



DETERMINATION OF MERGER NOTIFICATION M/12/016 - Cerberus/BancTec

Section 21 of the Competition Act 2002

Proposed acquisition by TransCentra, Inc., an affiliate of Cerberus Capital Management, L.P. of BancTec Inc.

Dated 19 September 2012

Introduction

1. On 20 August 2012, in accordance with section 18 of the Competition Act 2002 ("the Act"), the Competition Authority ("the Authority") received a notification of a proposed transaction whereby TransCentra, Inc. ("TransCentra"),¹ an affiliate of Cerberus Capital Management, L.P. ("Cerberus"), would acquire sole control of BancTec, Inc. ("BancTec").
2. As stated by the parties, the proposed transaction would be put into effect pursuant to an agreement among Cerberus-controlled TransCentra, TransCentra's wholly-owned subsidiary Zodiac Merger Sub Inc., ("Zodiac")² and BancTec. In essence, Zodiac would be merged with and into BancTec, and BancTec would become a wholly owned subsidiary of TransCentra.

The Undertakings Involved

The Acquirer

Cerberus

3. Cerberus is a private investment company headquartered in New York City, US, with affiliated offices elsewhere in the US and also in Europe and Asia. Cerberus states that it has more than \$20 billion in assets invested under its management in the US and worldwide across a range of sectors. Cerberus, through its various investment funds pursues four main investment categories:³
 - Distressed securities and assets - senior and subordinated, secured and unsecured debt and equity to enable existing investors to exit distressed commercial situations.

¹ Cerberus controls TransCentra through the majority shareholding of TransCentra by Cerberus Series Four Holdings LLC ("Cerberus Series Four"). Cerberus Series Four is a wholly-owned subsidiary of Cerberus Institutional Partners L.P. which in turn is a fund managed by Cerberus and its affiliates.

² Zodiac is special purpose vehicle established for the proposed transaction.

³ For more information about Cerberus see <<http://www.cerberuscapital.com>>. Cerberus states that "Investors in funds managed by Cerberus and its affiliates include ... government and private sector pension and retirement funds, charitable foundations and university endowments to insurance companies, family savings and sovereign wealth funds."

- Control and non-control private equity - long-term equity investments in companies across a broad range of industries.
 - Commercial lending – particularly so-called “mid-market” loans typically to smaller companies held to maturity rather than traded on a secondary market.
 - Real estate-related investments. – debt and equity investments in real estate across a broad range of sectors.⁴
4. Cerberus states that all Cerberus-managed investment funds and all Cerberus-controlled companies are ultimately controlled by Mr. Stephen A. Feinberg, the founder [...] of Cerberus.⁵ Further, Cerberus states that:
- "[...]"⁶
5. Within the State, as described below, Cerberus is active in the insurance, financial services, home furniture, and firearms and ammunitions sectors through the following four entities:
- a) **LCM Holdings Limited (“LCMH”)**, headquartered in London, U.K., is active in the insurance sector through its wholly owned subsidiary Lucida plc. (“Lucida”). Lucida is active primarily in defined benefit pension buy-outs and bulk annuities.⁷ [...].⁸ For the financial year ended 31 December 2011 LCMH/Lucida’s turnover within the State was approximately €[...] million.
 - b) **Aozora Bank Ltd (“Aozora”)**, headquartered in Tokyo, Japan, provides various financial products and services to corporate customers, financial institutions, and retail customers primarily in Japan. Within the State, Aozora’s turnover is generated by [...]. For the financial year ended 31 March 2012 Aozora’s turnover within the State was approximately €[...] million.
 - c) **HD Holdings II Ltd (“HDH II”)**, headquartered in Sheffield U.K., is active, through its operating subsidiaries, in the design, manufacturing and assembling of in-house furniture, in particular press doors and press organisers. For the financial year ended 31 December 2011 HDH II’s turnover within the State was approximately €[...] million.

⁴ For more information about Cerberus investment strategies see http://www.cerberuscapital.com/investment_strategies.

⁵ Notification Form page 6.

⁶ *ibid.* [...].

⁷ Buying out a defined benefit pension means that Lucida takes over responsibility for paying benefits built up in a pension scheme. For example, a pension scheme would pay an agreed amount to Lucida at which point all existing pension plan assets and liabilities transfer to Lucida. Pension schemes can also purchase bulk annuities from companies such as Lucida e.g., to fund payments to scheme members who have already retired.

⁸ Notification Form page 12.

- d) **Freedom Group Inc ("Freedom")**, headquartered in Madison, North Carolina, U.S.A, designs, manufactures, and markets firearms, ammunition, and related products for sale to law enforcement and military agencies and also to private individuals involved in hunting and shooting sports activities. For the financial year ended 31 December 2011, Freedom's turnover within the State was approximately €[...] million.⁹
6. For the financial year ended 31 December 2011 Cerberus's group-wide worldwide turnover was approximately €[...] billion of which approximately €[...] million¹⁰ was generated in the State.

TransCentra

7. TransCentra, headquartered in Norcross, Georgia, US,¹¹ is involved in business process outsourcing ("BPO"), i.e., the contracting out of business administration functions. In particular TransCentra supplies the following BPO services:
- i. Document processing services which includes billing and communications.
 - ii. Remittance processing, or "accounts receivable" management, which includes processing paper and electronic payments.
8. Transcentra states that, to a lesser extent, it also supplies imaging and payment processing platforms and software to its BPO customers.¹²
9. TransCentra is active primarily in the US, and to a lesser extent in Canada. TransCentra is not active in Ireland or elsewhere in Europe. For the financial year ended 31 March 2012 TransCentra's worldwide revenue was approximately €[...] million, none of which was generated in the State.¹³

The Target

10. BancTec, headquartered in Dallas, Texas, US, is involved in supplying various BPO services in over 50 countries, including Ireland. As stated by BancTec,¹⁴ within Europe, the Middle East and Africa it is involved in supplying the following BPO services:

⁹ Cerberus states, in correspondence dated 7 September 2012, that all of Freedom's turnover within the State is generated from sales of products for hunting and sports purposes.

¹⁰ Calculated using the 2011 ECB average annual exchange rate of €1 = \$1.3920.

¹¹ Prior to its rebranding on 2 January 2012 TransCentra previously operated under the Regulus Group and J&B Software brands. See <<http://www.transcentra.com/category/newsroom-home/press-releases>>.

¹² Notification Form page 11. For more information on TransCentra see <<http://www.transcentra.com/about-us>>.

¹³ Calculated on the European Central Bank average annual exchange rate for April 2011 to March 2012 of €1 = US\$1.3337. [...].

¹⁴ Correspondence dated 14 September 2012. See also <<http://www.banctec.co.uk/products>>.

- i. Cheque, GIRO and payment processing;
 - ii. Document content capture and indexing;
 - iii. Invoice processing;
 - iv. Account opening and origination;
 - v. Back office data processing; and
 - vi. Hosted archive¹⁵ and workflow services.
11. Within the State, BancTec is active in document processing and archiving. [...] are longstanding customers of BancTec.¹⁶ As stated by the parties

"BancTec provides ad hoc back file scanning services to [...] and a hosted Archive Service to [...]. The services provided by BancTec to [...] are maintenance and occasional upgrades to [...]’s payment platform."¹⁷

12. For the year ended 31 December 2011 BancTec’s worldwide turnover was approximately €[...] million of which approximately €[...] million was generated in the State.¹⁸

Third Party Submissions

13. No submissions were received.

Rationale for Proposed Transaction

14. The parties state that Cerberus

"... hopes to achieve significant operational synergies through the combination of BancTec and TransCentra’s operations, as well as the expansion and diversification of capabilities, client base and geographic footprint."¹⁹

Analysis

15. There is a global overlap in the activities of TransCentra and BancTec. Both TransCentra and BancTec are involved in supplying BPO services. However, since TransCentra is not active in the State, there is no overlap in the activities of the parties within the State.

¹⁵ Archived data, i.e., data no longer actively used, is stored separately from more recent and actively used data. By archiving the data on behalf of its customers BancTec is the "host" of the archived data.

¹⁶ BancTec states, in correspondence dated 14 September 2012, that [...] has been a BancTec customer for over 25 years, and [...] have been customers for over 15 years.

¹⁷ *ibid.*

¹⁸ Calculated using the 2011 ECB average annual exchange rate of €1 = \$1.3920.

¹⁹ Notification Form page 7.

16. There is no overlap in any Cerberus activities and the activities of BancTec within the State.²⁰ That is, Cerberus-controlled companies are not involved in document processing and archiving in the State. BancTec is not involved in the insurance, financial services, home furniture, and firearms and ammunitions sectors in the State.
17. There will continue to be alternative suppliers of BPO services within the State such as Accenture, Capita, Fujitsu, IBM Southwestern and others. As such no potential competition concerns arise in this instance.
18. The proposed transaction does not raise any vertical issues within the State. There is no vertical relationship between any Cerberus-controlled company and TransCentra within the State. There is also no vertical relationship between any Cerberus-controlled company and BancTec within the State.
19. In light of the above, the Authority considers that the proposed transaction will not raise competition concerns in any market for goods or services in the State.

²⁰ As noted in paragraph 4, and confirmed in correspondence from the parties dated 7 September 2012, [...].

DETERMINATION

The Competition Authority, in accordance with section 21(2)(a) of the Competition Act 2002, has determined that, in its opinion, the result of the proposed transaction whereby TransCentra, Inc., an affiliate of Cerberus Capital Management, L.P., would acquire sole control of BancTec, Inc. will not be to substantially lessen competition in any market for goods or services in the State and, accordingly, the acquisition may be put into effect.

For the Competition Authority

Stephen Calkins
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Director, Mergers Division