

EURO CAR PARTS/ ANDREW PAGE MERGER INQUIRY

Summary of the response hearing held with Motor Parts Direct on 27 September 2017

Introductory remarks

1. In commenting on the Provisional Findings, Motor Parts Direct (MPD) said that in some local areas there were so many competitors that a purchaser would not bid for a depot. MPD believed Euro Car Parts (ECP) and Andrew Page (AP) would, now that they were merging, drive out any remaining competitors. Smaller competitors would not be able to compete with the prices ECP and AP would be able to offer and in the long run these suppliers would be forced to exit the market.
2. MPD could not reconcile the CMA's finding of an SLC in 10 local areas with its clearance in the others, although it had not yet read the CMA's provisional findings report. Although the divestment of 10 depots would help in those 10 areas, it would not make any difference to the other 90 areas which, in MPD's opinion, were in a similar position.
3. MPD thought that the Andrew Page business could have been marketed more widely during the accelerated sale process and that the merged entity would create an anti-competitive environment in all areas because ECP and AP would together be able to drive out competitors.

Scope of the divestiture package

4. MPD believed that ECP should be free to choose which depot to divest in any of the 10 local areas. MPD also thought that purchasers should be able to choose which employees it wanted to transfer with a depot.
5. MPD considered that the right to enter into a lease at the existing site was an important part of the divestiture package.
6. Existing customer contracts were not important to MPD because ECP had a detailed knowledge of all the AP depots. However, the purchaser/s of the depots would still want to receive all the relevant customer information. MPD also considered that transferring the existing supply contracts was not important because the purchaser would have its own supplier base.
7. MPD noted that the Initial Enforcement Order was intended to keep the businesses of ECP and AP separate but they had concerns that in some areas that the parties were already working together.

8. MPD did not consider that including a depot's vehicle fleet was an important part of the divestiture package because a purchaser could quite easily organise its own fleet.
9. It would be important to include a depot's plant machinery as part of the divestment package to maintain business continuity. However, IT systems and computers were not important because each company had its own software system.
10. Telecommunications were essential and would be required from day one of acquiring a depot, but stock was not important because ECP could leave a purchaser with poor quality stock, or, items which did not match the purchasers stock profile.
11. MPD told us that each purchaser would have different requirements regarding the transitional arrangements relating to ECPs support services (e.g. finance, IT, procurement). MPD would not require any of these and would arrange its own support services to assist any acquired depot.

Due diligence

12. MPD told us that the AP business had changed quite dramatically in terms of its stock profile since the date of MPD's due diligence conducted in 2016. MPD said that it would seek the following as part of any due diligence process: customer and relevant staff information; details of the lease; and the transfer of the fixtures, fittings and utilities.

Leases

13. When acquiring a property which is occupied under licence, a new purchaser would request the licence to be extended for a period of three months and occupy the property on that basis pending lease negotiation.

Profile of a suitable purchaser

14. MPD considered that the purchaser should be sufficiently financially robust so that it could compete effectively with ECP. A smaller purchaser might not be able to compete with ECP, whereas selling a depot to a larger competitor would mean that the depot would be more likely to survive.
15. MPD believed it would be much easier to sell all 10 sites to a single purchaser, as demonstrated by the accelerated sale process, than selling the depots piecemeal. However, this would depend upon ECP's valuation of the depots.
16. MPD told us that it was difficult to determine whether there would be sufficient buyers interested in acquiring the sites as this would be determined to a large extent by ECP's valuation of the depots. Acquiring a depot to enter the market in the 10 different local areas would likely be attractive to a number of purchasers.

Divestiture remedy

17. In MPDs view, ECP should not be given a long time to divest the sites. From a buyer's perspective, any sale would only take two weeks. The element of the transaction which would take the longest time would relate to the properties and the licences to occupy.
18. MPD did not think there were any factors which would delay the divestment process. However, if there were delays this would increase the risk around staff uncertainty. Also, ECP might run the businesses down over the sale period and might not provide a good service to customers. MPD believed that it would be difficult to mitigate this risk even with a Monitoring Trustee (MT) in place because they would not have the adequate knowledge to monitor the many metrics which would need to be checked. For example, the MT would not understand stock quality or know who the better performing employees were.
19. MPD believed that ECP would ask its staff to return to them within a few months of any divestment and that ECP would have no incentive to ensure that the AP depot staff in any divestment depots remained in the business in the medium to long term.
20. MPD thought that ECP should be subject to a non-compete clause in the local areas in which the divestments had been made: ECP should not be able to supply the customer base of the AP depots being sold, and, should not be able to offer services at a cheaper price than the purchaser in those areas. This would ensure the continued viability of other competitors.
21. MPD told us that in the short term the merged business would lower prices to drive competitors out of the market, but would then raise prices in the areas in which they did not face any competition. MPD believed that ECP was aware of the existing AP pricing and so would be able to undercut the divested AP depots once these had been sold to a purchaser.

Alternatives to the divestiture remedy

22. MPD did not think there were any reasonable alternatives to the divestiture remedy.