

Cardtronics and DirectCash Payments

A report on the completed acquisition
by Cardtronics plc of
DirectCash Payments Inc.

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The Competition and Markets Authority has excluded from this published version of the report information which the Inquiry Group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [✂]. Some numbers have been replaced by a range. These are shown in square brackets. Non-sensitive wording is also indicated in square brackets.

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- A: Terms of reference and conduct of the inquiry
- B: Consumer survey
- C: Econometric analysis of entry and exit
- D: Local analysis to identify areas of potential concern

Glossary

Summary

Background

1. On 15 May 2017, the Competition and Markets Authority (CMA), in exercise of its duty under section 22(1) of the Enterprise Act 2002 (the Act), referred the completed acquisition by Cardtronics plc (Cardtronics) of DirectCash Payments Inc. (DCP) (the Merger) for further investigation and report by a group of CMA panel members (the Group). Throughout this document, where appropriate, we refer to Cardtronics and DCP collectively as 'the Parties'.
2. In exercise of its duty under section 35(1) of the Act, the CMA must decide:
 - (a) whether a relevant merger situation has been created; and
 - (b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition (SLC) within any market or markets in the United Kingdom (UK) for goods or services.
3. This document, together with its appendices, sets out our findings.

Industry background

4. Both Cardtronics and DCP are deployers of automated teller machines (ATMs). Since they are independent from financial institutions such as banks, they are known as independent ATM deployers (IADs).
5. The primary function of ATMs is to dispense cash, although they also may perform a range of other functions, eg maintenance of a customer's bank account, payment of bills, topping up mobile phone credits and making charitable donations.
6. ATMs are either free-to-use (FTU), at which no surcharge (ie fee) is paid by the user, or pay-to-use (PTU), at which the user pays a surcharge to withdraw cash. ATMs may be located inside premises such as a bank or shop (internal ATMs), 'through the wall' (TTW) where they can be used from outside the premises, or in free-standing cash-dispensing kiosks.
7. The owner of a site at which an ATM is installed is the customer of an IAD and this customer generally receives a share of the revenue from the ATM. The cash used in the ATM may be provided, and the ATM filled, by the occupier of the premises (known as 'merchant fill') or by the IAD.

8. Almost every ATM in the UK is connected to the LINK platform, which is an inter-bank payment system that enables banks and building societies (BBSs) to offer their customers access to cash across the whole of the UK. All the UK's main debit and ATM card issuers are LINK members.
9. There are nearly 100 million LINK-enabled cards in circulation. Data from Payments UK indicates that consumers made around 2.1 billion LINK cash withdrawals in 2016, with a value of approximately £129 billion. In that year, 89% of cash machine users withdrew cash from ATMs at least once a month.
10. As at December 2016, there were 70,020 ATMs in use in the UK. 56% of these ATMs were deployed by five major IADs. Of these ATMs, 57% were FTU ATM machines and 43% were PTU machines. In 2015, 98% of cash withdrawals were made from FTU ATMs.
11. Cash remains an important payment method, with a total of around 17.2 billion cash payments being made in the UK in 2015, equating to 45% of all UK payments. However, payments by debit card have increased fivefold in the past ten years, while contactless payments increased by 26% in the last year. BBSs are developing mobile and online payment channels.

The Parties and their main competitors

12. Cardtronics is a fully integrated IAD, offering all related ATM services (eg maintenance, transaction processing, reporting and settlement). Cardtronics is a UK-listed company with operations in Australia, Canada, Germany, Ireland, Mexico, New Zealand, Poland, Puerto Rico, Spain, the UK and the USA. Cardtronics trades under the brand names Cashzone and Bankmachine in the UK and its UK business is registered under the name of Cardtronics UK Limited. The turnover of Cardtronics in 2016 was around £980 million worldwide and around £[redacted] million in the UK.
13. DCP is a Canadian-listed company with operations in Australia, Canada, Mexico, New Zealand and the UK. 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. DCP trades under the DCP brand name in the UK, although its ATMs are branded DCATM. All marketing is under the name DCPayments. The turnover of DCP in 2016 was around £167 million worldwide and around £27 million in the UK.

The transaction and the relevant merger situation

The transaction

14. On 6 January 2017, Cardtronics acquired the entire issued share capital of DCP.

The rationale for the transaction

15. The Parties told us that 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. The Parties also said that the combination of Cardtronics and DCP will leverage Cardtronics's existing infrastructure and relationships, and drive operating synergies, in particular in Canada and the UK.

Relevant merger situation

16. In respect of the first statutory question that must be decided, we concluded that a 'relevant merger situation' within the meaning of the Act has been created by the transaction on the basis that the share of supply test is satisfied.

Counterfactual

17. We considered what would have been the competitive situation in the absence of the Merger (the counterfactual). We concluded that the counterfactual was the continuation of pre-Merger competitive conditions.

Theories of harm

18. Theories of harm describe the possible ways in which an SLC could arise as a result of a merger and provide the framework for the analysis of the competitive effects of a merger.
19. The Parties overlap in:
 - (a) the supply of ATMs to site owners; and
 - (b) the supply of ATM services to ATM users/consumers.
20. We considered three theories of harm.

Horizontal unilateral effects in the supply of ATMs to site owners

21. We considered whether a reduction in competition arising from the Merger could allow the merged entity to offer worse contract terms to site owners (eg a lower share of transaction fees and/or lower fixed up-front or monthly payments), to reduce the quality of their offering (eg the maintenance and servicing of ATMs) and/or to reduce innovation.
22. The CMA's phase 1 investigation found that, although the Parties compete, they are not each other's closest competitor and that a sufficient number of competitors would remain post-Merger to constrain the Parties.
23. We therefore indicated in our statement of issues that we were not minded to investigate this theory of harm further, subject to any further evidence submitted. We invited reasoned submissions in relation to the effect of the Merger on the supply of ATMs to site owners. We did not receive any submissions or further evidence. We therefore concluded that under this theory of harm the Merger has not resulted, and may not be expected to result, in an SLC in relation to the supply of ATMs to site owners.

An increase in interchange fees paid by card issuers

24. We considered whether the Merger could result in higher interchange fees as a result of the Parties having increased bargaining power within the LINK network which might, in turn, lead to an increased commercial strain on the LINK network. In the CMA's phase 1 investigation, the majority of third parties did not foresee the Merger having adverse effects on users of the LINK network.
25. The CMA concluded at phase 1 that there was no realistic prospect of the Merger resulting in a worsening of terms for banks or building societies through an increase in the Parties' ability and/or incentives to negotiate higher interchange fees or inflate the costs that are used as the basis for that negotiation.
26. We therefore indicated in our statement of issues that we were not minded to investigate this theory of harm further, subject to any further evidence submitted. We invited reasoned submissions in relation to this theory of harm but did not receive any submissions or new evidence. We therefore concluded that under this theory of harm the Merger has not resulted, and may not be expected to result, in an SLC in relation to interchange fees paid by card issuers.

Horizontal unilateral effects in the supply of ATM services to ATM users on a local basis

27. We examined whether the Merger has resulted, or may be expected to result, in an SLC from unilateral horizontal effects in relation to the supply of ATM services to ATM users on a local basis. In principle, this could occur through:
- (a) reduced availability of FTU ATMs through conversion of FTU ATMs into PTU ATMs; and/or
 - (b) increased surcharges on existing PTU ATMs.
28. In relation to the first element of the theory of harm, ie that the Merger has resulted, or may be expected to result, in reduced availability of FTU ATMs through conversion of FTU ATMs into PTU ATMs, the CMA obtained evidence during its phase 1 investigation from third party submissions and interviews with each of Cardtronics's and DCP's business development managers and examined conversion data provided by the Parties. The CMA found in its phase 1 decision that the Parties would have limited ability to convert their FTU ATMs into PTU ATMs at their discretion.
29. In addition, the phase 1 decision found that site owners would be unlikely to agree to such conversion because of the potential reduction in footfall at their sites and that it would be costly, and likely unprofitable, to compensate a site owner sufficiently to agree to a conversion.
30. In our statement of issues, we invited reasoned submissions in relation to the effect of the Merger on the availability of FTU ATMs. We did not receive any submissions or further evidence.
31. We therefore focused our inquiry on the second element of this theory of harm, ie that the Merger has resulted, or may be expected to result, in increased surcharges at existing PTU ATMs.

Market definition

32. The purpose of market definition in a merger inquiry is to provide a framework for the analysis of the competitive effects of the merger. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger.¹

¹ [Merger Assessment Guidelines](#), paragraph 5.2.2.

33. We concluded that the relevant product market is the supply of ATM services to ATM users. We examined 'out-of-market' constraints (ie alternative methods of cash withdrawal and alternative payment methods) as part of the competitive assessment.
34. In relation to the geographic market, we concluded, in the light of econometric and survey evidence, that:
 - (a) the catchment area for a PTU ATM was 100 metres; and
 - (b) the catchment area for a FTU ATM was 200 metres.
35. We considered whether ATMs at any category of site were 'captive' in that they do not compete with other ATMs. We concluded that a number of sites were captive and should be excluded from our competitive assessment.

Local analysis to identify areas of potential concern

36. We focused our competitive assessment on the competitive effects of the Merger on surcharges at the Parties' PTU ATMs which were:
 - (a) not themselves captive; and
 - (b) within 200 metres of at least one of the other party's non-captive FTU ATMs or within 100 metres of at least one of the other party's non-captive PTU ATMs.
37. We adopted the following filters to identify local areas in which competition concerns were more likely to arise as a result of the Merger:
 - (a) we removed captive ATMs;
 - (b) we identified overlaps between the Parties' ATMs and included in the analysis only ATMs inside the applicable geographic catchment areas; and
 - (c) we filtered out local areas in which, as a result of the Merger, there would be a reduction in fascia count from five to four or more.
38. After applying those filters, for the remaining local areas we computed critical diversion ratios and expected diversion ratios (using market shares). We excluded areas in which the critical diversion ratios were higher than or equal to the expected diversion ratios.

39. Following the filtering and diversion ratio analysis, 64 ATMs remained. Our view was that any competition concerns were most likely to arise in the local areas of these ATMs.

Competitive assessment of local areas of potential concern

40. We assessed the Parties' ability and incentive to increase surcharges at PTU ATMs as a result of the Merger in the local areas of potential concern.
41. We found differences in the way the Parties' relationships with multi-site owners and independent site owners are managed, including in relation to their contracts, negotiations, relationship management and pricing strategy. We therefore assessed the competitive effects of the Merger separately in relation to ATMs at multi-site and independent site locations.

PTU ATMs at multi-site locations

42. In relation to ATMs at multi-site locations, we found that the Parties' contracts with multi-site owners restricted the Parties' ability unilaterally to increase surcharges at a local level.
43. We also found that the Parties would have very limited incentive to increase surcharges at PTU ATMs which are part of multi-site contracts as surcharges were not set in response to local competitive conditions and the ATMs identified as being of potential concern represented only a very small proportion of the ATMs covered by the contracts concerned.
44. We therefore concluded that the Merger has not resulted, and may not be expected to result, in an SLC in relation to surcharges at existing PTU ATMs at multi-site locations.

PTU ATMs at independent sites

45. We found that the Parties' contracts with independent site owners generally permitted the Parties to increase surcharges unilaterally. The majority of independent site owners that we spoke to told us they did not play a role in setting the surcharge. However, most site owners told us that they would oppose a surcharge increase if the Parties proposed to increase the surcharge at their ATM but not also at nearby ATMs.
46. We found limited evidence that a site owner would be likely to switch off an ATM or refuse to re-fill an ATM as a result of a surcharge dispute. However,

site owners nearing the end of their contracts or in a rollover period may be able to use the threat of switching to negotiate with the Parties following any proposal by the Parties to increase the surcharge.

47. We therefore concluded that the Parties may have some ability to increase surcharges at PTU ATMs at independent sites.
48. We considered the Parties' incentive to increase surcharges at PTU ATMs at independent sites as a result of the Merger:
 - (a) We found that there was limited competition between the Parties' PTU ATMs pre-Merger. The consumer survey found that few customers who used a PTU ATM would switch to another PTU ATM if the ATM they had used was not available, and this was supported by some evidence from the internal documents of one party.
 - (b) We considered the Parties' pricing strategies and found that surcharges at PTU ATMs are not regularly adjusted. Where surcharges have been adjusted, this has not been in response to changes in local competitive conditions.
 - (c) We found that footfall and the spending of cash withdrawn from an ATM on-site are key reasons for site owners to have an ATM at their premises. A lower proportion of site owners told us that gaining revenue from an ATM was the most important reason for having an ATM. The majority of site owners told us that they would oppose a surcharge increase proposed by the Parties. In this regard, we note that the Parties had, in many instances, either reversed or not implemented proposed surcharge increases. This was likely to be, in part, because of the importance of maintaining relationships with site owners and a good reputation in the market.
 - (d) We considered whether the Parties might change their pricing strategy post-Merger by increasing surcharges at PTU ATMs in those local areas identified by filtering and diversion ratio analysis as being of potential concern. We found that the potential gain in revenue from such a strategy was very limited and that it would entail a risk of substantial loss of revenue. Accordingly, we concluded that the Parties were unlikely to pursue such a strategy.
 - (e) We found that the increasing use of alternative payment methods and the consequent decline in the number of PTU ATMs may further limit the Parties' incentives to increase surcharges at PTU ATMs as a result of the Merger.

49. We concluded that the Parties would have very limited incentives to increase surcharges at PTU ATMs at independent site locations as a result of the Merger.
50. We therefore concluded that the Merger has not resulted, and may not be expected to result, in an SLC in relation to surcharges at existing PTU ATMs at independent sites.

Conclusion

51. As a result of our assessment, we concluded that:
 - (a) the acquisition by Cardtronics of DCP has created a relevant merger situation; and
 - (b) the creation of that situation has not resulted, and may not be expected to result, in an SLC in any of the markets considered in this inquiry.

Findings

1. The reference

- 1.1 On 15 May 2017, the Competition and Markets Authority (CMA), in exercise of its duty under section 22(1) of the Enterprise Act 2002 (the Act), referred the completed acquisition by Cardtronics plc (Cardtronics) of DirectCash Payments Inc. (DCP) (the Merger) for further investigation and report by a group of CMA panel members (the Group).
- 1.2 In exercise of its duty under section 35(1) of the Act, the CMA must decide:
 - (a) whether a relevant merger situation has been created; and
 - (b) if so, whether the creation of that situation has resulted, or may be expected to result, in an SLC within any market or markets in the UK for goods or services.
- 1.3 In answering these two questions we apply a ‘balance of probabilities’ threshold to our analysis. That is, we decide whether it is more likely than not that an SLC has resulted, or may be expected to result, from the Merger.²
- 1.4 Our terms of reference, along with information on the conduct of the inquiry, are set out in Appendix A.
- 1.5 This document, together with its appendices, constitutes our findings. Further information, including a non-commercially-sensitive version of the Parties’ response to the phase 1 decision, can be found on our webpages.³
- 1.6 Throughout this document, we refer to Cardtronics and DCP collectively as ‘the Parties’.

2. Industry background

- 2.1 Both Cardtronics and DCP are deployers of automated teller machines (ATMs). Since they are independent from financial institutions such as banks, they are known as independent ATM deployers (IADs).

² [Merger Assessment Guidelines](#) (CC2/OFT1254), paragraph 2.12. The *Merger Assessment Guidelines* have been adopted by the CMA board (see [Mergers: Guidance on the CMA’s jurisdiction and procedure](#) (CMA2), Annex D).

³ [Cardtronics/DCP merger inquiry case page](#).

2.2 In this section, we set out the background to the ATM sector and highlight recent trends.

ATMs and the ATM network in the UK

2.3 The primary function of ATMs is to dispense cash, although they also may perform a range of other functions, eg maintenance of a customer's bank account, payment of bills, topping up mobile phone credits and making charitable donations.⁴

2.4 Many of the additional non-cash services that ATMs offer can also be accessed either online or through mobile applications. A report by Payments UK stated that '[t]he use of these additional cash machine services has been generally declining over the past six years. Whilst account holders still need such services, they are increasingly accessing them through other means such as the internet or using mobile banking.'⁵

2.5 ATMs are either free-to-use (FTU), at which no surcharge (ie fee) is paid by the user, or pay-to-use (PTU), at which the user pays a surcharge to withdraw cash. ATMs may be located inside premises such as a bank or shop (internal ATMs), 'through the wall' (TTW) where they can be used from outside a premises, or in free-standing cash-dispensing kiosks. The cash used in the ATM may be provided, and the ATM filled, by the occupier of the premises (known as 'merchant fill') or by the IAD.⁶

2.6 Almost every cash machine in the UK is connected to the LINK platform, which is an inter-bank payment system that enables banks and building societies (BBSs) to offer their customers access to cash across the whole of the UK. All the UK's main debit and ATM card issuers are LINK members.⁷ There are nearly 100 million LINK-enabled cards in circulation.

2.7 Consumers made around 2.1 billion LINK cash withdrawals in 2016, with a value of approximately £129 billion. In that year, 89% of ATM users withdrew cash from ATMs at least once a month.⁸

2.8 There are two types of cash withdrawal from ATMs:

⁴ [Merger notice](#), 7 June 2016, p31.

⁵ [Cash & Cash Machines](#), Payments UK, 2016.

⁶ We refer to site owners as the party with which the Parties contract for the installation and operation of an ATM, which may be either the occupier or landlord of a premises.

⁷ [LINK website](#).

⁸ [Cash & Cash Machines](#), Payments UK, 2016.

- (a) *on-us*: withdrawals from ATMs that are owned by a BBS holding the user's account. These withdrawals do not go through the LINK network. The Parties estimated that on-us withdrawals constitute 22% of all ATM withdrawals.⁹
- (b) *not-on-us*: withdrawals from ATMs where the card used in the transaction is issued by a BBS which does not own the ATM used. These transactions go through one of the payment networks, typically LINK. The Parties estimated that LINK not-on-us withdrawals make up 78% of all ATM withdrawals.¹⁰

2.9 When an ATM is used for a not-on-us cash withdrawal, IADs have two main sources of revenue from their ATMs:

- (a) a surcharge if the ATM is PTU; or
- (b) a per-transaction interchange fee paid by the BBS that issued the user's card if the ATM is FTU.^{11,12}

2.10 The owner of a site at which an ATM is installed is the customer of an IAD and this customer generally receives a share of the revenue from the ATM.

2.11 The value of interchange fees paid by card issuers (ie BBSs) to IADs is significant. LINK told us that such fees amount to around £1 billion per year in the UK.

2.12 In addition to consumer surcharge and interchange fees, depending upon the service model agreed with the site owner, IADs may earn revenues from processing and maintenance fees, margins on exchange rates and margins on the sale of ATMs and ATM parts.¹³

Trends in the industry

FTU and PTU ATMs

2.13 As at December 2016, there were 70,020 ATMs in use in the UK.¹⁴ 56% of these ATMs were deployed by five major IADs (described in Chapter 3). Of

⁹ [Merger notice](#), 7 June 2016, p14.

¹⁰ [Merger notice](#), 7 June 2016, p51.

¹¹ [Merger notice](#), 7 June 2016, p33.

¹² Cardtronics told us that the average interchange fee is £[redacted] for withdrawals and £[redacted] for balance enquiries and declined transactions (with IADs receiving an additional £[redacted] on withdrawals at financial inclusion sites). [redacted]. [redacted] told us that the fee is lower if a cash machine is onsite.

¹³ [Merger notice](#), 7 June 2016, p33.

¹⁴ [LINK website](#).

these ATMs, 59% were FTU and 41% were PTU. In 2015, 98% of cash withdrawals were made from FTU ATMs.¹⁵

2.14 Table 1 sets out the number of FTU and PTU ATMs by IAD.

Table 1: Breakdown of the number of ATM machines in the UK (December 2016)

	<i>All ATMs (incl branch)</i>		<i>All ATMs (IADs only)</i>		<i>FTU ATMs (IADs only)</i>		<i>PTU ATMs</i>	
	<i>vol</i>	<i>%</i>	<i>vol</i>	<i>%</i>	<i>Vol</i>	<i>%</i>	<i>vol</i>	<i>%</i>
Cardtronics	16,314	23	16,314	41	10,387	44	5,927	37
DCP	6,142	9	6,142	16	2,871	12	3,271	20
Combined	22,456	32	22,456	57	13,258	57	9,198	57
Notemachine	9,246	13	9,246	23	5,821	25	3,425	21
Yourcash	3,619	5	3,619	9	2,500	11	1,119	7
Paypoint	4,133	6	4,133	10	1,816	8	2,317	14
RBS	4,407	6						
Lloyds	2,588	4						
BOI	2,868	4						
Barclays	4,019	6						
Others	16,684	24						
Total	70,020	100	39,454	100	23,395	100	16,059	100

Source: CMA analysis of [LINK data](#).

2.15 The Parties told us that there have been shifts in the market in relation to the identities of the IADs operating in the sector, locations of ATMs and charging methods.

2.16 The Parties also told us that the number of non-branch ATMs has increased because of IADs deploying ATMs at sites previously without an ATM. In addition, the number of PTU ATMs has been falling (with PTU declining faster in urban areas than in rural areas),¹⁶ while the number of FTU ATMs has been increasing. The Parties said that this was because of conversion of existing PTUs to FTUs, new ATM sites usually being filled with a FTU ATM and competition from an increase in the number of ATMs.¹⁷

2.17 LINK told us that the number of areas in which there was a concentrated market for PTU ATMs has fallen and that local PTU ATM concentration was now rare. [X] told us that the trend of decreasing numbers of PTU ATMs was seen across the UK and was not linked to any particular region.

Alternative options for withdrawing cash

2.18 The Parties told us that there are a number of alternative options to an ATM for consumers wishing to withdraw cash, including cashback, card

¹⁵ [Cash & Cash Machines](#), Payments UK, 2016.

¹⁶ [Merger notice](#), 7 June 2016, p88.

¹⁷ [Merger notice](#), 7 June 2016, p37.

withdrawals at BBSs or Post Office counters, cheque encashment and passport withdrawal.

- 2.19 Table 2 shows the proportions of transactions by value and volume for different categories of payment method in 2016 based on British Retail Consortium (BRC) data.

Table 2: Proportion of transactions in 2016 by payment method by value and volume

	%	
	<i>Value</i>	<i>Volume</i>
Cash	23.2	42.3
Debit cards	54.1	42.6
Credit and charge cards	20.5	11.4
Non-card payments	2.2	3.7
Total	100	100

Source: BRC Payments Survey 2016.

- 2.20 The Parties said that the use of alternative payment methods to cash, such as contactless and mobile payments, is increasing and that 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.
- 2.21 We consider the extent to which alternative methods of withdrawing cash and making payments act as a constraint on the Parties in our assessment of out-of-market constraints in the market definition and competitive effects sections of the report.

3. The Parties and their main competitors

Cardtronics

- 3.1 Cardtronics is a fully integrated IAD, offering all related ATM services (eg maintenance, transaction processing, reporting and settlement). Cardtronics is a UK domiciled public limited company with operations in Australia, Canada, Germany, Ireland, Mexico, New Zealand, Poland, Puerto Rico, Spain, the UK and the USA. Cardtronics trades under the brand names Cashzone and Bankmachine in the UK and its UK business is registered under the name of Cardtronics UK Limited.
- 3.2 The turnover of Cardtronics in 2016 was around £980 million worldwide and around £[~~9~~] million in the UK.
- 3.3 Table 3 summarises Cardtronics's financial information for the UK. In the financial year ended 31 December 2015 (the last financial year for which statutory accounts are available), Cardtronics's revenue in the UK grew by £60 million (39%) to £212.9 million. Cardtronics told us that this strong growth

reflected the growth in cash withdrawal transactions, which had increased by 53.7% over the year (FY14: 24.7%).¹⁸ The growth in revenue was also supported by [X].¹⁹

- 3.4 Cardtronics made a gross profit of £41.6 million in FY15 (up from £22 million in FY14) and profit before tax in FY15 of £26 million (up from £1.8 million in FY14). Cardtronics said that this reflected stronger trading and [X].

Table 3: Summary of Cardtronics's financial information for the UK from FY13 to FY15

	FY13	FY14	FY15
Turnover	82,494	152,825	212,914
Gross profit	(366)	21,996	41,554
EBIT	(5,711)	1,085	25,669
Profit before tax	(6,629)	1,803	26,016
			%
Gross profit margin	n/a	14.4	19.5
EBIT margin	n/a	0.7	12.1

Source: Statutory accounts.

Note: Financial years run from 1 January to 31 December. The figures for FY14 are restated figures, as disclosed in Cardtronics's 2015 statutory accounts as comparative figures, because of the adoption of FRS101 in 2015. As at August 2017, Cardtronics had not finalised its statutory accounts for year ended 31 December 2016

- 3.5 The number of ATMs deployed by Cardtronics grew from 12,932 in 2014/15 to 16,170 in 2015/16, representing a 25% increase. As at December 2016, Cardtronics had 16,314 ATMs in the UK of which 64% were FTU ATMs.
- 3.6 Cardtronics's management accounts provide a breakdown of ATM operating revenues, which are summarised in Table 4. FTU withdrawals account for [X] of Cardtronics's revenue in the UK. The proportion of revenue from FTU withdrawals has [X]. Over the same period, the proportion of revenue derived from PTU withdrawals has [X]. Revenue from balance enquiries has [X].

Table 4: Breakdown of Cardtronics's UK operating revenue (FY14 to Q1 FY17)

	FY 14	FY 15	FY 16	Q1 FY17
FTU withdrawals	[X]	[X]	[X]	[X]
PTU withdrawals	[X]	[X]	[X]	[X]
Balance enquiries	[X]	[X]	[X]	[X]
DCC	[X]	[X]	[X]	[X]
Credit card	[X]	[X]	[X]	[X]
Rejections	[X]	[X]	[X]	[X]
ATMS revenue	[X]	[X]	[X]	[X]
Product revenue	[X]	[X]	[X]	[X]
Other	[X]	[X]	[X]	[X]
Total revenue	[X]	[X]	[X]	[X]
%	[X]	[X]	[X]	[X]
FTU as % of revenue	[X]	[X]	[X]	[X]
PTU as % of revenue	[X]	[X]	[X]	[X]
Balance enquiries as % revenue	[X]	[X]	[X]	[X]
Others as % of revenue	[X]	[X]	[X]	[X]

Source: Cardtronics profit and loss management accounts.

¹⁸ Cardtronics statutory accounts for year ending 31 December 2015, p1.

¹⁹ [X]

DCP

- 3.7 DCP is a Canadian public limited company with operations in Australia, Canada, Mexico, New Zealand and the UK. In the UK, DCP's operations consist primarily of the deployment of ATMs. The bulk of its IAD operations resulted from DCP's acquisition of InfoCash in 2012. DCP trades under the DCP brand name in the UK, although its ATMs are branded DCATM. All marketing is under the name DCPayments.
- 3.8 The turnover of DCP in 2016 was around £167 million worldwide and around £27 million in the UK.
- 3.9 Table 5 summarises the financial information for DC Payment UK (the UK business of DCP) as set out in its statutory accounts for the three financial years FY13 to FY15.

Table 5: Summary of DC Payment UK's financial information for the period FY13 to FY16

	<i>FY13</i>	<i>FY14</i>	<i>FY15</i>	<i>FY16</i>
Turnover	20,313	20,819	24,154	26,769
Gross profit	6,266	6,425	7,491	7,022
EBIT	(530)	229	813	572
Profit before tax	(511)	239	780	584
			%	
Gross profit margin	30.8	30.9	31.0	26.2
EBIT margin	n/a	1.1	3.4	2.1

Source: DC Payment UK's statutory accounts.

Note: Financial years run from 1 January to 31 December.

- 3.10 DC Payment UK's management accounts provide a breakdown of ATM operating revenues and associated costs. As shown in Table 6 below, interchange revenue (ie revenue from FTU ATMs) constitutes [X] DC Payment UK's revenue. In common with Cardtronics, the proportion of revenue from FTU withdrawals has grown, increasing from [X] in FY14 to [X] in the first quarter of FY17. Revenue from PTU withdrawals has declined over this period from [X] to [X].
- 3.11 As at December 2016, DCP had 6,142 ATMs in the UK, of which 47% were FTU machines. DC Payment UK's management accounts provide a breakdown of revenue and costs by ATM type.²⁰ Table 6 shows that the average gross profit of FTU ATMs over the period from FY14 to Q1 FY17 was approximately [X] while the average gross profit of PTU ATMs was approximately [X].

²⁰ Interchange fee revenue relates to the income from FTU ATMs (both for cash withdrawals and balance enquiries). The surcharge revenue relates to the income from PTU ATMs.

Table 6: Summary of DC Payment UK's management accounts for the period FY14 to Q1 FY17*

	FY 14	FY 15	FY 16	Q1 17
Revenue				
Interchange	[X]	[X]	[X]	[X]
Surcharge	[X]	[X]	[X]	[X]
Other	[X]	[X]	[X]	[X]
Total revenue	[X]	[X]	[X]	[X]
Costs of sales				
Interchange	[X]	[X]	[X]	[X]
Surcharge	[X]	[X]	[X]	[X]
Other	[X]	[X]	[X]	[X]
Total costs of sales	[X]	[X]	[X]	[X]
%				
Interchange % of revenue	[X]	[X]	[X]	[X]
Surcharge % of revenue	[X]	[X]	[X]	[X]
Other % of revenue	[X]	[X]	[X]	[X]
Gross profit				
Interchange	[X]	[X]	[X]	[X]
Surcharge	[X]	[X]	[X]	[X]
Gross Profit %				
Interchange	[X]	[X]	[X]	[X]
Surcharge	[X]	[X]	[X]	[X]

Source: Summarised version of DC Payment UK's management accounts.

Summary of the main competitors

3.12 The Parties compete for customers with a number of other IADs as well as some BBSs, notably Barclays and RBS. In this section, we describe the most significant IAD competitors. The competitive constraint exerted by these and other competitors is considered in the competitive effects section.

NoteMachine

3.13 NoteMachine is principally engaged in the sale, rental, placement and operation of ATMs.²¹ It has one of the largest ATM networks in the UK and is one of the leading ATM businesses in Europe. In December 2016, NoteMachine had 9,246 ATMs in use in the UK, of which 63% were FTU machines (approximately the same proportion as Cardtronics in the UK).

3.14 Table 7 summarises NoteMachine's financial information for the UK for FY15 and FY16. In its accounts for the financial year ended 30 June 2016, NoteMachine reported that revenue had grown by £23.1 million (26.9%) to £108.4 million, which reflected strong organic growth in FTU transactions and incremental revenue from dynamic currency conversion.²²

²¹ Statutory accounts for year ended 30 June 2016, p3.

²² Dynamic currency conversion is a financial service in which Visa or MasterCard credit card holders, when making a payment in a foreign country, have the cost of a transaction converted to their home currency at the point of sale.

Table 7: Summary of NoteMachine's financial information for FY15 and FY16

	<i>FY15</i>	<i>FY16</i>
	£'000	£'000
Revenue	85,694	108,381
Gross profit	28,977	40,697
EBIT	8,080	18,266
Profit before tax	4,499	14,708
Gross profit margin	33.8	37.5
EBIT margin	9.4	16.9

Source: Statutory accounts.

Note: Financial years run from 1 July to 30 June.

3.15 Table 8 summarises NoteMachine's UK revenue by income type. The accounts note a single digit decline in PTU surcharge revenue since FY15.²³

Table 8: NoteMachine UK revenue by income type in FY16

	<i>FY16</i>
	£'000
Surcharge revenue	[X]
Interchange revenue	[X]
Other revenue	[X]
Total per annual report	[X]

Source: [X]

3.16 Table 9 summarises NoteMachine's UK revenue and gross profit by ATM type. [X]% of revenue came from FTU ATMs although [X].

Table 9: NoteMachine's UK revenue and contribution analysis by ATM type in FY16

	<i>FTU</i>	<i>PTU</i>	<i>Total</i>
	[X]	[X]	[X]
Revenue	[X]	[X]	[X]
Costs of sales	[X]	[X]	[X]
Gross profit	[X]	[X]	[X]
Overheads			[X]
Operating profit			[X]
Revenue share	[X]	[X]	[X]
Gross profit margin %	[X]	[X]	[X]
Operating profit margin	[X]	[X]	[X]

Source: [X]

YourCash

3.17 YourCash is principally involved in the ownership, rental and maintenance of ATMs and the processing of ATM transactions. As at December 2016, YourCash had 3,619 ATMs in the UK, of which 69% were FTU.

3.18 YourCash was initially formed as a private limited company under the name Hanco ATM Systems Ltd in 2000 and in 2004 Hanco ATM Systems was acquired by The RBS Group. In October 2010, the business underwent a

²³ Statutory accounts for year ended 30 June 2016, p2.

management buyout from RBS and became a standalone private limited company.

3.19 In 2016, YourCash was bought by Euronet Worldwide, a global provider of electronic payment and transaction processing services for financial institutions, retailers, service providers and individual consumers. The Parties told us that YourCash will benefit from Euronet’s leading ATM processing capabilities, large-scale operational expertise, significantly increased capital for ATM deployments and investment in cash-in-transit (CIT) services. The Parties also said that YourCash will gain 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 bank partners.²⁴

3.20 Table 10 shows summary financial information for YourCash for FY14 and FY15. Revenue increased over the period by 3% to £20.4 million.

Table 10: Summary of YourCash’s financial information for FY14 and FY15

	<i>FY14</i>	<i>FY15</i>
	<i>£'000</i>	<i>£'000</i>
Revenue	19,818	20,381
Gross profit	6,129	6,578
EBIT	1,352	1,381
Profit before tax	1,236	1,277
Gross profit margin	30.1	32.3
EBIT margin	6.8	6.8

Source: Statutory accounts.

Note: Financial years run from 1 January to 31 December.

3.21 Table 11 shows a summary of the breakdown of revenue for YourCash. Surcharge and interchange fees accounted for 92.1% of revenue in FY15.

Table 11: Breakdown of revenue for YourCash for FY14 and FY15

	<i>FY14</i>	<i>FY15</i>
	<i>£'000</i>	<i>£'000</i>
Surcharge and interchange fee	18,512	18,772
Machine sales	6	41
Rental income	154	180
Other income	1,146	1,388
Interest receivable	5	6
Total revenue	19,822	20,386
Surcharge & interchange/revenue	93.4%	92.1%

Source: Statutory accounts.

²⁴ Parties’ response to phase 1 decision, 30 May 2017, paragraph 3.11.

PayPoint

- 3.22 PayPoint is a UK registered company established in 1996. As at December 2016, PayPoint had 4,133 ATMs in the UK, of which 44% were FTU.
- 3.23 PayPoint provides a range of different services and, unlike the other major IAD operators, it does not focus only on the provision of ATM services but provides other payment services. In addition to cash withdrawals, its terminals allow users to make energy meter prepayments, bill payments mobile phone top-ups, payment for transport tickets and BBC TV licences, and a range of other transactions, including receiving benefit payments. PayPoint provides both FTU and PTU ATMs, with most new deployments being of FTU ATMs.²⁵ PayPoint announced in 2016 that it planned to step up the installation of ATMs.²⁶
- 3.24 PayPoint has a particular focus on convenience stores and its UK network includes terminals in over 27,800 local shops including Co-operative, Spar, McColls, Costcutter, Sainsbury's Local, Tesco Express, One Stop, Asda, Londis and many independent stores.
- 3.25 PayPoint's revenue for the financial year ended 31 March 2017 was £211.9 million and comprised retail networks revenue of £203.4 million and mobile and online revenue of £8.5 million.²⁷

4. The transaction and relevant merger situation

The transaction

- 4.1 On 6 January 2017, Cardtronics acquired the entire issued share capital of DCP. The acquisition was made by Cardtronics's wholly-owned subsidiary Cardtronics Holdings Limited. As a result of the transaction, Cardtronics exercises sole control over DCP.
- 4.2 The transaction value was approximately US\$460 million (approximately £283 million).²⁸

The rationale for the transaction

- 4.3 The Parties told us that the transaction will allow Cardtronics to expand its ATM deployment and related transaction processing business into Australia

²⁵ PayPoint [Annual Report 2017](#).

²⁶ [Half year financial report for the six months ended 30 September 2016](#), PayPoint plc, 24 November 2016.

²⁷ PayPoint [Annual Report 2017](#).

²⁸ Bank of England exchange rate data for January 2017.

and New Zealand and increase its presence in Canada and Mexico. The Parties said that the transaction will allow Cardtronics to expand in the UK but that this was not a key element of the strategic and economic rationale for the transaction.

- 4.4 The Parties also told us that the combination of Cardtronics and DCP will leverage Cardtronics's existing infrastructure and relationships and drive operating synergies, in particular in Canada and the UK.

Relevant merger situation

- 4.5 Under section 35 of the Act and pursuant to our terms of reference (see Appendix A), the first statutory question which we must decide is whether a 'relevant merger situation' has been created.

- 4.6 Section 23 of the Act provides that a relevant merger situation has been created if:

- (a) two or more enterprises have ceased to be distinct within the statutory period for reference;²⁹ and
- (b) the turnover test or the share of supply test (as specified in that section of the Act) is satisfied, or both are satisfied.

- 4.7 The Merger comprises the acquisition by Cardtronics of the entire issued share capital of DCP. As a consequence, the activities of both businesses (ie the enterprises),³⁰ which were previously separate, are now under common ownership and control and have ceased to be distinct.³¹ The enterprises ceased to be distinct within the statutory time frame.³²

- 4.8 The value of the turnover in the UK of DCP did not exceed £70 million (for the year ended 31 March 2016, it was around £27 million), so the turnover test is not satisfied.

- 4.9 The share of supply test is satisfied where, as a result of two or more enterprises ceasing to be distinct, a share of supply of goods or services in

²⁹ See also sections 24 and 26 of the Act.

³⁰ Section 129(1) of the Act defines an 'enterprise' as 'the activities, or part of the activities, of a business'; and a 'business' is defined as including 'a professional practice and includes any other undertaking which is carried on for gain or reward or which is an undertaking in the course of which goods or services are supplied otherwise than free of charge'.

³¹ Section 26 of the Act.

³² Section 24 of the Act provides that enterprises have ceased to be distinct if they ceased to be distinct not more than four months prior to the date of the reference. In this case, the transaction completed on 6 January 2017, the CMA commenced its investigation on 6 March 2017 and the reference was made on 15 May 2017. The statutory period had been extended to 24 May 2017 in accordance with section 25 of the Act.

the UK, or a substantial part of the UK, of at least 25% is created or enhanced.³³

4.10 Prior to the Merger, the Parties overlapped in the supply of ATMs to site owners and the supply of ATM services to ATM users/customers. The Parties submitted that their combined share of supply by number of ATMs deployed (considering IADs only) was 57% (with the increment resulting from the transaction being 15%).³⁴ The share of supply test is therefore satisfied.

4.11 In view of the foregoing, we conclude that a 'relevant merger situation' has been created.

5. The counterfactual

5.1 Before we turn to the effects of the Merger we need to determine what we would expect the competitive situation to be absent the Merger. This is called the 'counterfactual'.³⁵ The counterfactual is a benchmark against which the expected effects of the merger can be assessed. The counterfactual takes events or circumstances and their consequences into account to the extent that they are foreseeable.³⁶

5.2 The CMA may examine several possible scenarios against which to assess the competitive effects of a merger. One of those may be the continuation of the pre-merger situation; but ultimately only the most likely scenario will be selected as the counterfactual.³⁷

The views of the Parties

5.3 The Parties told us that no counterfactual scenario other than the current competitive situation needs to be considered in respect of the Merger.³⁸ The Parties added that, in assessing the Merger, the CMA should take into account the strengthening of YourCash's competitive presence arising from its acquisition by Euronet (described in paragraph 3.19 above), in particular as a result of new advantages that YourCash will enjoy in terms of infrastructure and access to capital.³⁹

³³ Section 23 of the Act.

³⁴ Prior to the transaction, DCP's share of supply by number of ATMs deployed (considering IADs only) was 15%.

³⁵ [Merger Assessment Guidelines](#), paragraph 4.3.1.

³⁶ [Merger Assessment Guidelines](#), paragraph 4.3.2.

³⁷ [Merger Assessment Guidelines](#), paragraph 4.3.6.

³⁸ [Merger notice](#), 7 June 2016, paragraph 11.1.

³⁹ [Merger notice](#), 7 June 2016, paragraph 11.2 and [Parties' response to phase 1 decision](#), 30 May 2017, paragraph 3.10.

CMA assessment

- 5.4 We did not find any evidence to indicate that the pre-Merger competitive conditions would not prevail absent the Merger. We therefore analyse the competitive effects of the Merger against the pre-Merger conditions of competition.
- 5.5 In our assessment of the competitive effects of the Merger, we take into account Euronet's acquisition of YourCash in relation to the potential for YourCash to expand its ATM estate. In doing so, we consider the most recent information on YourCash's plans for expansion.

6. Theories of harm

- 6.1 Theories of harm describe the possible ways in which an SLC could arise as a result of a merger and provide the framework for the analysis of the competitive effects of a merger. In this section, we set out the theories of harm that we consider in the inquiry.
- 6.2 The Parties overlap in:
- (a) the supply of ATMs to site owners (Cardtronics and DCP deploy approximately 16,000 and 6,000 ATMs, respectively, in the UK); and
 - (b) the supply of ATM services to ATM users/consumers (referred to as the supply of ATMs to ATM users).
- 6.3 Horizontal unilateral effects may arise where one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices, degrade quality, reduce the range of services on its own and without needing to coordinate with rivals and/or to prevent/reduce the introduction of additional services.⁴⁰ Horizontal unilateral effects are more likely where the merger parties are close competitors.

Horizontal effects in the supply of ATMs to site owners

- 6.4 We consider whether a reduction in competition arising from the Merger could allow the merged entity to offer worse contract terms to site owners (eg a lower share of transaction fees and/or lower fixed up-front or monthly payments), to reduce the quality of their offering (eg the maintenance and servicing of ATMs) and/or to reduce innovation.

⁴⁰ [Merger Assessment Guidelines](#), paragraph 5.4.1.

- 6.5 The CMA found in its phase 1 decision that the Merger did not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of ATMs to large/premium site owners or smaller site owners.
- 6.6 For large/premium site owners, the phase 1 investigation found that the Parties' combined share of supply did not raise *prima facie* competition concerns, and the increment from the Merger was negligible. The CMA found that Barclays, RBS and NoteMachine are effective competitors for large/premium site owners and that the Parties are not each other's closest competitor. The CMA concluded in its phase 1 decision that a sufficient number of competitors would therefore remain post-Merger to constrain the Parties.
- 6.7 For smaller site owners, the phase 1 investigation found that, while the Parties compete with each other, they are not each other's closest competitor. The CMA found that NoteMachine is the closest competitor to Cardtronics, and that DCP competes equally closely with Cardtronics and YourCash and, to a lesser extent, with PayPoint. The CMA therefore concluded in its phase 1 decision that there would remain sufficient competitors to constrain the Parties effectively post-Merger.
- 6.8 We therefore indicated in our statement of issues that we were not minded to investigate this theory of harm further, subject to any further evidence submitted. We invited reasoned submissions in relation to the effect of the Merger on the supply of ATMs to site owners. We did not receive any further evidence. We therefore conclude that under this theory of harm the Merger has not resulted, and may not be expected to result, in an SLC in relation to the supply of ATMs to site owners.

Impact on interchange fees paid by card issuers

- 6.9 We consider whether the Merger could result in higher interchange fees as a result of the Parties having increased bargaining power within the LINK network which may, in turn, lead to an increased commercial strain on the LINK network. Although this concern was raised during the phase 1 investigation by some third parties on the basis that the Parties could have greater influence over the costs that are used to calculate interchange fees post-Merger, the majority of third parties did not foresee the Merger having an adverse impact on users of the LINK network.
- 6.10 The CMA concluded at phase 1 that there was no realistic prospect of the Merger resulting in a worsening of terms for banks or building societies through an increase in the Parties' ability and/or incentives to inflate or

negotiate higher interchange fees. Accordingly, the phase 1 decision concluded that there was no realistic prospect of the Merger leading to the collapse of the LINK network.

- 6.11 We therefore indicated in our statement of issues that we were not minded to investigate this theory of harm further, subject to any further evidence submitted. We invited reasoned submissions in relation to this theory of harm but did not receive any new evidence relating to the SLC question. We therefore conclude that under this theory of harm the Merger has not resulted, and may not be expected to result, in an SLC in relation to interchange fees paid by card issuers.

Horizontal unilateral effects in the supply of ATM services to ATM users on a local basis

- 6.12 We examine whether the Merger has resulted, or may be expected to result, in an SLC from unilateral horizontal effects in relation to the supply of ATM services to ATM users on a local basis. In principle, this could occur through:
- (a) reduced availability of FTU ATMs through conversion of FTU ATMs into PTU ATMs; and/or
 - (b) increased surcharges at existing PTU ATMs.
- 6.13 The concern under this theory of harm is that, as a result of the Merger, the Parties would have a greater incentive to increase prices to ATM users – either by converting FTU ATMs to PTU ATMs or by increasing surcharge fees on existing PTU ATMs.
- 6.14 In relation to the first element of the theory of harm, ie that the Merger has resulted, or may be expected to result, in reduced availability of FTU ATMs through conversion of FTU ATMs into PTU ATMs, the CMA obtained evidence during its phase 1 investigation from third party submissions and interviews with each of Cardtronics’s and DCP’s business development managers and examined conversion data provided by the Parties.
- 6.15 The CMA found that the Parties would have limited ability to convert their FTU ATMs into PTU ATMs at their discretion. In particular, the CMA found that the terms specified in the Parties’ contracts with site owners generally only allow conversion from a FTU ATM to a PTU ATM when a FTU ATM becomes economically unviable.
- 6.16 In addition, the phase 1 decision found that site owners would be unlikely to agree to such conversion because of the potential reduction in footfall at their

sites and that it would be costly, and likely unprofitable, to compensate a site owner sufficiently to agree to a conversion.

- 6.17 The CMA therefore found at phase 1 that the Merger did not give rise to a realistic prospect of an SLC in the supply of ATMs to ATM users on a local basis through the reduced availability of FTU ATMs (through conversion of FTU ATMs into PTU ATMs).
- 6.18 In our statement of issues, we invited reasoned submissions in relation to the effect of the Merger on the availability of FTU ATMs.⁴¹ We did not receive any further evidence. We also found no evidence that the rate of conversion from PTU to FTU ATMs has slowed down since the Merger.
- 6.19 We therefore focus our inquiry on the second element of this theory of harm, ie that the Merger has resulted, or may be expected to result, in increased surcharges at existing PTU ATMs.

7. Market definition

- 7.1 The purpose of market definition in a merger inquiry is to provide a framework for the analysis of the competitive effects of the merger.⁴² Market definition is a useful analytical tool, but not an end in itself, and identifying the relevant market involves an element of judgement.
- 7.2 The boundaries of the market do not determine the outcome of the CMA's analysis of the competitive effects of the merger in any mechanistic way. In assessing whether a merger may give rise to an SLC the CMA may take into account constraints outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others.⁴³
- 7.3 In this section, we set out the relevant markets in which we have assessed the effects of the Merger in relation to the supply of ATM services to ATM users. We first define the product market and then define the geographic market.

Product market definition

- 7.4 The relevant product market is identified primarily by considering the response of customers to an increase in the price of one of the products of the

⁴¹ [Issues statement](#).

⁴² [Mergers: Guidance on the CMA's jurisdiction and procedure \(CMA2\)](#), paragraph 5.2.1.

⁴³ [Merger Assessment Guidelines](#), paragraph 5.2.2.

merger firms (demand-side substitution).⁴⁴ However, there are circumstances where the CMA may aggregate several narrow relevant markets into one broader one on the basis of considerations about the response of suppliers to changes in prices (supply-side factors).⁴⁵

- 7.5 It is usual to define markets using the hypothetical monopolist test. This test delineates a market as a set of substitute products over which a hypothetical monopolist would find it profitable to impose a small but significant non-transitory increase in prices (SSNIP).⁴⁶

Segmentation by type of ATM

- 7.6 We consider whether, within the supply of ATMs to ATM users, we should segment the market on the basis that there may be, on the demand-side, some types of ATM which customers do not view as substitutes for one another.

The views of the Parties

- 7.7 The Parties told us that the service ATM users receive (ie cash withdrawal) is commoditised and that any further segmentation is largely artificial.⁴⁷ The Parties also said that the product characteristics of the ATMs deployed by the Parties and their competitors are essentially the same across customer sites.⁴⁸
- 7.8 On the supply side, the Parties told us that all the major IADs are able to deploy PTU and FTU ATMs and that there are no technical or network differences between them. The Parties also said that, subject to any contractual commitments, PTU ATMs may be converted to FTU (and vice versa) with ease.⁴⁹

The views of third parties

- 7.9 Competitors and site owners told us that the service that ATM users receive from an ATM is commoditised and that, from a user's perspective, the only difference between ATMs is whether the ATM is FTU or PTU.

⁴⁴ [Merger Assessment Guidelines](#), paragraph 5.2.7.

⁴⁵ [Merger Assessment Guidelines](#), paragraph 5.2.17.

⁴⁶ The test is described in detail in paragraphs 5.2.10–5.2.20 of the [Merger Assessment Guidelines](#).

⁴⁷ [Merger notice](#), 7 June 2016, pp13 & 14.

⁴⁸ [Merger notice](#), 7 June 2016, p14.

⁴⁹ [Merger notice](#), 7 June 2016, p14.

CMA assessment

- 7.10 We consider the extent to which different ATMs are substitutable and find, in light of our consideration of the industry in Chapter 2 and the views of competitors and site owners set out above, that ATMs differ only in:
- (a) whether the ATM is FTU or PTU (and, if PTU, the level of the surcharge);
 - (b) type of location (eg supermarket, convenience store) and its visibility and accessibility for consumers; and
 - (c) the distance from the consumer.
- 7.11 From an ATM user's perspective, ATMs essentially provide the same service, with the main difference between ATMs being whether or not the ATM is PTU or FTU.
- 7.12 ATM users may switch between PTU and FTU ATMs, depending on the distance they need to travel to access a FTU ATM and other factors, such as whether the PTU ATM is located in an enclosed location (such as a shop) or is visible from the street. The level of demand-side substitutability from an ATM user's perspective may therefore depend on local circumstances.
- 7.13 We also note that there are no inherent differences between the services provided by PTU and FTU ATMs, save for a PTU ATM requiring users to pay a surcharge to withdraw cash. We also found evidence that consumers are prepared to switch between PTU and FTU ATMs (see, for example, paragraphs 7.71 to 7.94).
- 7.14 We therefore examine the impact of the Merger on the supply of ATM services to ATM users and do not segment the market further. We take into account variations in PTU surcharges in our competitive assessment together with the type of ATM location and distance from the consumer.

Out-of-market constraints

- 7.15 As noted in paragraph 2.19, there are a number of alternative options to ATMs for withdrawing cash and making payments. We consider whether the product market should be widened to include these alternative means of withdrawing cash (such as cashback) or of making payments (such as paying by debit or credit card with chip and pin, contactless card or mobile phone).

The views of the Parties

- 7.16 The Parties told us that alternative methods of withdrawing cash compete with ATMs and that surcharge increases at PTU ATMs would encourage more people to switch away from using PTU ATMs. The Parties said that, in 2015, PTU withdrawals accounted for just 2% of the total number of cash withdrawals (1.7% by value).⁵⁰
- 7.17 The Parties said that this trend has led to many PTU ATMs becoming uneconomic. Between 2013 and 2016, the number of DCP PTU ATMs declined by [X]%, with revenue falling by [X]%. The Parties also said that the decline in PTU ATMs is being driven by changes in customer behaviour and increased availability of other payment methods, with important factors behind the changes including:
- (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 those operated by Transport for London; and
 - (e) migration of person-to-person payments to mobile services, such as Paym.⁵¹
- 7.18 The Parties said that, accordingly, an increase in PTU surcharges would increase the speed of the decline of PTU ATMs in favour of FTU ATMs and alternative payment options. The Parties said that, as ATMs do not discriminate between users in respect of price or quality, even those users who do not have such alternative payment means available for a specific transaction enjoy the benefit of the general competitive constraint they impose.⁵²

The views of third parties

- 7.19 Over half of the 22 site owners who provided us with information on payment methods told us that alternative payment methods had led to a reduction in

⁵⁰ Parties' response to phase 1 decision, 30 May 2017, paragraph 4.46.

⁵¹ Parties' response to phase 1 decision, 30 May 2017, paragraphs 4.48–4.50.

⁵² Parties' response to phase 1 decision, 30 May 2017, paragraphs 4.53–4.54.

the volume of PTU ATM transactions, whilst over a third said that there had been no effect.

- 7.20 A large pub retailer and brewer told us that its revenues from PTU ATMs were declining by 10% per year because of increasing use of alternative payment methods, although it did not consider that this had affected surcharges.⁵³ An operator of multiple petrol station sites told us that it had seen a gradual reduction in the number of transactions at PTU ATMs since the introduction of other payment methods.⁵⁴

Evidence from the consumer survey

- 7.21 We commissioned an omnibus survey of consumers to provide insights into the behaviours and preferences of consumers using ATMs. The consumer survey is described in more detail in Appendix B.
- 7.22 In relation to payment methods, the survey asked consumers who had used a PTU ATM to withdraw money to pay for something why they used cash, rather than another payment method, to pay. 37% of respondents said that the recipient would only accept cash. 4% said that they could not use chip and pin or contactless payment methods with their card and 3% said that they had to spend a minimum amount to use a card. In aggregate, 47% of respondents said that they used cash because they considered that an alternative payment method was not available. In comparison, 39% (in aggregate) expressed a preference for using cash rather than another payment method.⁵⁵
- 7.23 The consumer survey also provides indirect evidence on how consumers would respond to an increase in the surcharge at a PTU ATM, which we describe at paragraphs 8.35 to 8.38 of our local analysis.

BRC Payments Survey

- 7.24 The BRC Payments Survey 2016 found that, for the first time, cards accounted for the majority of retail transactions by volume.⁵⁶ Debit cards overtook cash purchases, with debit card transactions growing by 4.5% over the year to almost 43% of retail transactions.

⁵³ 

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⁵⁵ See Appendix B, Table 13

⁵⁶ [BRC Payment Survey 2016](#). The BRC Payments Survey is an annual survey which measures the sales volumes and values of different payment channels employed by retailers across the UK.

- 7.25 The volume of cash payments fell to 42% in 2016 from 47% in 2015 (and 52% in 2014). Average transaction values of debit and credit card payments also fell over this period.
- 7.26 The BRC Payments Survey also found that one of the biggest drivers of increasing card usage has been the growing use of contactless payments and noted the increasing number of retailers that have invested in payment technology to accept cards, contactless payments and new payment applications both online and in-store.

Payments UK data

- 7.27 Data from Payments UK indicates that cash remains an important payment method, with a total of 17.2 billion cash payments being made in 2015, equating to 45% of all UK payments.⁵⁷ However, payments by debit card have increased fivefold in the past ten years, while contactless payments increased by 26% last year.⁵⁸ BBSs are developing mobile and online payment channels. The total volume of cash withdrawals is forecast to decline by 2% per year and, by 2025, cash payments are forecast to account for just over 27% of payments.⁵⁹

UK Cards Association data

- 7.28 The Parties also submitted data from the UK Cards Association which showed that contactless payments have increased significantly in the last two years:
- (a) The number of contactless card transactions increased by a factor of seven between March 2015 (63 million transactions per month) and March 2017 (nearly 442 million transactions per month).
 - (b) The value of contactless card transactions increased nearly tenfold between March 2015 (£431 million per month) and March 2017 (£4 billion per month).⁶⁰

CMA assessment

- 7.29 Cash payments have declined in recent years and are forecast to decline further. As cash payments decline, debit card payments and contactless

⁵⁷ [Cash & Cash Machines](#), Payments UK, 2016.

⁵⁸ [Cash & Cash Machines](#), Payments UK, 2016.

⁵⁹ [UK Payments Market - Summary](#), Payments UK, 2016.

⁶⁰ [Contactless statistics](#), UK Cards Association.

payments are expected to increase.⁶¹ This trend is also illustrated by the BRC Payments Survey data. We infer from this that some consumers are replacing cash withdrawals from ATMs by using payment methods other than cash.

- 7.30 Evidence from site owners also indicates that alternative payment methods to cash are affecting the commercial performance of PTU ATMs.
- 7.31 Most consumers have the ability to access alternative payment methods to cash. Data from Payments UK indicates that 90% of adults in the UK have a debit card, whilst 60% have a credit card.⁶² Consumers who hold debit or credit cards are in most cases able to access a range of alternative payment methods, including direct debit, contactless payment, cheques and mobile payments. Basic and other bank account holders can withdraw cash from any LINK machine as well as use debit cards in stores.⁶³
- 7.32 We note that some categories of consumer may be particularly reliant on withdrawing cash to make payments, even if they have the ability to access alternative payment methods. In particular, low income groups and older consumers may rely more on cash for their payments.
- 7.33 For market definition, the relevant question is whether, in response to a price rise, additional 'marginal' consumers would switch in sufficient numbers to alternative methods to make the price rise unprofitable. In this regard, we note that:
- (a) The evidence of card use increasing and cash withdrawals falling relates to the evolution of the market (ie shifts in the demand curve for cash) but does not provide evidence on how users of PTU ATMs would respond to a small increase in the surcharge (ie movements along the demand curve).
 - (b) There may be many ATM cash withdrawals that are not 'marginal', since they are driven by a specific need for cash (eg to pay for services), in circumstances where other payment methods are either not accepted or not convenient. For example, some alternative payment methods may not be available 24 hours a day, or a user may need to make a purchase to get cashback. Some smaller stores may not accept cards or charge a fee for doing so (as noted in paragraph 7.22, a number of survey respondents said that they could not use a card for their transaction).

⁶¹ 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. [UK Payments Market - Summary](#), Payments UK, 2016.

⁶² [UK Payments Market - Summary](#), Payments UK, 2016.

⁶³ However, Post Office current account (POCA) holders cannot use their POCA card in stores and can only withdraw cash from Bank of Ireland ATMs (ie not the Parties' ATMs).

(c) The fact that a consumer uses a PTU ATM shows that he or she is willing to pay a surcharge, which leads to the inference that alternative payment options are not a good substitute for that consumer at that time.

7.34 Therefore, whilst we recognise that other cash withdrawal or payment methods may be an alternative for some consumers, we consider that the relevant product market is no wider than the supply of ATMs to ATM users.

7.35 However, as part of the filtering and competitive assessment in Chapter 8, we consider whether out-of-market constraints, in combination with other factors, may constrain the Parties from increasing surcharges at PTU ATMs.⁶⁴

Conclusion on product market definition

7.36 We conclude that the relevant product market is the supply of ATMs to ATM users.

Geographic market definition

7.37 We consider, for each of the ATMs of potential concern in our theory of harm (ie the Parties' PTU ATMs), what geographic area contains the set of other ATMs that would need to be controlled for a hypothetical monopolist to be able profitably to raise prices above the competitive level.

7.38 In practice, the size (and shape) of this geographic area may be different for each ATM, depending on its users and their ability and willingness to travel, and on the characteristics of its location – for example, whether it is inside a venue or if routes to other ATMs are obstructed by barriers such as busy roads. Variations in catchment area by locality were also noted by the Parties, competitors and site owners.

7.39 Given the large number of local areas in which both Cardtronics and DCP operate PTU ATMs, we focus our assessment of the geographic scope on how geographic markets vary depending on the category of location, rather than the specific location, at which the ATM is installed.

7.40 We examine the following questions:

⁶⁴ In this regard, the Parties told us that 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' incentive to increase surcharges post-Merger. [Parties' response to phase 1 decision](#), 30 May 2017, paragraph 4.53.

- (a) First, we consider whether there are categories of location in which ATMs do not compete with any other ATMs – eg when ATMs are in enclosed locations where consumers are very unlikely to look for alternatives.⁶⁵
- (b) Second, for those ATMs that do compete with one other, we collate evidence on the size of the area over which the ATMs compete and how this catchment area varies according to the type of location.

7.41 We use the following evidence to determine the appropriate catchment areas for each type of ATM location:

- (a) comments and internal documents from IADs, including the Parties and their competitors, and from owners of the sites at which the Parties' ATMs are located;
- (b) econometric evidence on how transactions at ATMs are affected by the installation or removal of nearby ATMs; and
- (c) evidence from the consumer survey.

ATMs in captive sites

7.42 Captive ATMs are those that do not constrain, and are not constrained by, other ATMs as they are in enclosed locations, meaning consumers are very unlikely to look for alternatives.

7.43 In its phase 1 decision, the CMA excluded from its analysis ATMs in the following 'captive' locations: (a) bingo halls; (b) casinos; (c) strip clubs and night clubs; (d) race courses; (e) holiday parks; (f) theme parks; (g) military bases; (h) workplace ATMs; and (i) private ATMs with no public access.⁶⁶

The views of the Parties

7.44 The Parties told us that they consider as captive sites those which are 'destinations', which users may be reluctant to leave.⁶⁷

7.45 The Parties said that they agree with the approach taken in the phase 1 decision but said that captive categories may go further than those defined (eg to include pubs), reflecting the fact that customers are unlikely to enter a

⁶⁵ In its phase 1 decision, the CMA excluded certain 'captive' ATMs from the assessment where they were in locations where consumers are very unlikely to look for alternatives and where they therefore do not constrain, and are not constrained by, other ATMs.

⁶⁶ [CMA phase 1 decision](#), 7 June 2017, paragraph 202.

⁶⁷ [X]

venue such as a pub to access a PTU ATM, but that a PTU ATM might help to keep customers within the venue if they run out of cash.⁶⁸ In this regard, DCP told us that the pubs in which its ATMs are installed [REDACTED], in which customers spend time and would be reluctant to leave to find cash.

7.46 The Parties also said that the description of captive categories should be extended to include 'leisure' venues which, in addition to those described as captive in the phase 1 decision, should include cinemas, leisure centres and sports venues. In addition, the Parties said that ATMs on ferries and at railway stations should be considered captive.⁶⁹

7.47 The Parties told us that ATMs at motoring sites should also be excluded from the CMA's assessment as a high proportion of customers are in transit on a regular route or are irregular visitors who may be captive to the site. Furthermore, the Parties said that customers at motorway service stations are likely to be captive.⁷⁰

The views of third parties

7.48 Competitors and site owners told us that some ATMs in enclosed locations are captive and do not compete with nearby ATMs and that they should therefore be excluded from our assessment.

7.49 One competitor told us that the profitability of ATMs within casinos and nightclubs is not affected by the proximity of nearby ATMs.⁷¹

7.50 Another competitor said that leisure and entertainment venues where the user has paid an entrance fee are less affected by the proximity of nearby ATMs than where the user is able to use an alternative ATM, citing theme parks, casinos, nightclubs, bingo halls and holiday parks as examples.⁷² An internal document from this competitor stated that nightclubs/bars, 'gentlemen's clubs', casinos, family entertainment/amusements and holiday parks are always offered PTU rather than FTU ATMs.⁷³ This may mean that these locations are less affected by local competition.

⁶⁸ [Parties' response to phase 1 decision](#), 30 May 2017, paragraph 4.62–4.63.

⁶⁹ [REDACTED]

⁷⁰ [REDACTED]

⁷¹ [REDACTED]

⁷² [REDACTED]

⁷³ [REDACTED]

- 7.51 Another competitor told us that high PTU surcharges are usually associated with captive locations, including motorway service stations and entertainment venues.⁷⁴
- 7.52 We asked several pub owners whether they consider that ATMs at their sites compete with ATMs nearby and whether nearby ATMs are taken into account in agreeing the level of surcharges at their PTU ATMs with the IAD:
- (a) [redacted] told us that, although the surcharges at its ATMs are not based on local factors, it considers that ATMs at its locations compete with local FTU ATMs (but not PTU ATMs).
 - (b) [redacted] and [redacted] told us that, in deciding whether to install an ATM in a pub and in agreeing the surcharge to set once they have decided to install a PTU ATM, they take into account the availability of and surcharge levels at nearby ATMs.
 - (c) [redacted] told us that the surcharge at its ATMs will typically be higher in areas where it provides the only ATM and that, where there is competition, the surcharge tends to drop where there is a FTU ATM in close proximity. [redacted] said that, for an ATM to be viable, it may therefore need to be FTU.
- 7.53 A motorway service station provider told us that, as its sites are located on the motorway network, the availability of other ATMs locally did not form part of the process of determining a surcharge.⁷⁵ Another service station provider told us that it does not believe that its ATMs are in competition with ATMs at other retail businesses, but that its ATM surcharges are set in comparison with those at other motorway service areas.⁷⁶
- 7.54 A petrol station operator told us that an ATM is a fundamental part of its convenience offer and that it does not consider nearby ATMs when making commercial decisions on surcharges at its ATMs.⁷⁷ Another petrol station operator told us that, in cities, an ATM at a petrol station can be one of dozens in a radius of a few hundred metres whereas, in rural areas, there might be no competing ATM for many miles.⁷⁸

CMA assessment

- 7.55 In assessing which sites are captive, we consider:

⁷⁴ [redacted]
⁷⁵ [redacted]
⁷⁶ [redacted]
⁷⁷ [redacted]
⁷⁸ [redacted]

- (a) sites at which ATMs are not constrained by other ATMs (ie locations where it is unlikely that consumers will leave the site to seek to use an alternative ATM); and
- (b) sites at which ATMs do not constrain other ATMs (ie sites that consumers are unlikely to enter exclusively for the purpose of using the ATM).

7.56 Factors that may contribute to a site being captive include:

- (a) consumers having to pay to enter the site;
- (b) difficulties in entering or leaving a site (eg because of security procedures); and/or
- (c) the location being isolated or not easily accessible on foot.

7.57 In our assessment, we take into account the views of the Parties, competitors and site owners.

Sites considered captive at phase 1

7.58 Responses from competitors and site owners supported excluding ATMs in the locations identified as captive in the phase 1 decision. We consider that these sites should be categorised as captive in our assessment as they either require payment to enter, have barriers impeding entry and exit from the site or are isolated and/or not easily accessible on foot.

Social locations (including pubs)

7.59 The Parties told us that customers are unlikely to enter a venue such as a pub just to access a PTU ATM, but said that a PTU ATM might help to keep customers within the venue if they run out of cash. However, we note that responses from pub owners indicate that they consider surcharges at local ATMs in agreeing surcharges at their own ATMs with IADs, from which we infer that ATMs in pubs are constrained by nearby ATMs.

7.60 As set out in paragraph 7.55, we consider sites as being captive where they do not constrain other ATMs and are not constrained by other ATMs. In light of evidence from pub owners, we consider that ATMs in pubs are constrained by other ATMs in the local area. However, we consider that consumers are unlikely to enter a pub exclusively to use an ATM and that, accordingly, ATMs in pubs may not constrain nearby ATMs.

7.61 We therefore assess the competitive effects of the Merger in relation to the Parties' ATMs located in pubs. However, we exclude ATMs owned by competitors which are located in pubs from the local area assessment.

Transport sites

7.62 The Parties told us that ATMs in certain transport locations should be considered captive as users are either regular passengers on that route for whom the ATM choice set is not limited to the transport hub or are one-off passengers and are unlikely to explore the environs of the transport hub to seek alternative ATMs.⁷⁹

7.63 We note that some transport sites, such as railway stations, are, in many cases, in the middle of cities and towns. Consumers are therefore likely to be able to leave the site to use ATMs in the local area, use alternative ATMs on their route to or from the site or to enter the site to use ATMs located within it.

7.64 However, in the case of ferries, we note that the ATMs on ships are only available for passenger and crew use and that shore-based ATMs are unlikely to be substitutes. We therefore consider ATMs on ferries as captive.

7.65 In relation to other locations, such as airports and ferry ports, we note that they are isolated sites. There could, however, be competition between ATM deployers within the site. We therefore include ATMs at these transport locations in our competitive assessment.

Service stations

7.66 As set out in paragraph 7.47, the Parties told us that motoring sites should be considered captive. Motorway service station operators told us that their ATMs do not compete with ATMs at other service stations. Petrol station operators told us that their ATMs in rural areas may face no local competition from other ATMs, but that their ATMs in urban areas may compete with other ATMs nearby.

7.67 We therefore consider ATMs located at motorway service stations and other service stations which are not easily accessible on foot as captive. We do not exclude from our analysis service stations which are easily accessible on foot.

⁷⁹ [REDACTED]

Leisure venues

- 7.68 In addition to the leisure venues considered captive in the phase 1 decision, the Parties told us that cinemas, leisure centres and sports venues should be considered captive.
- 7.69 We note that sports venues may be difficult to access for consumers not attending events and that, once in a sports venue, impediments to re-entry may discourage consumers from leaving to seek an alternative ATM. However, such impediments to entry and exit are unlikely to be found at cinemas and leisure centres. We therefore consider ATMs at sports venues as captive, but not ATMs at cinemas or leisure centres.
- 7.70 We also note that ATMs are provided at some festivals and events. We exclude these ATMs from the competitive assessment as they are moved between events.

The catchment area for ATMs

- 7.71 We consider the size of the catchment area for ATMs, taking into account:
- (a) the views of the Parties;
 - (b) the views of third parties;
 - (c) evidence from our econometric analysis; and
 - (d) evidence from the consumer survey.

The views of the Parties

- 7.72 The Parties told us that walking distances to ATMs are likely to depend upon the type of location and the individual involved. Cardtronics said that, when it is identifying locations at which to place new ATMs, whether in rural or urban areas, it is guided by the following criteria:
- (a) FTU ATMs are ideally not to be placed within [X] metres of an existing FTU ATM.
 - (b) PTU ATMs are ideally not to be placed within [X] metres of a FTU ATM ([X]).⁸⁰

⁸⁰ [Merger notice](#), 7 June 2016, p59.

- 7.73 A Cardtronics internal document stated that, when identifying locations at which to place new ATMs, if there is a FTU ATM within [redacted] miles ([redacted] metres), only a FTU ATM should be offered to the site owner.
- 7.74 The Parties told us that FTU ATMs provided a broader constraint on PTU ATMs than was recognised in the CMA's phase 1 decision.⁸¹ In particular, the Parties said that the constraint imposed by FTU and PTU ATMs is asymmetric, with people prepared to travel further to access a FTU ATM as they would benefit from saving the surcharge in its entirety, as opposed to the lower and more marginal saving by switching to another PTU ATM.⁸²

The views of third parties

- 7.75 We asked competing IADs over what distance they took into account other ATMs in setting surcharges. [redacted] told us that it takes into account the surcharges at other ATMs at a distance of up to 50 to 100 metres for a PTU ATM and circa 250 metres for a FTU ATM, whilst [redacted] said that the relevant distance was around 300 metres regardless of the type of ATM. [redacted] told us that the distance depends on the location of the ATM, particularly whether it is in an urban or rural area, but is greater for FTU ATMs than PTU ATMs.
- 7.76 We also asked site owners over what distance their ATMs competed with other ATMs. We received mixed responses. A large pub operator told us that a FTU ATM within a few minutes' walk will be a factor in a customer's decision as to whether to use a PTU ATM, whilst another stated that its ATMs compete with other ATMs within a five-minute walk.⁸³ A different pub operator said that its ATMs compete with FTU ATMs (but not PTU ATMs) within 100 metres.⁸⁴
- 7.77 A convenience and news agency group told us that another store or ATM within at least a quarter of a mile would be likely to compete and said that it is possible that ATMs from further afield may also compete.⁸⁵

⁸¹ The CMA's phase 1 decision took a cautious approach, flexing the area considered to look at alternative local geographic frames of reference, in order to identify whether there are any local overlaps (paragraph 73 of the phase 1 decision). The CMA filtered out ATM centroids where a competitor's FTU ATM is located within 200 metres of the Parties' centroid ATM in urban areas or 500 metres in rural areas. The CMA also considered the potential constraint that a competitor's FTU ATM may have when it is located relatively closer to the centroid of interest. With respect to catchment areas of 500 metres in urban areas and 1 km in rural areas, the CMA filtered out centroid ATMs when a competitor's FTU ATM is located closer to the centroid than the other party's ATM.

⁸² [Parties' response to phase 1 decision](#), 30 May 2017, paragraphs 4.59–4.61.

⁸³ [redacted] and [redacted]

⁸⁴ [redacted]

⁸⁵ [redacted]

Econometric evidence

- 7.78 Using data on transactions at individual ATMs over time, we assess how transactions at ATMs were affected by the entry or exit of other ATMs in the same local area. We use data on over 80,000 ATMs operated by the Parties, competitors and LINK covering the period April 2016 to June 2017, excluding ATMs that we consider captive. Our analysis is explained in full in Appendix C.
- 7.79 Using an econometric model, we compare the evolution of withdrawals in ATMs that experienced the installation or removal of ATMs in their vicinity with that of those that did not. This provides us with an estimate of the percentage change in the number of withdrawals resulting from the installation or removal of a nearby ATM.
- 7.80 In order to inform our assessment of the relevant geographic market, we consider entry and exit at different radii (eg 50 metres, 100 metres and 200 metres). We also test whether these effects vary depending on whether the new or removed ATM is PTU or FTU.
- 7.81 Our econometric analysis allows us to control for:
- (a) differences in the level of withdrawals because of characteristics in the areas in which each ATM is located (eg whether it is a busy shopping street or a pub in a rural area), provided that these differences are constant within our period of analysis; and
 - (b) market-wide changes in the overall number of withdrawals throughout the year (eg an overall increase in withdrawals in the summer or at Christmas).
- 7.82 Table 12 sets out the results of our econometric analysis.

Table 12: Percentage change in the number of withdrawals following the introduction (removal) of a nearby ATM

	0-50m	50-100m	100-150m	150-200m
All ATMs	-10%	-4%	-2%	-3%
FTU	-19%	-7%	-5%	-4%
PTU	N/E	N/E	N/E	N/E

Source: CMA analysis of data from the Parties, competitors and LINK.
Notes: N/E indicates that no statistically significant results are found.

- 7.83 The econometric analysis examines the effect of changes in the number of ATMs in the local area – either an increase in the number of ATMs (installations) or a decrease (removals) on the number of withdrawals at the centroid ATM. The numbers in Table 12 therefore indicate the effect of an extra ATM in the area, but also correspond (with the opposite sign) to the

effect of the removal of an ATM. For example, an additional (one fewer) FTU ATM within 50 metres of the centroid results in a reduction (increase) in the number of withdrawals at the centroid of approximately 19% on average.

- 7.84 The results indicate that the number of withdrawals at a PTU ATM is only affected by the installation or removal of a FTU ATM within 200 metres.⁸⁶ However, we did not find a statistically significant effect on withdrawals following the installation or removal of a PTU ATM in the vicinity.
- 7.85 Statistically insignificant coefficient estimates indicate a lack of evidence of competition between ATMs, rather than evidence of no competition. Such a finding could be due to a lack of competition between ATMs, but it could also be the result of limitations in our methodology and data (eg smaller number of entry/exit events, endogeneity bias). Therefore, no robust conclusion on the degree of competition between PTU ATMs can be drawn from the statistically insignificant results of the econometrics analysis, and other sources of evidence should be considered to establish the distance bands to be used for PTU ATMs. We provide further details in Appendix C.

Evidence from the consumer survey

- 7.86 The consumer survey asked respondents to think about the last PTU ATM they used and state how far in minutes they would have walked to a FTU ATM, or to a PTU ATM that was 20 pence cheaper. Table 13 sets out the cumulative percentages of responses based on a conversion of walking time to metres.⁸⁷

Table 13: Cumulative percentage of non-captive users who said they would be willing to walk to a FTU ATM or a PTU ATM that was 20 pence cheaper

	%	
	<i>FTU</i>	<i>PTU</i>
No walk at all	28	49
Up to 2 minutes (160m)	40	65
Up to 5 minutes (415m)	67	82
Up to 10 minutes (830m)	88	93

Source: CMA analysis of consumer survey results.

- 7.87 On this basis, considering how far 80% of consumers said they would be prepared to walk, it would appear to be appropriate to use a walking time of

⁸⁶ At greater distances, there is no statistically significant effect.

⁸⁷ We use a conversion rate based on an average walking speed of 5 kilometres per hour.

10 minutes (830 metres) for FTU ATMs and five minutes (415 metres) for PTU ATMs for the geographic market.⁸⁸

7.88 The results of the survey are consistent with the econometric results insofar as they indicate that the catchment area for FTU ATMs is wider than that for PTU ATMs. However, the walking distances are much longer than those arising from the econometric results. We consider this is likely to be for three reasons:

(a) The econometric analysis is based on straight line distances rather than the distances that consumers would have walked.

(b) The walking distances from the survey results are converted from an average walking speed and are only an approximation (for example, consumers who walk more slowly would not travel as far).

(c) The survey results are based on self-reported answers rather than actual diversion and there is a risk that respondents may, after the event, have stated an approximate number of minutes that they would be prepared to walk to an alternative ATM which exceeds the distance they would actually have been prepared to walk at the time.

7.89 We also note that uncertainty about the location of an alternative PTU ATM and what the surcharge would be at that ATM may discourage consumers from seeking alternatives.

7.90 In this regard, we note that, when asked why they used a PTU and not a FTU ATM, 44% said they were in a hurry, 22% could not be bothered to go any further and 22% did not know where to find a FTU ATM. It would appear from this evidence that consumers would be prepared to walk only small distances to an alternative ATM.

CMA assessment

7.91 The evidence in relation to the relevant geographic market from the Parties, competitors, site owners, econometric analysis and the consumer survey is mixed. The evidence that we assessed indicated that the catchment area for a FTU ATM was wider than that for a PTU ATM, although estimates of distances over which ATMs compete varied widely.

⁸⁸ Considering a local catchment area including 80% of consumers is a frequent starting point in the assessment of geographic markets in merger control, although the catchment area may vary by case reflecting variations in local geographic factors.

- 7.92 We consider that more weight should be given to the econometric analysis as it is based on actual data rather than estimates by third parties and consumers. We also note that the distances adopted by Cardtronics in its internal guidance are more consistent with the econometric analysis. In particular, the guidance states that a PTU ATM can be offered to a site owner provided that there is not a FTU ATM within [X] metres, with a different internal document stating a distance of [X] metres. [X], which may mean that interaction between PTU ATMs is limited.
- 7.93 The results of the econometric analysis indicate that the number of withdrawals at a PTU ATM are affected by the installation or removal of a FTU ATM within 200 metres. However, the econometric analysis has not provided us with useful evidence regarding the catchment areas that should be used for competing PTU ATMs. The evidence from competitors and the survey indicates that catchment areas are much narrower than for FTU ATMs. In particular, the results of the consumer survey indicate that the catchment areas for PTU ATMs are about half the size of those of FTU ATMs.
- 7.94 In consequence, we have adopted a catchment area of 200 meters for FTU ATMs and of 100 metres for a PTU ATM. This reflects the bias in the econometric results, which is greater for PTU ATMs than FTU ATMs (as explained further in Appendix C), and the relative sizes of the catchments implied by the survey results.

Conclusion on geographic market

7.95 We conclude that:

- (a) The following categories of site are captive:
- (i) Bingo halls.
 - (ii) Casinos.
 - (iii) Strip clubs and night clubs.
 - (iv) Race courses.
 - (v) Holiday parks.
 - (vi) Theme parks.
 - (vii) Military bases.
 - (viii) Workplace ATMs (if private).

- (ix) Private ATMs with no public access.
 - (x) Ferries.
 - (xi) Motorway service stations and other services stations not easily accessible on foot.
 - (xii) Sports venues.
 - (xiii) Festivals.
- (b) The catchment areas for ATMs are as follows:
- (i) 100 metres for PTU ATMs.
 - (ii) 200 metres for FTU ATMs.

8. Local analysis to identify areas of potential concern

- 8.1 As set out in our consideration of theories of harm in Chapter 6, we focus our assessment on whether the Merger has resulted, or may be expected to result, in increased surcharges at existing PTU ATMs.
- 8.2 In light of our conclusions on the geographic market set out in paragraph 7.95, we focus our assessment on the competitive effects of the Merger on surcharges at the Parties' PTU ATMs which are:
- (a) not themselves captive; and
 - (b) within 200 metres of at least one of the other party's non-captive FTU ATMs; or
 - (c) within 100 metres of at least one of the other party's non-captive PTU ATMs.
- 8.3 We describe PTU ATMs which meet these criteria as the 'centroid ATMs in the overlap areas'.
- 8.4 We consider whether the Parties would, as a result of the Merger, have the ability and incentive to increase surcharges at these ATMs.
- 8.5 For example, the surcharge at a DCP PTU ATM in a particular area may, in principle, be constrained pre-Merger by the surcharge at a nearby Cardtronics PTU ATM. However, post-Merger, a surcharge increase at the DCP PTU ATM may become profitable as the Parties would recapture the surcharge revenue of those ATM users switching to the Cardtronics PTU ATM, as well as earning

higher revenue per transaction from those ATM users who continue to use the DCP PTU ATM.

- 8.6 We also consider competition between PTU and FTU ATMs. For example, a surcharge increase at a DCP PTU ATM may become profitable post-Merger if sufficient users switch to a Cardtronics FTU ATM (at which Cardtronics earns revenue from the interchange fee), with DCP earning higher revenues per transaction from those ATM users who continue to use the DCP PTU ATM.
- 8.7 In this section, we describe the local analysis we perform to identify local areas in which competition concerns are more likely to arise as a result of the Merger. We assess the competitive effects of the Merger in local areas identified by the filters and local analysis in Chapter 9.
- 8.8 Our local analysis consists of two parts: (a) a filter to exclude areas that are unlikely to cause competition concerns; and (b) analysis of the Parties' incentive to increase surcharges post-Merger.
- 8.9 The filters may be summarised as follows:
- (a) Removing captive ATMs (those of the Parties and their competitors).
 - (b) Identifying overlaps between the Parties' ATMs and including in the analysis only ATMs inside the geographic catchment area.
 - (c) Filtering out local areas in which there would remain at least three competing ATM operators to the Parties post-Merger.
- 8.10 After applying the filters, we assess the Parties' incentive to increase the surcharge at the centroid ATM by computing critical diversion ratios and expected diversion ratios (using market shares) and excluding areas in which critical diversion ratios are higher than or equal to expected diversion ratios.
- 8.11 We consider the filters and diversion ratio analysis in turn below. A more detailed description of our local analysis is provided in Appendix D.

Removing captive ATMs

- 8.12 We set out the sites that we categorise as captive in paragraph 7.95(a).
- 8.13 We exclude captive sites from the analysis, including (a) captive centroid ATMs; (b) other captive ATMs belonging to the Parties; and (c) captive ATMs belonging to competitors.
- 8.14 In addition to captive ATMs, we also exclude storage/depot and managed ATMs. Storage/depot ATMs do not have a fixed location and are deployed to

sites on a temporary basis. Managed ATMs are those in relation to which the Parties only process transactions and refills, but exercise no control over the surcharge level. We exclude managed ATMs from the list of centroid PTU ATMs, but not from the other party's overlap ATMs, as the Parties may still gain revenue from them.

Defining catchment areas and identifying overlaps between the Parties' ATMs

8.15 Using the catchment area of 100 metres for a PTU ATM and 200 metres for a FTU ATM (as described in the conclusions on the relevant geographic market at paragraph 7.95(b)), we identify overlaps between the Parties' ATMs.

Filtering out areas with a reduction in fascia from five to four or more

8.16 We filter out local areas in which there would be reduction in fascia from five to four or more (ie areas in which there will be at least three competitors to the Parties post-Merger).⁸⁹ We select this threshold as the CMA would not ordinarily be concerned about the competitive effects of a Merger which resulted in a reduction in fascia count from five to four or more.⁹⁰

8.17 In the phase 1 decision, a threshold of four to three or more was adopted to reflect the almost entirely commoditised nature of the ATM offer, substantial and growing out-of-market constraints and the influence of site owners in negotiations. However, we consider each of these factors, and others, directly in our incentive analysis rather than treat them as being equivalent to additional competing fascia.

8.18 We consider whether to use an ATM count rather than a fascia count given that consumers are not sensitive to differences in fascia (ie ATMs are commoditised and the Parties and their competitors do not brand their ATMs). However, we note that fascias are relevant to understanding IADs' incentives in setting surcharges as IADs compete for contracts with site owners.

8.19 We consider including an alternative filter using the number of ATMs in a local area, but conclude that this would add little value as the number of ATMs is already captured in the local analysis through the computation of expected diversion ratios (which are based on market shares).

⁸⁹ For the purpose of this report, fascia refers to competing ATM operators.

⁹⁰ [Merger Assessment Guidelines](#), paragraph 5.3.5 and the second indented sub-paragraph.

Calculating critical diversion ratios and expected diversion ratios

- 8.20 We calculate critical and expected diversion ratios as part of our assessment of the Parties' incentives to increase surcharges at PTU ATMs as a result of the Merger. We summarise our approach below and set out further detail in Appendix D.
- 8.21 The diversion ratio from the centroid ATM to the other merging party's ATM(s) in a local area measures the proportion of any customers lost in response to a surcharge increase at the centroid ATM which is recaptured by the other merging party's ATM(s).
- 8.22 We use market shares in each local area based on withdrawal numbers at each ATM in the area to calculate diversion ratios. This assumes that the customers who switch away from the centroid ATM will all switch to another local ATM, and that they will do so in proportion to the pre-Merger market shares of ATMs in the catchment area.
- 8.23 The critical diversion ratio from the centroid ATM to the other merging party's ATM(s) in a local area corresponds to the diversion ratio necessary for the Parties to break even post-Merger after a surcharge increase at the centroid ATM.
- 8.24 We compare our estimated diversion ratios with our estimated critical diversion ratios in each area. We filter out local areas in which the diversion ratio is smaller than or equal to the critical diversion ratio, as the Parties would not have an incentive to increase surcharges in these areas.
- 8.25 In order to calculate estimated and critical diversion ratios, we consider the following:
- (a) The size of the potential post-Merger surcharge increase.
 - (b) The elasticity of demand for PTU ATMs.
 - (c) The extent of out-of-market constraints.
 - (d) The extent of compensation that the Parties would have to pay to site owners following a surcharge increase (eg for loss of footfall at the site).
- 8.26 We summarise our approach to each question below. Further detail is set out in Appendix D.

Size of the price increase to model

- 8.27 The critical diversion ratio analysis undertaken by the Parties assumed a hypothetical surcharge increase of 10%.⁹¹
- 8.28 We note that the majority of the Parties' PTU ATMs have surcharges of between £1.00 and £2.00 and that a surcharge increase of 10% would therefore translate at most ATMs to an absolute increase of between 10 pence and 20 pence. We consider that a surcharge increase of less than 10% is therefore unlikely to be meaningful for the purpose of diversion ratio analysis.
- 8.29 In our assessment of how consumers would respond to a surcharge increase we therefore model a surcharge increase of 10%. However, for local areas identified through filtering as being of potential concern, we consider, as a sensitivity test, whether any concerns would arise at a 5% threshold.

Elasticity of demand

- 8.30 We consider the elasticity of demand for cash withdrawals with respect to changes in the surcharge at PTU ATMs (ie the change in demand following a surcharge increase).
- 8.31 In response to the phase 1 decision, the Parties used a range of elasticities from -1.1 to -2.0 to model the critical diversion ratio.⁹² The Parties told us that they do not have an estimate of the price elasticity of demand and that, in the absence of such an estimate, they operate on the assumption of $[\frac{\infty}{\infty}]$.⁹³
- 8.32 We consider the evidence on price elasticity in Appendix D, including the Parties' price-cost margins and evidence from the consumer survey.
- 8.33 In light of this evidence, we assume a price elasticity of demand of -1.1 for the purpose of the diversion ratio analysis (ie following a surcharge increase of 10%, 11% of consumers would divert away from the ATM).

Out-of-market constraints

- 8.34 As we describe in paragraphs 7.16 to 7.36, there are a number of alternative payment methods to cash. In these paragraphs, we set out evidence regarding the level and trends in alternative payment methods drawn from the Parties, site owners, the consumer survey and market reports. Although we

⁹¹ [Parties' response to phase 1 decision](#), 30 May 2017, paragraph 4.41.

⁹² [Parties' response to phase 1 decision](#), 30 May 2017, paragraph 4.41.

⁹³ $[\frac{\infty}{\infty}]$

conclude that the relevant market should not be widened from the supply of ATMs to ATM users to include out-of-market constraints, we consider in this section how these constraints should be reflected in our local analysis.

- 8.35 We do not have direct evidence on how consumers would respond to an increase in the surcharge at a PTU ATM. However, the consumer survey provides indirect evidence.
- 8.36 When asked what they would have done instead if the PTU ATM they had used (and any other ATMs at the same site) had not been working, 22% of consumers who said they would have diverted said they would have used an ATM somewhere else and 27% said they would have used other payment methods or borrowed money from someone.⁹⁴ Taken together, 48% of consumers said they would have diverted out of the local market (with the remaining 52% using another local ATM).⁹⁵
- 8.37 The underlying assumption in this analysis is that, once consumers decide not to pay a higher surcharge and divert to alternative payment methods, the proportion diverting in or out of the market is similar across different groups of consumers. We perform a sensitivity check by excluding answers from consumers who said that they would not be willing to walk at all to use a FTU ATM or a cheaper PTU ATM, but their responses were very similar to the overall results. Further details are set out in Appendix B.
- 8.38 We therefore assume that 48% of the consumers who would divert away from an ATM following a surcharge increase would divert to out-of-market options.

Constraint from site owners

- 8.39 The Parties told us that a significant obstacle to a hypothetical surcharge increase is that, even if they did have an incentive to increase a surcharge, the site owner would not also have this incentive because of the revenue it would lose, including loss of interchange fees/transaction surcharges and in-store spend, following a surcharge increase. The Parties said that this would be further compounded were the site owner to drop down to a lower funding

⁹⁴ Therefore, we are considering out-of-market diversion both in terms of products – alternative methods of payment – and geographically – outside the local area.

⁹⁵ We include consumers who responded that they would use another ATM somewhere else completely as these consumers are not diverting to other ATMs in the local area. We exclude consumers that used PTU ATMs in captive locations. We also exclude consumers who indicated that they would have 'not withdrawn cash and not made a purchase' as this may be capturing consumers who, faced with a price increase, would not divert at all and would pay the higher surcharge.

tier (and therefore receive a lower share of revenue).⁹⁶ The Parties said that site owners are therefore likely to resist any proposed surcharge increase.

8.40 In our local analysis, we take into consideration the constraint that site owners would impose on the Parties' ability to increase surcharges by assuming that a profitable surcharge increase should leave the centroid site owner's revenue unchanged. We address the evidence regarding site owners' incentives and contracts in Chapter 9 below.⁹⁷

8.41 We have only been able to account for the loss of direct ATM revenue in our local analysis and not indirect revenue loss (eg because of a loss of in-store spend), as it is not possible to take account of indirect ATM revenue loss based on the data we have available. However, we consider the loss of indirect revenue as part of our competitive assessment in Chapter 9.

Results of local analysis to identify areas of potential concern

8.42 Table 14 below summarises the results of our local analysis to identify areas of potential concern. Further details are provided in Appendix D.

8.43 There were initially 9,056 centroid ATMs in our dataset. After applying our initial filters, 530 centroid ATMs remain for further analysis. Following our incentive analysis, we find 64 potentially problematic areas if we assume a 10% surcharge increase (and we find 77 potentially problematic areas if we assume a 5% surcharge increase). Of the 64 potentially problematic areas, 52 centroid ATMs belong to DCP and 12 to Cardtronics.

Table 14: Results of the local analysis

	Number of centroid ATMs
Total number of Parties' PTU centroids ATMs	9,056
Filter:	
After removing captive, storage/depot and managed ATMs	7,695
After removing areas in which the Parties do not overlap	741
After removing 5-to-4 or more areas	530
Incentives analysis:	
After removing centroid ATMs where critical diversion ratios are higher than expected diversion ratios	64

Source: CMA analysis of LINK's, Parties' and other competitors' data

8.44 We examine the characteristics of these potentially problematic centroid ATMs and areas around them. Of the 64 potentially problematic ATMs, 52 are

⁹⁶ [Parties' response to phase 1 decision](#), 30 May 2017, paragraph 4.11.

⁹⁷ Although the Parties' contracts with multi-site and independent site owners differ as to whether they allow for unilateral surcharge changes, as discussed below, we conclude that independent site owners would still have some ability to resist surcharge increases.

in areas in which the Merger would result in a local monopoly (ie two to one areas) and the overlap between the Parties is between PTU ATMs only.

- 8.45 We note that the centroid ATMs identified as potentially problematic have only a small number of withdrawals per month and consequently low revenue (as we find is typically the case for PTU ATMs more generally). Of these ATMs, the median number of withdrawals is [REDACTED] per month and the median total monthly revenue is £[REDACTED].
- 8.46 The aggregated revenue associated with these ATMs is around £[REDACTED] in total, of which approximately £[REDACTED] corresponds to net revenue for the Parties (ie after revenue share with site owners is deducted). We consider the additional revenue that the Parties could potentially earn by increasing surcharges at these ATMs post-Merger in Chapter 9.
- 8.47 We find that almost all of the centroid ATMs identified are either in convenience stores or social venues (26 and 33, respectively). Around one third (18) of the potentially problematic ATMs are part of wider contracts with three [REDACTED] and the potentially problematic centroid ATMs represent only around 2% to 7% of the overall number of ATMs covered by each contract.

9. Competitive assessment of local areas of potential concern

- 9.1 In this section, we consider the Parties' ability and incentive as a result of the Merger to increase surcharges at PTU ATMs identified as being of potential concern through the filtering and local diversion ratio analysis.
- 9.2 The Parties have contracts to supply ATMs to both multi-site and independent site owners. Cardtronics told us that it considers multi-site owners to be those with between [REDACTED] and [REDACTED] sites or more.⁹⁸ DCP told us that it considers multi-site contracts as those with more than [REDACTED] sites.⁹⁹
- 9.3 We note that there are important differences in the way in which the Parties' relationships with multi-site owners and independent site owners are managed. In particular:
- (a) Multi-site owners have bespoke contracts whilst relationships with independent site owners are based on standard contracts.

⁹⁸ [REDACTED]

⁹⁹ [REDACTED]. DCP said that it usually divides its sites between 'corporate' and 'independent' site owners [REDACTED].

- (b) The Parties' negotiations with site owners and relationship management processes differ depending on whether they are multi-site owners or independent site owners.
- (c) There are variations in the Parties' pricing strategy between multi-site and independent site owners.

9.4 We therefore consider the competitive effects of the Merger separately in relation to ATMs at multi-site and independent site locations.

9.5 We consider the following factors in our assessment, where relevant, for multi-site and independent site owners:

- (a) The Parties' ability to increase surcharges at PTU ATMs.
 - (i) Provisions relating to surcharge adjustments in the Parties' contracts with site owners.
 - (ii) The views of site owners regarding their ability to resist a price increase, including the possibility of not re-filling an ATM or switching to an alternative IAD.
 - (iii) The Parties' pricing strategy.
- (b) The Parties' incentive to increase surcharges at PTU ATMs.
 - (i) The proportion of multi-site contracts accounted for by ATMs of potential concern.
 - (ii) Closeness of pre-Merger competition between the Parties' ATMs.
 - (iii) The Parties' local pricing strategies, including their approach to setting surcharges, relationships with site owners (including reputation and revenue sharing) and the extent to which the Parties' incentives are aligned with those of site owners.
 - (iv) The impact of out-of-market constraints and the trends in the market (eg the decline of PTU ATMs).
 - (v) The amount of additional revenue that the Parties could earn at PTU ATMs of potential concern as a result of the Merger.
 - (vi) Local entry and expansion.

Competitive assessment of ATMs at multi-site locations

The Parties' ability to increase surcharges at PTU ATMs at multi-site locations

9.6 We consider the ability of the Parties to increase surcharges at PTU ATMs at multi-site locations as a result of the Merger.

Review of contracts and site owner views

9.7 The Parties told us that they have very limited ability to increase surcharges for specific PTU ATMs which are part of larger multi-site contracts because the contracts:

- (a) typically involve a single over-arching contract with the head office rather than individual contracts at the local level;
- (b) are awarded by competitive tender, with the level of the surcharge and the revenue share with the site owner being important variables in the bid; and
- (c) stipulate [redacted] across the overall estate, or [redacted].¹⁰⁰

9.8 The Parties submitted that, as a result, there is very limited scope within multi-site contracts for varying the surcharges for individual ATMs at the local level [redacted].¹⁰¹

9.9 We reviewed a sample of the Parties' contracts with multi-site owners to assess the Parties' ability to increase surcharges at PTU ATMs within multi-site contracts.¹⁰² We found that:

- (a) The contracts negotiated with the multi-site owners do not follow a standard format.
- (b) The surcharge, or range of surcharges, and revenue share with the site owner, form part of the agreement and generally apply to all ATMs within the estate.
- (c) Multi-site contracts are awarded through competitive tender and the surcharge structure is specified in the contracts. There is therefore very little scope for varying the surcharges for individual ATMs at the local level.

¹⁰⁰ Parties' response to phase 1 decision, 30 May 2017, paragraph 4.11.

¹⁰¹ Parties' response to phase 1 decision, 30 May 2017, paragraphs 4.16 & 4.18.

¹⁰² The sample covered different types of site, site owner and ATM.

- (d) There is no ability for the Parties unilaterally to increase surcharges. Any proposed changes to the surcharge would therefore need to be agreed with the site owner's head office. However, this does not preclude a surcharge increase if agreement from the site owner is forthcoming.
- (e) The initial term of contracts between the Parties and site owners is typically three to six years.¹⁰³
- (f) The contracts that we reviewed do not provide for any compensation to site owners in respect of losses arising from surcharge increases, such as the loss of footfall and associated loss of business/profit or increased costs, such as increased bank charges arising from less cash being recycled through an ATM. This is not surprising given the need to seek the site owner's consent in any event, as discussed above. However, this does not preclude the Parties and site owners negotiating revenue sharing and/or compensation following a surcharge increase.

The views of site owners

- 9.10 Multi-site owners told us that they are entitled to agree with or oppose changes in surcharges proposed by the Parties. Five out of eight multi-site owners told us that they would oppose a surcharge increase if an IAD proposed to increase the surcharge at their ATMs and not at nearby ATMs.¹⁰⁴ The remaining three multi-site owners said that they would negotiate but possibly allow the increase depending on the impact on their commission.¹⁰⁵

Conclusion in relation to the Parties' ability to increase surcharges at PTU ATMs at multi-site locations

- 9.11 In light of the review of the Parties' contracts and the views of multi-site owners, we conclude that the Parties' contracts with multi-site owners restrict the Parties' ability unilaterally to increase surcharges at a local level.
- 9.12 We note that some multi-site contracts may prevent any surcharge increase at all by the Parties, whereas some other multi-site contracts may require the Parties to compensate the site owner for any loss of revenue in order to agree to a proposed surcharge increase. We discuss this further below.

¹⁰³ The longest term in the sample reviewed is seven years and the shortest is one year (but on a rolling basis).

¹⁰⁴ [REDACTED]

¹⁰⁵ [REDACTED]

The Parties' incentive to increase surcharges at PTU ATMs at multi-site locations

- 9.13 We consider whether the Parties would have the incentive to increase surcharges at PTU ATMs at multi-site locations as a result of the Merger.
- 9.14 As the Parties' ability unilaterally to increase surcharges at PTU ATMs at multi-site locations is restricted by their contracts with site owners, we consider as part of our assessment the incentives of site owners in relation to potential surcharge increases proposed by the Parties post-Merger.
- 9.15 In relation to their incentive to increase surcharges at PTU ATMs, the Parties told us that a hypothetical surcharge 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 either switch to an alternative ATM or find an alternative payment method. The Parties said that, as site owners receive a share of the transaction fee, the lower volumes will result in the site owner earning lower revenue, unless it is fully compensated by the Parties.
 - (b) Lost footfall at the first site. The Parties said that there is also potential for the site owner to earn less revenue from spending in-store as a result of an increase in the surcharge. The Parties also said that there would be a material risk that the site owner would switch to another ATM deployer unless it was fully compensated for these effects.¹⁰⁶
 - (c) Any revenue recaptured being shared with the other site owner. The Parties told us that, to the extent that some customers switched to another ATM operated by the Parties, a significant proportion of the additional revenue obtained from those diverting customers would have to be shared with that site owner. Accordingly, the Parties told us that they would only retain a proportion of any additional revenue from the switching ATM customers whilst facing a significant risk of losing customers and site owners at ATMs where surcharge increases occur.
- 9.16 We consider the views of the Parties in our assessment of their incentive to increase surcharges below. We note that points (a) and (c) are already taken into account in our local analysis (as described in Chapter 8).

¹⁰⁶ [Parties' response to phase 1 decision](#), 30 May 2017, paragraphs 4.20 & 4.24.

The proportion of multi-site contracts accounted for by ATMs of potential concern

- 9.17 We consider the proportion of multi-site contracts accounted for by ATMs of potential concern identified through filtering.
- 9.18 Table 15 sets out the number of Cardtronics and DCP ATMs identified through filtering by site owner together with the proportion of the total number of ATMs in the contract.

Table 15: Cardtronics and DCP ATMs identified through filtering by multi-site owner

Site owner	ATMs identified through filtering	Total ATMs in the contract	Percentage of total contract (%)
[REDACTED]	6	251	2
[REDACTED]	10	140	7
[REDACTED]	2	31	9

Source: CMA analysis of data from the Parties.

- 9.19 Table 15 shows that the number of ATMs supplied by the Parties to multi-site owners that were identified through filtering as being of potential concern represent only a small proportion of the number of total ATMs in each relevant contract.
- 9.20 We note that the 18 centroid ATMs identified as being of potential concern at multi-site locations are all part of contracts [REDACTED]. In this regard, DCP said [REDACTED].¹⁰⁷ DCP told us that, as a result of falling demand, there are now an average of [REDACTED] withdrawals per month from its ATMs [REDACTED]. DCP said that [REDACTED].¹⁰⁸ DCP also told us that it had been [REDACTED].¹⁰⁹
- 9.21 We also note that the Parties told us that Cardtronics [REDACTED].¹¹⁰
- 9.22 We find that these factors further limit the Parties' incentive to increase surcharges as a result of the Merger.

The Parties' pricing strategy in relation to multi-site contracts

- 9.23 We consider the Parties' pricing strategy in relation to multi-site contracts.
- 9.24 As set out at paragraph 9.7, the Parties' contracts with multi-site owners stipulate [REDACTED] across the overall estate, or one of a small number of specified price points. For example, [REDACTED].

¹⁰⁷ [REDACTED]

¹⁰⁸ [REDACTED]

¹⁰⁹ [REDACTED]

¹¹⁰ [REDACTED]

- 9.25 We examine the surcharges set by the Parties and find that there is some variation in surcharges within multi-site contracts. However, we find that these differences are because of ATMs at new sites being added to existing contracts. We find no evidence that surcharges in multi-site contracts are set according to local competitive conditions or that the Parties would have any incentive as a result of the Merger to seek to change their contracts or pricing strategy to set surcharges according to local competitive conditions.
- 9.26 We also examine data on DCP's surcharge increases between January 2015 and January 2017 and find that [§] surcharge increases were in respect of ATMs covered by multi-site contracts and that all of these changes were requested by the site owner.

Conclusion in relation to the Parties' incentive to increase surcharges at PTU ATMs at multi-site locations

- 9.27 We note that the ATMs covered by multi-site contracts which are of potential concern only account for a small proportion of the ATMs in each contract concerned and that the Parties would therefore have very limited incentive to increase surcharges in response to local competitive conditions.
- 9.28 Moreover, contracts with multi-site owners stipulate [§] across the overall estate, or one of a small number of specified price points, and we find no evidence that surcharges in multi-site contracts are set according to local competitive conditions.

Conclusion in relation to ATMs at multi-site locations

- 9.29 The filtering and diversion ratio analysis identified 18 ATMs covered by multi-site contracts at which competition concerns might arise.
- 9.30 We find that the Parties' contracts with multi-site owners restrict their ability unilaterally to increase surcharges at a local level. We also find that the Parties would have very limited incentive to increase surcharges at PTU ATMs which are part of multi-site contracts as surcharges are not set in response to local competitive conditions and the ATMs identified as being of potential concern represent only a very small proportion of the ATMs covered by the contracts concerned.
- 9.31 We therefore conclude that the Merger has not resulted, and may not be expected to result, in an SLC in relation to surcharges at existing PTU ATMs covered by multi-site contracts.

Competitive assessment of ATMs at independent site locations

9.32 In this section, we consider the Parties' ability and incentive as a result of the Merger to increase surcharges at PTU ATMs at independent site locations identified through filtering as being of potential concern.

The Parties' ability to increase surcharges at PTU ATMs

9.33 We consider the ability of the Parties to increase surcharges at PTU ATMs at independent site locations as a result of the Merger.

Review of contracts

9.34 We reviewed a selection of the Parties' contracts with independent site owners and find that:¹¹¹

- (a) The contracts are based on standard templates.
- (b) There are some limited variations between contracts in clauses such as the duration of the contract and surcharge to be levied.
- (c) Unilateral surcharge increases by the Parties are generally permitted.
- (d) Most of DCP's contracts with independent site owners [redacted]. However, most of Cardtronics's contracts with independent site owners [redacted].

The ability of site owners to resist a proposed surcharge increase

9.35 We consider the ability of site owners to resist a surcharge increase proposed by the Parties, including whether they would be able to resist any proposed increase by pursuing a strategy of switching off or not re-filling an ATM in the event of a dispute with the Parties, or by switching (or threatening to switch) to an alternative IAD. We also consider the importance of relationships between the Parties and site owners (see paragraph 9.75 to 9.77 below).

9.36 The Parties told us that, if an IAD proposes to increase a surcharge, it is, in practice, imperative that it is agreed with the site owner in advance, otherwise there is a material risk that the site owner will switch to a competing IAD. The Parties also told us that, because the majority of PTU ATMs at independent sites are merchant fill, they are dependent on site owners to ensure continued

¹¹¹ The sample covered different types of site, site owner and ATM.

availability of cash at sites, making agreement and goodwill between the Parties and site owners essential.¹¹²

- 9.37 The Parties submitted that, accordingly, their ability to vary surcharges at the local level in response to changes in local concentration is materially constrained, with site owners having the ability to resist any increases when their incentives are not aligned with those of the Parties.¹¹³

Site owner responses to a proposed surcharge increase

- 9.38 The majority of independent site owners that we spoke to told us that they did not play a role in setting the surcharge initially, although a small number told us they actively negotiated the surcharge. However, the majority told us that they would oppose a surcharge increase if the Parties proposed to increase the surcharge at their ATM but not also at nearby ATMs.¹¹⁴

Turning off or not re-filling ATMs

- 9.39 The Parties told us that site owners may either turn off or not re-fill their ATMs if they are in dispute with the Parties:

- (a) Cardtronics told us that site owners have recently switched off or refused to re-fill ATMs at [REDACTED] sites, mainly as a result of disputes regarding [REDACTED]. No instances arose as a result of proposed surcharge increases. Cardtronics said that this is because it is its policy to obtain consent from site owners before implementing surcharge increases.
- (b) DCP identified [REDACTED] ATMs which, as at early August 2017, had not transacted for over eight days as a result of site owner behaviour (ie the ATM was turned off or not re-filled). DCP said that some of these instances may have been due to [REDACTED]. However, DCP told us that it understands that a significant number of the occurrences are caused by [REDACTED]. DCP said that it has not experienced any disputes with site owners in relation to surcharges, as it has a consistent policy of respecting site owners' wishes if they do not consent to a proposed surcharge change.

The ability of site owners to switch to another IAD

- 9.40 We consider the ability of sites owners to switch or credibly threaten to switch to a competing IAD.

¹¹² Parties' response to phase 1 decision, 30 May 2017, paragraphs 4.21.

¹¹³ Parties' response to phase 1 decision, 30 May 2017, paragraphs 4.22.

¹¹⁴ [REDACTED]

- *The views of the Parties*

9.41 The Parties told us that the threat of switching is a key deterrent to proposing a surcharge increase. The Parties said that independent site owners will shop around when their contracts come up for renewal and will play rival IADs off against one another. The Parties also told us that most site owners operate in low margin businesses (eg convenience stores) and therefore have a strong incentive to get the best deal possible.¹¹⁵

9.42 The Parties said that rival IADs market their services to the Parties' existing customers and that there is a high degree of visibility in the market as all IADs have access to the LINK ATM Locator, which provides information on the site of each LINK ATM, the identity of the IAD and site owner and the level of surcharge, making targeting other IADs' sites easy.

9.43 Cardtronics provided data on switching by independent site owners and said that:

(a) [REDACTED] removed before expiry of the contract in 2016 appear now to be served by a competing IAD;

(b) excluding removals due to the introduction of polymer notes, [REDACTED] appear now to be served by a competing IAD;¹¹⁶ and

(c) [REDACTED] removed before expiry of the contract in 2015 appear now to be served by a competing IAD.

9.44 The Parties said that contracts are generally around five years in duration and, accordingly, switching should be compared to the proportion of the total number of contracts that come up for renewal during any 12-month period, as the contract renewal process provides the opportunity for site owners to switch to other IADs or to obtain quotes from other IADs and threaten to switch. On this basis, the Parties calculated that switching levels may be up to [REDACTED]% per year.¹¹⁷

9.45 Cardtronics also provided information on early contract terminations between 1 January 2015 and 31 December 2016 which it said showed that there were [REDACTED] ATMs in relation to which the contract was terminated early, with [REDACTED]% relating to potential switching to competing IADs. The Parties said that [REDACTED]. Over the same period, [REDACTED] of DCP's contracts were terminated early, with

¹¹⁵ [REDACTED]

¹¹⁶ Polymer banknotes are manufactured from a transparent plastic film, specially coated with an ink layer that enables it to carry the printed design features of banknotes. The Bank of England issued the first polymer £5 note in September 2016, replacing the paper note, and will issue a polymer £10 note in September 2017.

¹¹⁷ [REDACTED]

[REDACTED] being at the request of the site owner. DCP told us that there were [REDACTED] instances of early contract termination in 2017 and [REDACTED] of these involved a switch to an alternative IAD.

9.46 In relation to new ATM installations at sites which relate to customers switching IAD (brownfield sites) the Parties said that:

(a) in 2016, [REDACTED]% ([REDACTED]) of ATM installations by Cardtronics at independent sites related to brownfield sites and, between January and June 2017, [REDACTED]% of independent sites installations by Cardtronics were at brownfield sites; and

(b) between January and July 2017, [REDACTED]% of ATM installations by DCP ([REDACTED]) were at brownfield sites.

- *CMA assessment*

9.47 Our review of the Parties' contracts with independent site owners indicates that contracts typically have a duration of five years. The majority of contracts may be terminated by either party with 12 months' notice to expire at the end of the term. The contracts include clauses regarding early termination and site owners would potentially incur costs if they terminated a contract early.

9.48 The Parties provided evidence that [REDACTED]% of Cardtronics's contracts with independent site owners were terminated early between January 2015 and December 2016. However, these instances did not generally relate to surcharge disputes and [REDACTED] instances were due to termination by the site owner (the remainder of terminations were made by Cardtronics, for reasons including security concerns, contract breaches, financial losses and site closures).

9.49 We also note that, in relation to DCP, over the same period, [REDACTED] of DCP's [REDACTED] early contract terminations were at the request of the customer, and that, in 2017, there were only [REDACTED] instances of early contract termination and [REDACTED] of these involved a switch to an alternative IAD. Although Cardtronics told us that [REDACTED], we note that the clauses restricting early termination may discourage site owners from switching during the term of a contract.

9.50 In relation to switching at the end of a contract, eight of the 22 site owners we spoke to told us that the switching process is easy. Another 14 said that they were unsure. This may indicate that a number of independent site owners have not considered switching in the past, but that those which have considered switching did not find the process difficult.

- 9.51 Competing IADs told us that contracts can go into rollover periods of between three and 12 months. Competitors said that it was not difficult to switch IAD provided that the relevant contractual notice is given by the site owner. However, competitors noted that site owners with a TTW ATM may be more reluctant to switch supplier as these ATMs are bolted to the ground and installed through glass or brick.
- 9.52 As considered further at paragraph 9.109 below, competitors told us that they have plans to expand their ATM network.
- 9.53 We note that switching is relatively infrequent. Annual gains from other IADs represent only around [X]% of total contracts. However, if switching is considered as a proportion of contracts coming up for renewal, switching rates are around [X]% per year. In addition, the threat of switching may be sufficient for a site owner to exercise negotiating power in relation to any surcharge change proposed by the Parties in circumstances where alternative IADs are available and the contract is either approaching renewal or in a rollover period.

Conclusions in relation to the Parties' ability to increase surcharges at independent sites

- 9.54 Contracts with independent site owners generally permit a unilateral surcharge increase by the Parties. The majority of independent site owners that we spoke to told us that they did not play a role in setting the surcharge initially, although a small number told us they actively negotiated the rate. However, the majority told us that they would oppose a surcharge increase if the Parties proposed to increase the surcharge at their ATM but not at nearby ATMs.
- 9.55 We find limited evidence that a site owner would be likely to switch off an ATM or refuse to re-fill an ATM as a result of a surcharge dispute. However, site owners nearing the end of their contracts or in a rollover period may be able to use the threat of switching to negotiate with the Parties following any proposal by the Parties to adjust the surcharge.
- 9.56 We therefore conclude that the Parties may have some ability to increase surcharges at PTU ATMs at independent sites.

The Parties' incentive to increase surcharges at PTU ATMs

- 9.57 We consider the Parties' incentive to increase surcharges at PTU ATMs in relation to independent sites.

Closeness of pre-Merger competition between the Parties' ATMs

9.58 The majority of the overlaps between the Parties' ATMs identified in our local analysis as being of potential concern relate to overlaps between PTU ATMs. We consider the extent to which the Parties' PTU ATMs competed with each other for local users pre-Merger.

Local competition between the Parties' existing PTU ATMs

9.59 The Parties told us that competition between PTU ATMs was limited as, in their view, users would not walk to a different PTU ATM with a lower surcharge. The Parties also said that users may already be at a site, such as a convenience store, for other reasons.¹¹⁸ This is reflected in the results of our local area analysis, which identified only 64 centroid ATMs of potential concern relative to the 741 overlaps between the Parties' ATMs (after the removal of captive, storage/depot and managed ATMs).

9.60 The consumer survey asked respondents what they would have done instead if the PTU ATM they had used (and any other ATMs at the same site) had not been working. Of the 32% who said that they would have used another ATM near the one they wanted to use, only 5% had another PTU ATM in mind.

9.61 As set out in our consideration of the geographic market at paragraphs 7.72 and 7.73, we also note that Cardtronics's internal guidance on where to locate a new ATM [REDACTED].

Local competition in ATM installation

9.62 The Parties told us that, when installing a new PTU ATM, they have regard, amongst other factors, to surcharges at local PTU ATMs. The Parties said that they set surcharges at the prevailing local level and do not seek to set surcharges above or below those at local PTU ATMs.¹¹⁹

9.63 In relation to the installation of new ATMs at independent sites, we note that DCP has only installed [REDACTED] PTU ATMs in the UK in 2017 to date ([REDACTED] of a total of [REDACTED] ATMs). Only [REDACTED] of these PTU ATM installations were classified by DCP as being in non-corporate locations (ie independent sites). Over the same period, Cardtronics installed [REDACTED] PTU ATMs ([REDACTED]% of a total of [REDACTED] ATMs). Of these, [REDACTED] were in convenience stores. The number of PTU ATMs

¹¹⁸ [REDACTED]

¹¹⁹ [REDACTED]

installed by Cardtronics in convenience stores has been falling; it was [REDACTED] in FY15 and [REDACTED] in FY16.

- 9.64 We also note that, as set out in paragraph 6.8, we conclude that the Merger has not resulted, and may not be expected to result, in an SLC in relation to the supply of ATMs to site owners. In relation to independent site owners, the CMA found that the Parties are not each other's closest competitors, with NoteMachine being the closest competitor to Cardtronics and DCP competing equally closely with Cardtronics and YourCash and, to a lesser extent, with PayPoint.

The Parties' local pricing strategy

- 9.65 We consider the Parties' local pricing strategy, including their approach to setting surcharges, relationships with independent site owners and the extent to which their incentives are aligned with those of independent site owners (ie whether site owners would resist any proposal by the Parties to increase the surcharge at their PTU ATM).
- 9.66 We examine whether the Parties' pre-Merger pricing strategies mean that, if the Parties had a financial incentive to increase surcharges at some local PTU ATMs as a result of the Merger, they would implement a local surcharge increase.

The Parties' approach to setting surcharges

- 9.67 The Parties told us in relation to independent site owners that they do not proactively and systematically monitor the surcharges at their ATMs or those of their competitors, nor do they seek to adjust these surcharges on a regular basis to reflect local competitive conditions. The Parties said that IADs tend only to initiate changes to surcharges where they observe significant falls in withdrawal volumes which affect the viability of an ATM.¹²⁰
- 9.68 The Parties told us that, when installing a new PTU ATM, they set the surcharge based on a range of factors including forecast transaction numbers, local market pricing, the identity of the site owner, whether the ATM is self-fill or served by CIT and whether the ATM is TTW or internal.¹²¹

¹²⁰ [Parties' response to phase 1 decision](#), 30 May 2017, paragraphs 4.20 & 4.21.

¹²¹ [REDACTED]

9.69 Cardtronics said that its starting point would be in the range of £[REDACTED] to £[REDACTED]. DCP said that price points would vary according to the category of site owner.¹²²

9.70 The Parties said that they do not increase surcharges at PTU ATMs in response to changes in local competitive conditions.

9.71 We examine data provided by the Parties on the extent to which they have increased surcharges at PTU ATMs:

(a) Between January 2015 and January 2017, Cardtronics increased surcharges at [REDACTED]% of its PTU ATMs ([REDACTED] ATMs out of a total estate of [REDACTED] PTU ATMs). Of these, [REDACTED]% were because of requests from site owners, [REDACTED]% were because the ATM was making a loss or Cardtronics wanted to increase profitability, [REDACTED]% were corrections because of pricing errors, [REDACTED]% were to cover costs, [REDACTED]% were because of price points at different ATMs being standardised, [REDACTED]% were as a result of a new contract with the site owner and the remaining [REDACTED]% as a result of a new surcharge trial.¹²³ No surcharge increases were because of changes in local competitive conditions.

(b) Between January 2015 and January 2017, DCP increased surcharges at [REDACTED]% of its PTU ATMs ([REDACTED] ATMs out of a total estate of [REDACTED] PTU ATMs). Of these, [REDACTED]% were because of a project to review surcharges at ATMs across the UK in June 2015, the reasons for [REDACTED]% were unknown, [REDACTED]% were because of the relocation of event-based mobile ATMs, [REDACTED]% were because of requests from site owners and [REDACTED]% were because of new commission and surcharge plans for existing customers or price point standardisation.¹²⁴ We find no evidence that surcharge increases were made in response to changes in local competitive conditions.

9.72 For each of the Cardtronics and DCP PTU ATMs at which surcharges increased and, separately, for their PTU estates as a whole, the Parties calculated the number of fascias in the relevant catchment areas. The Parties used catchment areas of 100 metres in urban areas and 250 metres in rural areas and also performed the calculations based on a catchment area of 200 metres in urban areas and 500 metres in rural areas.

¹²² [REDACTED]

¹²³ [REDACTED]

¹²⁴ [REDACTED]

9.73 The results based on catchment areas of 100 metres for urban areas and 250 metres for rural areas are set out for Cardtronics and DCP, respectively, in Tables 16 and 17.

Table 16: Summary of Cardtronics ATM surcharge increases by fascia count

PTU ATMs included as catchments	ATMs included as catchments	Proportion of catchments by fascia count					5 or more	Total
		1	2	3	4			
Total estate	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	100%
ATMs with surcharge increase	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	100%

Source: Cardtronics.

Table 17: Summary of DCP ATM surcharge increases by fascia count

PTU ATMs included as catchments	ATMs included as catchments	Proportion of catchments by fascia count					5 or more	Total
		1	2	3	4			
Total estate	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	100%
ATMs with surcharge increase	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	100%

Source: DCP.

9.74 The analysis shows that the proportions of catchment areas by fascia count at which surcharge increases took place were in approximate proportion to those in the Parties' PTU estates as a whole. Although there are some limitations to the analysis, such as there being no controls for other factors which may affect surcharges, this evidence is consistent with the surcharge increases made by the Parties not being systematically concentrated in areas with fewer fascias.

Relationships with independent site owners

9.75 The Parties told us that the relationship between IADs and site owners will only succeed if both work together in partnership. The Parties told us that it was important for them to maintain good relationships with site owners as referrals from current customers were important in winning new business. The Parties said that, accordingly, it was important to maintain a good reputation in the market.

9.76 Cardtronics told us that [REDACTED].¹²⁵

¹²⁵ [REDACTED]

9.77 DCP told us that, following its global June 2015 surcharge project, [REDACTED] ATMs had their surcharge adjusted downwards shortly after DCP increased the surcharge. DCP said that, although it wrote to those site owners where it had identified that a surcharge increase was required two to four weeks in advance, [REDACTED].¹²⁶

The extent of site owners' incentives to agree to a proposed surcharge increase

9.78 Site owners told us that providing service to customers, encouraging customers into the site and enabling greater spending at the premises by giving customers access to cash were the most important reasons for having an ATM at their sites. Fewer site owners told us that gaining revenue from the ATM was the most important reason for having an ATM.¹²⁷

9.79 Cardtronics submitted research which found that 77% of people in retail stores use newly withdrawn cash on-site, spending an average of £13.09 in store. 58% of ATM users said that the ATM was the main reason for their store visit.¹²⁸

9.80 Cardtronics also submitted material from a recent marketing campaign to a symbol group of convenience stores and to take-away outlets, which stated that increased in-store spend, increased footfall, reduced banking costs on self-fill and increased customer loyalty and competitive advantage were reasons for having an ATM.¹²⁹ The material did not mention the possibility of earning revenue from ATM surcharges.¹³⁰

9.81 In this context, the Parties said that, whilst they would potentially recapture some revenue lost from switching customers at their overlapping site, the site owner would 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.¹³¹

9.82 The Parties said that, 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 would be left

¹²⁶ [REDACTED]

¹²⁷ [REDACTED]

¹²⁸ The value of cash, Cardtronics, 2014.

¹²⁹ 'Symbol group' is a term which refers to a particular franchise model of grocery retailing.

¹³⁰ [REDACTED]

¹³¹ [Parties' response to phase 1 decision](#), 30 May 2017, paragraph 4.27.

worse off after a surcharge increase (ie it would not be fully compensated by the ATM deployer for all the losses suffered), the Parties said that the site owner would reject any such proposal and that this would also increase the chances that the site owner would switch to a different IAD altogether (which would clearly render the surcharge increase unprofitable).¹³²

- 9.83 DCP said that the standard terms of DCP's contracts with independent site owners provide that, if either DCP or the site owner elects to increase the surcharge, [REDACTED].
- 9.84 We note from our review of contracts that the majority of DCP's contracts with independent site owners [REDACTED]. The majority of Cardtronics's contracts with independent site owners [REDACTED], although this does not preclude such payments being made.
- 9.85 DCP told us that some independent site owners are sensitive to surcharge rises. In cases where an independent site owner disagrees with a proposed increase, DCP [REDACTED]. In cases where the client feels the increase is in line with surcharges at other ATMs in the local area, DCP [REDACTED].¹³³
- 9.86 DCP told us that it would not [REDACTED]. However, DCP said that, in some cases, [REDACTED].¹³⁴
- 9.87 The views of independent site owners and evidence from the Parties indicate that site owners consider footfall and spending on their premises by customers withdrawing cash as the most important reasons for having an ATM. As noted at paragraph 9.38, the majority told us that they would oppose a surcharge increase if the Parties proposed to increase the surcharge at their ATM but not at nearby ATMs.

The impact of out-of-market constraints and trends in the market on the Parties' incentive to increase surcharges

- 9.88 In our assessment of market definition, we set out evidence at paragraphs 7.16 to 7.36 regarding the availability of alternative payment methods and the forecast decline in the use of cash as consumers switch to alternative payment methods.
- 9.89 As explained at paragraphs 8.34 to 8.38, we take into account the availability of alternative payment methods in our local analysis, in which we assume that

¹³² Parties' response to phase 1 decision, 30 May 2017, paragraph 4.31.

¹³³ [REDACTED]

¹³⁴ [REDACTED]

48% of consumers who divert in response to a surcharge increase would divert out-of-market.

- 9.90 We note evidence from the Parties, site owners, Payments UK, the BRC and the UK Cards Association that the use of alternative payment methods has increased in recent years whilst the use of cash has fallen.
- 9.91 This trend is forecast to continue, with Payments UK forecasting that cash as a percentage of the total volume of payments will fall from 45% in 2015 to 27% by 2025.¹³⁵
- 9.92 The Parties told us that, as a result of the decline in cash withdrawals:
- (a) The number of DCP PTU ATMs has declined by 24% between 2013 and 2016 (from [REDACTED] to [REDACTED]). Over the same period, DCP's PTU ATM revenues declined by [REDACTED].
 - (b) DCP's average surcharge has [REDACTED] between 2011 and 2016, which equates to a fall in real terms (in 2016 [REDACTED]).
 - (c) The average surcharge across Cardtronics's PTU ATM estate has increased marginally in nominal terms between 2013 and 2016 from £[REDACTED] to £[REDACTED], which is equivalent to the PTU surcharge being flat in real terms.
- 9.93 The Parties said that [REDACTED] and the Parties will typically face a reduction in real terms in the level of the surcharge over the lifetime of the contract against a backdrop of annual cost increases. The Parties said that it is therefore inherently unlikely that they could increase PTU surcharges post-Merger given the difficulty in [REDACTED].¹³⁶ The Parties also said that any increase in surcharges would lead to a faster decline in their PTU ATM estates.¹³⁷
- 9.94 Data from Payments UK also indicates a decline in the number of PTU ATMs and the volume and value of withdrawals from PTU ATMs in the UK:
- (a) The number of PTU ATMs declined by 33% between 2007 and 2015 (from 26,115 to 17,553), whilst the number of FTU ATMs increased by 39% (from 37,865 to 52,717).
 - (b) The number of withdrawals at PTU ATMs declined by 53% between 2006 and 2016 (from 118 million to 56 million).

¹³⁵ [Cash & Cash Machines](#), Payments UK, 2016.

¹³⁶ [Cash & Cash Machines](#), Payments UK, 2016.

¹³⁷ [REDACTED]

(c) The total value of withdrawals at PTU ATMs declined by 44% between 2006 and 2015, whilst the total value of withdrawals at FTU ATMs increased by around 10%.¹³⁸

9.95 We also note evidence from site owners (set out in paragraph 7.19) that the increasing use of alternative payment methods has led to a reduction in the volume of ATM transactions.

The amount of additional revenue that the Parties could earn at PTU ATMs of potential concern as a result of the Merger

9.96 We consider the amount of additional revenue that the Parties could potentially earn by increasing surcharges as a result of the Merger at the PTU ATMs of potential concern identified through the filtering and diversion ratio analysis.

9.97 We assess whether this additional revenue would be sufficient for the Parties to consider adopting a strategy of increasing surcharges in certain local areas in response to the Merger, notwithstanding the factors considered above (including the responses of site owners to a proposed surcharge increase and the effect of a surcharge increase on relationships with site owners and on footfall at the sites concerned).

9.98 We compute the net revenue that the Parties would gain if they were to implement a 10% or 5% surcharge increase at the PTU ATMs identified as potentially problematic.

9.99 We calculate net revenue as the difference between the loss of revenue at the centroid ATM and the revenue that the Parties would gain from diversion to the other party's ATMs in the area. To compute the latter, we use the estimated diversion ratios that we calculated as part of the local incentive analysis (which we describe in further detail in Chapter 8).

9.100 In order to compute both the revenue loss at centroid ATM and the revenue gain at the overlapping ATMs of the Parties, we subtract the relevant site owner's commission from the surcharge at each ATM.

9.101 Following a surcharge increase of 10% (5%) in the 64 (77) centroid ATMs identified as potentially problematic, we find that the Parties would gain overall net revenue across all 64 ATMs of only approximately £550 (£340) per month.

¹³⁸ [Cash & Cash Machines](#), Payments UK, 2016.

Considering independent site owners only, the revenue gain would be approximately £470 (£280) per month.

9.102 Given the very limited potential revenue gain, we find that the Parties are therefore unlikely to pursue a change in their pricing strategy post-Merger by increasing surcharges at PTU ATMs in local areas identified as being of potential concern.

9.103 We also note that the Parties would have to weigh any strategy to increase surcharges against the risks set out above, including in relation to their market reputation, the risk of site owners switching at the end of their contracts and the effect of a surcharge increase on relationships with site owners and on footfall at the sites concerned.

Local entry and expansion

9.104 We also consider the scope for local entry or expansion to prevent an SLC. We consider whether such entry or expansion would be timely, likely and sufficient:¹³⁹

- (a) **Timely:** whether entry or expansion can be 'sufficiently timely and sustained to constrain the merged firm.'¹⁴⁰ The Merger Assessment Guidelines note that: 'The Authorities may consider entry or expansion within less than two years as timely, but this is assessed on a case-by-case basis, depending on the characteristics and dynamics of the market, as well as on the specific capabilities of potential entrants.'¹⁴¹
- (b) **Likely:** whether firms have the ability and incentive to enter the market.¹⁴²
- (c) **Sufficient:** whether the scope or scale of entry or expansion would be sufficient to act as a competitive constraint to deter or defeat any attempt by the merged firm to exploit any lessening of competition resulting from the merger.¹⁴³

9.105 For an SLC to be prevented, all three of these criteria would have to be met.

¹³⁹ *Merger Assessment Guidelines*, paragraph 5.8.3.

¹⁴⁰ *Merger Assessment Guidelines*, paragraph 5.8.11.

¹⁴¹ *Merger Assessment Guidelines*, paragraph 5.8.11.

¹⁴² *Merger Assessment Guidelines*, paragraph 5.8.8.

¹⁴³ *Merger Assessment Guidelines*, paragraph 5.8.10.

The views of the Parties

9.106 The Parties told us that barriers to entry and expansion in the installation of new ATMs in a local area are relatively low, particularly in relation to stand-alone ATMs (which are the focus of DCP's business) and that entry could readily occur in a timely fashion if a profitable opportunity were to exist (eg in response to a surcharge increase).¹⁴⁴

9.107 The Parties told us that:

- (a) The availability of sites is not generally a significant constraint in deploying new ATMs. The Parties said, in particular, that any retail outlet with space for a stand-alone ATM could host an ATM.¹⁴⁵ Cardtronics told us that it has a team in place to identify potential sites at which to locate ATMs across the UK.
- (b) 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 FTU ATM. The Parties said that this scheme could significantly reduce barriers to entry in some areas.¹⁴⁶
- (c) For an existing ATM deployer, the installation of an ATM typically costs around £[redacted] for an internal ATM¹⁴⁷ and £[redacted] for a new TTW ATM,¹⁴⁸ of which around [redacted]%¹⁴⁹ may be sunk costs that would not be recovered by removing the ATM.
- (d) Other than initial installation costs, an ATM can be recovered and re-used in the event of exit. The Parties said that ATMs are standard units that are purchased from upstream suppliers (ie the Parties are not involved in the production of ATMs).¹⁵⁰
- (e) In addition to existing competitors, there is potential for entry and expansion by the following:
 - (i) Euronet Worldwide, which entered the UK market following its acquisition of YourCash in October 2016. Euronet Worldwide is a

¹⁴⁴ Parties' response to phase 1 decision, 30 May 2017, paragraph 4.76.

¹⁴⁵ Parties' response to phase 1 decision, 30 May 2017, paragraph 4.66.

¹⁴⁶ Parties' response to phase 1 decision, 30 May 2017, paragraph 4.71.

¹⁴⁷ The installation cost of an internal ATM is £[redacted] and the cost of the ATM is £[redacted]. A refurbished (old, capital depleted) internal machine would typically cost around £[redacted].

¹⁴⁸ The installation cost of a TTW ATM is £[redacted] and the cost of the ATM is £[redacted]. A refurbished (old, capital depleted) TTW ATM would typically cost around £[redacted].

¹⁴⁹ The sunk costs relate to: (a) costs of installation; and (b) the lost value of the ATM, ie cost of new ATM less the resale value of a refurbished ATM (for a TTW machine, £[redacted] less £[redacted]).

¹⁵⁰ Parties' response to phase 1 decision, 30 May 2017, paragraph 4.73–74.

global leader in ATM deployment. As set out in paragraph 5.3, the Parties said that YourCash's competitive presence would strengthen following its acquisition by Euronet (described in paragraph 3.19 above), in particular as a result of advantages that YourCash will enjoy in terms of infrastructure and access to capital.

- (ii) ATM Solutions, part of the South African Paycorp group, which has also expressed an interest in entering the UK ATM market.¹⁵¹
- (iii) Change Group, a foreign exchange company, which had grown from 27 ATMs on the UK LINK network in January 2015 to 50 ATMs in April 2017, with potential for further expansion.

The views of third parties

9.108 Competitors to the Parties told us that they install ATMs at a number of new sites each year. In the past year, competitors installed over 1,900 ATMs, which represents around 3% of the total UK stock of ATMs.

9.109 Competitors told us that they plan moderate expansion over the next two years because of net customer losses, with the rate of expansion decreasing to approximately 1,500 ATMs per year, with most of that growth being through installations at new sites. Two competing IADs told us that [REDACTED]% and [REDACTED]% of their expansion would be at new sites (as opposed to sites previously operated by their competitors).¹⁵²

9.110 Although competitors highlighted that it is sometimes challenging to find appropriate sites, all three of the largest IADs told us that they have teams of sales staff looking for suitable sites. Competitors said that densely populated urban areas and areas without good existing ATM provision are the areas in which it most likely that profitable new ATM sites would be found.¹⁵³

CMA assessment

9.111 We consider whether local entry would be timely, likely and sufficient in scope or scale to act as a competitive constraint on the Parties.

9.112 We note that potential competitors with no current involvement in the ATM sector in the UK seeking to compete with the Parties at a regional or national

¹⁵¹ [REDACTED]

¹⁵² [REDACTED]. This is an estimate based on data on contracts gained in the past 12 months split by whether they include a single ATM, two to five ATMs, or over six ATMs, excluding contracts gained from competitors. The net increase in sites is lower than the gross figure, since some sites are also lost each year.

¹⁵³ [REDACTED]

level would be likely to face a number of barriers to entry. In particular, new entrants would incur the costs associated with building the necessary infrastructure to operate an ATM network in the UK. Without scale, a new entrant may also struggle to compete for contracts with site owners against existing IADs operating in the UK.

- 9.113 In relation to entry at a local level, we note the evidence from the Parties and their competitors that sites at which new ATMs could be installed are available in many locations. We also note that existing competitors have plans to expand by installing new ATMs, the majority of which are likely to be FTU ATMs, and each retains teams dedicated to finding new sites. In this regard, as described at paragraph 9.53, site owners have the opportunity to switch to a competing IAD at the end of a contract or during the rollover period of a contract.
- 9.114 Evidence from the Parties and their competitors also indicates that, although there are some sunk costs involved in installing a new ATM, the costs of installation are low relative to the financial position of the five major IADs. We therefore consider that installation costs are unlikely to deter the Parties' major competitors from installing ATMs at new sites.
- 9.115 We note that new ATMs can be installed quickly, with one competitor offering installations within two days.¹⁵⁴
- 9.116 We also note evidence set out in our assessment of market definition and competitive effects which indicates that FTU ATMs constrain PTU ATMs.
- 9.117 Local entry by existing competitors may therefore occur if an economically viable site is identified. Economic viability is likely to vary by local area, depending on a number of factors, including: (a) the size and turnover of the premises in which the ATM would be installed; (b) footfall; (c) proximity of nearest ATM; and (d) the demographics of consumers in the local area. We note that the LINK Financial Inclusion Programme may have the potential to reduce barriers to entry in some local areas. We did not review local entry conditions at the 64 centroid ATMs identified in Chapter 8 as being of potential concern.
- 9.118 An alternative entry strategy for a competitor to enter a local area would be for it to target the business of other IADs at existing sites as the site owner's contract with the IAD expires or is in a rollover period.

¹⁵⁴ [REDACTED]

9.119 In light of our findings in relation to the Parties' ability and incentive to increase surcharges at PTU ATMs as a result of the Merger (set out at paragraphs 9.29 to 9.31 and paragraphs 9.127 to 9.129), it is not necessary for us reach a conclusion on barriers to entry or expansion.

Conclusion in relation to the Parties' incentive to increase surcharges at PTU ATMs

9.120 We find that there was limited competition between the Parties' PTU ATMs pre-Merger.

9.121 We consider the Parties' pricing strategy and find that surcharges at PTU ATMs are not regularly adjusted. Where surcharges have been adjusted, this has not been in response to changes in local competitive conditions.

9.122 We find that footfall and the spending of cash withdrawn from an ATM on-site are the most important reasons for site owners having an ATM at their premises. Fewer site owners told us that gaining revenue from an ATM was the most important reason for having an ATM. The majority of site owners told us that they would oppose a surcharge increase proposed by the Parties. In this regard, we note that the Parties have, in many instances, either reversed or not implemented proposed surcharge increases. This is likely to be, in part, because of the importance of maintaining relationships with site owners and a good reputation in the market.

9.123 We consider whether the Parties might change their pricing strategy post-Merger by increasing surcharges at PTU ATMs in those local areas identified by filtering and diversion ratio analysis as being of potential concern. We find that the Parties would gain only very limited revenue from this strategy and that the Parties are therefore unlikely to pursue such a strategy.

9.124 We also note that the Parties would have to weigh any strategy to increase surcharges against the risk to their market reputation, the risk of site owners switching at the end of their contracts and the effect of a surcharge increase on relationships with site owners and on footfall at the sites concerned.

9.125 We note that the increasing use of alternative payment methods and the consequent decline in PTU ATMs may further limit the Parties' incentives to increase surcharges at PTU ATMs as a result of the Merger.

9.126 We therefore conclude that the Parties would have very limited incentives to increase surcharges at PTU ATMs at independent site locations as a result of the Merger.

Conclusion in relation to ATMs at independent sites

9.127 In relation to the Parties' ability to increase surcharges at PTU ATMs at independent sites, we find that site owners may be able to use the threat of switching to resist any proposal by the Parties to adjust the surcharge.

9.128 We also find that the Parties would have very limited incentive to increase surcharges at PTU ATMs at independent sites as a result of the Merger.

9.129 We therefore conclude that the Merger has not resulted, and may not be expected to result, in an SLC in relation to surcharges at existing PTU ATMs at independent sites.

10. Overall conclusion

10.1 As a result of our assessment, we conclude that:

- (a) the acquisition by Cardtronics of DCP has created a relevant merger situation; and
- (b) the relevant merger situation has not resulted, and may not be expected to result, in an SLC in any of the markets considered in this inquiry.