NCR Atleos New Zealand

Proposed acquisition by Evergreen NZ Holdings of ACM New Zealand Limited from ACM Holdings (NZ) Limited

Submission to the Commerce Commission New Zealand

28 May 2024

1. EXECUTIVE SUMMARY

1.1 **NCR Atleos New Zealand (NCR Atleos)** welcomes the opportunity to provide a submission to the Commerce Commission New Zealand (**Commission**) in relation to the proposal by Evergreen NZ Holdings (**Evergreen**) and ACM Holdings (NZ) Limited (**ACM**) (together, the **Applicants**) for Evergreen to purchase 100% of ACM's shares in ACM New Zealand Limited (**ACMNZ**), thereby combining their cash distribution and management, device monitoring and maintenance, and automatic teller machine **(ATM)** businesses in New Zealand (the **Proposed Transaction**).

1.2 NCR Atleos has operated in New Zealand since 1934 and has continuously delivered innovation in consumer payment transaction technologies, including cash, to New Zealand businesses and consumers since then. Our core business involves making cash available to consumers across New Zealand and critically relies on cash-in-transit (**CIT**) services.

1.3 NCR Atleos considers that the Proposed Acquisition will undoubtedly have the effect of substantially lessening competition in a market in New Zealand, as it will create an effective monopoly for the supply of CIT services (**CIT services**). The counterfactual does not involve an immediate monopolisation of these services and will continue to involve competition between two well-resourced market participants, at least in the short to medium term. It will also allow time for consideration of possible regulatory responses to address the issue of reduced cash usage and demand for CIT services.

1.4 NCR Atleos submits that the Proposed Transaction will not result, or be likely to result, in such a benefit to the public that it should be permitted. The postulated public benefits of improved efficiencies and a reduced carbon footprint are highly unlikely to eventuate in a monopolised market, while the detriments to competition and reduced sector resilience are certainties.

1.5 If the Proposed Transaction were to proceed, then:

(a) the healthy competition that currently exists between the only two national CIT service providers would be removed, and create a monopoly in CIT services in New Zealand;

(b) the merged entity will not face any meaningful constraints;

(c) prices of CIT services will likely increase (by an unknown, potentially substantial amount) sooner than in the counterfactual, and service levels and general terms will be compromised in favour of the merged entity. The impacts of these changes will be passed down to the general public in terms of higher costs to access to cash and reduced availability and access;

(d) there will be less resilience in national cash distribution and greater risks due to having a single monopoly provider of CIT services; and

(e) any public benefits will not outweigh the detriments.

2. OVERVIEW OF NCR ATLEOS' BUSINESS AND RELIANCE ON CIT

2.1 About us

NCR Atleos Corporation is a global manufacturer and supplier of ATMs and a provider of associated software and services. It is publicly listed on the New York Stock Exchange and headquartered in Atlanta, Georgia. NCR Atleos Corporation supplies its products and services in 160 countries, including New Zealand.

2.2 Our business in New Zealand

(a) NCR Atleos is an owner and specialist hardware and software service provider of ATMs. It currently owns and operates [redacted] ATMs nationally, providing convenient access to cash across Te Ika-a-Māui (North Island) and Te Waipounamu (South Island). NCR Atleos' business consists of the following segments:

(i) **ATM deployment services.** NCR Atleos currently owns and operates [redacted] ATMs at retail locations across New Zealand. The businesses operating from these sites typically include convenience stores, service stations, supermarkets, and other retail venues such as sporting arenas and pubs/hotels/clubs. Our customers under these arrangements range from small business owners to large corporate groups. NCR Atleos currently owns and operates [redacted] ATMs at large corporate group sites, including Foodstuffs and Z Energy New Zealand.

(ii) **ATM as a service (ATMaaS) services and related services.** NCR Atleos provides ATMaaS and associated services to financial institutions regarding their ATM fleet.[1] Under these arrangements, NCR Atleos may operate ATMs on behalf of the financial institution or provide various services, which typically involve transaction processing, maintenance, software deployment and cashing services. Currently, NCR Atleos provides ATMaaS services with respect to [redacted] ATMs.

(iii) **ATM access arrangements available to financial institutions through the Allpoint network.**[2] NCR Atleos operates the Allpoint network, which currently consists of [redacted] ATMs owned and operated by NCR Atleos. Financial institutions that are members of the Allpoint network pay a fee to NCR Atleos in exchange for their cardholders having surcharge-free access to the network of Allpoint ATMs across New Zealand. The current members of the Allpoint network are BNZ and Kiwibank.

(b) Across all of the segments we operate in, NCR Atleos is required to provide ATM cash funding/filling and forecasting services and maintenance services and can only fulfil those services through arrangements with CIT providers (currently, the Applicants). [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[1] ATMaaS may also be referred to as "ATM managed services", "end-to-end" ATM services or "full service" ATM contracts.

[2] NCR Atleos also plans to establish the Allpoint+ network in New Zealand in future. Allpoint+ is intended to be a separate network of advanced functionality ATMs and kiosks that will provide fee-free deposit transactions. Some ATMs in the Allpoint+ network may also be configured to operate as part of the Allpoint network, which would enable cardholders of financial institutions participating in Allpoint to access surcharge-free withdrawals and balance enquiries at those machines. Financial institutions could join either Allpoint or Allpoint+, or both.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

3. COMMENTS ON THE PRELIMINARY ISSUES

3.1 Market Definition

(a) NCR Atleos is a customer of Evergreen and ACMNZ in relation to CIT services specifically:

(i) cash collection and delivery;

(ii) cash processing; and

(iii) cash administration services.

(b) As NCR Atleos has no alternative suppliers of these services as currently provided, it considers CIT services to be a distinct market in New Zealand.

[redacted]

3.2 Substantial Lessening of Competition

The Proposed Transaction will create a monopoly in the national market for the supply of CIT services. The merged entity would be unconstrained from introducing substantial price increases, reductions in service quality and worse overall terms with customers. This is due primarily to the following factors:

(a) **Closeness of competition and lack of remaining constraints:** ACM and Evergreen are the only two national CIT providers in New Zealand and are the only entities in this market that constrain one another. The merged entity would have no other realistic competitive constraints on a national level. We note that there is no proposal within the Application for any undertaking, regulation or other form of intervention that would effectively place checks and balances on the merged entity. NCR Atleos would reserve any judgment on such matters until it was able to assess and understand any such measures, however, as a general comment, the Proposed Transaction would likely have more potential benefits if it were presented in such a way;

(b) **Entry and expansion**: There is no credible likelihood of an expansion by an existing smaller CIT provider (if any) or new entrant that could constrain the merged entity. As mentioned above, the Applicants are currently each other's only competitors, and there would be little to no incentive for an existing (if any) or new CIT provider to enter the market, given the dominance and power the merged entity would hold; high fixed costs and a declining market. On the contrary, if the Proposed Transaction were not approved, competition would continue, and if one of the parties exited the market, an opportunity would be created for another entrant to enter the market and maintain competition;

(c) **Countervailing power**: The key source of countervailing power in the market today is a customer's ability to create competitive tender processes for the supply of CIT services. These processes utilise the close rivalry between ACM and Evergreen. The Proposed Transaction will extinguish that power, and customers will be at the mercy of the merged entity with no credible alternatives in the national CIT services market. [redacted]

[redacted]

[redacted]

[redacted]

(d) **Other constraints**: As mentioned above, NCR Atleos notes the absence of any undertaking or proposal by the Applicants or regulatory intervention to accompany the Proposed Transaction, which may mitigate its concerns. Although the presence of these factors may create a better basis than the currently unchecked application, we believe such forms of intervention are ultimately less preferable to continued competition. [redacted]

[redacted]

[redacted]

[redacted]

3.3 Counterfactual

The Applicants have suggested that, in this CIT market, the "conceivable" counterfactual is the altered state of competition involving one of the Applicants exiting the market in a disorderly manner at an uncertain time in the future. NCR Atleos urges the Commission to test this proposition rigorously. NCR Atleos does not consider it likely that either Evergreen or ACM will cease operating in New Zealand within the near term or exit in a disorderly manner. Even if the "conceivable" counterfactual occurs, NCR Atleos believes it would allow competition to continue for longer than the Proposed Transaction and would introduce the opportunity for a new entrant(s) to take over from one of the Applicants. It may also require the Applicants to identify alternative options to improve their business operations to remain viable. Allowing the Proposed Transaction prevents these opportunities from arising.

3.4 Vertical effects

(a) The Application does not address the question of vertical foreclosure as the Applicants do not partake in activities outside of the provision of CIT services. [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

3.5 **Public Benefits Test**

(a) NCR Atleos considers that the Proposed Transaction will lead to limited public benefits and that any public benefits will be outweighed by the significant detriments resulting from the loss of competition between the Applicants. If the Proposed Transaction proceeds, the merged entity would be effectively insulated from competition. Significant public benefits would need to be identified to ensure that public benefits outweigh these clear detriments, and such benefits have not been identified in the Proposed Transaction.

(b) Public benefits should only be considered to the extent they are acquisition-specific and could not be achieved in any other way.

(c) The main public benefits identified by the Applicants fall into five main types[7]:

(i) improving productive efficiencies by reducing duplication of fixed costs;

(ii) avoiding the likely dislocation costs, uncertainty and customer impacts associated with a 'disorderly exit' by one or both of the two national CIT service providers;

(iii) increasing the efficiency of interbank trading;

(iv) reducing the Parties' carbon footprint; and

(v) increasing the resilience in wholesale cash distribution and related benefits from facilitating cash as a method of payment.

(d) A full acquisition is not necessary to realise the public benefits claimed by the Applicants. These benefits could be realised by a commercial arrangement short of a full acquisition, such as a joint venture arrangement, which would result in much less risk of competitive detriment. NCR Atleos also questions the extent of some of these benefits.

(e) The efficiencies in reducing duplicative costs do not necessarily result in benefits to the public. Bringing forward the exit of Evergreen or ACM and the synergies in combining their businesses are private rather than public benefits. The merged entity may choose to absorb those benefits and may go further by raising prices to the detriment of customers and, in turn, the public.

(f) Avoiding dislocation costs is only attributable to the Proposed Transaction if it is correct that, without the Proposed Transaction, there would be a disorderly exit. Even if it is correct that one of the Applicants is likely to exit the market within the near future, NCR Atleos does not consider it credible that either Applicant would do so in an abrupt or disorderly way. Both Applicants have existing contractual obligations, and in the circumstances, it is unlikely that any financial savings associated with an abrupt or disorderly exit would outweigh the reputational damage and associated financial losses.

(g) NCR Atleos submits that the Proposed Transaction will likely result in the lessening of resilience in the wholesale cash distribution segment (in other words, greater difficulties in managing supply disruptions) arising from a reduction in the ability of alternative CIT suppliers, who could provide assistance in times of disruption, to expand or enter. The merger parties themselves appear to admit to this[8]. Having a critical national service in the hands of a single private entity creates significant risks and will be less resilient than the current state of play. [redacted]

[7] The Application at [7.5].

[8] The Application at [7.32].

[redacted]

(h) NCR Atleos considers that it is not in the public interest to have a single national CIT provider in the hands of an unregulated and privately controlled monopoly owner, and to the extent that there are any public benefits arising from the Proposed Transaction, they are outweighed by the significant detriments.

[redacted]