ME/6648/16

COMPLETED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF DIRECTCASH PAYMENTS INC. BY CARDTRONICS PLC

RESPONSE TO PHASE 1 DECISION

30 MAY 2017

COMPLETED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF DIRECTCASH PAYMENTS INC. BY CARDTRONICS PLC

1. EXECUTIVE SUMMARY

1.1 As requested in the letter from the CMA Panel Chair to Ms Hile dated 15 May 2017 (the **"First Day Letter"**), this document sets out the response of Cardtronics PLC (**"Cardtronics"**) and Directcash Payments Inc. (**"DCP"**) (together, the **"Parties"**) to the CMA's Phase 1 decision dated 3 May 2017 (the **"Decision"**).

1.2 As requested in the First Day Letter, this document focuses on those areas of fact, analysis and reasoning set out in the Decision with which the Parties disagree, and where they consider the CMA, during its Phase 2 review, should focus its evidence gathering and analysis.

1.3 The Decision concluded that the merger does **not** give rise to a realistic prospect of a SLC in relation to: (a) the supply of ATMs to site owners; and (b) the potential for reduced availability of FTU ATMs at the local level through the conversion of FTU ATMs into PTU ATMs. While the Parties agree with these conclusions, they consider that the reasoning is based on a cautious approach to the evidence available, both in the assessment of the competitive constraint provided from other ATM deployers and in the analysis of barriers to entry.

1.4 The Decision identified a realistic prospect of an SLC only in relation to the potential for increased surcharge fees at certain existing PTU ATMs. The Parties disagree with this conclusion and the reasoning underlying it. The Parties consider the conclusion is based on incomplete evidence and an overly cautious approach to the evidence that was available. In particular:

(a) the CMA has not fully considered the "user journey" when deciding to use an ATM, for example, distinguishing between users whose main trip to the location was to withdraw cash as opposed to users who need an ATM whilst "captive" at a particular location (and whether an ATM is needed in the first place based on whether competing retailers offer cashless forms of payment). This would enable the CMA to better understand the incentives of site owners and IADs at different locations and FTU/PTU ATMs.

(b) the CMA has not demonstrated that the Parties have either the ability or incentive to raise surcharge fees locally at PTU ATMs:

(i) at Phase 1, the CMA did not conduct a full review of the Parties' contracts. Such a review would have demonstrated that the Parties have very limited ability to unilaterally raise surcharge fees locally. In Phase 2, the CMA should carry out a review of both large multi-site contracts (which are generally tendered centrally, with uniform terms) and of single-site bilaterally negotiated contracts, and carefully consider the alternatives available to site owners and to consumers.

(ii) the Decision does not set out an analytical framework for the assessment of the Parties' incentives to raise the surcharge fee at PTU ATMs. The CMA analysis should consider: (i) the divergent incentives of site owners and deployers, in particular the role of retail competition for different landlord types (attracting footfall and keeping users on the premises); and (ii) the role of profit-sharing with site owners. It should also investigate the price sensitivity of users of PTU ATMs. The high-level framework set out in this response demonstrates that raising surcharge fees would almost never be profitable; it would only be profitable (if at all) post-merger under unrealistically high levels of customer diversion.

1.5 Even if the CMA were to conclude that the ability and incentive to raise surcharges locally did exist post-transaction, the Decision adopted an overly cautious approach to defining catchment areas, by applying multiple distances (i.e. multiple radii), with the results being sensitive to the approach adopted. The CMA should now collect a robust body of evidence to understand fully the geographic dimension of competition for FTU and PTU ATMs.

1.6 The CMA should reconsider the filters proposed by the Parties at Phase 1, which the Parties consider reflect customer behaviour. It should also consider the asymmetric constraint imposed by FTU ATMs in light of consumer preferences and the willingness of consumers to travel longer distances to a FTU ATM, which was acknowledged by the CMA at Phase 1, but not taken into account in its local market assessment.

1.7 The evidence on recent market trends indicates that alternative forms of payment exercise an increasingly strong competitive constraint, by reducing the need for cash at PTU ATM locations. Whilst this was partially recognised in the Decision, the Parties consider the actual implications were understated. Any survey the CMA decides to undertake should aim to gather robust evidence to assess the strength of such out-of-market constraints (i.e. to confirm the scope of the relevant economic market). The increasing take up of alternative means of payment by consumers, combined with falling terminal costs for site owners, weaken the bargaining position of the Parties as against site owners.

1.8 The Parties disagree with the conclusion in the Decision that there are a lack of suitable sites and significant up-front costs that create barriers to entry. The number of off-site ATMs continues to grow year-on-year, and standalone equipment (that simply needs plugging in) is readily available at a cost that can be covered by a relatively low level of transactions. The CMA should explore the ease of entry in this market further at Phase 2.

2. BACKGROUND

2.1 Cardtronics is a UK domiciled public limited company with operations in the US, Puerto Rico, Germany, UK, Poland, Canada and Mexico. 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.

2.2 Prior to the transaction, DCP was a Canadian listed company. It has operations in Canada, Australia, New Zealand, the UK and Mexico. In the UK, DCP's operations consist primarily of the deployment of ATMs. 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.[1]

2.3 As set out in the response to the Issues Letter, the Parties' respective business focus and competitive positioning is significantly different:

(a) Cardtronics is focussed on serving large corporate clients with ATMs across multiple sites usually with FTU and TTW installation, and has a workforce of in excess of [redacted] employees in the UK servicing in excess of approximately [redacted] ATMs. Cardtronics provides ATM maintenance and cash replenishment services (including integrated cash in-transit using third party sourced vault cash) in-house with most customers taking full placement ATMs.

(b) in comparison, DCP is focussed on serving a large number of customers many of which have ATMs installed at just one or two sites. In addition, most of DCP's customers are PTU merchant re-fill ATMs. The legacy DCP workforce is [redacted] employees servicing approximately [redacted] ATMs. Key services like cash in-transit and high volume maintenance services are outsourced to third party providers. The differences between the parties are summarised in Table 3.1 below.

Table 3.1: Summary of the parties' competitive positioning

Primary Business Focus	
Cardtronics	**DC Payments UK Limited**
• Sophisticated corporate contracts for customers demanding a high level of customer service and satisfaction • Fully maintained including a need for vault cash • High volume, high maintenance terminals • Focus on FTU and TTW installations • Multiple site fleet ATMs at supermarkets, motorway and transport hubs, convenience stores, and other retail destinations	• Fragmented customer base with a large number of single site installations • Merchant fill/replenished terminals • Low volume, low maintenance terminals • Majority PTU installations • Independent installations • Focus on pubs, nightclubs, leisure facilities, holiday parks and amusement parks
2016 Average withdrawals per ATM per month	
[redacted]	[redacted]

2.4 The average withdrawals per month in 2016 across each party's ATM estate supports the proposition that DCP's focus is on customers with typically lower transacting machines,

[1] ATMs are branded DCATM and all marketing is under DCPayments.

meaning its average machine is completing only a quarter of the monthly ATM withdrawal transaction of a Cardtronics ATM, which are more commonly in high traffic locations, and more likely to be FTU, cash replenished and TTW.

2.5 This distinction reflects the very different focus of the parties' businesses (and the different competitive constraints that they face), with DCP focusing more heavily on stand-alone, merchant-fill and PTU ATMs which are in locations with much lower customer footfall, whilst Cardtronics focuses much more heavily on TTW, fully maintained and FTU ATMs in high traffic locations. The evidence supports the conclusion that there is a clear differentiation in the parties' businesses, and therefore they are relatively distant competitors, both for site owners and ATM users.

3. **SUPPLY OF ATMS TO SITE OWNERS IN THE UK**

3.1 The Parties agree with the CMA's conclusion that the merger does not give rise to a realistic prospect of a SLC in relation to the supply of ATMs to site owners.

3.2 The Decision adopted an overly cautious approach to assessing the competitive constraint provided from other ATM deployers and understates the competitive constraint from PayPoint, Euronet/YourCash and some BBSs.

3.3 The figure below shows the categorisation of competitors set out in Tables 4 and 6 of the Decision, and the categorisation suggested by the Parties based on their knowledge of the market.[2]

Table 4.1: Competitive constraint from alternative deployers

CMA Competitor Categorisation			
Customer segment	**Competitor constraint**	**Some competitive constraint**	**Limited or no competitive constraint**
Premium FTU Customers	RBS Barclays NoteMachine	N/A	YourCash PayPoint Other large BBSs Smaller BBSs and other IADs
Suggested Re-categorisation			
Customer segment	**Competitor constraint**	**Some competitive constraint**	**Limited or no competitive constraint**
Corporate Accounts	Barclays RBS NoteMachine **Euronet / YourCash**	**Bank of Ireland** **Raphaels Bank** **PayPoint**	Other large BBS Smaller BBS and Other IADs

CMA Competitor Categorisation			
Customer segment	**Competitor constraint**	**Some competitive constraint**	**Limited or no competitive constraint**
IAD Dependent Customers	NoteMachine YourCash	PayPoint	Large BBSs Smaller BBSs and other IADs
Suggested Re-categorisation			
Customer segment	**Competitor constraint**	**Some competitive constraint**	**Limited or no competitive constraint**
Independent Sites	Notemachine Euronet / YourCash **PayPoint**	**Travelex** **Bank of Ireland**	Large BBSs Smaller BBSs and other IADs

3.4 Each of the proposed changes to the categorisation in the Decision is discussed in more detail below.

PayPoint

3.5 The Decision describes PayPoint as "*a niche deployer with a focus on multi- and single-site retailers (eg convenience stores)*".[3] This assessment is based on redacted submissions from PayPoint which the Parties are unable to comment on.

3.6 The Parties consider that comments from competitors often need to be treated with a degree of caution. First, an SLC would likely be to their benefit, whereas a merger that entailed a better offer for customers would be to their disadvantage. Second, the view that PayPoint is a limited competitive constraint is also clearly inconsistent with other statements in the Decision and DCP's internal documents, for example at paragraph 110 the Decision notes that:

[2] The parties consider that the "Premium FTU Customers" segment is better described as "Corporate Accounts" and the "IAD Dependent Customers" segment is better described as "Independent Sites".

[3] Decision, paragraph 131.

"These documents contain comments on competitor activity, and list Cardtronics, YourCash, NoteMachine and PayPoint as DCP's main competitors. This monitoring suggests that DCP is competitively constrained by all of these IADs."

3.7 The Decision's view that PayPoint only provides "some competitive constraint" in relation to Independent Sites and "Limited or no competitive constraint" in relation to Corporate Accounts is not consistent with the Parties' own experience. In particular, as set out in the response to the Issues Letter:

(a) PayPoint is one of the top three competitors in the largest non-branch market segment of single-and multi-site retailers which account for [redacted] out of [redacted] non-branch ATMs if supermarkets, post office and public transport are removed. In relation to Corporate Accounts, PayPoint has successfully bid for and won the Heron Foods contract. Heron Foods are a multiple food retailer with 250 stores in the Midlands and North of England;

(b) Cardtronics' diversion data for 2016 shows PayPoint to be a significantly closer competitor than DCP with [redacted] per cent of Cardtronics' ATM losses going to PayPoint (the equivalent DCP figure is [redacted] per cent); and

(c) PayPoint has also recently announced its intention to expand its ATM presence. In the first half of 2016, PayPoint's principal focus was on launching and rolling out its PayPoint One product, a next generation multi-purpose payment/electronic point of sale platform. However, following the successful launch of PayPoint One, PayPoint has announced that it will "*step up … installations of ATMs*" and that "*focus has returned to ATM products… to drive further growth*".[4]

3.8 The Parties therefore expect to see an increase in competitive pressure from PayPoint both within the convenience sector, in which PayPoint is already a significant competitor, and which is the fastest growing part of the market.

Euronet/YourCash

3.9 The Decision has recognised the competitive constraint from Euronet/YourCash in relation to Independent Sites, but in relation to Corporate Accounts the Decision concludes that Euronet/YourCash does not impose a competitive constraint on the Parties.[5]

3.10 This assessment is based on redacted submissions from YourCash which the Parties are unable to comment on. However, it is not clear if the Decision's assessment has fully taken into account Euronet's recent acquisition of YourCash. As explained in response to the Issues Letter, the Parties expect that Euronet's acquisition will prove to be transformative for the YourCash business by providing significant advantages in terms of infrastructure and access to capital. This is an important development that the CMA should reflect in its counterfactual at Phase 2.

3.11 Post-transaction, YourCash benefits from Euronet's leading ATM processing capabilities, large-scale operational expertise, significantly increased capital for ATM deployments and investment in CIT services, as well as an industry-leading technology platform which provides access to more value-added products for Euronet/YourCash ATMs and diversifies YourCash's value propositions for existing and prospective merchant and bank partners.

3.12 Euronet has announced to its investors its intention to utilise these advantages in order to strengthen the competitive position of YourCash in this sector. Noting that YourCash's margins were roughly half of Euronet's at the time of the acquisition, Euronet is focusing

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4 PayPoint plc, Half year financial report for the 6 months ended 30 September 2016: https://www.paypoint.com/documents/investors/results-and-presentations/interim-results-24-11-16.pdf

5 Decision, paragraph 148.

on bringing outsourced services in-house (utilising the Euronet network) and providing value added services to YourCash ATMs in order to bring YourCash's margins in line with those of Euronet.[6] This will produce a more competitive offering.

3.13 YourCash has announced a similar vision: at the time of the acquisition, Jenny Campbell, then CEO of YourCash, announced that she was "*excited to be able to leverage Euronet's global scale, value added product portfolio, technology, industry expertise and financial strength to further expand our business*".[7]

3.14 Despite the recent date of the acquisition (October 2016), the Parties set out in the response to the Issues Letter that there is already evidence that it has resulted an increase in competitive pressure exerted by Euronet/YourCash. In particular, Table 2.10 of the Parties' response to the Issues Letter demonstrates the increase in the average number of monthly installations of ATMs in the 4 months following the acquisition by Euronet (ending 25 January 2017), compared to the 8 months preceding it.

3.15 Therefore, the suggestion in the Decision that Euronet/YourCash will exert no competitive constraint in relation to Corporate Accounts is not consistent with the Parties' expectations. First, this overlooks the fact that Euronet/YourCash already operates a number of large Corporate Accounts, including Tesco One Stop Franchise ([redacted] terminals) and Poundland ([redacted] terminals). Accordingly, even pre the Euronet transaction, YourCash was willing and able to compete in this segment and to win tenders. Second, the Parties expect that access to Euronet's capital will significantly assist YourCash's ability to expand by enabling investment in ATM terminals, and the stated desire to in-source cash-in transit services, for example, will make Euronet/YourCash a more attractive proposition for larger corporate customers.

Banks and Building Societies

3.16 The Decision disregards the competitive constraint from smaller BBSs in relation to both Corporate Accounts and Independent Sites. However, the parties consider that there are a number of BBSs that compete in both segments of the market, including:

(a) Bank of Ireland (BoI);

(b) Raphaels Banks; and

(c) Travelex.

3.17 In relation to BoI the Decision notes that:[8]

> *"The CMA has seen evidence that other large BBSs do not and would not compete for Premium FTU Customers' including BoI, which will be focussed on serving its existing Post Office branches."*

3.18 However, the Parties consider that BoI has been successful in competing for both Corporate Accounts and Independent Sites and has shown a willingness to expand beyond Post Office branches. This is consistent with evidence the Parties submitted in response to the Issues Letter:

(a) convenience stores have the option to install Post Office facilities in the store. When this option is exercised BoI has first right of refusal to install an ATM. BoI

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[6] Euronet Worldwide Third Quarter 2016 Earnings Call, 21 October 2016 (http://edge.media-server.com/m/p/97kwksux).

[7] http://ir.euronetworldwide.com/releasedetail.cfm?ReleaseID=992833

[8] Decision, paragraph 146.

already has [redacted] ATMs installed in convenience stores and the Parties would expect this to increase going forwards;

(b) Cardtronics' experience is that BoI is increasingly active in the convenience segment outside of the Post Office arrangement, and has approached accounts that do not have a Post Office; and

(c) analysis of Cardtronics win/loss data shows that BoI accounted for [redacted] per cent of Cardtronics' customer losses, by number of ATMs, in 2016.

3.19 In relation to Raphaels Bank and Travelex the Decision notes they have a *"niche focus on Transport Hubs, and in particular on locations with foreign exchange requirements"*.[9] However, as the Decision has not identified a separate market in relation to the transport segment it is not clear why these providers could not readily expand into other segments. In any case, these providers are clearly a constraint in relation to the transport segment and should not be dismissed as providing no competitive constraint in relation to Corporate Accounts.

[9] Decision, paragraph 149.

4. ATM USERS

4.1 The CMA considered whether the Merger gives rise to a realistic prospect of an SLC in relation to the supply of ATMs to ATM users on a local basis through:

(a) the reduced availability of FTU ATMs (through the conversion of FTU ATMs into PTU ATMs); and/or

(b) increased surcharge fees on existing PTU ATMs.

4.2 Each of these is discussed in turn below.

Conversion of FTU to PTU

4.3 The Parties agree with the conclusion reached in the Decision that this theory of harm is inherently unlikely. In particular, the Decision states that:

> "*The Parties would have a limited ability to convert their FTU ATMs into PTU ATMs at their discretion. In addition, site owners (such as a convenience store) would be unlikely to agree to such conversion due to the potential reduction in footfall to their site and it would be costly, and likely unprofitable, to compensate a site owner sufficiently to agree to a conversion*."[10]

4.4 This conclusion is based on the following facts:

(a) many site owner contracts (particularly with large site owners) prevent deployers from turning FTU ATMs into PTU ATMs and the provision of only FTU ATMs is often one of the main stipulations of tenders. The Decision noted that the Parties' standard contracts with customers allow for the possibility to convert FTU ATMs into PTU ATMs, but only under exceptional circumstances (e.g. if the contract becomes economically unviable). Accordingly, under the terms of such contracts, the Parties generally did not have the ability to take decisions unilaterally to convert FTU ATMs into PTU;

(b) that, even if the Parties' had the ability to convert FTU into PTU machines, site owners are unlikely to accept such a conversion because they typically look to attract footfall into their sites through the provision of the ATM service (i.e. site owners' and ATM deployers' incentives are not aligned). In this regard, the vast majority of site owners who responded to the CMA submitted that if a deployer asked them to convert their FTU ATM into a PTU ATM, they could and would refuse to do so;[11]

(c) a conversion of a FTU ATM into PTU would lead to a large reduction in the number of transactions and/or a loss of footfall, leadin to a reduction of sales in that site owner's store. As acknowledged in the Decision, site owners agreeing to the conversion of a FTU ATM into PTU would therefore need to be compensated by the deployer for (i) the loss of the ATM revenue due to lower transaction volumes, and (ii) the loss of revenue associated with higher levels of footfall in store, which would be at a significant cost to the Parties; and

(d) such a theory of harm went against market trends, which has seen a significant move towards FTU machines in recent years at the expense of PTU ATMs.

4.5 As explained further below, the Parties consider that the description set out in the competition assessment is also relevant in relation to the potential for the Parties to

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10 Decision, paragraph 16.

11 Decision, paragraph 166.

increase surcharge fees at PTU ATMs post-merger. However, despite the same factors also being applicable, the Decision has reached a different conclusion.

Increasing surcharge at PTU ATMs

4.6 The CMA sets out the theory of harm in paragraph 17 of the decision as follows:

> "*In relation to the Parties' ATMs which are already PTU, the Merger may change the incentives of the Parties in relation to the surcharge fee they set. For example, the surcharge fee of a DCP ATM in a particular area may be constrained pre-Merger by the surcharge fee charged on a nearby Cardtronics' ATM. However, following the Merger, a surcharge fee increase may be profitable because <u>the Parties would recapture the transaction revenues of those ATM users switching to the Cardtronics ATM, as well as earning higher revenues per transaction for those ATM users who continue to use the DCP ATM</u>.*"[12]

4.7 However, whilst the Decision has sought to apply the same logic to assessing this theory of harm as it has to converting FTU to PTU machines, there are two important aspects which have not been adequately addressed in the Decision:

(a) the CMA's analysis that the Parties have the *ability* to increase surcharge fees at specific ATM machines (e.g. in areas giving rise to a local concentration) is incomplete and not based on a detailed and thorough review of the Parties' contracts, which has given rise to inaccurate conclusions being reached; and

(b) the CMA's analysis of the Parties' *incentives* to increase surcharge fees at specific the ATM machines is incomplete and fails to take account of the specific characteristics of the market which make such a concern inherently unlikely.

4.8 Each of these points is considered in further detail below.

Ability to increase surcharge fees

4.9 The Decision has concluded that the Parties have the ability to increase surcharge fees on existing PTU ATMs post-Merger, on the basis that "*the Parties' contracts with customers allow both DCP and Cardtronics to increase, at their discretion, surcharge fees on PTU ATMs*".[13] However, it is clear from the Decision that a full and detailed review of the Parties' existing contracts with site owners was not carried out at Phase 1 (indeed, only a very limited sample of contracts were requested and provided), and therefore this conclusion has been reached on the back of only partial information.

4.10 In particular, the Decision has failed to distinguish between contracts with the larger multi-site customers from contracts with smaller independent sites (e.g. for one or two ATMs), which are considered further below.

<u>Multi-site contracts</u>

4.11 The Parties have very limited ability to increase surcharge fees for specific PTU ATMs which are part of larger multi-site contracts, because these contracts:

(a) typically involve a single over-arching contract with the head office rather than having individual contracts at the local level;

(b) are awarded by competitive tender, with the level of the surcharge fee and the revenue share with the site owner being important variables in the bid; and

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12 Decision, paragraph 17.

13 Decision, paragraph 181.

(c) the surcharge fee applies either uniformly across the overall estate, or at one of a small number of price points specified in the contract.

4.12 In order to show that the larger multi-site contracts were not considered separately in the Decision, the following tables list the number of ATMs that were considered to give rise to a realistic prospect of a SLC at Phase 1 that were part of much larger contracts (with contracts accounting for more than 10 ATMs being used as a cut-off point).

Table 4.1 - DCP sites part of larger contracts giving rise to a SLC

Landlord	No. of Hotspot ATMs	Total ATMs in contract
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

Source: CL analysis

Table 4.2 - Cardtronics sites part of larger contracts giving rise to a SLC

Landlord	No. of Hotspot	Total ATMs in
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

Source: CL analysis

4.13 The Tables above show that a large number of ATMs in the 848 local areas identified as giving rise to a realistic prospect of a SLC in the Decision, were part of large multi-site contracts. Table 4.1 shows that just [redacted] DCP contracts [redacted] accounted for just under [redacted] per cent of the 848 problem areas identified. Moreover, around [redacted] per cent of the 848 problem areas were centred on ATMs that formed part of contracts for more than 10 ATMs.

4.14 However, the Decision applies the same reasoning, based on a review of a small sample of the Parties' <u>standard contracts to independent sites</u>, that the Parties have the ability

[14] In 2012, DCP entered into separate agreements with [redacted]

across all sites to vary surcharge fees at the local level. This fails to recognise the differences between large multi-site and independent contracts.

4.15 In relation to the multi-site contracts, [redacted]

(a) [redacted]

(b) [redacted]

(c) [redacted]

(d) [redacted]

(e) [redacted]

4.16 [redacted]

(a) [redacted]

(b) [redacted]

(c) [redacted]

(d) [redacted]

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15 [redacted]

16 [redacted]

17 [redacted]

[redacted]

(e) [redacted]

4.17 [redacted]

4.18 [redacted]

4.19 Accordingly, in relation to the major multi-site contracts which were identified as giving rise to a realistic prospect of an SLC in the Decision, the Parties consider that they do not have the *ability* to vary surcharge fees at the local level.

Independent site contracts

4.20 In relation to the smaller independent (often single site contracts), both Parties have confirmed to the CMA that they do not proactively and systematically monitor the surcharge fees on their, or their competitors', ATMs, nor do they seek to adjust these surcharge fees on a regular basis to reflect local competitive conditions.[22]

4.21 Whilst there have been some adjustments to the surcharge fee at certain independent sites in the past (which is a factor referred to in the Decision), as explained in the Issues Meeting, this rarely happens. Deployers tend only to initiate changes where they observe significant falls in withdrawal volumes, which affect the economic viability of the ATM machine. Site owners have also confirmed to the CMA that they have the power to resist a surcharge fee increase by deployers, with the "*majority*" indicating that they would not support a surcharge fee increase.[23] Agreement and goodwill between the deployer and site owner because, for the majority of these PTU ATMs, the machine is merchant fill, and the deployer is therefore dependent on the site owner in order to ensure continued availability of cash at the site. As acknowledged in the Decision, if the deployer were to suggest an increase in the surcharge fee, it is in practice imperative that it is agreed with the site

18 [redacted]

19 [redacted]

20 [redacted]

21 [redacted]

22 Decision, paragraph 178.

23 Decision, paragraph 182.

owner in advance, otherwise there is a material risk that the site owner will switch to a competing deployer.[24]

4.22 Accordingly, even in relation to the smaller independent contracts, it is clear that the *ability* of the Parties to vary surcharge fees at the local level in response to changes local concentration is materially constrained, with site owners having the ability to resist price increases when their incentives are not aligned with deployers.

Incentive to increase surcharge fees

4.23 The Decision concludes that the CMA is of the view that "*the incentives of site owners are likely to be aligned with those of the Parties in circumstances where there is limited post-Merger competition from rival ATMs in a local area*."[25] However, the Decision does not contain a detailed incentives assessment, but merely observes that surcharge increases have been implemented in the past, which are not merger-specific effects.

4.24 As set out in the response to the Issues Letter, the arrangement with site owners changes the competitive dynamic and incentive structures facing ATM deployers. A hypothetical price increase at one of the parties' ATMs would be expected to result in:

(a) **a loss of transaction volumes** at that ATM as some customers will decide to either switch to an alternative ATM, or find an alternative payment solution. As site owners receive a share of the transaction fee, the lower volumes will result in the site owner earning <u>lower</u> revenue, unless it is fully compensated by the Parties. In addition, and front of mind for site owners, is the potential for the site owner to also earn less revenue from spending in-store as a result of the increase in the transaction surcharge. Unless the site owner is fully compensated for these effects, there is a material risk that it will switch to another ATM deployer; and

(b) **any recaptured revenue is shared with the other site owner**. To the extent that some customers switch to another ATM operated by the Parties in response to a surcharge fee increase at another site operated by the Parties, a significant proportion of the additional revenue obtained from those diverting customers will be shared with that site owner. Accordingly, due to the nature of the revenue sharing of the transaction fee with site owners, the Parties will only retain a proportion of any additional revenue from the switching ATM customers, whilst facing a significant risk of losing customers and site owners as a result.

(c) **lost footfall at the first site**. Site owners will attract less footfall from potential ATM users or lose on-site spending from captive customers, if the surcharge fee is increased.

<u>Revenue share with site owners</u>

4.25 As site owners' incentives to change the surcharge fee are unchanged by the merger, it is unclear why the initial site owner would agree to the increase in the surcharge fee as they would earn less revenue as result of (i) the reduction in transaction volumes, and (ii) the reduction in in-store spend by ATM users.[26] A reduction in transaction volumes may also see the site owner drop to a lower tier of revenue share funding, further compounding the losses following a surcharge fee increase. As set out above, the majority of site owners confirmed to the CMA that they would not support a surcharge fee increase.

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[24] Decision, paragraph 182.

[25] Decision, paragraph 189.

[26] If the increase in the surcharge does not reduce revenues from the ATM at which the surcharge is increases, then it would not be a merger specific effect as it suggests that the surcharge fee could have been profitably increased even in the absence of the merger.

4.26 The CMA accepts at paragraph 41 of the Decision that "*both site owners and ATM deployers have incentives to attract ATM users*". To the extent that the incentives of ATM deployers vary post-merger (e.g. to increase surcharge fees at certain sites due to a local concentration), the incentives for site owners to attract more ATM users (and benefit from the consequential in-store spend) do not change.

4.27 Accordingly, a significant obstacle facing the Parties in the event of a hypothetical surcharge increase is that the site owner's incentives are not aligned with those of the Parties due to the loss of revenue from the interchange fee/transaction surcharge that would arise at one of the sites, which would be further compounded were the site owner to drop down to a lower funding tier. Whilst the Parties would potentially recapture some revenue lost from switching customers at their overlapping site, the site-owner will not see any benefit of that recapture, and may see even further lost revenue in the form of lost footfall/in-store spend absent a renegotiation of terms.

4.28 Moreover, as mentioned above, the merged entity will need to share any revenue re-captured at the overlapping site with that site owner, which, based on the Parties' contracts can be significant. For example, in relation to the [redacted] DCP [redacted] contracts giving rise to the largest number of problematic areas [redacted]:

(a) [redacted]

(b) [redacted]

(i) [redacted]

(ii) [redacted]

(iii) [redacted]

(iv) [redacted]

(c) [redacted]

(d) [redacted]

(i) [redacted]

(ii) [redacted]

(iii) [redacted]

(e) [redacted]

4.29 The standard terms of DCP's contracts with independent site owners provide that [redacted]

4.30 [redacted]

Compensation to offset site owner's losses

4.31 In order to address the fact that the site owner facing a surcharge increase will be worse off (both in terms of transaction revenue and in-store spend), the site owner is likely to require a compensation payment to fully offset the losses incurred. To the extent that the site owner is left worse-off after the surcharge increase (i.e. it is not fully compensated by the ATM deployer for all the losses suffered), it would reject any such proposal, and it increases the chances that the site owner will switch to a different ATM deployer altogether (which would clearly render the surcharge fee increase unprofitable).

4.32 However, such a compensation payment would reduce or even negate the additional revenue associated with the surcharge increase. This further reduces any incentive to increase surcharge fees post-merger as any additional revenue gain will be shared with the ATM site owner benefiting from the switching customers, whilst also being used to offset the losses facing the site owner facing the surcharge fee increase.

4.33 Accordingly, in order to align the interests of the site-owner, not only would the Parties need to compensate the site owner facing the surcharge increase due to lower transaction volumes, but it would also need to offer compensation to offset the lower in-store revenue due to the impact on in-store spend.

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27 [redacted]

Switching to alternatives

4.34 Furthermore, if the Parties were hypothetically to increase the surcharge at one PTU, there are many factors which could limit the extent to which lost transactions were recaptured at a neighbouring ATM. In particular, diversion would be reduced by substitution to non-ATM payment means, such as card payment (including increasingly popular contactless and mobile payments), and cash back. Furthermore, even if consumers switched to ATMs, they may not switch to neighbouring ATMs, but instead change their patterns of withdrawing cash and take out more cash at more distant ATMs at a different time in the day or week.

4.35 The presence of another third party FTU ATM would also be expected to have a significant impact on the number of switching customers that would be recaptured by the Parties. In this regard, the Decision accepts that:

(a) ATMs are a commoditised product and therefore customers are not loyal to any particular deployer (paragraph 62);

(b) ATM users have a strong preference for FTU ATMs (paragraph 154(b));

(c) ATM users may travel some distance to reach a FTU ATM (paragraph 197(b));

(d) FTU ATMs impose stronger constraint on PTU ATMs than the other way around (paragraph 203); and

(e) PTU ATMs are being replaced with FTU ATMs.

4.36 However, despite the CMA acknowledging that ATM users may travel further to reach a FTU ATM, this was not factored in to the CMA's local market analysis.

4.37 It is, therefore, important that the CMA gathers evidence at Phase 2 (e.g. from the customer survey) in relation to the various switching options available to ATM users, and how those customers would behave in response to an increase in the ATM surcharge fee.

Framework for assessing profit incentives

4.38 To illustrate the few plausible circumstances in which the Parties might have a profit incentive to increase the PTU surcharge fees, the parties have considered different combinations of (i) the price elasticity of demand, and (ii) the percentage revenue share with the site owners, in order to assess how many customers would need to be recaptured by the Parties in order for a hypothetical price increase at one of the PTU ATM sites to be profitable (i.e. the critical diversion ratio).

4.39 This analysis considers the situation where the Parties have two overlapping PTU ATMs in a local area, Site 1 and Site 2, both of which have the same revenue sharing arrangement with site owners. It then considers an increase in PTU surcharge at Site 1 by 10 per cent, and considers the proportion of customers (of those that either switch or stop using Site 1 in response to 10 per cent price increase) that would need to switch to Site 2 for the surcharge increase to be profitable.

4.40 In order for Site 1 to agree to the price increase, and to align its incentives with the Parties, the analysis includes a compensation payment to site 1 so that it is no worse off from the surcharge fee increase. However, no additional compensation payment has been included to take account of the potentially lower levels of footfall/in-store spend that may also arise at Site 1 following the increase in the surcharge fee, which may also need to be compensated to prevent the site owner earning lower revenue and switching to another ATM deployer.

4.41 The table below therefore shows the minimum diversion ratio that would be required, for different combinations of price elasticity and revenue share with site owners, for a hypothetical surcharge fee increase of 10 per cent to break-even (after compensating Site 1 for the lower transaction revenue). "NA" means that even if all customers are recaptured by the Parties, no profit incentive exists to increase the surcharge fee.

Table 5.3: Minimum diversion ratio for a profit incentive to exist

		Site 2 Owner Revenue Share						
		30%	40%	50%	60%	70%	80%	90%
Elasticity	-1.1	27%	32%	38%	48%	64%	95%	NA
	-1.2	38%	44%	53%	67%	89%	NA	NA
	-1.3	47%	55%	66%	83%	NA	NA	NA
	-1.4	55%	64%	77%	96%	NA	NA	NA
	-1.5	62%	72%	87%	NA	NA	NA	NA
	-1.6	68%	79%	95%	NA	NA	NA	NA
	-1.7	73%	85%	NA	NA	NA	NA	NA
	-1.8	78%	91%	NA	NA	NA	NA	NA
	-1.9	82%	96%	NA	NA	NA	NA	NA
	-2	86%	NA	NA	NA	NA	NA	NA

4.42 The table above shows that (i) the higher the revenue share with the site owner, and (ii) the more price sensitive that customers are to an increase in the surcharge (i.e. the higher the elasticity), the less likely it is that there would be any profit incentive to increase the surcharge. In this regard, almost half of the table shows that for numerous different combinations of elasticity and revenue share, there simply is no profit incentive to increase the surcharge fee, and where one does exist, the Parties would have to recapture a very high proportion of customers that stop using Site 1 to be profitable (which is inherently unlikely given the out of market constraints, the constraint from FTU ATMs, and the constraint from other PTU ATMs in the area).

4.43 As mentioned above in relation to DCPs contracts with [redacted] (i.e. the [redacted] contracts which gave rise to the largest number of problem areas at Phase 1), the revenue share with site owners is between [redacted] and [redacted] per cent. Accordingly, based on the critical diversion ratios shown in the table above, there are very few, if any, plausible scenarios where a surcharge fee increase could be profitable for these contracts. A similar high proportion of revenue share with site owners applies in relation to a number of other of the Parties' contracts.

4.44 The Parties would there encourage the CMA to investigate the price sensitivity of PTU ATM customers to increases in the surcharge fee, and customers' likely switching options in response to an increase in the surcharge fee, during its Phase 2 investigation, as these variables will enable the CMA to confirm whether a profit incentive exists or not.

Failed to fully take out of market constraints into account

4.45 As noted in the Merger Notice, the PTU market is declining year on year. In 2015, the number of PTU ATMs fell 7 per cent to 17,553, while the number of FTU ATMs increased by 4.4 per cent to 52,717. FTU ATMs now make up 75 per cent of all ATMS as illustrated in Figure 3.2 of the response to the Issues Letter.

4.46 In addition, in 2015 PTU withdrawals accounted for just 2 per cent of the total number of withdrawals and 1.7 per cent of the total value.

4.47 This long term trend is a result of declining transaction volumes as customers are increasingly unwilling to pay to withdraw cash given the proliferation of FTU ATMs and the expansion of other non-cash methods of payment. This in turn has led to many PTU ATMs to become uneconomic, and to be either (i) converted into FTU ATMs, or (ii) being removed at the end of their contract.

4.48 The industry-wide decline in PTU ATMs is consistent with the Parties own experience. The table below shows the number of DCP PTU ATMs and associated revenues and transactions volumes over the last 6 years.

Table 5.4: DCP PTU ATMs and revenues

	2011	2012	2013	2014	2015	2016
Average Number of PTU ATMs	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
PTU Surcharge Revenues (£m)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Number of Withdrawals (m)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Average Withdrawals per ATM per month	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Average PTU Surcharge (nominal prices)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Average PTU Surcharge (2016 prices)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: DCP

4.49 The table above shows that:

(a) since 2013 the number of DCP PTU ATMs has declined considerably from [redacted] in 2013 to [redacted] in 2016 (a reduction of [redacted] per cent);[28]

(b) the decline in PTU revenues has been even sharper (a [redacted] per cent decline between 2013 and 2016 - with total PTU surcharge revenue now standing at just [redacted]);

(a) the average number of monthly withdrawals per PTU ATM has declined from [redacted] in 2011 to [redacted] (a fall of [redacted] per cent) in 2016, without any material offsetting reductions in costs; and

(b) notwithstanding the decline in PTU transaction volumes, DCP's average PTU surcharge has also fallen in real terms from [redacted] in 2011 to [redacted] in 2016 (in 2016 prices).

4.50 The decline in PTU ATMs is driven by changes in customer behaviour and increased availability of other payment methods, key factors behind these changes include:

(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;

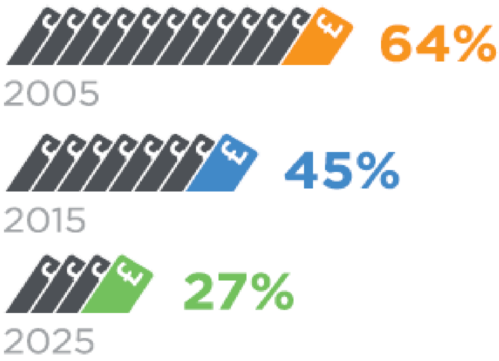
(d) increased familiarity of consumers with contactless payments following their introduction on transport networks such as Transport for London; and

[28] The increase in PTU ATMs between 2012 and 2013 reflects the acquisition of CashPoint machines

(e) migration of person-to-person payments to mobile solutions (including Paym).

4.51 Whilst cash payments are currently the most commonly used method of payment making up 45 per cent of total payments in 2015, the number of cash payments in the UK fell by 1 billion between 2014 and 2015 (from 18 billion to 17 billion). This decline is expected to continue with cash payments forecast to make up 27 per cent of total payments in 2025 (11.3 billion cash payments). This trend is illustrated in the figure below.

Figure 5.1: Cash as a percentage of total volume of payments



Source: Payments UK Report – UK Cash & Cash Machines 2016

4.52 As cash payments decline, debit card payments and contactless payments are expected to increase. In 2015 the average UK adult made 27 cash payments per month, this is expected to fall to 17 cash payments per month in 2025 (down 37 per cent). In comparison, the average number of debit card and contactless payments is expected to increase from 18 per month in 2015 to 39 per month in 2025 (up 117 per cent). This is illustrated in the figure below:

Figure 5.2: Average number of payments per month by UK adults

Source: Payments UK Report – UK Payment Markets Summary 2016

4.53 The Decision acknowledges (at paragraph 193) that "*alternative payment or cash withdrawal methods will impose some out of market competitive constraint on the merged entity*", but it goes on to state that "*this constraint will not be sufficient to ensure that there is no realistic prospect of an SLC arising from the Merger*". However, the relevant question is not whether the out of market constraint will be sufficient in isolation to render the hypothetical price increase unprofitable, but whether it will, in combination with other factors, further serve to mitigate the Parties' incentives to increase surcharge fees post-merger. In this regard, given that the arithmetic relies heavily on the Parties recapturing high volumes of customers that switch away from a PTU ATM following a surcharge increase at another PTU ATM, the out of market constraint is highly relevant to this assessment.

4.54 Accordingly, given the long term decline in PTU ATMs, which is consistent with DCP's business, the theory of harm that the Parties would be able increase PTU surcharges following the transaction goes completely against market trends, and would serve to increase the speed of the decline in favour of FTU ATMs and alternative payment options. Since ATMs do not discriminate (on price or quality), even those users who do not have such alternative means available for the specific transaction enjoy the benefit of the general competitive constraint they impose on ATM deployers.

Local overlap analysis

<u>The Decision did not form a view on the geographic market</u>

4.55 Notwithstanding the points set out above that the Parties neither have the ability nor the incentive to adjust the surcharge fee, even if they did, it is clear from the Decision, that the CMA did not form a view as to the scope of the relevant geographic market at Phase 1.

4.56 As a consequence, the Decision applied a very cautious approach by combining a number of different catchment areas, which significantly overstated the number of PTU ATMs giving rise to concerns, and is unrelated to the hypothetical monopolist test. For example, the Decision considered a site as giving rise to a realistic prospect of a SLC if it resulted in a 3:2 scenario or worse on either:

(a) a 200m <u>or</u> 500m radius in an urban area; and

(b) in rural areas, on the basis of either a 500m <u>or</u> a 1km radius.

4.57 By using a combined approach in this way, the CMA found that the Merger gives rise to a realistic prospect of an SLC in relation to 848 PTU ATMs.

4.58 Had the Decision just focused on one of these approaches (e.g. a 200m radius in urban areas and a 500m radius in rural areas), the number of problematic PTU ATMs would have reduced by more than half (to 416 based on this example, as opposed to 848 using the combined approach). Given the difference in the CMA's legal test at Phase 1 and Phase 2, it would not be appropriate for the CMA to adopt the same approach at Phase 2.

<u>The Decision failed to account for the broader constraint from FTU ATMs</u>

4.59 The Decision also adopted a very cautious approach in relation to assessing the constraint provided by FTU ATMs on PTU ATMs.

4.60 As mentioned above, whilst the CMA found that (i) ATMs are a commoditised product, (ii) that FTU ATMs impose a stronger constraint on PTU ATMs than the other way around, and (iii) that ATM users may travel some distance to reach a FTU ATM, this is not reflected in the local market analysis. In particular, the CMA only filtered out those PTU ATMs where:

(a) there was a FTU ATM within 200m of the Parties' PTU ATM in urban areas, and within 500m in rural areas (i.e. within the narrow geographic catchment area), which fails to reflect the asymmetric constraint provided from people that would travel further to access a FTU machine (as they would benefit from saving the surcharge fee in its entirety, as opposed to a lower and more marginal saving by switching to another PTU machine); and

(b) with respect to catchment areas of 500m in urban areas and 1km in rural areas, the Decision only filtered out areas where a third party FTU ATM was located <u>closer</u> to the Parties' PTU ATM than the Parties' other PTU ATM site. This also fails to reflect the stronger constraint that FTU ATMs impose on PTU ATMs, and the additional distance that people are prepared to travel.

4.61 It is important, therefore, that at Phase 2 the CMA considers the extent to which customers have a clear preference for FTU ATMs, and the extent to which they would be willing to change their behaviour in response to an increase in surcharge fees at PTU ATMs so as to be able to obtain cash free of charge (e.g. by travelling further).

<u>Captive customers</u>

4.62 The Parties agree with the approach adopted in the Decision to exclude "captive" ATMs, on the basis that they are not constrained by other ATMs. These locations included: (i) bingo halls; (ii) casinos; (iii) gentlemen’s clubs; (iv) night clubs; (v) race courses; (vi) holiday parks; (vii) theme parks; (viii) military bases; (ix) private ATMs; and (x) workplace ATMs.[29]

4.63 However, the Parties consider that the captive categories may go further than those defined in the Decision (e.g. to include pubs). This reflects the fact that customers are unlikely to enter a venue (such as a pub) just to access a PTU machine, but a PTU machine might help to keep customers within the venue if they run out of cash.

4.64 The Parties would, therefore, request that the CMA tests whether there are any further categories where customers are generally seen as being "captive", which can be filtered out of the local market analysis (as there is no basis to find an SLC).

Barriers to entry and expansion

4.65 The Decision states that *"The CMA found that <u>the lack of suitable sites</u> (ie the market being close to saturation) <u>and significant up-front costs</u> of installing a new ATM constitute barriers to entry and expansion"*.[30] Of note, the Decision did not specifically conclude that barriers to entry and expansion are high in this market, which is consistent with the comments made by the Parties in the response to the Issues Letter.

4.66 In relation to the availability of sites the CMA noted that a *"lack of suitable sites might be due to (i) the lack of sites that could host an ATM (ie physical requirements of the site are such that an ATM cannot be located on that site); or (ii) the lack of sites that would be profitable (ie an additional ATM would not generate enough transactions to be profitable because the local demand would not sustain an additional ATM)."*[31] However, this is not consistent with the Parties experience as the availability of sites is not generally a significant constraint in deploying new ATMs. In particular, any retail outlet with space for a stand-alone ATM could host an ATM. The Parties cannot, therefore, reconcile the lack of sites that could host an ATM as a barrier to entry.

4.67 In relation to the concerns about the market may be close to saturation, it is notable that the total number of ATMs in the UK has being increasing year-on-year since 2010.

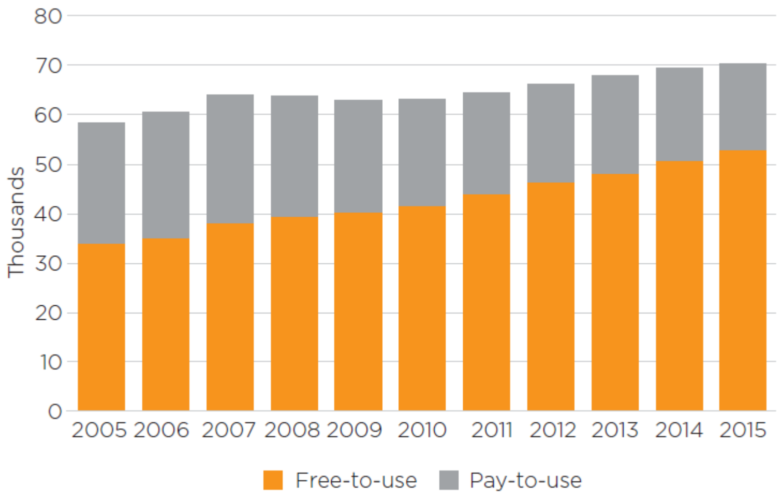
29 Decision, Paragraph 202. Although the Decision failed to identify ferries in this list, the Parties consider the [redacted] DCP ATMs on ferries should have been excluded based on the same logic.

30 Decision, paragraph 19.

31 Decision, paragraph 212.

Between 2014 and 2015 the total number of ATMs increased by 1.3 per cent to 70,270 ATMs, which suggests that new profitable opportunities continue to be found. The figure below shows the number of FTU and PTU ATMs between 2005 and 2015. Opportunities for entry are not limited to FTU ATMs, as the announcement by PayPoint referenced above of a step up in convenience ATM installations demonstrates.

Figure 5.3: Number of FTU and PTU ATMs (as at year end)



Source: Payments UK Report – UK Cash & Cash Machines 2016

4.68 Moreover, the total number of on-site cash machines (i.e. ATMs at bank branches) has been in decline as a result of long term trend of branch closures. Accordingly, the number of off-site ATMs has been growing significantly faster than indicated in Figure 3.3 above. The table below shows that the total number of off-site cash machines has increased by 20 per cent between 2009 and 2015, whilst the convenience segment has increased by just under 70 per cent over that period.

Table 5.5: Number of off-site cash machines and annual growth rate

Year	Number of off-site cash machines		Annual growth rate	
	Total	Convenience segment	Total	Convenience segment
2009	43,073	13,057		
2010	43,513	15,668	1.0%	20.0%
2011	44,486	16,532	2.2%	5.5%
2012	46,522	19,293	4.6%	16.7%
2013	48,405	17,168	4.0%	-11.0%
2014	50,212	19,965	3.7%	16.3%
2015	51,464	22,053	2.5%	10.5%

Source: Payments UK Report – UK Cash & Cash Machines 2016

4.69 The Decision notes at paragraph 214 that the rate of increase of off-branch ATMs has been diminishing which *"may indicate the number of suitable sites is decreasing and the number of ATMs may be approaching saturation"*.

4.70 Whilst Table 3.4 shows that there is year-on-year variation in the growth rate in the number of off-site cash machines deployed, there has been positive growth each year between 2009 and 2015. It is far from clear, therefore, that the market is approaching saturation as suggested. In addition, it is clear that the convenience segment, which accounts for a large proportion of the Parties' PTU ATMs, is still experiencing significant double-digit growth, which suggests that profitable opportunities to deploy ATMs at new sites continue to exist. Accordingly, the Parties do not accept the Decision's concern that there may be a lack of profitable new sites available.

4.71 In addition, many of the local areas where a SLC has been identified may be eligible for the LINK Financial Inclusion Programme. The LINK Financial Inclusion Programme provides an industry subsidy to support FTU ATMs in less well-off areas that would otherwise not have sufficient footfall to support a free machine. This scheme could significantly reduce barriers to entry in some areas where the Decision found the Parties may have an incentive to increase the PTU surcharge.

4.72 In relation to the Decision's assessment of the costs to deploy an ATM, they appear to be based on input from a single competitor:[32]

> *"One competitor noted that there is a significant up-front cost of installing a new ATM, which includes the site survey, installation of a communication line, the hardware (ATM) and the physical installation costs."*

4.73 However, such costs should not be overstated. Other than the initial installation costs, the ATM machine can be recovered and re-used in the event of exit.

4.74 As explained in the Merger Notice, ATMs are standard units that are purchased from upstream suppliers, i.e. the Parties are not involved in the production of ATMs. In addition, other aspects of the supply of ATMs to site owners can be achieved at low cost or can be outsourced to third parties, in particular:

(a) cash replenishment can be outsourced to cash-in-transit providers;

(b) maintenance of ATMs is often outsourced to other providers. For example, most of the BBSs outsource maintenance to third party providers; and

(c) transaction processing is usually achieved through membership of the LINK network.

4.75 In addition, the assessment in the Decision fails to consider the different options available, such as to install a standalone ATM, which is the focus of DCP's business. In this regard, the Decision appears to recognise at footnote 80 that the costs of a standalone ATM will be significantly lower than a TTW ATM: *"The CMA notes that these costs will tend to be greater when the ATM is TTW due to changes which would often need to occur to the façade of the site."*

4.76 Overall, the Parties consider that the barriers to entry and expansion to install a new ATM in a local area are relatively low, particularly in relation to stand-alone ATM machines, which is the focus of DCP's business, and entry could readily occur in a timely fashion if a profitable opportunity was to exist (e.g. in response to a price increase).

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[32] Decision, paragraph 215.