE 15B:
CARDTRONICS' VIEW OF COMPETITIVE LANDSCAPE (NUMBER OF ATMS)**



- | | | |
|--------------------------|--------------------|-------------------------------|
| ■ Cardtronics UK Ltd | ■ Notemachine | ■ Infocash |
| ■ Paypoint | ■ YourCash | ■ Other IAD |
| ■ Royal Bank of Scotland | ■ Lloyds HBOS | ■ Barclays |
| ■ NatWest | ■ Santander | ■ HSBC |
| ■ Bank Of Ireland | ■ Sainsbury's Bank | ■ Nationwide Building Society |
| ■ TSB Bank | ■ Other Bank | |

Source: Annex 8E (Cardtronics' Long Range Plan), page 21.

- 15.19 A summary of the leading competitors' presence and strengths in the ATM deployment market is set out in Annex 15D.

¹⁰¹ The CMA will no doubt wish to obtain relevant information about the integration and competitive plans of the combined business. In the Parties' view, the combined business will be a significant competitive constraint across the whole market and in all hypothetical segments.

¹⁰² Rontec is one of the leading players in the UK forecourt industry; <http://www.rontec.com/about-us/>.

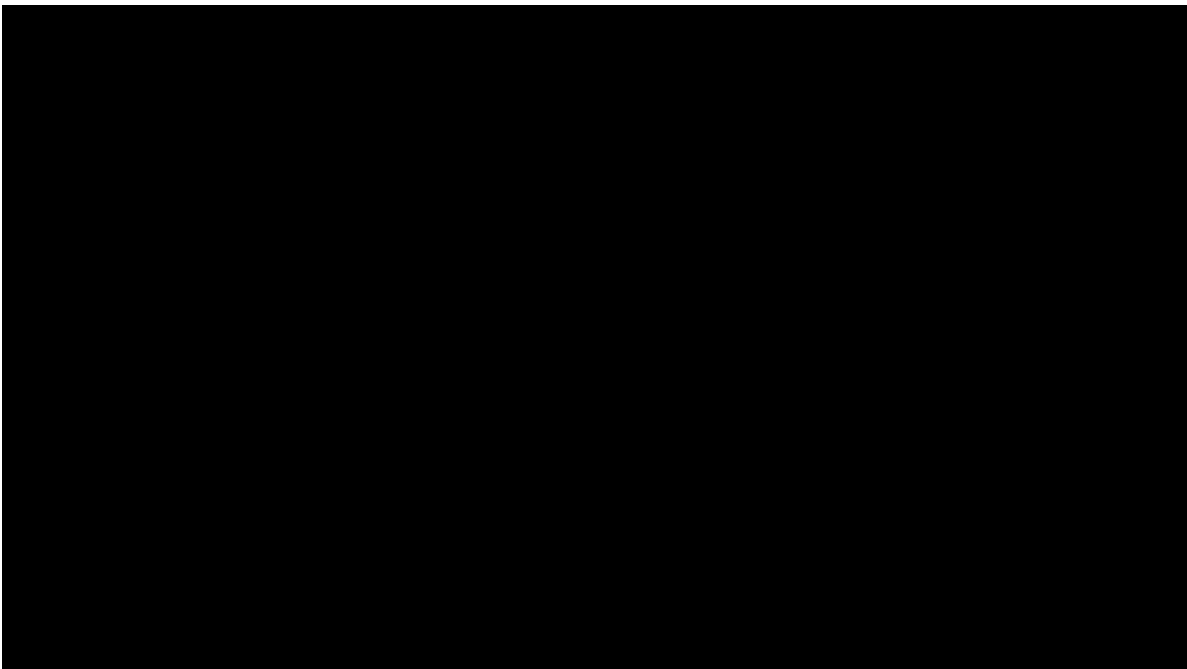
¹⁰³ Extensive details of these "Other" deployers are set out on page 54 of the Payments UK Report (Annex 10C).

Whether consumers are charged (FTU v PTU)

15.20 No issue arises in FTU ATMs. As shown in Table 15C above and the pie chart below, the combined share of the Parties, even by number of ATMs, is just [REDACTED], with DCP accounting for [REDACTED].

**FIGURE 15C:
SHARES OF SUPPLY BY NUMBER OF FTU ATMS DEPLOYED**

FTU



15.21 Furthermore:

- (a) DCP is not one of the main appreciable competitive constraints;
- (b) the Parties face very strong existing competition from both IADs and BBSs;
- (c) the Parties are not close competitors and their presence is largely complementary. This is evident from the Parties' presence in different segments by destination category within FTU (as shown in Table 15D below); and
- (d) site owners also enjoy significant buyer power and often employ sophisticated tendering procurement practices.

**TABLE 15D:
SHARE OF SUPPLY OF FTU ATMS DEPLOYED BY PAYMENTS UK DESTINATION
SEGMENTS**

Segment	Supermarkets, convenience and other retail	Social and leisure	Motoring and transport	Services, workplace and mobile
Cardtronics	■	■	■	■
DCP	■	■	■	■
Combined	■	■	■	■
Barclays	■	■	■	■
Euronet / YourCash	■	■	■	■
NoteMachine	1 ■	■	■	■
Paypoint	■	■	■	■
RBS Group	■	■	■	■
Lloyds Banking Group	■	■	■	■
Bank of Ireland	■	■	■	■
Santander	■	■	■	■
HSBC	■	■	■	■
Others	■	■	■	■

Source: LINK data

Notes: Market shares based on ATM figures as of October 2016.

15.22 There is also no issue when it comes to the deployment of PTU ATMs. As noted above, the PTU business model accounts for only 2% of LINK transaction volumes and is in sharp decline due to the increase of FTU ATMs and increasing opportunities to use alternative free payment mechanisms e.g. contactless card payments and mobile payments. Site owners retain choice both from remaining PTU ATM suppliers (of which there are at least 3 post transaction) and, importantly, from FTU ATM providers - as the real choice going forward is likely to be whether to install or convert to a FTU ATM. Therefore, the overall shares (which take into account the Parties' strong presence in PTU ATMs¹⁰⁴) significantly overstate the strength of the Parties' competitive position (they have only a ■ combined share by number of ATMs deployed in the more vibrant FTU ATM segment).

15.23 Even if the PTU segment is examined in isolation, the Parties' arguments supporting the view that the transaction does not give rise to a SLC in UK ATM deployment as a whole are also applicable in this segment. More specifically:

- (a) the Parties continue to face strong existing competition, especially from at least 3 rivals (one of which has been strengthened significantly recently). The Parties compete against (the recently strengthened) Euronet/YourCash, NoteMachine and Paypoint, which each have an established presence in this segment (shares of PTU ATMs deployed of ■, ■ and ■ respectively);
- (b) the Parties are not close competitors. This is evident from an analysis of their presence in different segments by destination within PTU ATM deployment (as shown in Tables 15E) - the Parties' presence is largely complementary;

¹⁰⁴ Cardtronics has a particularly high share (■) of the PTU workplace segment. The Parties submit that this merely reflects the arbitrary way that LINK allocates ATMs to categories. There are only ■ ATMs in total in this category and many of Cardtronics' workplace ATMs should be in other categories. Given the general decline in PTU ATMs and the fact that it is necessary to operate many workplace ATMs on a PTU basis to render them economically viable (and therefore offer a service to consumers that would not otherwise be present), this share does not give rise to a credible risk of a SLC.

- (c) it is extremely easy for all existing competitors in the overall UK market to expand their presence in PTU ATMs;
- (d) barriers for new entrants/deployers are extremely low in this segment; PTU ATM is the segment where small scale entry is easiest and expected (including from deployers with appreciable presence outside the UK); and
- (e) no issue arises as consumers are more likely to be choosing between a PTU ATM and contactless payment methods.

**TABLE 15E:
SHARE OF SUPPLY OF PTU ATMS DEPLOYED BY PAYMENTS UK DESTINATION
SEGMENTS**

Segment	Supermarkets, convenience and other retail	Social and leisure	Motoring and transport	Services, workplace and mobile
Cardtronics	■	■	■	■
DCP	■	■	■	■
Combined	■	■	■	■
Euronet/YourCash	■	■	■	■
NoteMachine	■	■	■	■
Paypoint	■	■	■	■

Source: LINK data

Notes: Market shares based on ATM figures as of October 2016.

Self Supply or Merchant "Market"

15.24 By definition, the Parties are not present in the self-supply segment. The Parties' shares of supply in the hypothetical merchant "market" segment (i.e. taking into account ATMs deployed at third party sites and excluding self-supply) are shown in Table 15F.

**TABLE 15F:
ATM DEPLOYMENT IN THE MERCHANT "MARKET"
(BY NUMBER OF ATMS)**

Company	2014		2015		2016	
	No. of ATMs	Share	No. of ATMs	Share	No. of ATMs	Share
Cardtronics	█	█	█	█	█	█
DCP	█	█	█	█	█	█
Combined	█	█	█	█	█	█
Barclays	█	█	█	█	█	█
Euronet / YourCash	█	█	█	█	█	█
NoteMachine	█	█	█	█	█	█
Paypoint	█	█	█	█	█	█
RBS Group	█	█	█	█	█	█
Lloyds Banking Group	█	█	█	█	█	█
Bank of Ireland	█	█	█	█	█	█
Santander	█	█	█	█	█	█
HSBC	█	█	█	█	█	█
Others	█	█	█	█	█	█
Total	█	100%	█	100%	█	100%

Source: LINK data

Notes: Market shares based on ATM figures as of October of each year.

15.25 The Parties have a combined share of supply in the merchant "market" segment of █ if measured by volume of ATMs. The merged entity would continue to face strong competition from IADs in this segment, in particular Euronet/YourCash (█ - but likely to be a far greater threat than this share suggests), NoteMachine (█) and Paypoint (█).

15.26 In addition, the Parties compete against BBSs. Their presence is understated by their █ share of the total number of ATMs deployed in the merchant market as they focus upon ATMs with the highest withdrawal volumes (reflected in the fact that their share of the total number of ATM withdrawals is around █). These are typically in supermarkets, post offices and transport destinations (BBSs have a combined share of supply of around █ of the merchant market in these segments).

15.27 Whilst the incentive for BBSs to maintain large ATM estates which they self-supply is decreasing due to the increasing importance of alternative payment methods, their extensive branch networks, reputational advantages (both with consumers and site owners) and financial leverage from activities in related markets, grant them significant competitive advantages over the Parties in competing for third party site owner business. They continue to be viewed by the Parties (in particular Cardtronics) as leading competitors and could expand easily should there be an increase in profitability in the market.

Identity of deployer

15.28 The Parties' shares of supply in terms of independent ATM deployers segment only¹⁰⁵ is shown in Table 15G.

¹⁰⁵ The Parties are not BBSs. Therefore, the Parties have not estimated shares of supply for the deployment by BBSs segment.

**TABLE 15G:
IAD DEPLOYMENT
(BY NUMBER OF LINK ATM WITHDRAWALS)**

Company	2014		2015		2016	
	Volume of withdrawals (millions)	Share	Volume of withdrawals (millions)	Share	Volume of withdrawals (millions)	Share
Cardtronics	■	■	■	■	■	■
DCP	■	■	■	■	■	■
Combined	■	■	■	■	■	■
Euronet / YourCash	■	■	■	■	■	■
NoteMachine	■	■	■	■	■	■
Paypoint	■	■	■	■	■	■
Total	■	100%	■	100%	■	100%

Source: LINK data

Notes: 2016 estimates based on data for Jan-Aug.

15.29 For the reasons explained above, it is not appropriate to examine the competitive effects of the transaction by looking at IADs alone. Even if the CMA were to do so, no issues arise in this segment as:

- (a) the Parties' combined share of ■ is derived primarily from Cardtronics' share of LINK cash withdrawals (■);
- (b) it is clear from the table above that the Parties face strong competition from Euronet/YourCash, Paypoint and NoteMachine, which have shares of supply of ■, ■ and ■ respectively by volume of cash withdrawals;
- (c) the sale of YourCash to Euronet is likely to increase competition going forward;
- (d) whilst BBSs are excluded from this segment, they compete with the Parties and could be expected to increase deployment were there to be any harmful effects on competition as a result of the transaction;
- (e) BBSs could reduce the Parties' share of in-branch ATMs if outsourcing were to become less profitable;
- (f) the Parties are not close competitors and their presence is largely complementary. The lack of competitive proximity is shown by the divergence in the Parties' shares of supply in the destination segments (see Table 15C above), as well as their bidding data below; and
- (g) the IADs are also constrained by the risk of new entry (e.g. from outside the UK market – as discussed further below).

Destination Type

15.30 At the outset, it is worth noting that it is arbitrary to draw bright line distinctions based on the categories of destination types used by Payments UK. For example, whilst chain convenience store contracts will tend to apply to a nationwide ATM estate, some convenience stores focus on particular regions or even one site and have contracts more similar to site owners in other destination types (such as in the services segment). At the same time, leisure destination contracts may tend to cover only one ATM site but some (e.g. with casino operators) will cover multiple sites across the UK and are tendered using sophisticated purchasing models, as is the norm for destination types such as supermarkets and BBS branches. From the end

consumer's perspective, the categories may or may not affect the decisions as to which ATM to use. Therefore, any firm categorisation is arbitrary. In any event the Parties submit that there is no SLC even under such categorisation.

15.31 The Parties have a combined share of supply of over 25% in the following hypothetical segments: supermarkets, convenience and other retail; social and leisure; motoring and transport; and services, workplace and mobile destinations¹⁰⁶. Their shares of supply in these destination segments are set out below¹⁰⁷. As discussed in detail below, in each of these candidate markets, the Parties have highly uneven market shares and the increments arising from the transaction are low. For example, the overlap in the motoring and transport candidate market is around [REDACTED] but the increment from the acquisition of DCP is *de minimis* (around 3%) as DCP does not focus upon this segment. These shares of supply are more useful in illustrating the complementarity of the Parties' businesses/lack of closeness of competition between the Parties. In the remaining destination segments (BBS branch and post office), the transaction could not give rise to a SLC due to the Parties' low shares of supply.

15.32 Table 15H shows shares of supply in the supermarkets and other retail locations category.

**TABLE 15H:
DEPLOYMENT AT SUPERMARKETS, CONVENIENCE AND OTHER RETAIL
PAYMENTS UK SEGMENT DESTINATIONS (BY NUMBER OF ATMS)**

Company	2014		2015		2016	
	No. of ATMs	Share	No. of ATMs	Share	No. of ATMs	Share
Cardtronics	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
DCP	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Combined	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Barclays	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Euronet / YourCash	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
NoteMachine	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Paypoint	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
RBS Group	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Lloyds Banking Group	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Bank of Ireland	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Santander	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
HSBC	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	100%	[REDACTED]	100%	[REDACTED]	100%

Source: LINK data

Notes:

1) Market shares based on ATM figures as of October of each year.

2) Figures include ATMs located at "Convenience", "Convenience Store", "Other Retail" and "Supermarket" destinations in the LINK data.

15.33 The Parties have a combined share of [REDACTED] of ATMs deployed at supermarkets, convenience and other retail destinations (Cardtronics - [REDACTED] and DCP - [REDACTED]). The merged entity would face significant competition from NoteMachine ([REDACTED]), RBS Group ([REDACTED]), PayPoint ([REDACTED]%), YourCash ([REDACTED]) and Barclays ([REDACTED]) in this segment.

15.34 Table 15I shows shares of supply in the social and leisure locations category.

¹⁰⁶ The Parties' combined shares of supply in the remaining hypothetical destination segments are below 25% (see Table 15C). Therefore, they are not covered in detail below as there is no risk that a SLC will arise in these segments.

¹⁰⁷ Shares of supply for the individual destination types used in the LINK dataset are also included where the Parties would have a share of supply greater than 25%.

**TABLE 15I:
DEPLOYMENT AT SOCIAL AND LEISURE PAYMENTS UK SEGMENT DESTINATIONS
(BY NUMBER OF ATMS)**

Company	2014		2015		2016	
	No. of ATMs	Share	No. of ATMs	Share	No. of ATMs	Share
Cardtronics	█	█	█	█	█	█
DCP	█	█	█	█	█	█
Combined	█	█	█	█	█	█
Barclays	█	█	█	█	█	█
Euronet / YourCash	█	█	█	█	█	█
NoteMachine	█	█	█	█	█	█
Paypoint		█		█		█
RBS Group	█	█	█	█	█	█
Lloyds Banking Group	█	█	█	█	█	█
Bank of Ireland		█		█		█
Santander		█		█		█
HSBC		█		█		█
Others	█	█	█	█	█	█
Total	█	100%	█	100%	█	100%

Source: LINK data

Notes: Market shares based on ATM figures as of October of each year.

15.35 The Parties have a combined share of █ of ATMs deployed at social and leisure sites. This mainly reflects the presence of DCP (█). In addition, the Parties face significant competition from NoteMachine (█) and YourCash (█). The limited presence of BBSs in this segment reflects the low withdrawal volumes that are typical at social and leisure sites, meaning that BBSs take less of an interest. Nevertheless, the relative ease of serving these sites (in particular independent pubs and nightclubs) means that this segment is particularly exposed to the threat of new entry from small scale IADs. The Parties in any event submit that each site has to be looked at individually - such that there is no real overlap on a micro level and competition takes place for the contract in question.

15.36 Table 15J shows shares of supply in the motoring and transport segments.

**TABLE 15J:
DEPLOYMENT AT MOTORING AND TRANSPORT PAYMENTS UK SEGMENT
DESTINATIONS
(BY NUMBER OF ATMS)**

Company	2014		2015		2016	
	No. of ATMs	Share	No. of ATMs	Share	No. of ATMs	Share
Cardtronics	█	█	█	█	█	█
DCP	█	█	█	█	█	█
Combined	█	█	█	█	█	█
Barclays	█	█	█	█	█	█
Euronet / YourCash	█	█	█	█	█	█
NoteMachine	█	█	█	█	█	█
Paypoint		█		█		█
RBS Group	█	█	█	█	█	█
Lloyds Banking Group	█	█	█	█	█	█
Bank of Ireland	█	█	█	█	█	█
Santander		█		█		█
HSBC	█	█	█	█		█
Others	█	█	█	█	█	█
Total	█	100%	█	100%	█	100%

Source: LINK data

Notes:

1) Market shares based on ATM figures as of October of each year.

2) Figures include ATMs located at "Motoring", "Transport" and "Public Transport" destinations in the LINK data.

15.37 The Parties have a combined share of █ of ATMs deployed at motoring and transport sites. This overwhelmingly reflects the presence of Cardtronics (█) as DCP's presence is *de minimis* (█). The merged entity would face significant competition from NoteMachine (█) and RBS Group (█) in particular in this segment.

15.38 Table 15K shows shares of supply in the services, mobile and workplace segment.

**TABLE 15K:
DEPLOYMENT AT SERVICES, MOBILE AND WORKPLACE PAYMENTS UK SEGMENT
DESTINATIONS
(BY NUMBER OF ATMS)**

Company	2014		2015		2016	
	No. of ATMs	Share	No. of ATMs	Share	No. of ATMs	Share
Cardtronics	█	█	█	█	█	█
DCP	█	█	█	█	█	█
Combined	█	█	█	█	█	█
Barclays	█	█	█	█	█	█
Euronet / YourCash	█	█	█	█	█	█
NoteMachine	█	█	█	█	█	█
Paypoint		█		█		█
RBS Group	█	█	█	█	█	█
Lloyds Banking Group	█	█	█	█	█	█
Bank of Ireland		█		█		█
Santander	█	█	█	█		█
HSBC	█	█	█	█	█	█
Others	█	█	█	█	█	█
Total	█	100%	█	100%	█	100%

Source: LINK data

Notes: Market shares based on ATM figures as of October of each year.

15.39 The Parties have a combined █ share of supply in this segment, comprising Cardtronics' █ share and DCP's █% share. They face significant competition from rivals such as NoteMachine (█), RBS (█), YourCash (█), Lloyds (█) and Barclays (█).

Size of site owner

15.40 The size of a site owner generally impacts its purchasing model, commission levels and contract terms. The LINK data does not detail the number of sites owned by each site owner. The Parties have considered whether it would be possible to use destination types that typically have site owners with multiple/single sites as a proxy. However, the variation within destination types makes allocating them (in particular convenience ATMs which make up a large proportion of the total number of ATMs in the market) to a particular size of site owner category inappropriate and any results arbitrary. Accordingly, the Parties cannot provide shares of supply by size of site owner. The Parties submit that there would be no risk of a SLC on any such hypothetical segment. This is evidenced by the fact that there are no issues on any of the Payments UK or LINK destination segments.

Service model

15.41 Service models are distinct ways of categorising ATM deployment contracts. The LINK data does not detail whether a contract is full placement or merchant refill (or indeed somewhere on the spectrum between the two). The Parties have considered whether it would be possible to use destination types as a proxy based on the propensity of different destination types to opt for one option or the other. However, the variation within destination types (in particular convenience ATMs which make up a large proportion of the total number of ATMs in the market) makes allocating them to a particular service model inappropriate and any results

arbitrary. Accordingly, the Parties cannot provide shares of supply by service model. Nevertheless, the Parties submit that there would be no risk of a SLC on any such hypothetical segment. This is evidenced by the fact that there are no issues on the Payments UK or LINK destination segments.

Closeness of competition

15.42 The Parties are not close competitors. This is evidenced by (a) their competitive positioning and shares of supply when looked at by segment, (b) the bidding data analysis (see Annex 15F) and (c) the Parties' internal documents.

15.43 Table 15L sets out an overview of the Parties' complementary competitive positions.

**TABLE 15L:
SUMMARY OF THE PARTIES' COMPETITIVE POSITIONING**

Aspect of Competitive Positioning	Primary Focus	
	Cardtronics	DCP
Destination	Higher volume "prestige" sites typically served by through the wall ATMs and with a tendency to utilise more sophisticated purchasing processes e.g. motorway and transport, convenience, supermarket and other retail destinations. In 2016, Cardtronics' ATMs averaged [REDACTED] withdrawals per machine per month.	Lower volume social and leisure sites such as independent pubs and nightclubs, leisure facilities, holiday parks, and amusement parks with a tendency to use freestanding ATMs In 2016, DCP's ATMs averaged [REDACTED] withdrawals per machine per month.
Whether consumers are charged	Large majority FTU ATMs	Slight majority (albeit declining) PTU ATMs

Shares of supply analysis

15.44 Table 15C above shows that the substantive overlaps between the Parties in the segments is limited. Some of the key messages from this data are as follows:

- (a) Cardtronics' ATMs are deployed in the "supermarkets, convenience and other retail" and "motoring and transport" segments - it has a share of supply of [REDACTED] of these segments (by number of ATMs deployed), whereas DCP has only [REDACTED];
- (b) DCP has a particularly high presence in social and leisure locations ([REDACTED] of ATMs deployed); and
- (c) the emphasis of the Parties' consumer charging models are different - Cardtronics deploys [REDACTED] FTU ATMs and [REDACTED] PTU ATMs, whilst DCP deploys [REDACTED] FTU ATMs and [REDACTED] PTU ATMs.

15.45 This distinction in competitive positioning supports the view that the Parties' presence in the UK ATM deployment market is complementary. This is further supported by the fact that the transaction gives rise to increments of 10% or less (by number of ATMs deployed) in the destination overlaps shown in Table 15M.

**TABLE 15M:
GENERALLY DE MINIMIS INCREMENTS BETWEEN THE PARTIES**

Candidate Markets	Parties' Shares of Supply	
	Cardtronics	DCP
Supermarkets, convenience and other retail	■	■
Motoring and transport	■	■
Social and leisure	■	■

15.46 It is worth noting that the destination share of supply data also overstates the closeness of competition between the Parties as it does not adequately reflect the discrepancies within destination segments. For example, within the social segment, there is an important difference between a casino or stadium ATM (which has high withdrawal volumes and [REDACTED]) and an ATM in a small bar or nightclub (which would typically have low withdrawal volumes and [REDACTED]).

Bidding Data Analysis

15.47 The Parties submit that the absence of closeness of competition is strongly supported by the analysis of the bidding data of both Parties (as shown by Table 15N).

**TABLE 15N:
PROPORTION OF OCCASIONS THAT OTHER ATM DEPLOYERS BID WHEN
CARDTRONICS BIDS**

Year	NoteMachine	Euronet / YourCash	DCP	PayPoint	RBS	Other BBS
2011	■	■	■	■	■	■
2012	■	■	■	■	■	■
2013	■	■	■	■	■	■
2014	■	■	■	■	■	■
2015	■	■	■	■	■	■
2016	■	■	■	■	■	■

**Please note that Euronet/YourCash's % is not representative (i.e. underestimates the relevant competitive strength of Euronet/YourCash) given the already felt impact of the acquisition of YourCash by Euronet as explained below under (d).*

Source: Cardtronics' bidding data as of October 2016

15.48 The distinction within segments is more accurately demonstrated by the bidding data:

- (a) according to Cardtronics' bidding data, DCP has been participating in a declining share of tenders for which Cardtronics submits bids. DCP is of the view that its declining share reflects the different competitive focuses of the Parties. In particular, DCP notes that its bids in the motoring and transport segment [REDACTED]. By contrast, DCP is of the view that [REDACTED]

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¹⁰⁸ For completeness, Cardtronics is of the view that [REDACTED]

Significantly, the fuel sector (i.e. petrol stations) has been through many changes over the last five years with the purchase of smaller operators and the divestment of significant portions of Shell, Esso and BP locations. As a result, there has been an increase in tenders for the deployment of ATMs at these sites, which [REDACTED]

- (b) according to Cardtronics' bidding data, DCP was the second placed bidder for only █ out of █ tenders that Cardtronics won, and DCP won a tender over Cardtronics in only █ out of █ tenders - see Table 15O below; and
- (c) according to DCP's bidding data, Cardtronics participated in only █ of the tenders that DCP participated in, reflecting DCP's focus upon small site owners that Cardtronics does not compete for.

15.49 Table 15O illustrates the absence of DCP from many tenders that Cardtronics is involved in. It shows in particular that DCP does not submit bids for tenders that Cardtronics tends to win.

TABLE 15O: ANALYSIS OF RANK OF BIDDERS¹⁰⁹

Tenders in Cardtronics' bidding data	█
Tenders where Cardtronics participated	█
Tenders won by Cardtronics	█
of which, DCP participated and was the second placed bidder	█
of which, DCP participated and was not the second placed bidder	█
of which, DCP did not participate	█
Tenders lost by Cardtronics	█
of which, DCP participated and won	█
of which, DCP participated and did not win	█
of which, DCP did not participate	█
Tenders where Cardtronics did not participate	█

15.50 Furthermore, as shown by Table 15P below, when the Parties do overlap for specific tender opportunities, at least one third party competitor was present on █ of occasions and at least two third party competitors were present on █ of occasions. On only █ occasions were there no third party competitors in tenders that both Cardtronics and DCP submitted bids for.

**TABLE 15P:
PRESENCE OF COMPETITORS IN OVERLAP TENDERS**

Participation in Tenders (as perceived by Cardtronics)	Tenders that Cardtronics was aware of	Cardtronics Participated	Cardtronics Won
Tenders where DCP participated	█	█	█
• of which, tenders where no third party participated	█	█	█
• of which, tenders where one third party participated	█	█	█
• of which, tenders where two third parties participated	█	█	█

¹⁰⁹ Table 15O does not include (i) tenders in Ireland, (ii) tenders that did not go to market because Cardtronics re-signed early or (iii) the on-going Tesco tender.

• of which, tenders where three or more third parties participated	■	■	■
Tenders where DCP did not participate	■	■	■

Source: Cardtronics' bidding data.

15.51 Therefore, the bidding data confirms that the Parties are not close competitors:

- (a) In relation to ■ tenders where Cardtronics bid, DCP was not present in ■ (■ per cent of those); in other words, DCP bids against Cardtronics in less than a third of the tenders that Cardtronics bids
- (b) In relation to the ■ tenders where both parties bid, there were at least ■ other competitors in ■ of these.
- (c) In relation to the remaining ■ tenders, there was at least ■ other competitor in ■ of those tenders.
- (d) The data also shows that NoteMachine bid against Cardtronics in ■ of tenders (and previously participated in all tenders in which Cardtronics was involved). Further, Cardtronics also faces competition from Euronet/YourCash - the bidding data does not capture the impact of the sale of YourCash to Euronet, the largest European ATM deployer, which is already being felt on the market increasing competition, as well as RBS and other BBS.

15.52 It should also be noted that the bidding process in the ATM deployment market overall is sufficient to induce bids at competitive levels for the following reasons:

- (a) price is the primary consideration for most contract awards;
- (b) there is no "smooth trade-off" between prices and profits because site owners do not split contracts. Therefore, small changes in price give rise to large changes in expected profitability as entire contracts are won¹¹⁰;
- (c) contracts can be large relative to a deployer's overall sales (e.g. ■);
- (d) there are insignificant/low (if any) barriers to switching at the end of a contract; and
- (e) the market is contestable as there are few barriers to entry (see below).

Documentary Evidence

15.53 The Parties' internal and public documents reinforce the statements above about their respective positions and the presence of competitors. For example:

- (a) Cardtronics' Annual Report refers to the fact that it focuses upon major corporate site owners that tend to operate mostly in high traffic locations where free-to-use ATMs are more prevalent¹¹¹; and
- (b) As it is noted in the Presentation for the Board Meeting relating to the transaction, no site owner made up more than ■ of DCP's 2015 ATM revenue¹¹², reflecting its focus upon smaller site owners.

Barriers to entry / expansion across segments

¹¹⁰ The DCP confidential information memorandum refers to the fact that contracts are "lumpy" due to the fact that the UK has a large number of ATMs covered by multi-site contracts.

¹¹¹ Annex 8A (Cardtronics Form 10-K Annual Report), page 41.

¹¹² Annex 9A (Project Alpha presentation for board meeting on 8 October 2016), page 15.

- 15.54 Large chain site owners (e.g. supermarkets and in some cases other retail and convenience destinations) may take into account an established reputation as an additional consideration when agreeing to contract with a particular deployer. However, this by no means determines the outcome of a tender and large chain site owners are in a position to sponsor entry and expansion (expansion is relatively easy via the movement of existing ATMs from low volume sites to high volume sites and the deployment of new ATMs). For example, Raphaels Bank entered the UK ATM deployment in 2014 by winning the tender to deploy ATMs at Transport for London sites. Thus, overall the barriers to entry are low.
- 15.55 It is very easy for any entrant/competitor to deploy ATMs with independent site owners e.g. at most social destinations as the barriers to entry are low. ATMs deployed are standard units, services such as maintenance and cash replenishment (if necessary) can be outsourced and there is no requirement for licensing of intellectual property (which is normally held by the ATM supplier and licensed to the ATM deployer). Therefore, new entry requires purchasing or leasing ATMs, developing a sales team and negotiating supplier contracts for processing, settlement and cash in transit services.
- 15.56 The Parties' view on the level of barriers to entry is supported by the OFT's findings in RBS/Hanco, the conclusions of which continue to be applicable today. The OFT noted in RBS/Hanco that:
- (a) barriers to entry and expansion in the PTU segment are relatively low, with the main requirement being membership of the LINK network, which takes approximately 6 months and a fee to obtain. This was supported by third party estimates of 2-3 new firms entering the convenience ATM segment per year. Hanco itself was a relatively new entrant having started supplying ATMs in 2000; and
 - (b) entry into the FTU segment is less likely as the costs involved are higher and the availability of suitable sites is lower. At the time of the decision, there was some evidence that the smaller retail banks were contracting out their ATM businesses to third parties like Hanco and Moneybox, although the volumes involved were low.
- 15.57 If anything, the barriers to entry are even lower nowadays. For example, whilst it remains the case that most new entrants will seek to obtain membership of the LINK network (which takes approximately 6 months and a fee to obtain), new entrants (e.g. Euronet) can now also use Visa or MasterCard for their transaction processing or rent LINK membership from an existing LINK member.
- 15.58 With respect to entry in the past five years, Raphaels Bank entered the UK market in 2014 (as noted above). In addition, Euronet entered the UK market through its acquisition of YourCash in October 2016¹¹³. The combination of YourCash and Euronet's ATMs and Euronet's global presence, large-scale operational expertise, additional capital for ATM deployments, and sophisticated technology platform is expected to have a significant impact upon the UK market, in particular on the prestige/medium corporate segments that Cardtronics focuses upon.
- 15.59 It is very easy for newly established IADs to enter the market, especially deploying ATMs with small independent site-owners. An alternative source of new entry is from foreign exchange groups such as Travelex, which could expand its existing ATM deployment level (332 ATMs), and Change Group, which entered the market in 2015 and now has 44 ATMs across branches, convenience, other retail, leisure and transport sites¹¹⁴. It is also worth noting that the majority of the existing deployed base of YourCash in the UK is the result of the entry of US based deployers.

¹¹³ The Parties have also observed the acquisition of FCTI by Seven Bank in the US market.

¹¹⁴ http://www.changegroup.com/corp/subTemplate.cfm?page_id=20&includeAction=newsItem&newsID=118

15.60 DCP notes that the reference to "strong barriers to entry and complex switching costs" in the Confidential Information Memorandum ("CIM") that was prepared by BMO Capital Markets (Annex 8F) is accurate when considered with respect to the DCP business as a whole¹¹⁵. This is because Canada and Australia, which account for a large proportion of DCP's business, both have complex switching environments, with Australia in particular being comprised of a web of bilateral interbank relationships. DCP refers the CMA to pages 68-77 of the CIM, which cover the UK element of DCP's business.

Buyer power

15.61 In RBS/Hanco, the OFT noted that the ultimate customers for ATMs are consumers so they are unlikely to exercise buyer power. However, for the reasons set out in the next section, the absence of buyer power on behalf of consumers does not affect the Parties' view that the transaction is unlikely to result in higher prices.

15.62 As explained above, ATM deployment contracts are typically awarded by competitive tender. This means that site owners have a strong bargaining position as regards their ATM requirements through the way in which they run the tender process, for example by:

- (a) Delaying the tender or re-tendering if unhappy with the bids received;
- (b) Inviting other suppliers to bid or declining to include a particular deployer;
- (c) Setting out the terms on which bids must be made;
- (d) Using the asymmetry of information or other bids to negotiate lower prices¹¹⁶.

15.63 Site owners (especially the larger ones) exert considerable buyer power given the ample choice of ATM deployers they can turn to and the low barriers for deployers to expand and/or enter the market, especially when servicing smaller independent site owners. Large site owners typically offer large contracts relative to the size of ATM deployers and especially IADs' overall sales and they have the greatest capacity to facilitate entry. For example, Cardtronics made 37% of its total global revenues from ATMs deployed at the locations of just five site owners in the most recent financial year¹¹⁷. Furthermore, many large site owners have the option of relying on or developing their own in-house capabilities e.g. Sainsbury's. Taken together, the strength, resources, information and purchasing power of site owners mean that they exert a very considerable constraint on deployers.

15.64 From a consumer's perspective, the availability of alternative means of payment, such as contactless, mobile etc. means that ATM deployers are constrained.

Regional markets

15.65 All ATMs deployed in the UK can be found in a map available at the following [link](#)¹¹⁸.

15.66 For the reasons set out above, there is no risk of a SLC on the UK ATM deployment market. The competitive conditions that the Parties experience suggest that an analysis of regional or local markets or a distinction between rural/urban markets is not appropriate as it would not

¹¹⁵ The CIM was produced as marketing material to assist the sale of the entirety of the DCP business, of which the UK is responsible for only ~8-10% of EBITDA.

¹¹⁶ The Parties note that negotiation in this form is often conducted by phone. Therefore, there is limited written evidence available to support this statement. That said, examples are provided in Annex 15J (Twin Spires), Annex 15K (226 Church Street) and Annex 15L (Contract terms).

¹¹⁷ Cardtronics Annual Report, page 20.

¹¹⁸ The various symbols in the pins denote the following about the relevant postcode: star - both Parties have at least one ATM; diamond - Cardtronics has at least one ATM and DCP has no ATMs; square - DCP has at least one ATM and Cardtronics has no ATMs; no symbol - neither Party has an ATM. Each pin takes on the colour of the postcode sector (e.g. "EC1A 1"): white - Parties do not overlap; green - Parties overlap and have combined shares of less than 30%; yellow - Parties overlap and have combined shares higher than 30% and less than 40%; orange - Parties overlap and have combined shares higher than 40% and less than 50%; red - Parties overlap and have combined shares higher than 50%.

reflect the competitive conditions that the Parties face (the Parties compete across the UK to secure appropriate sites to deploy their ATMs in competition to each other).

15.67 Nevertheless, in order to eliminate any possible question on a regional level, Annex 15M (Market Shares by UK Region) sets out the regional shares of supply of the Parties and their competitors based on volumes of ATMs deployed¹¹⁹. As with the national level data, the Parties note that the volume of ATMs deployed significantly overstates their competitive positions. In particular, DCP [REDACTED].

15.68 In any event, there is very limited variation across regions. The Parties consider that the limited variation is a legacy primarily of the first mover / historic focus on one region and/or a matter of coincidence as illustrated by the following examples:

- (a) DCP's presence in the South East reflects the fact that it originated there;
- (b) DCP's presence in Northern Ireland reflects the fact that it was an early entrant to that region, where a low number of PTU ATMs are installed (see below).

15.69 The Parties also note that there is more of a risk that significant variation does not reflect any particular trend or market positioning when only very small numbers of ATMs are being considered. For example, there are only 265 PTU ATMs in Northern Ireland (reflecting the very high number of FTU ATMs (1,863) that have been installed there).

15.70 Similarly, PTU ATMs declined between 2014 and 2016 in every UK region and, in general, there do not appear to be significant variations in this pattern across UK regions - see Annex 15N (PTU ATMs by region). Nevertheless, for completeness, the Parties note the following instances where the decline in PTU ATMs in rural areas were significantly more/less than the UK average decline in rural PTU ATMs of -8.5%:

- (a) PTU ATMs in rural areas of Northern Ireland have declined relatively more (-20.5%) than at the national level (-8.5%); and
- (b) PTU ATMs in rural areas of the South East have declined relatively less (-3.8%) than at the national level (-8.5%).

15.71 Furthermore, as shown by Table 15Q and 15R, the Parties' gross margins do not vary significantly across regions of the UK.

**TABLE 15Q:
CARDTRONICS' AVERAGE GROSS PROFIT MARGINS BY REGION**

Region	2015			2016		
	PTU	FTU	Total	PTU	FTU	Total
North East England	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
North West England	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Yorkshire and the Humber	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

¹¹⁹ The Parties are unable to provide data based on ATM withdrawals or transactions because LINK does not provide a break-down on a regional basis of ATM withdrawals or transactions and the Parties are not aware of any alternative datasets that could be used to provide this information.

Region	2015			2016		
	PTU	FTU	Total	PTU	FTU	Total
East Midlands	████	████	████	████	████	████
West Midlands	████	████	████	████	████	████
East of England	████	████	████	████	████	████
London	████	████	████	████	████	████
South East England	████	████	████	████	████	████
South West England	████	████	████	████	████	████
Wales	████	████	████	████	████	████
Scotland	████	████	████	████	████	████
Northern Ireland	████	████	████	████	████	████
UK Total	████	████	████	████	████	████

15.72 Please note the following about the methodology for generating the data in Table 15Q:

- (a) Table 15Q contains Cardtronics' gross profit margins based on ATM revenues only (i.e. it excludes other revenue such as cash in transit and engineering);
- (b) Cardtronics does not use the regions in Table 15Q to collect internal data. Therefore, to provide the data in Table 15Q, ATMs have been allocated to regions based on their postcodes;
- (c) Cardtronics does not have available data for 2014;
- (d) for 2016, the margins are based on November 2016 YTD averages. Full year 2016 numbers are not yet available but it is unlikely that the gross margins will have changed materially during December;
- (e) the numbers are taken from Cardtronics' Adaptive system, which includes estimates for the allocation of some costs, so the margins will not tie exactly to Cardtronics' financial statements. Differences to the financial statements will include:
 - (i) allocation estimates where costs are not directly related to the ATM;
 - (ii) non-ATM revenues (e.g. cash in transit and engineering);
 - (iii) any top-line accounting adjustments will be excluded.

**TABLE 15R:
DCP'S AVERAGE GROSS PROFIT MARGINS BY REGION**

Region	2014			2015			2016		
	PTU	FTU	Total	PTU	FTU	Total	PTU	FTU	Total

Region	2014			2015			2016		
	PTU	FTU	Total	PTU	FTU	Total	PTU	FTU	Total
North East England	■	■	■	■	■	■	■	■	■
North West England	■	■	■	■	■	■	■	■	■
Yorkshire and the Humber	■	■	■	■	■	■	■	■	■
East Midlands	■	■	■	■	■	■	■	■	■
West Midlands	■	■	■	■	■	■	■	■	■
East of England	■	■	■	■	■	■	■	■	■
London	■	■	■	■	■	■	■	■	■
South East England	■	■	■	■	■	■	■	■	■
South West England	■	■	■	■	■	■	■	■	■
Wales	■	■	■	■	■	■	■	■	■
Scotland	■	■	■	■	■	■	■	■	■
Northern Ireland	■	■	■	■	■	■	■	■	■
UK Total	■	■	■	■	■	■	■	■	■

15.73 Please note the following about the methodology for generating the data in Table 15R:

- (a) any ATMs for which DCP provides processing services only and charges a transaction processing fee to the ATM supplier only have been excluded. DCP does not control the surcharge that is set on these ATMs as it is an external service provider only. Many of these ATMs belong to event organisers and revenue is therefore generated at different locations throughout the UK;
- (b) profit margin is defined by DCP as site revenue less site revenue share (or commission) paid;

- (c) DCP does not use the regions in Table 15R to collect internal data. Therefore, it is not possible to allocate central or shared costs by region;
- (d) revenue and costs are recorded by DCP against a general ledger code and not recorded on a site by site basis;
- (e) direct currency conversion income is excluded from the revenue figures;
- (f) costs excluded from these figures include:
 - (i) processing and communication costs;
 - (ii) scheme fees paid to LINK/VISA and MasterCard;
 - (iii) field engineering visits – parts and labour;
 - (iv) any external contractor visits;
 - (v) ancillary site visit costs such as guarding;
 - (vi) cash losses/disputes;
 - (vii) central office overheads.
- (g) Table 15R may be used for comparing relative profitability by region (since the figures in Table 15R are prepared on a consistent basis) but the absolute percentage margins are unlikely to be useful indicators of DCP's profitability given the exclusions above.

Rural/urban distinction

- 15.74 PTU ATMs are declining faster in percentage terms in urban areas (-14%) than in rural areas (-8.5%) at the national level, as well as for all UK regions except East Midlands (urban - 11.6%, rural -11.7%) and Northern Ireland (urban -16.0%, rural -20.5%).
- 15.75 However, the difference in the rate of decline in PTU ATMs between rural and urban areas can be explained by the fact that withdrawal volumes are typically higher in urban areas. The replacement of PTU ATMs with FTU ATMs can only take place where there are sufficient withdrawal volumes to render the installation of a FTU ATM economically viable and/or a competitor has installed an FTU ATM in the vicinity. There are proportionally more sites where this is the case in urban areas. As a result, PTU ATMs are being replaced more quickly in urban areas.

Local effects

- 15.76 For completeness, the Parties have also considered potential "local" theories of harm and summarised their analysis for the CMA's benefit.
- 15.77 In the view of the Parties, a local theory of harm can be advanced only if the following cumulative conditions are present:
- (a) the Parties are not at present materially constrained by an ATM deployed by a competitor;
 - (b) site owners' incentives are aligned (in a way that would disadvantage consumers) so that, for example, they would each agree to switch FTU ATMs to PTU ATMs when prompted by the Parties; and
 - (c) the local deployment of an ATM by one or more competitors is very unlikely.

- 15.78 Only if the above cumulative conditions are met, could the Parties in theory (and only in certain local markets) agree with site owners to¹²⁰:
- (a) increase prices for PTU ATMs;
 - (b) turn existing FTU ATMs into PTU ATMs; and/or
 - (c) withdraw otherwise economically viable ATMs.
- 15.79 The Parties have undertaken a preliminary analysis of postcode sectors across the UK (see Annex 15O) to identify postcode sectors where this could be the case. The variables used in this filter type of analysis were the following:
- (a) ATMs operated by Cardtronics in each sector;
 - (b) ATMs operated by DCP in each sector;
 - (c) total number of ATMs in each sector;
 - (d) Parties' combined share of supply in each sector;
 - (e) percentage increment to share of supply in each sector;
 - (f) fascia post-merger; and
 - (g) number of ATMs operated by the largest third party operator in each sector.
- 15.80 These all appear in the local analysis spreadsheet at Annex 15O. As described in the methodology sheet, we also considered the approximate size of the sector, the location of the sector (urban/suburban/rural), the size of nearby sectors, the precise locations (by postcode) of the parties' ATMs as compared with those operated by their competitors, the type of business in which the parties' ATMs were located, and whether the parties' ATMs were FTU or PTU.
- 15.81 In summary, the Parties have found that:
- (a) there are ■ (out of ■) UK postcode sectors where the Parties deploy ATMs in close proximity¹²¹ and at least one set of their ATMs is not constrained by one or more ATMs deployed by a competitor; and
 - (b) based upon a review of the likely business priorities of each site owner within these ■ postcode sectors, it can be concluded with a reasonable degree of certainty that site owners' incentives would not align (e.g. a convenience store will be more focused on attracting footfall than a pub)¹²² in ■ postcode sectors (thereby leaving ■ remaining ATMs).
- 15.82 The Parties have also undertaken a local effects analysis. In summary, this analysis shows that:
- (a) only ■ to ■ "2:1" areas can be identified with respect to PTU ATMs in rural areas (rising to just between ■ to ■ if "3:2" scenarios are included) where the radii used is 500m-2km, which is in line with the internal evidence of Cardtronics (other results with different radii are presented for the CMA's ease of reference and for the purposes of a sensitivity analysis in Annex 15Q);

¹²⁰ The Parties will not have the incentive to reduce quality (ATMs needs to work well and have cash otherwise consumers will not use the ATM and the site owner will receive complaints and switch to another deployer) or the ability to increase FTU interchange fees as these are set by LINK's members (the majority of which are major banks). Further details of the way that LINK sets interchange fees are provided on page 15 of Annex 8A (Cardtronics Form 10-K Annual Report).

¹²¹ "Close proximity" is the distance between ATMs such that a competing ATM would reasonably be expected to exert a competitive constraint on the one of the Parties' ATMs.

¹²² It is usually the case as well that there will be a discrepancy between the incentives of owners of sites with PTU ATMs and sites with FTU ATMs.

- (b) in a very large number of areas (between [REDACTED] to [REDACTED]) for radii 500m-1km, there is no overlap whatsoever or there will be at least three competitors present post-integration;
- (c) even taking the worst case scenario radius, namely 500m, any SLC is highly unlikely at the [REDACTED] areas where the transactions results in a "3:2" or "2:1" scenario for the following reasons:
 - (i) the centroid ATMs in [REDACTED] of these areas are at motoring or transport locations which should have a wider radius as consumers are likely to be travelling;
 - (ii) [REDACTED] of the centroid ATMs are FTU ATMs at supermarkets (where the site owner will not permit their ATMs being switched to PTU);
 - (iii) [REDACTED] of the centroid ATMs are at sites owned by major landlords that have more than 90% of their ATMs on a FTU basis (so will not permit their ATMs being switched to PTU);
 - (iv) [REDACTED] of the centroid ATMs compete with ATMs at a BBS branch or supermarket (which are always FTU) within 500m;
 - (v) [REDACTED] of the centroid ATMs have a competitor ATM within 500m that is deployed at a landlord with 100% of its ATMs on a FTU basis (these are prestige large corporate sites with high footfall that would not permit PTU ATMs);
 - (vi) [REDACTED] of the centroid ATMs have a competitor FTU ATM closer than the other Party's ATM by more than 150m (thereby suggesting that any diversion will be to the competitor FTU ATM rather than the ATM of the other Party); and
 - (vii) for [REDACTED] of these centroid ATMs, additional competitors are present if the catchment area is extended 200m beyond the ATM of the other Party's ATM, suggesting that consumers can travel a short distance further to access a competitor ATM;
 - (viii) even for the areas where none of the above apply ([REDACTED]), there are strong arguments as to why there will not be any SLC, as set out in detail in Annex 15Q.

15.83 In any event, there is no credible risk of a SLC because:

- (a) site owners are unlikely to accept a reduction in ATM service quality to consumers because they typically look to attract footfall into their sites through the provision of the ATM service;
- (b) (as is the case in all postcode sectors) the Parties' activities post-transaction will be constrained given that (i) there will likely always be potential sites for the installation of new ATMs, in particular due to the availability of freestanding/standalone (i.e. not requiring a hole in the wall¹²³) ATM units and (ii) the barriers to expansion for existing competitors are extremely low;
- (c) PTU ATMs are being replaced by FTU ATMs. It would be irrational for site owners (and the Parties) to seek to convert ATMs in the other direction. Indeed, many site owner contracts (particularly with large site owners) prevent deployers turning FTU ATMs into PTU ATMs and the provision of only FTU ATMs is often one of the main stipulations of tenders;

¹²³ DCP estimates as a guide that these ATMs only require a floor space area of approximately 800mm x 1130mm:
<http://www.dcpayments.co.uk/support/frequently-asked-questions>

- (d) ATMs are competing with the increasing use of alternative payment methods. Any switch of ATMs from FTU to PTU, increase in PTU surcharges or reduction in quality would further encourage consumers to switch to these payment methods; and
- (e) if a postcode sector lost access to FTU ATMs or ATMs altogether as a result of the transaction, this would give rise to media and political issues (see the reference to Frank Field above) and would likely lead to rapid new entry by a competing deployer. Indeed, LINK incentivises the deployment of ATMs in local areas that it deems underserved by FTU ATMs¹²⁴.

16. Provide the names and contact details for both merger parties' relevant customers and competitors.

- 16.1 Please refer to Annex 16A for the contact details provided by Cardtronics.
- 16.2 DCP's contact details were provided directly to the CMA by separate cover. Additional contact details (for DCP's small single-site owners) are provided as Annex 16B.

Increase in the merger parties' buyer power

See section 5.4.19 to 5.4.21 of Merger Assessment Guidelines

17. For any product(s) (including raw materials) or service(s) which the merger parties both purchase, provide details of the merger parties' ability to obtain more favourable commercial conditions from suppliers as a result of this merger and the effects of any such increased ability on competition on all levels of the supply chain.

- 17.1 Cardtronics uses ATMs from NCR, Wincor Nixdorf and Nautilus Hyosung, whilst DCP uses ATMs from NCR, GRG, Wincor Nixdorf and Triton. Other deployers vary in their purchasing strategies. There are very few (if any) restrictions that would prevent a deployer supplying a machine of a particular type/manufacturer if requested by a site owner. Indeed, most deployers follow multivendor ATM purchasing strategies so they already have established relationships in place. Full details of each deployer's purchases by manufacturer and type is shown in Figure 5.2 of the UK section of Annex 17 (RBR Report).
- 17.2 The Parties' impact upon the market for the procurement of ATMs in the UK is limited. The transaction will not affect this market because ATM suppliers are in a very strong position relative to deployers, particularly IADs, due to the concentrated nature of the supplier market.
- 17.3 Moreover, the Parties note that they will not acquire sufficient voting power to affect the LINK interchange fees (these voting rights are controlled by the banks) and the transaction will have at most a very limited impact upon the cash in transit market (due to Cardtronics' in-house provision and DCP's focus upon merchant refill sites).

18. Provide contact details for relevant suppliers providing an estimate of the annual value and/or volume of purchases.

- 18.1 Please refer to Annex 16A for the contact details provided by Cardtronics. DCP has provided its contact details directly to the CMA by separate cover.

¹²⁴ <http://www.link.co.uk/financial-inclusion/>

Loss of potential competition

19. What barriers to entry or expansion exist for each merger party to start supplying product(s)/service(s)/geographic area(s) which it does not currently supply but which the other merger party is already supplying (or expected to supply)?

19.1 Both Parties deploy ATMs across the UK. However, were the UK market to be considered on a very localised basis, there would inevitably be local geographic areas where one or other of the Parties would not be present.

19.2 The only theoretical barrier to entry to local areas is the lack of available sites. IADs in particular are increasingly finding new opportunities to deploy ATMs in rural areas e.g. at village shops and pubs. As explained above in the preliminary postcode analysis, it is difficult to identify any geographic areas in the UK where there will be no available sites for ATMs to be deployed.

19.3 In addition, LINK provides support for the creation of FTU ATMs in underserved areas¹²⁵. However, the Parties' ATMs are concentrated in urban areas so this is unlikely to concern many local areas affected by the transaction.

20. Are there any plans by either merger party to do so? Provide any internal documents setting out any plans of any merger party to expand in the overlapping product(s), service(s) and geographic area(s) or to enter a market where another merger party is operating.

20.1 Not applicable.

Coordination

See paragraphs 5.5.1 to 5.5.19 of Merger Assessment Guidelines

21. Describe the impact of the merger on the potential for coordinated conduct between remaining competitors in respect of the Candidate Market(s), post-merger.

21.1 The Parties are of the view that the transaction does not raise a potential risk of coordination in the UK ATM deployment market. This view is substantiated by the market's competitive dynamics, the differentiated nature of the services offered, the low barriers to entry and expansion and the large number of players in the market. All of these factors make any coordination highly unlikely.

Vertical effects

See section 5.6 of Merger Assessment Guidelines

22. If the merger parties operate at different levels of the supply chain (that is, they have a vertical relationship), describe whether the merger would, or would be likely to, limit the supply of inputs or access to customers such that downstream or upstream rivals would face higher costs post-acquisition or full or partial foreclosure of key inputs or of access to customers.

22.1 No vertical issues arise. It is worth noting that any inputs necessary for the deployment of ATMs are available from third parties.

¹²⁵ <http://www.link.co.uk/media/1241/link-10-financial-inclusion-programme-website-flyer.pdf>

23. For all Candidate Markets in which the merger parties have a vertical relationship, provide contact details for the relevant competitors and customers of the merger parties on the upstream and downstream markets on which each merger party is active (to the extent not already provided in response to questions 17 and 19).

23.1 See the Parties' response to question 22 above.

Conglomerate effects

See section 5.6 of Merger Assessment Guidelines

24. Provide details of any related product(s) or service(s)¹²⁶ supplied by the merger parties.

24.1 The transaction does not give rise to conglomerate effects as the Parties do not provide products or services that can be considered as complements or that, more generally, lie within different markets but can be related in some way.

25. Provide contact details for the relevant competitors and customers of the merger parties for the related products/services in which each of the merger parties is active identified in relation to question 25 above (to the extent not already provided in response to question 17).

25.1 Not applicable.

Entry or expansion

See section 5.8 of Merger Assessment Guidelines

26. Provide details of any barriers to entry and expansion with respect to the Candidate Market(s).

26.1 See the Parties' response to question 15 above.

27. Provide:

(a) **details of any expansion, entry or exit in any of the Candidate Markets over the past five years, and**

27.1 See the Parties' response to question 15 above.

(b) **of any companies that the notifying parties consider are likely, post-merger, to enter or expand into any of the Candidate Markets in a sufficiently timely manner so as to adequately constrain the merged entity, including, in either case, any available evidence for that submission and contact details for any companies named.**

27.2 Please refer to Annex 16A for the contact details provided by Cardtronics. DCP has provided its contact details directly to the CMA by separate cover.

Countervailing buyer power

28. Explain, with evidence where available, whether the merged entity will be subject to any countervailing buyer power.

28.1 See the Parties' response to question 15.

¹²⁶These are products or services which do not lie within the same market, but which are nevertheless related in some way; for example, because they are complements (so that a fall in the price of one product/service increases the customer's demand for another), or because there are economies of scale in purchasing them (so that customers buy them together).

Efficiencies and customer benefits

- 29. If the notifying parties wish the CMA specifically to consider at phase 1 any efficiencies or relevant customer benefits that the notifying parties believe will arise from the merger, describe such efficiencies and provide any documents prepared internally or by external consultants that discuss such expected efficiencies or relevant customer benefits.**
- 29.1 Given the absence of a SLC, the Parties submit that it is not necessary for the CMA to consider the efficiencies and customer benefits that will arise from the transaction.

Other information

- 30. Provide the name and contact details (including address, email address and telephone number) for any relevant regulatory authorities covering the industry in which the merger parties overlap, have a vertical relationship, or supply related product(s)/service(s).**
- 30.1 Please see Annex 16A.
- 31. Provide the name and contact details (including address, and email address and telephone number) of any trade associations which cover the industry in which the merger parties overlap, have a vertical relationship, or supply related product(s)/service(s).**
- 31.1 Please see Annex 16A.
- 32. Provide any other information that the notifying parties consider may be relevant to the CMA's Phase 1 investigation.**
- 32.1 Not applicable.