

Completed acquisition by Rentokil Initial plc of Cannon Hygiene Limited

Summary of provisional findings report

Notified: 18 October 2018

The reference

1. On 28 June 2018, the Competition and Markets Authority (CMA), in exercise of its duty under section 22(1) of the Enterprise Act 2002 (the Act), referred the completed acquisition by Rentokil Initial plc (Rentokil) of Cannon Hygiene Limited (Cannon) (the Merger) for further investigation and report by a group of CMA panel members (the Group).
2. In exercise of its duty under section 35(1) of the Act, the CMA must decide:
 - (a) whether a relevant merger situation has been created; and
 - (b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition (SLC) within any market or markets in the United Kingdom (UK) for goods or services.
3. The statutory deadline for preparing and publishing our report is 12 December 2018.
4. We refer to Rentokil and Cannon collectively as 'the Parties'.

Industry background

5. The Parties overlap in:
 - (a) the supply of washroom services;
 - (b) the supply of healthcare waste collection services; and
 - (c) the supply of mats services.

Washroom services

6. Washroom services comprise the supply of services and consumables related to washrooms in public, office and industrial buildings. These services include the supply and fitting of various dispensers (eg for odour remediation), the replenishment of commodity products (such as toilet paper, hand towels and soap) and waste collection (from feminine hygiene units and nappy bins).
7. The supply of washroom services typically involves regularly scheduled service visits to a customer, during which the supplier services equipment, replenishes consumables and collects waste from feminine hygiene units and nappy bins for disposal.
8. For some consumable products, such as soap, paper towels or toilet rolls, suppliers may provide refills in bulk for the customer to replenish these consumables themselves rather than the supplier replenishing the consumables. Items such as toilet paper dispensers and paper towel dispensers can be sourced from product manufacturers and distributors as well as from washroom service suppliers.
9. Washroom service suppliers typically operate fleets of vans that use a central depot, storage facility or warehouse from which to restock. Washroom service staff travel along a route visiting multiple customer sites each day, replenishing and servicing customer washrooms from the consumables and products stored in their vans.

Healthcare waste collection services and mats services

10. The Parties also overlap in the supply of healthcare waste collection services. Healthcare waste collection services include the collection and disposal of infectious clinical waste, non-infectious clinical waste, pharmaceutical waste services, dental waste services and sharps disposal services.
11. Mats services include indoor and outdoor mats which help prevent trips and slips.

The Parties and other key suppliers of washroom services

Rentokil

12. Rentokil is a global hygiene service and commercial pest control provider. In the UK, Rentokil provides washroom services, healthcare waste collection services, mats services and pest control services. Rentokil is listed on the London Stock Exchange and is a constituent of the FTSE 100 Index. The

turnover of Rentokil for the year ended 31 December 2017 was approximately £2.4 billion worldwide of which £245.6 million was generated in the UK and Ireland.

13. Rentokil is the parent company of Rentokil Initial UK Limited, which is the UK entity that comprises all of Rentokil's UK washroom service business, including mats. This business also provides some pest control activities, but does not provide healthcare waste services. The healthcare waste business of Rentokil is in a separate company, Initial Medical Services Limited.
14. In the UK, Rentokil has [X] branches, of which [X] are used for washroom and mats services, and [X] are used for healthcare waste collection services.

Cannon

15. Cannon was formerly a multinational subsidiary of the global facilities management (FM) firm OCS Group Limited (OCS Group), which sold its hygiene services business through an auction in 2017.
16. Cannon provides washroom services, healthcare waste collection services and mats services in the UK. Its UK turnover for the year ended 31 March 2017 was £[X] million. Cannon has [X] branches in the UK, all of which are used for washroom services.

Other suppliers

17. PHS Group Limited (PHS) is the leading supplier of hygiene services in the UK, Ireland and Spain. In the UK, PHS is the leading supplier of washroom services. PHS's washroom revenue was £[X] million in the financial year ended 31 March 2017. PHS operates a network of 3,000 personnel, providing washroom services to 90,000 customers at more than 300,000 locations. PHS supplies washroom services from [X] locations in the UK.
18. Cathedral Leasing Limited (Cathedral) is a washroom hygiene specialist based in Tamworth, employing over 200 staff. Cathedral started as a regional supplier but has gradually grown to deliver services across most of the UK. In 2017, Cathedral's turnover was £13 million. Cathedral does not operate a traditional depot network, but a combination of storage units and direct supply to drivers.
19. Mayflower Washroom Solutions (Mayflower) is headquartered in Woolwich, London. Mayflower supplies across the UK from five distribution centres in the UK and one in Ireland. In the most recent financial year, Mayflower's revenue

from providing washroom services was £[<] million, which represents roughly [<]% of its total turnover.

20. Hygienic Concepts provides a range of washroom services across the UK. Zenith Hygiene Group is a manufacturer of cleaning and hygiene products active across the UK, but outsources most of its waste disposal services to [<]. The Independent Washroom Services Association is a group of independent washroom service providers which work in partnership to provide washroom services across the UK. There are a large number of other washroom suppliers active at the regional and local level. FM companies and cleaning companies can supply washroom services, although some elements of these services are typically outsourced to washroom service suppliers. A limited number of waste collection companies transfer and dispose of waste from washrooms.
21. In the supply of washroom services other than waste disposal, a range of other suppliers are active, including distributors and product manufacturers.

The transaction and the relevant merger situation

The transaction

22. On 21 December 2017, the Parties entered into a Sale and Purchase Agreement, which included the acquisition of various hygiene services in Austria, India, Ireland, Portugal, South Africa, Spain, Thailand, the UK and New Zealand. In the UK the Transaction completed on 1 January 2018.
23. In the UK, Rentokil Initial UK Limited, a subsidiary of Rentokil, acquired 100% of the shares of Cannon Hygiene Limited UK from OCS Group. The sale also included Cannon Hygiene International Limited, which is responsible for development, marketing and procurement of dispensers and certain key consumables. [<]

The rationale for the transaction

24. OCS Group told us that it decided to sell Cannon because it was not delivering the financial returns expected. [<]
25. Rentokil told us that the acquisition of Cannon was [<]. Rentokil also told us that the acquisition [<].
26. Rentokil said that significant synergies were forecast [<].

Relevant merger situation

27. We found that as a result of the Merger, the Parties ceased to be distinct and that the share of supply test was met. We therefore provisionally concluded that a relevant merger situation had been created based on the share of supply test.

Counterfactual

28. We considered what would have been the competitive situation in the absence of the Merger (the counterfactual). We provisionally concluded that the counterfactual was the continuation of pre-Merger competitive conditions.

Theories of harm

29. Theories of harm describe the possible ways in which an SLC could arise as a result of a merger and provide the framework for the analysis of the competitive effects of a merger.
30. Horizontal unilateral effects may arise where one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices, degrade quality and/or reduce the range of services on its own and without needing to coordinate with rivals and/or to prevent/reduce the introduction of additional services.
31. We examined in detail whether the Merger has resulted, or may be expected to result, in an SLC from horizontal unilateral effects in relation to the supply of washroom services, looking separately at national and multi-regional customers and local and regional customers.
32. We considered two other theories of harm:
- (a) Horizontal unilateral effects in relation to the supply of healthcare waste collection services.
 - (b) Horizontal unilateral effects in relation to the supply of mats services.
33. The phase 1 investigation did not find competition concerns in relation to either of these two other theories of harm. In our statement of issues, we said that we were not minded to investigate either of these theories of harm further, subject to any further evidence submitted.

34. We invited reasoned submissions in relation to the effect of the Merger on the supply of healthcare waste collection services and mats services. We did not receive any further evidence in relation to these theories of harm.
35. We therefore provisionally concluded that the Merger has not resulted, and may not be expected to result, in an SLC in relation to the supply of healthcare waste collection services or mats services. Our inquiry therefore focused on the supply of washroom services.

Market definition

36. The purpose of market definition in a merger inquiry is to provide a framework for the analysis of the competitive effects of the merger. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger.
37. We provisionally concluded that the relevant product markets are:
 - (a) The supply of washroom services to national and multi-regional customers.
 - (b) The supply of washroom services to regional and local customers.
38. We found that as the number of regions in which a customer is served increases, the complexity of serving that customer is likely to increase and that the choice of supplier reduces for customers preferring a single supplier for their estate. This indicated that the conditions of competition were different for national and multi-regional customers. We did not use the number of regions in which a customer is served to draw a 'bright line' to distinguish national and multi-regional customers from local and regional customers for the purpose of market definition. Instead, we focused on customers located in eight or more regions for the purpose of assessing the competitive effects of the Merger in relation to national and multi-regional customers.
39. We also considered other possible customer segmentation within the relevant product market. We provisionally concluded that separate markets should not be defined for different customer types other than the distinction between national and multi-regional customers from regional and local customers. However, we took the view that the competitive effects of the Merger should be examined in relation to different customer segments (namely end customers purchasing directly from a washroom services supplier, FM customers and public and private frameworks).

40. We considered the supply of waste disposal services to represent a distinct segment of the market and that the competitive effects of the Merger should be considered separately for the supply of waste disposal services.
41. In relation to the geographic market, we provisionally found that:
- (a) Regional and local competition is distinct from national and multi-regional competition.
 - (b) There is some overlap between regional and local competition, because the size of the areas served by the Parties' branches, as well as by their regional competitors, are reasonably wide.
42. We therefore provisionally concluded that the competitive effects of the Merger should be considered at both:
- (a) The national and multi-regional level (in the supply to national and multi-regional customers).
 - (b) The regional and local level (in the supply to regional and local customers).

Competitive assessment in relation to national and multi-regional customers

43. We assessed the competitive effects of the Merger in relation to national and multi-regional customers, examining: (a) the supply of waste disposal services; and (b) the supply of washroom services other than waste disposal.

The supply of waste disposal services

44. We assessed the competitive effects of the Merger in relation to national and multi-regional customers of waste disposal services. For the purpose of the competitive assessment, we focused on customers which are served in eight or more UK regions.

The closeness of competition between the Parties

45. We examined the closeness of competition between the Parties pre-Merger. We found that the Parties are the next closest competitors of each other after the largest supplier, PHS. We also found that Rentokil is a stronger constraint on Cannon than Cannon is on Rentokil.

Competition from other suppliers

46. We considered competition from other suppliers of washroom services. We found that PHS is the closest competitor to the Parties.
47. We provisionally found that PHS is likely to continue to act as a constraint on the Parties post-Merger. However, we provisionally found that the Merger may enhance the ability of PHS to increase prices and/or reduce the incentives for PHS to compete against the merged entity relative to the pre-Merger situation.
48. We considered competition from the next two largest suppliers after PHS and the Parties, namely Cathedral and Mayflower.
49. We found that Cathedral is growing and is able to supply national and multi-regional customers. However, we found limited evidence that Cathedral competes with the Parties for national and multi-regional customers and note that Cathedral [§<]. We considered that Cathedral currently provides a relatively limited constraint on the Parties and did not see sufficient evidence to provisionally conclude this will change post-Merger.
50. We found that Mayflower is also growing and is able to supply national and multi-regional customers. However, we found limited evidence of competitive interactions between the Parties and Mayflower in relation to national and multi-regional customers and that Mayflower [§<]. We provisionally concluded that Mayflower is likely to remain a relatively limited constraint on the Parties post-Merger, although we noted that Mayflower is a stronger competitor in the supply to FM companies and a weaker competitor in relation to framework customers than in the direct supply to end customers.
51. We did not find that any other washroom services suppliers would act as a significant constraint on the Parties post-Merger.
52. We examined the constraint from other types of supplier, including FM companies, healthcare waste collectors and cleaning companies:
 - (a) We found that FM companies do not currently self-supply waste disposal, but outsource to washroom service suppliers. Post-Merger we consider that FMs would be unlikely to self-supply waste disposal services. We provisionally found that FM companies pose a weak constraint on the Parties in relation to the supply of waste disposal services.
 - (b) We found limited evidence that healthcare waste collectors or cleaning companies would compete with the Parties post-Merger for national and multi-regional customers.

53. We also considered the potential for national and multi-regional customers to procure their waste disposal services from multiple regional suppliers. Some customers told us that they would consider switching to using a combination of regional suppliers, but the majority of national and multi-regional customers we spoke to identified barriers to multi-sourcing. We found that there exists a significant group of customers whose current preference is to use a single supplier for waste disposal services and that these customers would be unlikely to have the incentive to use multiple regional suppliers post-Merger as this would involve making changes to their procurement approach.

The competitive effects of the Merger

54. We considered the effect of the Merger on national and multi-regional customers in relation to: (a) end customers procuring directly; (b) FM customers; and (c) public and private frameworks.

National and multi-regional end customers procuring directly

55. We found that the supply of waste disposal to national and multi-regional customers is concentrated, with the Parties and PHS accounting for a most of the supply to these customers.
56. We found that PHS is the closest competitor to the Parties in the supply to national and multi-regional customers. We also found that the Parties are each other's second closest competitor after PHS.
57. We provisionally found that the Merger would eliminate an effective competitor for the Parties' customers, as well as PHS's customers, and therefore would likely not only affect the Parties' but also PHS's incentive to compete.
58. As a result of the Merger, the options available to national and multi-regional customers will be reduced. We consider that the Merger is likely to enhance the Parties' ability to increase prices and/or reduce the incentives for PHS to compete against the merged entity relative to the pre-Merger situation.
59. As set out above, we provisionally found that Cathedral and Mayflower are likely to act as a relatively limited constraint on the Parties post-Merger. We found limited evidence that other washroom suppliers, or other types of supplier, would constrain the Parties post-Merger.
60. We considered whether national and multi-regional customers would be able and willing to use a combination of regional suppliers as an outside option.

We found that there exists a significant group of national and multi-regional suppliers whose preference is to source from a single supplier.

61. We also examined alternative supply options such as healthcare waste companies and cleaning companies, but found limited evidence that these suppliers would constrain the Parties post-Merger.
62. We therefore provisionally found that the Merger has resulted, or may be expected to result, in an SLC in relation to the supply of waste disposal services to end customers purchasing directly, subject to any countervailing factors.

The competitive effects of the Merger in relation to FM customers

63. We considered the extent to which the effect of the Merger on FM customers may differ from those end customers procuring waste disposal services directly.
64. We noted that FM companies aggregate services from multiple suppliers to provide an integrated FM service to end customers. We considered that competition in the supply of waste disposal services to FM customers was likely to differ from the direct supply to end customers in two ways.
65. First, we provisionally found that FM customers would be more likely than end customers procuring directly to consider using multiple suppliers of waste disposal as an alternative to the Parties. This widens the choice of alternative suppliers to include smaller regional suppliers. In this context, we note, for example, that [X].
66. Second, we provisionally found that FM customers would be better placed than end customers to maintain their negotiating strength with the Parties post-Merger. FM customers have frequent and repeated interactions with multiple washroom services suppliers, compared to end customers which typically only tender or re-negotiate every few years due to the nature of their contracts. In addition, FM customers are an important channel for the Parties to reach end customers.
67. We therefore provisionally found that the Merger has not resulted, or may not be expected to result, in an SLC in relation to the supply of waste disposal services to FM customers.

The competitive effects of the Merger in relation to frameworks

68. We examined whether the Merger would be likely to affect public or private frameworks with a national or multi-regional coverage (that is those

frameworks which are open to end customers in a majority of regions of the UK).

69. We provisionally found that the set of credible alternative suppliers available to frameworks is likely to be narrow for the following reasons:
- (a) Cathedral and Mayflower were not listed on any public or private frameworks, and Mayflower [~~is~~].
 - (a) FM companies do not compete for stand-alone washroom services contracts and an FM company would therefore not be a credible option for framework customers (since framework contracts are for specific washroom services, rather than for integrated FM services).
 - (b) Two national public frameworks list regional suppliers but told us that regional suppliers did not win material business from end users. Moreover, to achieve national coverage, we considered that a framework would need to list more regional suppliers than they currently do.
70. We noted that end users do not need to purchase under a framework but can instead procure directly from a regional supplier. However, we considered that the threat of users purchasing locally is unlikely to be a sufficient constraint in respect of competition between washroom services suppliers to be listed on a framework.
71. For both private and public frameworks, we provisionally found that users tend to get substantially lower prices, and a small price increase on a framework list price may not induce users to purchase around a framework. Moreover, in the case of public sector customers, we noted that formal tendering requirements would mean that it is easier for a user to procure with a framework.
72. We therefore provisionally found that the Merger has resulted, or may be expected to result, in an SLC in relation to the supply of waste disposal services to public and private framework customers with national or multi-regional coverage, subject to any countervailing factors.

The supply of washroom services other than waste disposal

73. We found that in each of the service lines supplied by the Parties other than waste disposal, the Parties face effective competition from a number of product manufacturers and distributors, in addition to other washroom services providers. We also found that, in contrast to waste disposal services, a number of FM companies provide these washroom services in-house. In

addition, we found that there are no licensing requirements for the supply of washroom services other than waste disposal.

74. We therefore provisionally concluded that the Merger has not resulted, or may not be expected to result in, an SLC in the supply of washroom services other than waste disposal.

Competitive assessment in relation to regional and local customers

75. We assessed the competitive effects of the Merger in relation to the supply of washroom services, including waste disposal, to regional and local customers.
76. We examined the number of competing suppliers in the areas around each of Rentokil's and Cannon's branches. We considered the number of competitors offering waste disposal services as well as any number of other services in each catchment area. We found that the Merger would reduce the number of suppliers from 'four to three' or fewer only at the Inverness (Cannon branch) and Inverurie (Rentokil branch).
77. We considered competition in these specific areas in more detail and found that the Parties were not close competitors in either area and that each of the Parties will face competition from competitors that are closer geographically than from either Rentokil or Cannon.
78. We also examined the number of competitors in each of the UK's 12 regions. We found that the region with the lowest number of effective competitors is Northern Ireland. However, even in this region, we found that at least three competitors would remain in addition to the Parties post-Merger.
79. We provisionally concluded that the Merger has not resulted in, and may not be expected to result, in an SLC in the supply of washroom services to regional and local customers.

Countervailing factors

80. We assessed whether there were any countervailing factors to prevent an SLC from arising.

Countervailing buyer power

81. We provisionally found that whilst some national and multi-regional customers are sophisticated purchasers, these customers would have limited supply

options for waste disposal post-Merger. We provisionally found that the Merger would remove an important supply option for national and multi-regional customers.

82. We therefore provisionally concluded that countervailing buyer power was not sufficient to prevent an SLC.

Barriers to entry and expansion

83. We considered whether entry from an adjacent industry would be timely, likely and sufficient to prevent an SLC. We did not find that any company had firm plans to enter the UK washroom sector at a scale that would materially alter the competitive conditions for national and multi-regional customers.
84. We also considered barriers to expansion by existing suppliers of washroom services in the UK. We provisionally found that there is insufficient evidence to suggest that expansion by Cathedral, Mayflower or other suppliers was likely to be timely or sufficient to prevent an SLC.
85. We provisionally concluded that, whilst there are no major absolute or regulatory barriers to entry or expansion there is insufficient evidence from which to conclude that entry or expansion would be timely, likely or sufficient to prevent an SLC in the supply of waste disposal services to national and multi-regional customers.

Efficiencies

86. We provisionally concluded that, to date, there has been insufficient evidence that the Merger is rivalry enhancing or that it is likely to produce relevant customer benefits.

Provisional conclusion

87. As a result of our assessment, we provisionally concluded that:
- (a) the acquisition by Rentokil of Cannon has created a relevant merger situation; and
 - (b) the relevant merger situation has not resulted, or may not be expected to result, in an SLC in relation to the supply of:
 - (i) Healthcare waste services.
 - (ii) Mats services.

- (iii) Washroom services to local and regional customers.
 - (iv) Washroom services other than waste disposal services.
 - (v) Waste disposal services to FM companies.
- (c) the relevant merger situation has resulted, or may be expected to result, in an SLC in relation to the supply of waste disposal services to the following national and multi-regional customers:
- (i) Customers located in eight or more regions of the UK purchasing directly for their premises from a washroom services supplier.
 - (ii) Public and private framework customers with national or multi-regional coverage.