

EURO CAR PARTS/ ANDREW PAGE MERGER INQUIRY

*Summary of the response hearing held with Parts Alliance on 20
September 2017*

Divestiture of overlap depots

1. In commenting on the Notice of Possible Remedies, Parts Alliance (PA) said that it seemed reasonable that the divestiture of one depot in each of the relevant local areas in which the Competition and Markets Authority (CMA) had identified a substantial lessening of competition (SLC), to a suitable competitor would remedy the SLC.
2. The credibility of any disposal depended upon the customer base trading out of the depots and the staff that remained in them. PA noted that the performance of the Andrew Page depots during the last few months was unknown and it had no knowledge of the performance of the Euro Car Parts (ECP) depots in these areas. If PA was to be interested in acquiring any of these depots it would need to be certain it was acquiring a viable business rather than just the site.
3. PA thought that there was a risk that ECP would choose to divest the worse performing depots in the SLC areas if it was given the choice.

Scope of the divestiture package

4. A depot's inventory was important for business continuity. The depots being divested would need to have the right stock available so that they could continue to supply the products that local customers were used to obtaining from day one. It would also be important that customer details (including details of the items particular customers purchased) were transferred.
5. PA considered that it would be important that any outstanding debt of the divested depots should be collected by the purchaser rather than ECP. If ECP was responsible, this would create an ongoing customer relationship between ECP and that customer which ECP could potentially benefit from to the detriment of the purchaser. PA suggested that either the debt could be discounted appropriately and purchased up-front, or, a relationship could be established where the purchaser collected debts on ECPs behalf and after two or three months they agreed a deal on any outstanding debt.
6. PA said that telecommunications were an important aspect of any divestiture package and PA would want to ensure it would be able to patch its own systems into

the acquired depots. PA might be able to use interim IT solutions, but this would not be ideal. PA thought it would be easy to carve out the data it required from any divested depots and put its own systems in place.

7. PA said that the inclusion of delivery vehicles in the divestiture package would be nice to have but was not a deal breaker. If a purchaser acquired all ten sites, then the option to purchase the vehicles would make it easier.
8. PA would not require computers as part of any divestiture as it had its own system but other fixtures and fittings would be necessary so that the depot could keep trading. In addition to customer data, vehicle routing data would also need to be transferred.
9. PA told us that it would not need the AP national distribution centre because it already had its own infrastructure. If a larger company purchased several closely located sites it might choose to have a regional hub, although this would depend on the infrastructure and the distribution model of the purchaser.
10. The transfer of customer contracts to a buyer might not be necessary given that there were no meaningful contracts with local customers (other than with national account customers). It would also not be necessary to transfer the existing supplier contracts to a large motor factor such as PA which had its own supplier contracts.
11. PA was uncertain as to whether a new entrant would require a regional distribution hub as there were different ways to build a distribution model. PA's regional hubs were just larger depots which generally have a deeper level of stock and store slower moving products. The fixed cost of having a national distribution centre was too high for many motor factors. PA noted that AP had tried to introduce this model unsuccessfully but ECP had always used this model. PA would continue to use its larger depots as distribution centres.

Leases

12. The assignment of leases was not that difficult. PA noted that while most landlords were content for tenants to take over leases, some landlords might decide to redevelop the land or bring in a new type of business. Generally speaking, landlords were happy to assign a lease to someone they could trust. In terms of timing, PA suggested that it might take four to six weeks to progress from Head of Terms to a fully signed final agreement, depending upon the legal formalities being completed on a timely basis.
13. PA did not believe that there would be any retention of title issues, these only previously arose because AP was in administration.

Due diligence

14. The transfer of employees and customer contracts were two key areas and employees at the depots in the SLC areas would need to be transferred in line with

TUPE regulations. PA would need to conduct due diligence relating to the performance of the depot and the value of the customer records being transferred. In addition to basic contact details, PA would also seek details of each customer's historic purchases at the depot. It would also conduct due diligence in relation to the leases and stock, with a focus on historic financial performance and the depot's performance in the last 6 months.

15. In terms of support services (e.g. finance, IT, procurement) PA thought that smaller purchasers might need back office support. Larger purchasers would have their own systems and would be able to transfer their back-office systems.
16. PA said it would be able to trade from an acquired depot as soon as the necessary telecommunications were in place.

Profile of a suitable purchaser

17. PA noted that the CMA had identified SLCs in 10 local areas. PA said that it is important that the CMA ensures that the purchaser/s would be able to compete in each of the local areas. For example, a new entrant acquiring a single depot would be too small to be able to compete with ECP. PA said that once ECP had divested the depots it would be very aggressive in the marketplace as it was more than competent at driving sales performance. Having the necessary scale therefore in terms of resources was important so that a depot could be stocked and provide a full offering to the customer. PA referred to APs cash flow issues to demonstrate this point.
18. Credit with suppliers including super factors such as FPS was important when products needed to be acquired quickly. Most motor factors had a credit line with FPS but there were other ways to obtain parts, for example, from a competitor or an OEM supplier, but it was important to obtain the part quickly. Stocking a wide range of parts was very important. PA had 1.2 million parts in its catalogue and an average of 15,000 stock units in each depot.
19. PA thought it would be important to include the usual non-compete, non-solicit type clauses associated with an acquisition and ECP should not be able to poach staff from the divested sites for a period.
20. Unlike previous sales processes, for example in 2015 when PA had concerns regarding the financial figures presented by AP, PA believed that there would be sufficient purchasers interested in the sites. The opportunity to add a depot to a regional network where the depots were available on a piecemeal basis meant that many parties were likely to be interested. It is important that a purchaser has sufficient scale to be able to compete with ECP. PA said that a business which has four or five depots in an existing network and is a member of a buying group would probably be sufficient to finance the acquisition of one or two depots.

21. The methodology used to calculate the value of a depot was often a discounted EBITDA model with a multiple applied. It was difficult to comment on the typical range of the multiple but this could be adjusted for relevant factors.

Timescale for divestiture remedy

22. PA said it would be able to decide upon possible acquisitions within a week of receiving the due diligence. A small buyer might require several weeks. Once the data room was set up it might take approximately four weeks to complete a transaction. The CMA would potentially then need to allow time for negotiation with multiple bidders for some depots. The timing would invariably be dependent on the legal process but the divestiture should be much easier than selling 100 depots out of receivership.
23. PA did not think there was any substantial risk of uncertainty affecting customers or suppliers should the divestiture process be delayed, but there would be some risk of uncertainty with employees. PA noted that some employees would be happy to know that they still had a job because without divestiture particular depots might be closed. If ECP placed a high valuation on a depot there was a risk that that depot might not sell.

Alternatives to the divestiture remedy

24. PA did not think there were any relevant customer benefits arising from the merger and did not consider that there were any reasonable alternatives to the divestiture remedy.