

ATM Makers Look For New Revenue As Big Banks Complete Upgrade

By Melissa Korn Of DOW JONES NEWSWIRES, April 14, 2010

NEW YORK (Dow Jones)--ATM manufacturers, which for the last five years or so have relied on major equipment upgrades by banks, may experience some withdrawal symptoms as this large revenue stream dries up.

NCR Corp. (NCR), Diebold Inc. (DBD) and Wincor Nixdorf AG's (WIN.XE) American unit have all benefited greatly as Bank of America Corp. (BAC), J.P. Morgan Chase & Co. (JPM) and Wells Fargo & Co. (WFC) upgraded their fleets of automatic teller machines with "intelligent deposit" machines, or ATMs that allow for envelope-free deposits. Bank of America changed out its 13,800 deposit-capable machines in late 2009, and Chase is set to complete its upgrade of 10,000 ATMs by Thursday. Wells Fargo expects to finish upgrading its fleet of more than 12,000 in 2012.

Gil Luria, vice president of equity research at Wedbush Securities, says the manufacturers will have to replace up to 7% of their ATM revenue as the upgrades are completed. Luria estimates ATMs account for between 50% and 60% of NCR's revenue and nearly three-quarters of Diebold's. He said the banking segment makes up 70% of Wincor Nixdorf's revenue.

The ATM manufacturers are expecting other areas, including fixed-contract services, to fill some of the void. They are also hoping more banks will start adopting the machines soon to keep North American earnings afloat.

Diebold is potentially the most vulnerable on that front, as the company has a large presence with cash-strapped regional and community banks via its security and services businesses. With banks not committing to time lines for adoption, Diebold investors may need patience. That said, Diebold shares, as well as those of NCR and Wincor, are all trading near 52-week highs, and analysts say they don't expect the shares to fall off a cliff.

NCR, meanwhile, can look to its retail operations to offset some losses, according to Michael Saloio of Sidoti & Co. NCR is also expanding its entertainment business, which operates Blockbuster Express-licensed DVD rental kiosks.

Wincor Nixdorf, the main vendor for Wells Fargo, is potentially the safest of the bunch as it has two years before that rollout is complete.

To be sure, other financial institutions have shown interest in the ATMs. SunTrust Banks Inc. (STI) says it is planning on providing deposit automation services down the line. PNC Financial Services Group Inc. (PNC) already has 1,000 such machines and will change out ATMs at recently acquired branches in the future. And Citigroup Inc. (C) said it will convert 85% of its 3,051 machines. None would provide a schedule for the moves.

"The midsized banks, the regional banks, the national banks certainly will not pick up all of the slack that will be left by the large banks, but we think they're going to start to become very active this year and going into 2011," NCR Chief Executive Bill Nuti said in a February call with investors.

NCR declined to update its estimates of when more small banks would sign contracts, citing its quiet period before reporting quarterly earnings later this month. Diebold also wouldn't provide details of its work with other banks, though spokesman Michael Jacobsen said there will be "some" demand from small banks this year.

Even when those banks do act, they likely won't affect the manufacturers' earnings on the same scale as did Bank of America, Chase or Wells Fargo.

For example, HSBC Holdings PLC (HBC) has switched more than half of its ATMs to envelope-free machines since launching a pilot in 2008. But it only has 800 ATMs. The company, which declined to name its manufacturing partner, said it hopes to move to full automation by the end of this year.

Credit unions, which industry insiders say are starting to show more interest as technology improves at their back-end check processors, will also provide little comfort. A handful of very large organizations may have at most 300 ATMs, according to Stan Hollen, president and chief executive of CO-OP Financial Services, a network manager for credit unions. Just under 4,700 credit unions had ATMs at the end of 2009.

To help cushion themselves, the ATM manufacturers are bulking up their services businesses, which provide recurring revenue via fixed contracts to help with maintenance and software. They also see strong growth prospects internationally, as Diebold and NCR both note opportunities in Brazil and other emerging markets.

"We're betting on many different parts of the world," said Bob Tramantano, vice president of marketing for NCR Financial Services.

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