

ACQUISITION BY HFD LTD OF THE BUSINESS AND ASSETS OF MACKINNON (LONDON) LTD

Initial Enforcement Order made by the Competition and Markets Authority pursuant to section 72(2) of the Enterprise Act 2002 (the Act)

Whereas:

- (a) the Competition and Markets Authority (CMA) has reasonable grounds for suspecting that it is or may be the case that HFD Ltd and the Garrod Bros (London) Ltd's business of distribution of floorcovering material, currently operating as Mackinnon (London) Ltd (Mackinnon) have ceased to be distinct;
- (b) the CMA is considering, pursuant to section 22 of the Act, whether it is or may be the case that a relevant merger situation has been created and whether the creation of that situation has resulted or may be expected to result in a substantial lessening of competition in any market or markets in the United Kingdom (UK);
- (c) the CMA wishes to ensure that no action is taken pending final determination of any reference under section 22 of the Act which might prejudice that reference or impede the taking of any action by the CMA under Part 3 of the Act which might be justified by the CMA's decisions on the reference; and
- (d) the circumstances set out in section 72(6) of the Act do not apply and the reference has not been finally determined in accordance with section 79(1) of the Act.

Now for the purposes of preventing pre-emptive action in accordance with section 72(2) of the Act the CMA makes the following order addressed to Headlam Group Plc (Headlam Group) and HFD Ltd (HFD) (Order).

Commencement, application and scope

1. This Order commences on the commencement date: 5 December 2018.

2. This Order applies to Headlam Group and HFD.
3. Notwithstanding any other provision of this Order, no act or omission shall constitute a breach of this Order, and nothing in this Order shall oblige Headlam Group or HFD to reverse any act or omission, in each case to the extent that it occurred or was completed prior to the commencement date.

Management of the Headlam Group and Mackinnon

businesses until determination of proceedings

4. Except with the prior written consent of the CMA, Headlam Group and HFD shall not, during the specified period, take any action which might prejudice a reference of the transaction under section 22 of the Act or impede the taking of any action under the Act by the CMA which may be justified by the CMA's decisions on such a reference, including any action which might:
 - (a) lead to the integration of the Mackinnon business with the Headlam Group business;
 - (b) transfer the ownership or control of the Headlam Group business or the Mackinnon business or any of their subsidiaries; or
 - (c) otherwise impair the ability of the Mackinnon business or the Headlam Group business to compete independently in any of the markets affected by the transaction.
5. Further and without prejudice to the generality of paragraph 4 and subject to paragraph 3, Headlam Group and HFD shall at all times during the specified period procure that, except with the prior written consent of the CMA:
 - (a) the Mackinnon business is carried on separately from the Headlam Group business and the Mackinnon business's separate sales or brand identity is maintained;
 - (b) the Mackinnon business and the Headlam Group business are maintained as a going concern and sufficient resources are made available for the development of the Mackinnon business and the Headlam Group business, on the basis of their respective pre-merger business plans;
 - (c) except in the ordinary course of business, no substantive changes are made to the organisational structure of, or the management responsibilities within, the Mackinnon business or the Headlam Group business;

- (d) the nature, description, range and quality of goods and/or services supplied in the UK by each of the two businesses are maintained and preserved;
- (e) except in the ordinary course of business for the separate operation of the two businesses:
 - (i) all of the assets of the Mackinnon business and the Headlam Group business are maintained and preserved, including facilities and goodwill;
 - (ii) none of the assets of the Mackinnon business or the Headlam Group business are disposed of; and
 - (iii) no interest in the assets of the Mackinnon business or the Headlam Group business is created or disposed of;
- (f) there is no integration of the information technology of the Mackinnon or Headlam Group businesses, and the software and hardware platforms of the Mackinnon business shall remain essentially unchanged, except for routine changes and maintenance;
- (g) the customer and supplier lists of the two businesses shall be operated and updated separately and any negotiations with any existing or potential customers and suppliers in relation to the Mackinnon business will be carried out by the Mackinnon business alone and for the avoidance of doubt the Headlam Group business will not negotiate on behalf of the Mackinnon business (and vice versa) or enter into any joint agreements with the Mackinnon business (and vice versa);
- (h) all existing contracts of the Mackinnon business and the Headlam Group business continue to be serviced by the business to which they were awarded;
- (i) no changes are made to key staff of the Mackinnon business or Headlam Group business;
- (j) no key staff are transferred between the Mackinnon business and the Headlam Group business;
- (k) all reasonable steps are taken to encourage all key staff to remain with the Mackinnon business and the Headlam Group business; and
- (l) no business secrets, know-how, commercially-sensitive information, intellectual property or any other information of a confidential or proprietary nature relating to either of the two businesses shall pass,

directly or indirectly, from the Mackinnon business (or any of its employees, directors, agents or affiliates) to the Headlam Group business (or any of its employees, directors, agents or affiliates), or vice versa, except where strictly necessary in the ordinary course of business (including, for example, where required for compliance with external regulatory and/or accounting obligations or for due diligence, integration planning or the completion of any merger control proceedings relating to the transaction) and on the basis that, should the transaction be prohibited, any records or copies (electronic or otherwise) of such information that have passed, wherever they may be held, will be returned to the business to which they relate and any copies destroyed.

Compliance

6. Headlam Group and HFD shall procure that each of their subsidiaries complies with this Order as if the Order had been issued to each of them.
7. Headlam Group and HFD shall provide to the CMA such information or statement of compliance as it may from time to time require for the purposes of monitoring compliance by Headlam Group and HFD and their subsidiaries with this Order. In particular, on 19 December 2018 and subsequently every two weeks (or, where this does not fall on a working day, the first working day thereafter) the Chief Executive Officer of Headlam Group and HFD or other persons of Headlam Group and HFD as agreed with the CMA shall, on behalf of Headlam Group and HFD, provide a statement to the CMA in the form set out in the Annex to this Order confirming compliance with this Order.
8. At all times, Headlam Group and HFD shall, or shall procure that Mackinnon shall, actively keep the CMA informed of any material developments relating to the Mackinnon business or the Headlam Group business, which includes but is not limited to:
 - (a) details of key staff who leave or join the Mackinnon business or the Headlam Group business;
 - (b) any interruption of the Mackinnon or Headlam Group business (including without limitation its procurement, production, logistics, sales and employee relations arrangements) that has prevented it from operating in the ordinary course of business for more than 24 hours;
 - (c) all substantial customer volumes won or lost or substantial changes to the customer contracts for the Mackinnon or Headlam Group business including any substantial changes in customers' demand; and

- (d) substantial changes in the Mackinnon or Headlam Group business's contractual arrangements or relationships with key suppliers.
9. If Headlam Group or HFD has any reason to suspect that this Order might have been breached it shall immediately notify the CMA and any monitoring trustee that Headlam Group and/or HFD may be directed to appoint under paragraph 10.
 10. The CMA may give directions to a specified person or to a holder of a specified office in any body of persons (corporate or unincorporated) to take specified steps for the purpose of carrying out, or ensuring compliance with, this Order, or do or refrain from doing any specified action in order to ensure compliance with the Order. The CMA may vary or revoke any directions so given.
 11. Headlam Group and HFD shall comply in so far as they are able with such directions as the CMA may from time to time give to take such steps as may be specified or described in the directions for the purpose of carrying out or securing compliance with this Order.

Interpretation

12. The Interpretation Act 1978 shall apply to this Order as it does to Acts of Parliament.
13. For the purposes of this Order:

'the Act' means the Enterprise Act 2002;

'an affiliate' of a person is another person who satisfies the following condition, namely that any enterprise (which, in this context, has the meaning given in section 129(1) of the Act) that the first person carries on from time to time and any enterprise that the second person carries on from time to time would be regarded as being under common control for the purposes of section 26 of the Act;

'business' has the meaning given by section 129(1) and (3) of the Act;

'commencement date' means 5 December 2018;

'control' includes the ability directly or indirectly to control or materially to influence the policy of a body corporate or the policy of any person in carrying on an enterprise;

'the decisions' means the decisions of the CMA on the questions which it is required to answer by virtue of section 35 of the Act;

'Headlam Group' means Headlam Group Plc, company number 00460129;

'the Headlam Group business' means the business of Headlam Group and its subsidiaries carried on as at the commencement date;

'HFD' means HFD Ltd, company number: 02674152;

'the HFD business' means the business of HFD and its subsidiaries but excluding the Mackinnon business, carried on as at the commencement date;

'key staff' means staff in positions of executive or managerial responsibility and/or whose performance affects the viability of the business;

'Mackinnon' means Garrod Bros (London) Ltd's business of distribution of floorcovering material, currently operating as Mackinnon (London) Ltd, company number 00422459, formerly known as Garrod Bros (London) Ltd;

'the Mackinnon business' means the business of Mackinnon and its subsidiaries carried on as at the commencement date;

'the ordinary course of business' means matters connected to the day-to-day supply of goods and/or services by Mackinnon or Headlam Group and does not include matters involving significant changes to the organisational structure or related to the post-merger integration of Mackinnon and Headlam Group;

'specified period' means the period beginning on the commencement date and terminating in accordance with section 72(6) of the Act;

'subsidiary', unless otherwise stated, has the meaning given by section 1159 of the Companies Act 2006;

'the transaction' means the transaction by which HFD and Mackinnon have ceased to be distinct within the meaning of section 23 of the Act;

'the two businesses' means the Headlam Group business and the Mackinnon business;

unless the context requires otherwise, the singular shall include the plural and vice versa.

Signature:

Maria Duarte Assistant Director, Mergers

Compliance statement for Headlam Group

I [insert name] confirm on behalf of Headlam Group that:

Compliance in the Relevant Period

1. In the period from [insert date] to [insert date] (the Relevant Period):
 - (a) Headlam Group has complied with the Order made by the CMA in relation to the transaction on 5 December 2018 (the Order).
 - (b) Headlam Group's subsidiaries have also complied with this Order.
2. Subject to paragraph 3 of the Order, and except with the prior written consent of the CMA:
 - (a) No action has been taken by Headlam Group that might prejudice a reference of the transaction under section 22 of the Act or impede the taking of any action by the CMA which may be justified by its decision on such a reference, including any action which might:
 - (i) lead to the integration of the Mackinnon business with the Headlam Group business;
 - (ii) transfer the ownership or control of the Headlam Group business or the Mackinnon business or any of their subsidiaries; or
 - (iii) otherwise impair the ability of the Mackinnon business or the Headlam Group business to compete independently in any of the markets affected by the transaction.
 - (b) The Mackinnon business has been carried on separately from the Headlam Group business and the Mackinnon business's separate sales or brand identity has been maintained.
 - (c) The Mackinnon business and the Headlam Group business have been maintained as a going concern and sufficient resources have been made available for the development of the Mackinnon business and the Headlam Group business, on the basis of their respective pre-merger business plans.
 - (d) No substantive changes have been made to the organisational structure of, or the management responsibilities within, the Mackinnon business or the Headlam Group business, except in the ordinary course of business.

- (e) The nature, description, range and quality of goods and/or services supplied in the UK by the Mackinnon business and the Headlam Group business have been maintained and preserved.
- (f) Except in the ordinary course of business for the separate operation of the two businesses:
 - (i) all of the assets of the Mackinnon business and the Headlam Group business, including facilities and goodwill, have been maintained and preserved as at the start of the Relevant Period;
 - (ii) none of the assets of the Mackinnon business or the Headlam Group business have been disposed of; and
 - (iii) no interest in the assets of the Mackinnon business or the Headlam Group business has been created or disposed of.
- (g) There has been no integration of the information technology of the Mackinnon or Headlam Group businesses, and the software and hardware platforms of the Mackinnon business have remained essentially unchanged, except for routine changes and maintenance.
- (h) Subject to integration which had occurred prior to the commencement date, the customer and supplier] lists of the two businesses have been operated and updated separately and any negotiations with any existing or potential customers and suppliers in relation to the Mackinnon business have been carried out by the Mackinnon business alone and, for the avoidance of doubt, the Headlam Group business has not negotiated on behalf of the Mackinnon business (and vice versa) or entered into any joint agreements with the Mackinnon business (and vice versa).
- (i) All existing contracts of the Mackinnon business and the Headlam Group business have been serviced by the business to which they were awarded, except to the extent novated, assigned or subcontracted prior to the commencement date.
- (j) No changes have been made to key staff of the Mackinnon business or the Headlam Group business.
- (k) No key staff have been transferred between the Mackinnon business and the Headlam Group business.
- (l) All reasonable steps have been taken to encourage all key staff to remain with the Mackinnon business and the Headlam Group business.

(m) Except as permitted by the Order, no business secrets, know-how, commercially-sensitive information, intellectual property or any other information of a confidential or proprietary nature relating to either of the two businesses, has passed, directly or indirectly, from the Mackinnon business (or any of its employees, directors, agents or affiliates) to the Headlam Group business (or any of its employees, directors, agents or affiliates), or vice versa.

(n) Except as listed in paragraph (dd) below, there have been no:

(i) key staff that have left or joined the Mackinnon business or the Headlam Group business;

(ii) interruptions of the Mackinnon business or the Headlam Group business (including without limitation procurement, production, logistics, sales and employee relations arrangements) that have prevented it from operating in the ordinary course of business for more than 24 hours;

(iii) substantial customer volumes won or lost or substantial changes to the customer contracts for the Mackinnon business or the Headlam Group business; or

(iv) substantial changes in the Mackinnon or Headlam Group business's contractual arrangements or relationships with key suppliers.

(o) *[list of material developments]*

3. Headlam Group and its subsidiaries remain in full compliance with the Order and will, or will procure that Mackinnon, continue actively to keep the CMA informed of any material developments relating to the Mackinnon or the Headlam Group business in accordance with paragraph 8 of the Order.

Interpretation

4. Terms defined in the Order have the same meaning in this compliance statement.

I understand that:

5. it is a criminal offence under section 117 of the Enterprise Act 2002 for a person recklessly or knowingly to supply to the CMA information which is false or misleading in any material respect. Breach of this provision can result in **fines, imprisonment for a term not exceeding two years, or both.** (Section 117 of the Enterprise Act 2002.)

6. Failure to comply with this order without reasonable excuse may result in the CMA imposing a **penalty of up to 5% of the total value of the turnover** (both in and outside the United Kingdom) of the enterprises owned or controlled by the person on whom the penalty is imposed. (Section 94A of the Enterprise Act 2002.)

FOR AND ON BEHALF OF HEADLAM GROUP

Signature

Name

Title

Date

Compliance statement for HFD

I [insert name] confirm on behalf of HFD that:

Compliance in the Relevant Period

7. In the period from [insert date] to [insert date] (the Relevant Period):
- (c) HFD has complied with the Order made by the CMA in relation to the transaction on 5 December 2018 (the Order).
 - (d) HFD's subsidiaries have also complied with this Order.
8. Subject to paragraph 3 of the Order, and except with the prior written consent of the CMA:
- (p) No action has been taken by HFD that might prejudice a reference of the transaction under section 22 of the Act or impede the taking of any action by the CMA which may be justified by its decision on such a reference, including any action which might:
 - (iv) lead to the integration of the Mackinnon business with the HFD business;
 - (v) transfer the ownership or control of the HFD business or the Mackinnon business or any of their subsidiaries; or
 - (vi) otherwise impair the ability of the Mackinnon business or the HFD business to compete independently in any of the markets affected by the transaction.
 - (q) The Mackinnon business has been carried on separately from the HFD business and the Mackinnon business's separate sales or brand identity has been maintained.
 - (r) The Mackinnon business and the HFD business have been maintained as a going concern and sufficient resources have been made available for the development of the Mackinnon business and the HFD business, on the basis of their respective pre-merger business plans.
 - (s) No substantive changes have been made to the organisational structure of, or the management responsibilities within, the Mackinnon business or the HFD business, except in the ordinary course of business.
 - (t) The nature, description, range and quality of goods and/or services supplied in the UK by the Mackinnon business and the HFD business have been maintained and preserved.

- (u) Except in the ordinary course of business for the separate operation of the two businesses:
 - (iv) all of the assets of the Mackinnon business and the HFD business, including facilities and goodwill, have been maintained and preserved as at the start of the Relevant Period;
 - (v) none of the assets of the Mackinnon business or the HFD business have been disposed of; and
 - (vi) no interest in the assets of the Mackinnon business or the HFD business has been created or disposed of.
- (v) There has been no integration of the information technology of the Mackinnon or HFD businesses, and the software and hardware platforms of the Mackinnon business have remained essentially unchanged, except for routine changes and maintenance.
- (w) Subject to integration which had occurred prior to the commencement date, the customer and supplier] lists of the two businesses have been operated and updated separately and any negotiations with any existing or potential customers and suppliers in relation to the Mackinnon business have been carried out by the Mackinnon business alone and, for the avoidance of doubt, the HFD business has not negotiated on behalf of the Mackinnon business (and vice versa) or entered into any joint agreements with the Mackinnon business (and vice versa).
- (x) All existing contracts of the Mackinnon business and the HFD business have been serviced by the business to which they were awarded, except to the extent novated, assigned or subcontracted prior to the commencement date.
- (y) No changes have been made to key staff of the Mackinnon business or the HFD business.
- (z) No key staff have been transferred between the Mackinnon business and the HFD business.
- (aa) All reasonable steps have been taken to encourage all key staff to remain with the Mackinnon business and the HFD business.
- (bb) Except as permitted by the Order, no business secrets, know-how, commercially-sensitive information, intellectual property or any other information of a confidential or proprietary nature relating to either of the two businesses, has passed, directly or indirectly, from the Mackinnon

business (or any of its employees, directors, agents or affiliates) to the HFD business (or any of its employees, directors, agents or affiliates), or vice versa.

(cc) Except as listed in paragraph (dd) below, there have been no:

- (v) key staff that have left or joined the Mackinnon business or the HFD business;
- (vi) interruptions of the Mackinnon business or the HFD business (including without limitation procurement, production, logistics, sales and employee relations arrangements) that have prevented it from operating in the ordinary course of business for more than 24 hours;
- (vii) substantial customer volumes won or lost or substantial changes to the customer contracts for the Mackinnon business or the HFD business; or
- (viii) substantial changes in the Mackinnon or HFD business's contractual arrangements or relationships with key suppliers.

(dd) *[list of material developments]*

9. HFD and its subsidiaries remain in full compliance with the Order and will, or will procure that Mackinnon, continue actively to keep the CMA informed of any material developments relating to the Mackinnon or the HFD business in accordance with paragraph 8 of the Order.

Interpretation

10. Terms defined in the Order have the same meaning in this compliance statement.

I understand that:

11. it is a criminal offence under section 117 of the Enterprise Act 2002 for a person recklessly or knowingly to supply to the CMA information which is false or misleading in any material respect. Breach of this provision can result in **finances, imprisonment for a term not exceeding two years, or both.** (Section 117 of the Enterprise Act 2002.)
12. Failure to comply with this order without reasonable excuse may result in the CMA imposing a **penalty of up to 5% of the total value of the turnover** (both in and outside the United Kingdom) of the enterprises owned or

controlled by the person on whom the penalty is imposed. (Section 94A of the Enterprise Act 2002.)

FOR AND ON BEHALF OF HFD

Signature

Name

Title

Date