

JLA/WASHSTATION MERGER INQUIRY

Summary of hearing with Hughes/Armstrong on 23 August 2018 at 12-1pm

Views on the Provisional Findings

1. Hughes Electrical Ltd (**Hughes**) and James Armstrong & Co (**Armstrong**) explained that it had read the CMA's provisional findings in the JLA/Washstation merger phase 2 investigation, published on 10 August 2018 (the **PFs**). Hughes said that it agreed with the findings and had no further comments on the PFs.

Remedy selection

2. Hughes/Armstrong said that the divestiture of the Washstation business would be an effective remedy to address the competition problems found in the PFs. It confirmed that there would not be any other suitable remedies that could effectively address the substantial lessening of competition (SLC) and any resulting adverse effects.
3. Hughes/Armstrong explained that there were high barriers to entry to the higher education (HE) market, such as tender process, length of contracts, industry know-how, cost of equipment, cost of refurbishment of a laundry facility and the need for a network of engineers. Hughes/Armstrong said that by purchasing Washstation, it would acquire the critical mass and technology necessary to enable it to penetrate the HE market and become a stronger competitor to JLA.
4. Hughes told us that it acquired Armstrong in January 2018 as a means to increase its strength in the commercial laundry sector in general and the HE sector specifically. Hughes said that if it did not acquire Washstation, the barriers to entry meant that it would take several years to scale up and become a meaningful competitor to JLA within the HE market.

Divestiture package

5. Regarding the scope of the divestiture package, Hughes/Armstrong said that it should include all Washstation contracts. Should many of the contracts in washstation name have been converted to new JLA accounts since the acquisition, then these contracts should be included. There needs to be sufficient density of contracts to justify establishing a service operation in any geographical area. The original Washstation customers provided sufficient density.

6. Hughes/Armstrong stated that the package should also include the website and app. Hughes told us that it was currently developing its own IT system and acquisition of the Washstation technology would quicken this development.
7. Hughes/Armstrong told us that service engineers should also be included in the package, so that Hughes/Armstrong could immediately service the acquired contracts.
8. In relation to back-office functions, Hughes/Armstrong explained that it would require a transitional arrangement with JLA that would enable it to immediately provide full service to the acquired customers. Hughes suggested that this arrangement should remain in place for one to three months.

Purchasers

9. Hughes/Armstrong told us [X].
10. Hughes/Armstrong told us that [X].
11. Hughes/Armstrong told us that [X] may be interested in acquiring the Washstation business.
12. Hughes/Armstrong said that any prospective purchaser would need an understanding of the market.

Effective divestiture process

13. Hughes/Armstrong said that the divestiture process would take between two to three months from from the time that the sale prospectus is issued.
14. In terms of procedural safeguards, Hughes said that the appointment of a Monitoring Trustee and Hold Separate Manager during the divestiture period was essential to ensure the viability of the Washstation business.

Relevant customer benefits

15. Hughes/Armstrong said that it was a significant provider of domestic equipment and installed audio-visual equipment which it planned to make available to the HE sector. These could be used to improve the appearance of laundry facilities. Armstrong is also a significant provider of commercial and industrial laundry equipment and that the acquisition of Washstation would enable it to provide benefits to customers in the managed laundry services market, including increased choice and improved service.