

Anticipated acquisition of the IS&GS business of Lockheed Martin Corporation by Leidos Holdings Inc

Decision on relevant merger situation and substantial lessening of competition

ME/6606-16

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 13 July 2016. Full text of the decision published on 5 August 2016.

Please note that [X] indicates figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.

SUMMARY

1. Leidos Holdings Inc (**Leidos**) has agreed to acquire from Lockheed Martin Corporation (**LMC**) its Information Systems & Global Solutions business (**IS&GS**) (the **Merger**). Leidos and IS&GS are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that the Parties' enterprises will cease to be distinct as a result of the Merger, that the turnover test is met and that, accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. The Parties provide products within four main areas:
 - (i) 'C4ISR'¹ mission IT and, in particular, data integration and analysis which combines systems to allow military commanders to understand

¹ Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance.

their operational environment, identify mission critical factors and control their assets;

- (ii) Network security services, which includes cyber consultancy services, incident response, advance threat monitoring (including penetration testing), digital forensic analysis and maintenance of information processing systems for government or commercial customers' computing applications;
- (iii) Transportation and national security services, which includes installing and maintaining baggage and other screening equipment in airports, and providing training and other human resource support for aviation security functions; and
- (iv) General aviation services, which involves the supply of services relating to air traffic management and the operation of airport services.

- 4. The CMA assessed the impact of the Merger on the supply of these services in the UK. However, the CMA did not need to conclude on the product or geographic frame of reference because it identified no concerns on any basis.
- 5. The CMA found that the Parties' share of supply is small in each of the four product areas in paragraph 3. The CMA noted that each of these general areas covers a wide range of products. However, the CMA did not receive evidence to suggest that the Parties are close competitors in any potential product or service within these segments; and in each area the Parties compete against numerous other competitors. Finally, no third parties raised competition concerns in relation to the Merger.
- 6. The CMA therefore believes that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects.
- 7. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

- 8. Leidos is mainly active in the USA but in the UK it provides:
 - (i) Services and systems relating to C4ISR, including data integration and analysis;

- (ii) Network security services (eg cyber consultancy and advance threat monitoring);
- (iii) Transportation and national security services; and
- (iv) General aviation services.

The turnover of Leidos in 2015 was around £3.3 billion worldwide and around £[~~3.3~~] million in the UK.

9. IS&GS is a business unit of LMC and in the UK is active in:

- (i) C4ISR services, including data integration and analysis;
- (ii) Network security services;
- (iii) Transport and national security services; and
- (iv) General aviation services.

The turnover of IS&GS in 2015 was around £[~~3.3~~] billion worldwide and around £[~~3.3~~] million in the UK.

Transaction

10. Leidos intends to acquire IS&GS from LMC. LMC will contribute the assets and equity interests that comprise IS&GS into a newly formed subsidiary, Abacus Innovations Corporation (**Abacus**), which will ultimately become a wholly-owned subsidiary of Leidos. Leidos and LMC entered into an agreement and plan of a merger on 26 January 2016. On the same date LMC entered into a separation agreement with Abacus.
11. Pursuant to the agreements, the activities and assets of IS&GS will be sold to Abacus and shareholders of LMC will in return be offered shares in Abacus for their LMC shares (exchange offer). Subsequently, Abacus and Lion Merger Co. (**Lion**), a wholly owned subsidiary of Leidos will merge, with Lion surviving the merger. The shares of Abacus will be automatically converted into a right to obtain shares in Leidos. Leidos will be the sole shareholder of the merged entity (ie Lion).
12. As this transaction is a specific transaction under the US tax rules (known as a Reverse Morris Trust), which obliges Leidos' shareholders to hold less than 50% of the shares in the merged entity, the shareholders of Abacus will receive at least 50.1 % of the shares in Leidos. According to Leidos, the shareholders of Abacus (ie, the shareholders of LMC) collectively will possess not more than 50.5% of Leidos' shares post-Merger.

13. The Merger has also been investigated and cleared by the United States Department of Justice.

Jurisdiction

14. As a result of the Merger, the enterprises of Leidos and IS&GS will cease to be distinct.
15. The UK turnover of IS&GS exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied.
16. The CMA therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
17. Currently, one entity, State Street beneficially owns 16.7% of LMC's common stock as a trustee independent fiduciary and/or investment manager for various LMC employee benefit plans. It is the largest shareholder of LMC, with the remaining shareholders holding significantly fewer shares. According to the Parties, State Street is not able to exert decisive influence over LMC because it has no representation on LMC's board of directors and only has dispositive power and voting power in certain circumstances.²
18. The Parties noted that State Street's stake in Leidos post-Merger will not enable State Street to exert material influence over Leidos. The Parties submitted that the decision on whether or not to participate in the exchange offer to convert shares in LMC to shares in Abacus is taken by the individual plan participant with shares in LMC stock held within their account in State Street's plans. If a plan participant does not respond to the exchange offer, the plan documents provide that State Street will treat the participant as having elected not to participate. For this reason, [X] State Street does not have voting discretion and cannot influence LMC. Moreover, as LMC's shareholders will own approximately half of Leidos post-Merger, [X]. Leidos indicated that its largest shareholder has a stake of less than 10% and is not able to exert material influence over Leidos.
19. On this basis the CMA concludes that State Street's minority shareholding in Leidos post-Merger does not confer on State Street material influence over

² The terms of the applicable employee benefit plan documents provide that State Street generally will pass through all voting rights with respect to LMC common stock to the participating individuals. The plans provide that if a participant fails to respond to a proxy solicitation by the deadline for LMC annual meeting, State Street will vote the shares in proportion to the shares for which timely votes were received from other participants, to the extent permitted by applicable law.

Leidos, and therefore does not give rise to a separate relevant merger situation.

20. On 31 May 2016, pursuant to section 57(1) of the Act, the CMA wrote to the Secretary of State, formally bringing the Merger to his attention, as the CMA considered that the Merger may raise public interest considerations under section 58(1) of the Act. On 7 July 2016, the Secretary of State confirmed that he had taken the view that the Merger was not sufficiently relevant to the public interest consideration specified in section 58(1), and accordingly was minded not to issue an intervention notice under section 42 of the Act.
21. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 1 June 2016 and the statutory 40 working day deadline for a decision is therefore 26 July 2016.

Counterfactual

22. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers the CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.³
23. In this case, there is no evidence supporting a different counterfactual, and the Parties and third parties have not put forward arguments in this respect. Therefore, the CMA believes the prevailing conditions of competition to be the relevant counterfactual.

Frame of reference

24. The CMA considers that market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merger parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more

³ *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.5. The *Merger Assessment Guidelines* have been adopted by the CMA (see *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, Annex D).

important than others. The CMA will take these factors into account in its competitive assessment.⁴

Product scope

25. The Parties overlap in the supply of:
- (i) 'C4ISR' data integration and analysis offerings, which generally combine information systems to allow military commanders to understand their operational environment, identify mission critical factors and control their assets.
 - (ii) Network security services, which includes the development and modernisation of information processing systems for government or commercial customers' computing applications.
 - (iii) Transportation and national security services, which includes installing and maintaining baggage and other screening equipment in airports, and providing training for agents and other human resource support for aviation security functions.
 - (iv) General aviation services, which includes the supply of services relating to air traffic management and the operation of airport terminals.
26. The Parties submitted that their respective services in each of these areas are complementary. The CMA has considered each area in turn below.

C4ISR - data integration and analysis

27. The European Commission (**EC**) considered the provision of C4ISR services in its BAES / AMS decision in 2005.⁵ The EC left the product market and geographic market definition open, but noted that military service provisions which had traditionally been considered national were becoming more international.
28. Within the UK, C4ISR services are provided by the Parties to [X] the UK Ministry of Defence (**MoD**).

⁴ [Merger Assessment Guidelines](#), paragraph 5.2.2.

⁵ See decision of 14 March 2005 COMP/M.3720 (BAES / AMS).

29. The Parties submitted that C4ISR includes a very wide range of products and services. The Parties submitted that the only area in which they are both active is data integration and analysis.
30. Data integration and analysis involves the processing of data that is gathered by sensors and from other sources to create actionable data and recommendations for commanders and others. This may sometimes be done by software or other systems designed for the purpose, or by humans interpreting data (eg intelligence analysts). Leidos is active in the provision of country geo-spatial information systems to the MoD. IS&GS' offering is focussed on the provision of tactical data link products, geospatial intelligence, and air command and control services to the MoD.⁶
31. The MoD told the CMA that each of the Parties' services/products within C4ISR, and even within data integration and analysis, had a different application.
32. Competitors which responded to the CMA's investigation indicated that the offerings by different firms for specific C4ISR services may vary. For example, different solutions may use a different technology or might involve different support services. Nevertheless, competitors noted that the services offered to meet a particular need of the MoD were functionally equivalent. One competitor said that, as the MoD specifies the work and the final deliverables, the services supplied are typically bespoke to the MoD's requirements.
33. On the basis of this evidence, the CMA notes that data integration and analysis would appear to be a wide product area and narrower frames of reference might be appropriate. The CMA took this into account in its competitive assessment. However, the CMA did not need to conclude on the product frame of reference because it identified no concerns on any basis.

Network security

34. The EC has previously looked at the provision of IT services in its ATOS/SIEMENS decision.⁷ Although the precise market definition was left open, the EC considered that IT services could be segmented into hardware maintenance, software maintenance & support, consulting, development integration, IT management services, business management services and

⁶ Geo-spatial information systems essentially involve creating high-resolution imagery maps and overlap services. In contrast, geo-spatial intelligence involves using geospatial information from various sources (including, for example, high-resolution imagery maps and other inputs/sources) and analysing and fusing the data in order to gain situation awareness and intelligence about a situation or event.

⁷ See decision of 25 March 2011 COMP/M.6127 (ATOS / SIEMENS IT).

education and training. The EC also noted increasing supply-side substitution between the different segments.

35. The Parties provide network security services including cyber consultancy services, incident response, advance threat monitoring (including penetration testing), digital forensic analysis, and maintenance and support.
36. One customer noted that the various products/services within network security services had different applications:
 - (a) Cyber consultancy is used for verifying the customer's processes, systems and security measures.
 - (b) Incident response entails monitoring the security boundaries and what happens internally within the customer's systems.
 - (c) Advance threat monitoring involves monitoring the dark web and collecting information in relation potential threats to security systems and penetration testing.
 - (d) Digital forensic analysis involves checking possible security breaches.
 - (e) Maintenance and support entails attempting to resolve an issue once reported by incident response, and IT, network, security and infrastructure support.
37. Competitors which responded to the CMA's merger investigation indicated that offerings are differentiated across the different services.
38. On the basis of this evidence, the CMA notes that network security services would appear to be a wide product area and narrower frames of reference might be appropriate. The CMA took this into account in its competitive assessment. However, the CMA did not need to conclude on the product frame of reference because it identified no concerns on any basis.

Transportation and national security

39. The Parties provide transportation and national security services, which involves providing training for agents and other human resource support for aviation security functions. It also includes installing and maintaining baggage and other screening equipment in airports (and covers the development and production of that equipment).
40. Leidos is particularly active in the provision, installation and maintenance of scanning equipment (such as vehicle and cargo inspection systems, handheld survey meters, and baggage-inspection systems). IS&GS has in the past

provided systems integration work related to emergency support services. The Parties submitted that their respective activities differ significantly and do not overlap.

41. Leidos provides services to a range of customers, including the [X] and [X]. Although IS&GS does not currently have any customers in the UK, it has in the past provided services to the [X] and is competing currently [X].
42. All of the customers which responded to the CMA's investigation indicated that the various products/services identified in paragraphs 40 and 41 had different applications.
43. Third party responses to the CMA's merger investigation indicated that some companies were only aware of Leidos as a provider of these services while others were only aware of IS&GS, indicating that the Parties are typically considered to provide different services.
44. On the basis of this evidence, the CMA notes that transportation and national security would appear to be a wide product area and narrower frames of reference might be appropriate. The CMA took this into account in its competitive assessment. However, the CMA did not need to conclude on the product frame of reference because it identified no concerns on any basis.

General aviation

45. The Parties submitted that they both provide general aviation services to their UK customers but said that their focus is different. Leidos mainly provides IT maintenance programmes, which includes hardware replacement and software updates, but also provides fuel management systems to the MoD [X]. IS&GS provides software and related services designed to make the operation of airport terminals more efficient (eg in gate management). IS&GS also provides air traffic management products and related services, such as software development, system integration, hardware maintenance, cloud services and IT-related services to National Air Traffic Services (**NATS**).
46. The CMA notes that general aviation services would appear to be a wide product area and narrower frames of reference might be appropriate. The CMA took this into account in its competitive assessment. However, the CMA did not need to conclude on the product frame of reference because it identified no concerns on any basis.

Geographic scope

47. The Parties have indicated that they have multiple sites throughout the UK which provide different services. However, the Parties submitted that the relevant geographic frame of reference for:
- (a) each of the data integration and analysis services which the Parties provide (listed above in paragraphs 30-33) is national;
 - (b) each of the network security services which the Parties provide (listed above in the paragraphs 35-38) is national, particularly as customers have national requirements;
 - (c) each of the transportation and national security products/services which the Parties provide (listed above in paragraphs 39-44) is national, particularly as there are national requirements by customers and competition for these contracts is at a national level; and
 - (d) each of the general aviation services which the Parties provide (listed above in paragraph 45) is national, particularly as competition for these contracts is at a national level.

C4ISR - data integration and analysis

48. The MoD told the CMA that there is no requirement on providers of different data integration and analysis services to be either on-site or near their sites. One department, however, noted that there is a requirement on providers to offer support via a UK location.
49. Competitor responses broadly indicated that these services could be provided from a central office. However, it was noted that close proximity or an on-site presence can be a feature of the service provided.
50. On the basis of this evidence, the CMA notes that data integration and analysis includes a number of different services with potentially varying requirements regarding their local or regional presence. For most services, the CMA believes that the appropriate geographic frame of reference is no wider than the UK, but it took the variability in local needs into account in its competitive assessment. The CMA did not need to conclude on the geographic frame of reference because it identified no concerns on any basis.

Network security

51. In its ATOS/SIEMENS decision, the EC noted that there appeared to be a strong tendency towards internationalisation. However, the EC did not conclude on the appropriate geographic scope.
52. One customer indicated that the requirements on firms supplying different network security services varies:
 - (a) For cyber consulting there is a requirement to be within the UK, in order to interview staff as part of the consulting work;
 - (b) Incident response requires a physical presence on site 'within hours';
 - (c) Digital forensic analysis requires a physical presence on site 'within hours';
 - (d) Maintenance and support requires the provider to be in close proximity to customer sites but depends on the precise service (eg if it's a '24/7' service then there would need to be an on-site requirement); and
 - (e) Advance threat monitoring can be done remotely.
53. A competitor indicated that it is possible to supply the different network security services from a central office, but there was a common requirement by customers to be situated on-site or close to their site.
54. On the basis of this evidence, the CMA notes that network security services includes a number of different services with potentially varying requirements regarding their local or regional presence. For most services, the CMA believes that the appropriate geographic frame of reference is no wider than the UK, but it took the variability in local needs into account in its competitive assessment. However, the CMA did not need to conclude on the geographic frame of reference because it identified no concerns on any basis.

Transportation and national security

55. Customer requirements on firms supplying different transport and national security services vary:
 - (a) Installing scanning equipment happens infrequently so it can be supplied from a central location, but maintaining and supporting equipment requires either an on-site presence or national coverage to enable a rapid response;

- (b) One customer indicated that suppliers of IT services are required to arrive on site in a 'reasonable time', while another indicated that the requirement is that they are located regionally;
 - (c) One customer indicated that telephone support is adequate for emergency services.
- 56. Competitors who responded to the CMA's investigation indicated that these services could be provided from a central office, although some competitors noted that, for some services, it can be a requirement to be situated on-site or close to the customer's site.
- 57. On the basis of this evidence, the CMA notes that transportation and national security services includes a number of different services with potentially varying requirements regarding their local or regional presence. For most services, the CMA believes that the appropriate geographic frame of reference is no wider than the UK, but it took the variability in local needs into account in its competitive assessment. However, the CMA did not need to conclude on the geographic frame of reference because it identified no concerns on any basis.

General aviation

- 58. The Parties submitted that their general aviation services are provided on a national basis. According to the Parties, competition for contracts takes place on at least a national basis.
- 59. The CMA received no comments from third parties which indicated the relevant geographic frame of reference for these services.
- 60. On the basis of the evidence, the CMA has considered the supply of general aviation services on a national basis. However, the CMA did not need to conclude on the geographic frame of reference because it identified no concerns on any basis.

Conclusion on frame of reference

- 61. For the reasons set out above, the CMA has considered the impact of the Merger on competition in the following frames of reference:
 - (i) The supply of C4ISR services, in particular data integration and analysis, in the UK;
 - (ii) The supply of network security services in the UK;

(iii) The supply of transportation and national security services in the UK;
and

(iv) The supply of general aviation services in the UK.

However, the CMA did not find it necessary to conclude on the product or geographic frame of reference because it identified no concerns on any basis.

Competitive assessment

Horizontal unilateral effects

62. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or degrade quality on its own and without needing to coordinate with its rivals.⁸ Horizontal unilateral effects are more likely when the merger parties are close competitors. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to unilateral horizontal effects in the supply of C4ISR services, network security services, transportation and national security services and general aviation services in the UK.

C4ISR - data integration and analysis services in the UK

Shares of supply

63. Using data from a Kable report⁹, the Parties estimated that Leidos' share of supply of C4ISR in the UK is less than [0-5]% and IS&GS's share of supply is less than [0-5]%.

64. Focussing on data integration and analysis services, the Parties submitted that Leidos' turnover from the provision of geo-spatial information systems was approximately £[~~£~~] in 2015. However, this revenue figure includes approximately £[~~£~~] related to the [~~£~~] and is therefore an over-estimate of its UK revenues. The remainder of the above turnover was generated from the MoD in 2015. IS&GS generated approximately £[~~£~~] million in 2015 from tactical data link products, geospatial intelligence, and air command and control services in the UK.

65. The total revenue earned by those competitors that responded to the CMA's investigation and the Parties in data integration and analysis services in the

⁸ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

⁹ Kable Report "Ministry of Defence Project Portfolio 2014, Pipeline and extant opportunities for ICT", February 2014.

UK was approximately £45 million in 2015. The CMA notes that this estimate does not include all firms offering data integration and analysis services and therefore underestimates total market size. Nevertheless, the share of supply of the Parties is still modest even on the basis of this limited competitor set at approximately [10-20]%. On the basis of this estimate of the market size for data integration and analysis services in the UK, the increment arising from the Merger is very small.

Closeness of competition

66. The Parties submitted that they are not close competitors in the provision of data integration and analysis in the UK as they supply different services to meet different needs.
67. The MoD indicated that Leidos and IS&GS were not competitors for any data integration and analysis services. Similarly, the majority of competitor responses confirmed that the Parties do not overlap in the provision of any particular data integration and analysis service in the UK.¹⁰ None of the competitors who responded to the CMA's investigation indicated that Leidos and IS&GS were close competitors for data integration and analysis services in the UK.

Competitive constraints

68. Both customers and competitors who responded to the CMA's merger investigation indicated that there were a number of other providers of these services within the UK.

Conclusion on C4ISR - data integration and analysis services in the UK

69. On the basis of this evidence, the CMA believes that the Merger will not give rise to a realistic prospect of an SLC in the supply of C4ISR services, and/or, in particular, data integration and analysis services, in the UK.

Network security services in the UK

Shares of supply

70. The Parties submitted that their combined turnover from the provision of network security services in the UK was approximately £[~~8~~] million in 2015.

¹⁰ Only one competitor indicated there was an overlap with both Leidos and IS&GS in relation to the provision of geospatial information systems and geospatial intelligence.

71. The Parties estimated that the total annual value of network security services in the UK was approximately £[X] billion and, therefore, submitted that their post-Merger combined share of supply was less than [0-5]%.
72. The CMA notes that the figure of £[X] billion used by the Parties for the market size is the expected investment in cyber security by the UK government over the next five years, which could significantly overstate the annual size of the market. However, the revenue earned by all the competitors which responded to the CMA's merger investigation in network security services in the UK was approximately £750 million in 2015. This would indicate that the Parties have a very small share of supply of less than [0-5]% in this frame of reference.

Closeness of competition

73. The Parties submitted that they are not close competitors in the provision of network security as they supply different services to meet different needs. The Parties submitted that they had never competed against each other when competing for network security services business in the UK, but added that they both competed regularly with several other competitors.
74. No customers which responded to the CMA's investigation indicated that they were aware of Leidos and IS&GS competing with each other in the provision of any of the products and services comprising network security services.
75. However, the evidence from competitors was mixed. Several competitors noted that the firms competed to some degree in network security services, though other competitors said that the Parties did not compete in this area at all. One competitor indicated that Leidos and IS&GS were close competitors in the UK regarding cyber consulting.
76. Competitors indicated that, while they frequently competed against IS&GS, they did not compete against Leidos.¹¹

Competitive constraints

77. Both customers and competitors which responded to the CMA's investigation indicated that there were several other providers of network security services in the UK.

¹¹ When competitors were asked to list the top 5 firms which they compete against, no competitors listed Leidos.

Conclusion on network security services in the UK

78. On the basis of this evidence, the CMA believes that the Merger will not give rise to a realistic prospect of an SLC in the supply of network security services in the UK.

Transportation and national security services in the UK

Shares of supply

79. Leidos' turnover from the installation and maintenance of scanning equipment was approximately £[REDACTED] million in 2015.
80. IS&GS generated £[REDACTED] million turnover in 2015 from the provision of transportation and national security services to the [REDACTED]. However, this contract has ended and IS&GS is no longer performing these services. IS&GS is currently bidding for [REDACTED].
81. The Parties submitted a report which estimated that the provision of national security products and services in the UK was worth £700 million in 2015,¹² although the Parties noted that they were unsure of the size of the segment relating to transportation security. On this basis, the Parties submitted that the revenue derived by Leidos in this sector was less than [0-5]%. The Parties said that IS&GS currently had no share of supply as it is not currently active in the provision of transportation and national security services in the UK.
82. The total revenue earned by competitors which responded to the CMA's investigation in transportation and national security services in the UK was approximately £90 million in 2015. On the basis of this information, the CMA estimated that the Parties would have a small share of supply in the provision of transportation and national security services, even including IS&GS's historic revenues from 2015.

Closeness of competition

83. The Parties submitted that they are not close competitors in the provision of transportation and national security services as they supply different services to meet different needs. The Parties submitted that they had never competed against each other when competing for transportation and national security services business in the UK, but added that they both competed regularly with several other competitors.

¹² Kable Departmental Profile for the Home Office.

84. No customers indicated that Leidos and IS&GS were competitors for any transportation and national security services. Similarly, the majority of competitor responses confirmed that the Parties do not overlap in the provision of any particular transportation and/or national security service in the UK. Only one competitor indicated that it overlapped with both Leidos and IS&GS in relation to the provision of 'IT services'. None of the competitors which responded to the CMA's investigation indicated that Leidos and IS&GS were close competitors for transportation and national security services in the UK.

Competitive constraints

85. Both customers and competitors which responded to the CMA's investigation indicated that there were several other providers of transportation and national security services within the UK.

Conclusion on transportation and national security services in the UK

86. On the basis of this evidence, the CMA believes that the Merger will not give rise to a realistic prospect of an SLC in the supply of transportation and national security services in the UK.

General aviation services in the UK

Shares of supply

87. The Parties submitted that Leidos' presence in the supply of general aviation services in the UK is marginal as it generated a turnover of less than £[redacted] from these services in 2015, some of which was from outside the UK. IS&GS generated a turnover of £[redacted] million from these services in 2015.
88. The Parties' calculated their combined share of supply based on an estimated market size for general aviation services in the UK of £[redacted] million.¹³ On this basis, the Parties submitted that IS&GS had a share of supply of less than [0-5]%, while Leidos had a share of around [0-5]%.
89. The CMA notes that this estimate of UK market size does not include all general aviation services, and is therefore likely to understate the market size. On this basis, the combined share of supply of the Parties in the UK will be overstated.

¹³ This estimate was comprised of three parts: (i) NATS estimate of repairs and maintenance, (ii) services and materials, and (iii) IS&GS' best estimate for demand for airport IT systems.

Closeness of competition

90. The Parties submitted that they are not close competitors in the provision of general aviation services as they supply different services to meet different needs.
91. No third party which responded to the CMA's investigation indicated that the Parties are close competitors in the supply of general aviation services in the UK.

Competitive constraints

92. The Parties said that they face strong competition from several competitors, including Thales, Indra, Raytheon, IBM, Selex and Ultra.

Conclusion on general aviation services in the UK

93. On the basis of this evidence, the CMA believes that the Merger will not give rise to a realistic prospect of an SLC in the supply of general aviation services in the UK.

Conclusion on horizontal unilateral effects

94. As set out above, the CMA believes that, in all frames of reference, the Parties are not close competitors, they have a low combined share of supply and there are sufficient other competitors which will continue to provide a constraint on the Parties post-Merger.
95. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to any frame of reference.

Barriers to entry and expansion

96. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no SLC.
97. However, in the present case, there was no need for the CMA to conclude on barriers to entry or expansion, as the Merger does not give rise to competition concerns on any basis.

Third party views

98. The CMA contacted customers and competitors of the Parties. None of the 11 customers and 12 competitors who replied to the CMA's investigation raised concerns regarding the Merger. No other third parties raised concerns about the Merger.
99. Third party comments have been taken into account where appropriate in the competitive assessment above.

Decision

100. Consequently, the CMA does not believe that it is or may be the case that the Merger may be expected to result in an SLC within a market or markets in the UK.
101. The Merger will therefore **not be referred** under section 33(1) of the Act.

Andrew Wright
Director
Competition and Markets Authority
13 July 2016