

Appendix A: Terms of reference and conduct of the inquiry

Terms of reference

1. In exercise of its duty under [section 22\(1\)](#) of the Enterprise Act 2002 (the Act) the Competition and Markets Authority (CMA) believes that it is or may be the case that:
 - (a) a relevant merger situation has been created, in that:
 - (i) enterprises carried on by Electro Rent Corporation (Electro Rent), which is owned and controlled by funds affiliated with the investment firm Platinum Equity LLC, have ceased to be distinct from enterprises carried on by Microlease Inc. and Test Equipment Asset Management Limited (together Microlease); and
 - (ii) the condition specified in [section 23\(2\)\(b\)](#) of the Act is satisfied; and
 - (b) the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom for goods or services, including in relation to the supply of rental testing and measurement equipment to customers in the UK.
2. Therefore, in exercise of its duty under [section 22\(1\)](#) of the Act, the CMA hereby makes a reference to its chair for the constitution of a group under [Schedule 4](#) to the Enterprise and Regulatory Reform Act 2013 in order that the group may investigate and report, within a period ending on 4 April 2018, on the following questions in accordance with [section 35\(1\)](#) of the Act:
 - (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 within any market or markets in the United Kingdom for goods or services.

Kate Collyer
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Competition and Markets Authority
19 October 2017

Conduct of the inquiry

3. Following the reference to phase 2, we published the biographies of the members of the inquiry group conducting the inquiry on the inquiry [webpage](#) on 25 October 2017 and the administrative timetable for the inquiry was published on the inquiry [webpage](#) on 8 November 2017.
4. In order to prevent actions that may impede any remedial action taken or required by the CMA following its phase 2 inquiry, on 8 November 2017, we imposed an interim order under [section 81\(3\)](#) of the Act on Electro Rent in relation to the acquisition of Microlease. This replaced the Initial Enforcement Order imposed by the CMA on 6 February 2017 during the initial stage (phase 1) of the CMA inquiry. The inquiry group considered and agreed a number of derogation requests from the Parties. The Interim Order and the Notices of Derogation are published on the inquiry [webpage](#).
5. On 7 November 2017, we directed Electro Rent to appoint a monitoring trustee. The directions to appoint a monitoring trustee were published on the inquiry [webpage](#) on 8 November 2017.
6. We invited a wide range of interested parties to comment on the merger. These included customers, competitors and manufacturers of test and measuring equipment. We issued an online questionnaire to around 900 customers of Microlease/Livingston Hire and around 100 customers of Electro Rent to which we received 55 responses.¹ We also obtained evidence through telephone conversations with nine rental suppliers, six manufacturers/TME resellers and 29 customers² and through written requests to third parties. We also used evidence from the CMA's phase 1 inquiry into the merger.
7. We received written evidence from the Parties in the form of submissions and responses to information requests (a non-confidential version of their response to the phase 1 decision is published on the inquiry [webpage](#)). We also held joint and separate hearings with the Parties on 10 January 2018.
8. On 23 November 2017, we published an issues statement on the inquiry [webpage](#) setting out the areas of concern on which the inquiry would focus, inviting comments.
9. On 22 November 2017, members of the inquiry group, accompanied by CMA staff, visited Microlease's facility at Harrow. On 13 December 2017, the

¹ In some cases, multiple contacts were provided for the same customer, hence why the number of customers contacted is not exact.

² We contacted one additional customer who was not a rental customer but instead finance leased equipment from Microlease.

Monitoring Trustee and a member of the CMA staff team visited Electro Rent's European Head Quarters in Mechelen.

10. During our inquiry, we sent the Parties a number of working papers for comment. We also provided Parties and third parties with extracts from our working papers for comments on accuracy and confidentiality. The Parties were also sent a copy of the annotated issues statement, which outlined our thinking to date prior to the main party hearings.
11. A non-confidential version of the provisional findings report has been published on the inquiry [webpage](#).
12. We would like to thank all those who have assisted us in our inquiry so far.

Appendix B: Industry background – product and sector information

1. This appendix provides further background to the products and sectors supplied by the Parties, including the types and use of TME and the future prospects for each sector.

Types of TME

2. Table 1 below describes the different types of TME and the typical value and lifecycle of the equipment.

Table 1: Types of TME equipment

	<i>Equipment</i>	<i>Description</i>	<i>Typical value of equipment (£)</i>	<i>Typical lifecycle (years)</i>
General purpose/Infotech equipment	Oscilloscopes	Measures and tests electronic circuitry. Mostly used for troubleshooting	c.19,000 – 116,000	7 – 9
	Other GP	Data acquisition, voltmeters/multimeters, AC/DC power supplies, function generators and signal analysers for DC and LF equipment	c.3,000 – 26,000	7 – 15
RF test equipment	RF analysers and meters	Measure voltage, power, interference and modulation of signals	c.26,000 – 75,000	12 – 15
	RF signal generators	Distribution and amplification of RF signals	c.23,000 – 106,000	12 – 15
	RF network analysers	Characterisation of electronic and RF components and verification of performance of antenna systems	c.18,000 – 78,000	12 – 15
	Ancillary RF equipment	Includes attenuators (used for reducing signal power within a circuit), signal terminators, signal detectors, cables and adaptors	c.3,000 – 22,000	12 – 15
Telecoms test equipment	SDH/SONET analysers	Testing of digital bit streams over fibre links and submarine cables	c.14,000 – 60,000	7 – 10
	Optical test equipment	General purpose-equipment (eg to measure and test circuitry, optical fibres and gigabit Ethernet)	c.5,000 – 19,000	7 – 10
	Mobile communication test equipment	Measures network signals in mobile phone frequency ranges	c.23,000 – 111,000	7 – 10
	Ethernet analysers and other telecoms test equipment	Ethernet analysers: test and monitor signals through broadband connections	c.7,000 – 39,000	7 – 10

Source: The Parties ([REDACTED]).

Use of TME and prospects by sector

Aerospace & Defence (A&D)

3. Table 2 outlines the use of TME in the A&D sector.
4. The Parties told us that the commercial aerospace market is expected to experience strong, consistent growth, driven by emerging markets demand and a fleet refresh across North America and Europe. The outlook for commercial aircraft production is robust, with backlogs at Boeing and Airbus at all-time highs and deliveries expected to increase 34% through 2019.¹

Table 2: Use of TME in the A&D sector

<i>Sector</i>	<i>Select end-devices</i>	<i>Examples of what is being tested</i>	<i>Representative customers</i>
A&D	Radar Satellites Radios Intelligence, Surveillance & Reconnaissance (ISR) systems	Radio Frequency Microwave signals Digital processors Subassemblies/components	Government agencies Government contractors Component manufacturers Defence Primes

Source: The Parties ([REDACTED]).

Telecom

5. Table 3 outlines the use of TME in the telecom sector.
6. The Parties told us that near-term growth in the telecom market will be driven by the ongoing fibre buildout in North America and Europe, as network operators continue to push fibre-to-the-home delivery alternatives. The development and rollout of 5G technology, which began in 2016 and is expected to accelerate through 2020 and beyond, will also drive a new wave of demand for TME. This growth forecast suggests a constant and expanding need for TME among major telecom customers.²
7. The Parties stated that they did not face risks associated with equipment obsolescence. This is explained by the fact that the fundamental technology of equipment and processes undergoing testing does not change. Electro Rent's TME tests wave strength, voltages and other physical phenomena that are core, scientific elements of relevant technologies. Therefore, TME provided by Electro Rent remains compatible with customer needs throughout cycles, regardless of marginal equipment upgrades.³

¹ [REDACTED]

² [REDACTED]

³ [REDACTED]

Table 3: Use of TME in the telecom sector

<i>Sector</i>	<i>Select end-devices</i>	<i>Examples of what is being tested</i>	<i>Representative customers</i>
Telecom	Base stations Small cells DAS Handsets Fibre optic networks Data centres	Cellular signals – 3G/4G/5G Connectivity signals – WiFi Lasers and optical amplifiers	Comms OEMs Handset OEMs Service providers/network operators Installation/service contractors

Source: The Parties ([REDACTED]).

Industrial/Infotech

8. Industrial/Infotech represents a broad spectrum of technology-enabled sub-verticals, including semiconductor, consumer electronics, automotive, energy and power.⁴
9. Table 4 outlines the use of TME in the industrial/Infotech sector.
10. The Parties told us that increased electronic and sensor content in automotive, industrial and consumer electronics offerings are expected to drive growth in TME demand. In addition, the shift toward mobile and cloud-enabled computing, together with expanded data analytics, is increasingly allowing enterprises to make better business decisions through improved timeliness and visibility into information and workflows. As these trends accelerate, demand for semiconductors, mobile devices and related electronics equipment will expand, and the need for reliable TME solutions will become even more critical.⁵
11. The Parties told us that the evolution of Internet of Things (IoT) is a key theme across the broader industrial/Infotech landscape and is enabling the proliferation of connected devices. As customers increasingly expect to capture and utilize real-time information from a growing number of connected sensors and devices across residential, commercial and industrial applications, demand for TME and services is expected to increase in parallel.⁶

⁴ [REDACTED]

⁵ [REDACTED]

⁶ [REDACTED]

Table 4: TME usage in the industrial/Infotech sector

<i>Sector</i>	<i>Select end-devices</i>	<i>Examples of what is being tested</i>	<i>Representative customers</i>
Industrial/Infotech	Consumer electronics Automotive Power transmission Energy Electronic components Internet of things	Hardware/software integration Printed circuit boards Memory and RF chips	Technology and electronics OEMs Power utilities Test equipment manufacturers Automotive

Source: The Parties ([REDACTED]).

Appendix C: Steps taken by Electro Rent to increase its customer base in the UK

This appendix provides a summary of the steps taken by Electro Rent to increase its customer base in the UK, following its establishment of a local branch office in Sunbury-on-Thames in 2015.¹

- 4 June 2015: Electro Rent opened its office in the UK and began to hire a UK team.
- July 2015: Electro Rent hired a UK Business Manager. The Electro Rents UK team was subsequently enlarged by increasing the sales team to three account managers, two inside salespersons, a warehouse manager and a finance person.
- 8 September 2015: Electro Rent participated in the European Microwave show (EuMW 2015) in Paris where it held a number of press conferences to launch the opening of its UK office.
- October 2015: Electro Rent embarked on [✂].
- End of 2015: Electro Rent set up a UK [website](#).
- 11 May 2016: Electro Rent signed a UK distribution agreement with Anritsu.
- 12 May 2016: Electro Rent gave a seminar with its supplier EXFO at the Canadian Embassy in London.
- June 2016: Electro Rent began a marketing campaign to promote the Anritsu distribution through regular mailshots to both the Electro Rent and Anritsu databases. This was followed by a number of summer roadshows where Anritsu and Electro Rent gave talks at a number of locations around the UK.
- 28 September 2016: Electro Rent attended the Sensors & Instrumentation exhibition at the National Exhibition Centre in Birmingham, where it held a number of press meetings.
- 4 October 2016: Electro Rent exhibited at the Euro Microwave Week, where it held a number of press meetings. This led to a request from Fibre Systems Magazine for a special feature.

¹ [Merger Notice](#), pages 10-11.

- October 2016: A four-page profile feature entitled 'The test of time' was published in Fibre Systems Winter edition, issue 10.
- 19 October 2016: Electro Rent exhibited at the Embedded Design Show at the Ricoh Arena in Coventry, where it hosted seminars with both Anritsu and Tektronix.
- 31 October 2016: Electro Rent launched a small UK-dedicated Google AdWords campaign as a trial to complement its European campaign.
- January 2017: A dedicated article appeared in Electronics magazine, which was published in the UK.

Appendix D: Evidence from rental suppliers and OEMs

Introduction

1. The Parties provided a list of competitors (intermediaries and OEMs) which they submitted were present in the market for TME rental in the UK (see Annex A). We contacted most of the companies in this list by phone or email (see Annex B for list of intermediaries and OEMs contacted and the type of interaction). This appendix provides details of the evidence obtained, to which the main text refers (see Chapters 5 to 7).
2. In the course of the phase 2 inquiry, we have talked over the phone with 10 intermediaries (ie rental providers and/or resellers) and five OEMs, while five further third parties have responded to questions by email.¹ The OEMs we contacted manufactured equipment which accounted for at least 40-50% [X%] of Microlease's 2016 UK rental revenue and 60-70% [X%] of Electro Rent's 2016 UK rental revenue.
3. The evidence received from intermediaries and OEMs is organised in three sections: (i) current competition from rental suppliers; (ii) competitive constraint from equipment sales; and (iii) barriers to entry and expansion in rental services. A fourth section summarises the overall views intermediaries and OEMs expressed with respect to the merger.

Current competition from rental suppliers

Evidence from the calls

4. This section considers the evidence received from other suppliers and OEMs regarding: (i) competition with the Parties from specific rental suppliers and (ii) OEMs as rental suppliers.

¹ The Parties listed 20 third-party rental suppliers (two of them, however, were different brands of the same rental supplier), of which we have received information from 15. The four rental suppliers we have not contacted (National Instrument Hire, Norwich Instrument Services, UK Test Limited and Ametek) were indicated by the Parties to supply a limited range of TME equipment (see Table 1 in Annex A). Moreover:

- the Parties estimated low rental revenues (below £150,000 per year) for three of these suppliers (see [Merger Notice](#), Table 17) and did not provide an estimate for the fourth one; and
- three of these suppliers were not mentioned by any of the customers we called, nor by any of the respondents to the online questionnaire. National Instrument Hire was mentioned only by one respondent to the questionnaire.

For these reasons, we have considered that contacting these suppliers was not necessary for our inquiry.

Intermediaries in the TME rental market

5. Based on the classification adopted by the Parties in the table in Annex A and on evidence from the calls, rental suppliers will be discussed here by grouping them in two broad categories (based on the Parties' classifications):
 - (a) A first group of intermediaries provides rental services for items included in the 'RF Test & Scopes' and the 'Telecommunications' segments (among others).
 - (b) A second group is active mostly or exclusively in the 'Industrial' and 'General Purpose' product segments.

Intermediaries active in the 'RF Test & Scopes' and/or in the 'Telecommunications' segments

6. A number of the intermediaries we contacted provide rental services in either the 'RF Test & Scopes' or the 'Telecommunications' segments (or both). Apart from [REDACTED], all these providers generate very limited rental income in the UK. The [REDACTED] two ([REDACTED]) specialise in particular segments of the market, where competition with the Parties is less intense.

- *EMC Hire*²

7. EMC Hire is a UK-based, specialist TME rental company. It specialises in the rental of Electro-Magnetic Compatibility (EMC) equipment, which reflects the specialist knowledge of EMC Hire in this area. EMC Hire described EMC as a relatively small segment of the total TME industry.
8. For EMC Hire, Microlease is both a competitor [REDACTED].
9. EMC Hire submitted that its competition with Microlease is 'not on such a grand scale' and that EMC Hire had not had any individual dealings with Electro Rent. EMC Hire believes that it stocks specialist items that Microlease does not hold, although it is unable to quantify the extent to which the two companies' stocks overlap.
10. EMC Hire's rental revenue is approximately £500,000 per year.

² [REDACTED]

- *First Rental*³

11. First Rental is a UK-based company renting IT and Audio Visual equipment (computers, tablets, etc) and electrical testing equipment. In relation to testing equipment, First Rental focuses on general purpose equipment such as mains analysers, oscilloscopes, signal generators and spectrum analysers, which belong to the 'RF Test and Scopes' product segment. It does not supply any telecom test equipment, given their greater cost. Testing equipment accounts for only [REDACTED]% of First Rental's revenues.⁴

12. While the test equipment rented by First Rental overlaps with some of the equipment rented by Microlease (and Electro Rent), according to First Rental [REDACTED].

- *Interlligent*⁵

13. Interlligent is an Israel-based company offering TME rental and sales of TME's used equipment. Interlligent UK was established in 2014. While Interlligent has historically sent TME to UK customers from Israel, it has recently begun to assemble a UK-based stock, having lost business because customers could not wait the 3-4 days it takes to have equipment shipped from Israel.

14. Interlligent specialises in RF and microwave TME, which is usually used in benchtop applications in manufacturing and R&D. Interlligent does not currently supply telecommunications testing equipment and is less familiar with the types of equipment used in this area.

15. Interlligent's rental revenue in the UK is approximately £[REDACTED] per annum.

- *MCS*⁶

16. MCS is a UK-based company that supplies a fairly wide range of equipment, although it specialises in TME used in the R&D phase of the development of wireless products. MCS does not supply TME used by network operators or by companies involved in the installation and maintenance of mobile networks. Neither is it active in the wired telecommunications segment. Therefore, its activities cover only a subset of the Parties' activities.

³ [REDACTED]

⁴ First Rental has not provided an estimate of its yearly rental revenues. However, we note that First Rental files Micro-entity accounts. A company is a micro-entity if at least two of the following apply: (i) turnover is £632,000 or less, (ii) £316,000 or less is on its balance sheet and (iii) it employs 10 or fewer employees.

⁵ [REDACTED]

⁶ [REDACTED]

17. Moreover, MCS estimated that it competes with Microlease for [REDACTED]% of the contracts it wins; however, Microlease is likely to be a competitor [REDACTED].
18. MCS submitted that it operates in more specialist areas where competition from Microlease is less intense. MCS [REDACTED]. Overall, [REDACTED] in more niche circumstances where it can use its more specialist knowledge.
19. Its rental revenue [REDACTED]. During the last year, average monthly revenues were approximately £[REDACTED], [REDACTED]% of which was derived from UK customers. This implies an approximate UK rental revenue of £[REDACTED] per year.

- *Test Equipment Solutions*⁷

20. Test Equipment Solutions (TES) is a UK-based company that focuses on the sale of used, refurbished TME equipment. Its TME stock is non-specialised, and consists of [REDACTED] items in each TME segment.
21. While TES does provide some TME rental services, this is done to make use of the stock of equipment that is waiting to be sold, [REDACTED]. TES estimates its rental revenue at £[REDACTED] per month. This compares with revenue of £[REDACTED] per month from used TME sales.
22. [REDACTED]. TES does not consider itself as competing against the Parties for TME rental. It submitted that this is because:
 - (a) it is not aware of any particular rental deals in which it has competed directly with the Parties;
 - (b) its TME stock is predominately second hand and customers seeking TME rental often do so because they wish to use expensive, up-to-date equipment without the costs involved in purchase; and
 - (c) its inventory is too small to compete [REDACTED].

- *TICS International*

23. TICS International is a UK-based company mostly active in the sales of second-hand TME, but also providing rental to UK customers. Its rental business, however, has been declining over time. While it was a reasonable proportion of its business until a few years ago, it accounted for approximately

⁷ [REDACTED]. Interlligent told us that it considers TES as a competitor only in second-hand TME sales ([REDACTED]).

£[REDACTED] in 2016, out of overall revenues of £[REDACTED].⁸ In the last year, rental revenue has [REDACTED] up to November 2017.⁹

- *TRs RenTelco*¹⁰

24. TRS RenTelco is a US-based company that supplies TME for rental and purchase. While its global rental revenues are large (\$80-85 million yearly, or approximately £56-60 million), its presence in the UK market is very limited.
25. TRS RenTelco generates approximately \$[REDACTED] of revenue in the UK annually, has no field sales presence in the UK and does not spend anything on marketing in the UK. [REDACTED].

- *Other suppliers*

26. Testwall, a reseller of new and used TME which the Parties have included as a relatively minor provider of TME rentals, told us that it is not involved in the rental market in any meaningful way. Testwall rented goods only once in 2017 to fulfil a particular need of one of its customers.¹¹
27. The Parties listed eTest Equipment as a rental competitor. However, eTest Equipment [REDACTED] is not an independent competitor to the Parties.¹²
28. Instrumex is a German based company and has confirmed that it makes few TME sales in the UK and has minimal TME rental activities in the UK. Instrumex also confirmed that it has no intention of expanding its rental activities in the UK in the foreseeable future.¹³
29. Leasametric has also confirmed that it is not currently active in TME rental in the UK.¹⁴

Intermediaries specialising in the 'Industrial' or 'General Purpose' segments

30. Among the competitors listed by the Parties as specialising in the 'Industrial' and 'General Purpose' segments, some, like [REDACTED], generate substantial rental income in the UK ([REDACTED]). However, these providers do not see themselves as competing with the Parties. Whilst these suppliers may stock some equipment

⁸ [REDACTED]
⁹ [REDACTED]
¹⁰ [REDACTED]
¹¹ [REDACTED]
¹² [REDACTED]
¹³ [REDACTED]
¹⁴ [REDACTED]

in common with the Parties, this is a subset of the equipment supplied by the Parties and the suppliers focus on distinct customer groups.

- *Caltest*¹⁵

31. Caltest is part of the American group PPST Inc, which also includes Pacific Power Source, one of the main manufacturers of power sources. It is a distributor of Pacific Power products, as well as related test equipment from other manufacturers. It also has a large stock of power sources and related products available for rental.¹⁶ Rental, however, constitutes only a small part of its revenue in the UK (£[REDACTED]).
32. Caltest estimates that, of its own range of TME products, [REDACTED]% is also covered by Microlease and Electro Rent. It estimates that these products may cover [REDACTED]% of Microlease's range in terms of product numbers, and [REDACTED]% in terms of product value. The top [REDACTED]% of its range, however, is high-power equipment that the Parties do not supply. The complementary nature of at least parts of Caltest and the Parties' offering is also reflected in the fact that Caltest and Livingston Hire used to pass leads to each other and that Caltest is, on occasion, a customer of the Parties.

- *Inlec*¹⁷

33. Inlec is a UK based rental company specialising in the industrial sector. Its overall rental income is £[REDACTED] per annum,¹⁸ and the majority of it is realised from products and/or customer groups which the Parties do not supply. Inlec's customers operate mainly in the water, gas, electricity and construction markets. While Inlec does offer some telecommunications equipment, this is limited to fibre-optic equipment, and does not cover the RF or microwave segments. Inlec described its focus as being [REDACTED], with items of purchase value between £[REDACTED] and £[REDACTED].
34. Inlec estimates that Microlease's product range could overlap with at most [REDACTED]% of its own stock. The difference in focus is also reflected in the identity of Inlec's major OEM suppliers ([REDACTED]), of which only one ([REDACTED]) was mentioned by the Parties as one (minor) TME supplier. Similarly, Inlec's main competitors are rental companies not mentioned by the Parties ([REDACTED]), while it very rarely came across Microlease as a competitor.

¹⁵ [REDACTED]

¹⁶ These products fall in the 'General Purpose' and 'Industrial' product segments in the table in Annex A.

¹⁷ [REDACTED]

¹⁸ [REDACTED]

35. Inlec also noted that the Parties provide a wider range of financing options which it does not provide. Inlec considered that this reflects the differing requirements of the Parties' and Inlec's customers.

- *Instruments4Hire*¹⁹

36. Instruments4Hire supplies TME with a focus on IT infrastructure and higher-end electrical testing equipment. Its customers are mainly electrical contractors and companies working in facility and infrastructure maintenance. Its annual rental revenue is approximately £1.6 million.

37. Instruments4Hire does not consider itself as competing with Microlease or Electro Rent;²⁰ it identifies its main competitors as Inlec, Express Instrument Hire and Ashtead Technology. We note that the last two have not been listed by the Parties among their own rental competitors. The difference between Instruments4Hire and the Parties is also reflected in the list of the main manufacturers of the equipment Instruments4Hire rents: Omicron, Megger, Fluke and Druck. Of these, only Fluke was indicated by the Parties as a (minor) supplier of TME. According to Instruments4Hire, there is some overlap between the products it supplies and those supplied by the Parties, but for historical reasons the customer segments served are different.

- *Seaward / ISS Aberdeen*

38. The Parties included Seaward in their list of competitors (see Annex A). In some submissions, Seaward is identified with ISS Aberdeen,²¹ [REDACTED]. We have contacted both Seaward and ISS Aberdeen, which are two separate firms.

39. Seaward is an equipment manufacturer. It told us that it is not active in the rental of testing equipment. While there may be rare occasions where a product is leased as an alternative to a sale, this is not an active commercial strategy by Seaward.²²

40. ISS Aberdeen operates as a rental supplier. However, it does not view itself as a competitor to Microlease or Electrorent. Whilst ISS Aberdeen does rent out some items of testing equipment, it believes it has a very different customer base to the Parties and does not look at the Parties' pricing

¹⁹ [REDACTED]

²⁰ Instruments4Hire was not aware of Electro Rent operating in the UK.

²¹ [REDACTED]

²² [REDACTED]

structure when setting its own prices. ISS Aberdeen's rental turnover in 2016 was approximately £90,000.²³

Third-party views on other intermediaries

41. We asked each intermediary and OEM we contacted about the rental suppliers they were aware of who operated in the UK. The only rental companies that have been indicated as alternatives to the Parties in at least some circumstances by other intermediaries are MCS,²⁴ EMC Hire,²⁵ Interlligent²⁶ and TES.²⁷
42. First Rental told us that there are currently no competitors that can match Microlease's scale; the remaining test equipment suppliers in the UK are brokers who sell test equipment and may, on occasion, rent a piece of equipment when they have an opportunity.²⁸ Meanwhile, four of the OEMs we contacted told us that they considered the Parties as the only two significant rental companies in the UK. Specifically:
 - (a) EXFO told us that it considered the Parties to be the only two significant test and measurement rental companies in Europe.²⁹
 - (b) Anritsu stated that it considered the Parties to be the only significant rental companies in the UK.³⁰
 - (c) Keysight stated that it did not have any rental partners other than the Parties in the EU and had not been able to identify any other rental partners it could use.³¹
 - (d) Viavi stated that Electro Rent and Microlease are its only rental partners in the UK and other rental suppliers were too small in comparison to Microlease and Electro Rent and lacked the depth of stock required to compete.³²

²³ [REDACTED]

²⁴ Mentioned by Interlligent and Rohde & Schwarz.

²⁵ Mentioned by MCS and Rohde & Schwarz.

²⁶ Mentioned by TRS RenTelco.

²⁷ Mentioned by MCS.

²⁸ [REDACTED]

²⁹ [REDACTED]

³⁰ [REDACTED]

³¹ [REDACTED]

³² [REDACTED]

OEMs as rental suppliers

43. Evidence from OEMs contradicts the Parties' suggestion that OEMs, and in particular Keysight and Rohde & Schwarz, are directly active in the rental supply of TME in the UK in a meaningful way.
44. None of the OEMs we contacted told us that it directly provided TME rental as a normal part of its business. In particular:
 - (a) Keysight told us that it may sometimes rent some pieces of equipment to larger customers if it was asked; however, it would not always agree to do so. Keysight does not have plans to become further involved in TME rental.³³
 - (b) Rohde & Schwarz does not typically provide rental in the UK, nor any other forms of leasing, deferred payments or other financial solutions. In exceptional cases, a unique product that a customer needs for a short time but in which Rohde & Schwarz's rental partners are unwilling to invest might be rented directly. In some other cases, demos are loaned to some large customers who have an urgent need for a piece of equipment.³⁴
 - (c) Anritsu does not have any formal rental program, although it may offer ad hoc financial packages and flexible payment terms.³⁵
 - (d) EXFO provides equipment for rental directly to customers on very rare occasions.³⁶

Competitive constraint from equipment sales

45. EMC Hire observed that the choice between renting and purchasing equipment often depends on the type of the equipment and the size of the customer.³⁷ Similarly, Caltest told us, in relation to power sources, that larger manufacturers, who use the equipment on a regular basis, tend to own rather

³³ [REDACTED]. Keysight, on the other hand, has the strategic intent to develop the finance lease sector for major accounts ([REDACTED]). Keysight Network Test, a recently acquired division based in Finland and formerly known as Anite, has rented some of the equipment it manufactures to UK customers, for a total rental revenue of €[REDACTED] in 2017. All rentals are reactive opportunities arising from customer requests ([REDACTED]).

³⁴ [REDACTED]

³⁵ [REDACTED]

³⁶ [REDACTED]

³⁷ [REDACTED]

than to rent equipment. As a result, rental is more common amongst smaller manufacturers and those working on short-term projects.³⁸

46. Third parties suggested several possible reasons why purchasing equipment may not be a viable alternative to rental:
- (a) Customers with a short-term need for a piece of equipment typically do not have an incentive to purchase it.³⁹ For example, in the telecommunications sector, rental demand is driven by the contracting practices of network operators. Contractors are typically given short contracts and, consequently, prefer to rent the equipment, as rental gives them the flexibility to deal with uncertainty in their workload.⁴⁰ Caltest told us (in relation to power sources) that it would not make economic sense to purchase the equipment unless it is used for at least five to six months per year across several years.⁴¹ According to EXFO, while the choice between purchase and rental depends on several factors, as a rule of thumb it makes economic sense to purchase the equipment if it is needed for more than 12 months.⁴²
 - (b) In addition to the cost of the equipment, customers have to sustain further costs if purchasing TME equipment, such as the cost of recalibration services.⁴³ This is a further reason why some customers may prefer rental.⁴⁴
 - (c) Rental also allows customers to use the newest technology, without having to worry about it becoming obsolete.⁴⁵
 - (d) Finally, some customers may prefer keeping the expense off the balance sheet, and rental allows this to happen.⁴⁶
47. In the case of second-hand equipment, there is a further reason why purchase may not be a good alternative to rental. According to TES, customers seeking TME rental often do so in order to use expensive, leading-edge equipment without having to incur the high costs of purchasing it.

³⁸ [REDACTED]

³⁹ This is consistent with what the Parties told us ([REDACTED]).

⁴⁰ [REDACTED]. A similar point was made by EXFO ([REDACTED]).

⁴¹ [REDACTED]

⁴² [REDACTED]

⁴³ [REDACTED]

⁴⁴ The same point has been made by the Parties as well and is reflected in Microlease's internal documents ([REDACTED]).

⁴⁵ [REDACTED]. A similar point was made by another supplier ([REDACTED]).

⁴⁶ [REDACTED]

Consequently, second-hand equipment, which is likely to be older equipment, would not be a valid alternative.⁴⁷

48. Five third parties told us that they considered rental and purchase as complementary, rather than as alternatives.⁴⁸ [REDACTED].⁴⁹ Anritsu considers rental and purchases cater to different customer requirements and are not really substitutable most of the time.⁵⁰ MCS told us that in most cases in which customers request rental, a purchase would not make much sense,⁵¹ and Caltest told us that purchase would not be a viable alternative for many of its own rental customers, as they often need the equipment for short-term projects.⁵²
49. Two third parties, on the other hand, expressed a different view. According to Rohde & Schwarz, the choice between renting and purchasing is often a split decision,⁵³ while [REDACTED].⁵⁴

Barriers to entry and expansion in rental services

50. The evidence from the calls concerning barriers to entry and expansion is organised here in three sections:
- (a) Evidence on the significance of the stock of equipment required for running a competitive rental business and on the potential barriers to sourcing this equipment.
 - (b) Evidence on other types of barriers to entry.
 - (c) Evidence on past entry attempts and on the current plans of the intermediaries we contacted.

Stock requirements

51. Several third parties have emphasised the crucial importance of holding a large stock of equipment in order to be a competitive rental supplier and have cited the need to build up such a stock as a particularly significant barrier to

47 [REDACTED]
48 [REDACTED]
49 [REDACTED]
50 [REDACTED]
51 [REDACTED]
52 [REDACTED]
53 [REDACTED]
54 [REDACTED]

entry. MCS told us that having a depth of stock so that customer requirements can be fulfilled is a key feature of competition between rental providers.⁵⁵

52. The amount of stock required depends on the range of equipment a supplier wants to make available. To compete, as the Parties do, in most TME segments at European level, stock requirements appear very significant. TRS RenTelco told us that this would require stock of purchase value between £35-75 million (\$50-100 million)⁵⁶ and one other supplier ([REDACTED]) and EXFO indicated even higher figures.⁵⁷ Anritsu stressed that the need for back-up stock generates significant economies of scale.⁵⁸
53. On the other hand, we have been told that a company can be active in a narrow niche with a relatively small inventory.⁵⁹ Link Microtek, whose sales business is heavily focused on personal RF safety monitors,⁶⁰ told us that customers renting personal monitors also need other TME equipment, and so might prefer rental suppliers that can cover all their requirements. This would make it difficult for Link Microtek to expand into the rental business.⁶¹
54. Irrespective of whether a rental supplier focuses on a niche or offers a wide range of equipment, the length of the repayment period on rental stock may discourage new entrants with limited capital availability.⁶² Data from several rental suppliers indicate that it takes around three years for rental revenues to cover the initial investment in equipment. Interlligent told us that its monthly rental revenues are approximately [REDACTED]% of the value of its stock (or around [REDACTED]% yearly). This means that, in order to achieve, for example, rental revenues of £[REDACTED] per month (or £[REDACTED] per year), Interlligent would need a stock of about £[REDACTED] in value.⁶³ The figures on rental revenues and stock value we received from other rental suppliers suggest that such ratios are not uncommon within the industry.⁶⁴
- (a) Microlease's Due Diligence report indicates that, in the period between [REDACTED], the ratio between monthly earnings and the cost of the assets (net

⁵⁵ [REDACTED]

⁵⁶ [REDACTED]

⁵⁷ [REDACTED]

⁵⁸ [REDACTED]

⁵⁹ [REDACTED]

⁶⁰ Personal RF safety monitors measure exposure to radio spectrum radiation. They form part of the personal protective equipment worn by a person working in areas exposed to radio spectrum radiation (eg mobile networks' antennas).

⁶¹ [REDACTED]

⁶² This was one of the reasons mentioned by a manufacturer ([REDACTED]) for its choice not to provide rental services ([REDACTED]).

⁶³ [REDACTED]

⁶⁴ MCS provided data on the depreciated value of its stock (approximately £[REDACTED] million). Yearly revenues correspond to around [REDACTED]% of that value ([REDACTED]).

yield) at European level varied between [REDACTED]% and [REDACTED]%, which corresponds to between [REDACTED]% and [REDACTED]% yearly.⁶⁵

- (b) TRS RenTelco has a stock worth around \$260 million at cost price, from which it earns annual rental revenues of \$80-85 million (31-33%).⁶⁶
- (c) The purchase value of EMC Hire's stock is approximately £1.5-2 million, while its rental turnover is around £500,000 per year (25-33%).⁶⁷
- (d) [REDACTED] holds a stock of around £[REDACTED] in value, and gets rental revenues of around £[REDACTED] per year ([REDACTED]%).⁶⁸

55. Having a large stock, however, is a necessary but not sufficient condition for competing successfully. Another requirement is customer relationships, which take time to build up. According to TRS RenTelco, this, together with the value of the stock investments, cost of storage and the short life of some equipment (because of technological change), is a particularly significant impediment to entering the TME rental market.⁶⁹

56. For existing rental suppliers, it could be possible to grow the business and expand into new segments without a large initial investment, by growing the stock gradually. This would allow a company to finance the investment using its own cashflow. This is the approach that Interlligent intends to adopt in the UK.⁷⁰ However, the evidence we have received is that this would take a long time to do. For example, Interlligent considered that building up a competitive UK business and achieving a [REDACTED]% market share in this fashion would take more than a decade.⁷¹ TRS RenTelco made similar submissions regarding the speed of possible entry and expansion.⁷²

57. Another barrier new entrants or smaller rental suppliers face is related to the terms at which they are able to acquire the required stock. The rental partnerships that the Parties have with some of the major equipment manufacturers and the discounts they are able to obtain place smaller competitors at a disadvantage, unless they can agree similar terms.⁷³

65 [REDACTED]

66 [REDACTED]

67 [REDACTED]

68 [REDACTED]

69 [REDACTED]

70 [REDACTED]

71 [REDACTED]

72 [REDACTED]

73 First Rental told us that Microlease's agreement with Keysight gives it an advantage over its competitors ([REDACTED]).

58. Keysight, globally the largest test equipment manufacturer,⁷⁴ has signed PRPs with both Microlease and Electro Rent. These agreements allow the Parties to:
- (a) purchase Keysight's equipment at discounts not available to other rental suppliers;
 - (b) use Keysight's logo in their communications with customers; and
 - (c) have visibility of Keysight's products pipeline.⁷⁵
59. Similarly, Viavi has a relationship with the Parties by which the Parties benefit from preferential pricing and advance information on new products. Viavi has no other rental partners in Europe.⁷⁶ EXFO also deals [REDACTED] with the Parties in Europe, [REDACTED]. [REDACTED].⁷⁷
60. Not all manufacturers, however, currently treat the Parties differently from all other competitors. Rohde & Schwarz, for example, told us that it has rental partnerships with three companies: Electro Rent, Microlease and MCS. [REDACTED].⁷⁸
61. Finally, while the Parties argued that OEMs could get the equipment to be rented at much lower cost, OEMs face a further barrier to entry in the rental market. Anritsu told us that the TME rental business has traditionally been multi-vendor and that customers expect this to be the case. As a result, it is difficult for OEMs to expand into rental, since they are unlikely to want to offer alternative products from a range of different manufacturers.⁷⁹ Moreover, OEMs may lack the logistics and inventory managing expertise required to run a rental business. This is one of the reasons why Keysight prefers to rely on rental partners.⁸⁰

Specialist knowledge

62. Different types of TME equipment require different specialist knowledge. For example, EMC Hire told us that they have specialist expertise on EMC equipment, but not on other types of TME. The unwillingness to enter segments where it does not have specialist knowledge was one of the reasons why EMC Hire was not planning to expand outside of the EMC

⁷⁴ [REDACTED]

⁷⁵ [REDACTED]. In exceptional cases, Keysight also sub-rent a piece of equipment to a rental partner if the equipment is requested by a customer, but the rental partner is not convinced that rental demand justifies its purchase ([REDACTED]).

⁷⁶ [REDACTED]

⁷⁷ [REDACTED]

⁷⁸ [REDACTED]

⁷⁹ [REDACTED]

⁸⁰ [REDACTED]

segment.⁸¹ Inlec told us that expertise is necessary for [REDACTED] for a customer's requirements and for [REDACTED].⁸²

63. Focusing on a niche in which a provider has specialist knowledge is also a strategy adopted to compete against larger providers like the Parties. [REDACTED], for example, told us that it [REDACTED] in such niches. It believes that [REDACTED].⁸³

Other barriers

64. In addition to the need to hold a large amount of stock and to possess the required specialist knowledge, third parties mentioned other barriers that can make it difficult to enter the TME rental market, or to expand into different product segments or geographies.
65. TME needs to be calibrated periodically. Any rental competitor must be able to provide calibration services for its equipment. This can be either done in-house, or through external suppliers. Interlligent told us that it relies on external providers at significant cost. The cost of calibration services was one of Interlligent's concerns when deciding whether to expand in the UK market through the acquisition of Electro Rent's UK business.⁸⁴ Interlligent estimated the annual calibration cost for the Electro Rent UK rental fleet to amount to £245,000.⁸⁵ Similarly, TRS RenTelco told us that to enter the UK rental market would require having calibration facilities, which could cost around £750,000 (\$1 million).⁸⁶ We note, however, that [REDACTED].⁸⁷
66. The complexities of European markets and the presence of an entrenched competitor may be further barriers faced by TME rental companies operating in other geographies who want to expand their operations in Europe (and in the UK). [REDACTED]:
- (a) [REDACTED]
- (b) [REDACTED]⁸⁸

81 [REDACTED]
82 [REDACTED]
83 [REDACTED]
84 [REDACTED]
85 [REDACTED]
86 [REDACTED]
87 [REDACTED]
88 [REDACTED]

Past entry attempts and third parties' expansion plans

67. The existence of high barriers to entry can be further corroborated if there are examples of past failed entry. Third-party rental providers have given us the following (anecdotal) evidence:

(a) [REDACTED]⁸⁹

(b) [REDACTED]⁹⁰

(c) First Rental told us that Hire Intelligence, an IT equipment rental supplier, tried to expand into test equipment rental, but it could not compete with Microlease and decided to exit from the sector.⁹¹

68. None of the rental suppliers (or other intermediaries in the TME sector) that we contacted told us that they had plans to expand beyond the product segments and geographies in which they currently operated. In particular:

(a) EMC Hire's current five-year plan does not envisage any expansion of its rental services to cover other non-EMC equipment.⁹²

(b) Interlligent plans to adopt a very conservative approach to expansion in the UK, financing its investment using its cashflow. Reaching a sizeable scale is likely to take more than a decade.⁹³

(c) TRS RenTelco currently has no intention of expanding its operations in Europe.⁹⁴

(d) Instruments4Hire has never considered expanding into new customer segments.⁹⁵

(e) Caltest is not planning to expand beyond the power sources segment. Within the power sources segment, Caltest is expanding its range, having recently bought new equipment for £[REDACTED].⁹⁶

(f) Link Microtek, which currently does not provide rental services, does not consider it could become an effective rental competitor because of the

89 [REDACTED]
90 [REDACTED]
91 [REDACTED]
92 [REDACTED]
93 [REDACTED]
94 [REDACTED]
95 [REDACTED]
96 [REDACTED]

cost of the necessary stock, [REDACTED], and Link Microtek's specialisation on RF safety monitors (see paragraph 53).⁹⁷

69. Finally, Anritsu told us that it had conducted some initial research to see whether rental companies currently operating in other sectors might have been interested in expanding into TME. It looked for companies with the necessary logistics expertise, for example among general plant rental companies. However, Anritsu quickly ruled out these companies as potential TME rental suppliers as it did not see any way in which these companies would be able to compete with Electro Rent and Microlease from a standing start. Anritsu considered that only Interlligent could potentially compete with the Parties in the UK.⁹⁸

Views on the merger

70. One supplier ([REDACTED]) told us that, following the merger, [REDACTED].⁹⁹ Caltest expressed the concern that post-merger, the Parties may be willing to expand into product segments in which they are not currently active (high-value power sources) and would be able to offer lower prices thanks to their better bargaining power with manufacturers.¹⁰⁰ Three manufacturers and TME resellers ([REDACTED]), in turn, expressed the concern that the Parties will have greater buyer power.¹⁰¹ These are all cases in which the merger may harm competitors and suppliers, but by doing so could result in lower prices to customers (provided that sufficient competition remains).
71. While concerns about reduced competition are more likely to be expressed by customers, some competitors and suppliers also mentioned them. A supplier ([REDACTED]) observed that, from the perspective of customers, the merger would [REDACTED].¹⁰² A similar view was expressed by Anritsu, which also told us that a major loss in competition in the UK TME rental market took place with the merger between Microlease and Livingston Hire, while the current merger 'compounds that loss' of competition.¹⁰³ Finally, Caltest, which is also occasionally a customer of the Parties, expressed concerns that the merger would leave it with only one supplier.¹⁰⁴

97 [REDACTED]
98 [REDACTED]
99 [REDACTED]
100 [REDACTED]
101 [REDACTED]
102 [REDACTED]
103 [REDACTED]
104 [REDACTED]

72. Two OEMs expressed a different type of concern. According to these OEMs (Anritsu and [REDACTED]), the merger, in the context of the Parties' agreements with competing OEMs (Keysight and Viavi), would make it more difficult for competing manufacturers to access the UK rental market.¹⁰⁵ Although it relates to OEMs, we believe that this issue is captured by our existing theory of harm (horizontal unilateral effects). This is because OEMs' sales to the Parties are likely to constitute a very small proportion of their total sales, so that a foreclosure theory of harm is unlikely. If the issue is therefore essentially a reduction of choice for customers, then this is just a further articulation of our original theory of harm (horizontal unilateral effects).
73. No concerns with the merger were expressed by two OEMs and two suppliers (Rohde & Schwarz, Viavi, EMC Hire and MCS).^{106,107}

¹⁰⁵ [REDACTED]

¹⁰⁶ [REDACTED]. EMC Hire, however, said that the long-term consequences of the merger were uncertain ([REDACTED]).

¹⁰⁷ Three suppliers and one manufacturer (Keysight, Inlec, Instruments4Hire, Interlligent and TRS RenTelco) were not asked whether they had any concerns with the merger.

Annex A: The Parties' estimation of competitor presence in the UK TME rental segments

1. Table 1 presents the Parties' estimate of the rental providers that supply TME equipment in the UK, categorised according to the product segments they cover. Evidence from third party calls, however, indicates that the table does not provide an accurate representation of the UK TME rental market. In fact, as seen in paragraphs 4 to 44:
 - (a) Some of the companies included in the table do not provide rental services, either at all ([REDACTED]) or in the UK ([REDACTED]). Moreover, [REDACTED] is not a separate company, [REDACTED].
 - (b) Some suppliers, although supplying a wide range of equipment in other countries, have a minimal presence in the UK ([REDACTED]).
 - (c) Some suppliers have very small rental revenues and/or limited stock availability in the TME segments in which they operate ([REDACTED]).
 - (d) Other suppliers specialise in narrow sub-segments ([REDACTED]).

Table 1: The Parties' estimation of competitor presence in the UK TME rental segments

[REDACTED]

Source: The Parties ([REDACTED]).

Annex B: Third parties contacted

Table 2: Intermediaries and OEMs contacted

<i>Third party</i>	<i>Intermediary/OEM</i>	<i>Type of interaction</i>
Anritsu	OEM	Phone call
Caltest	Intermediary	Phone call
EMC Hire	Intermediary	Phone call
EXFO	OEM	Phone call
First Rental	Intermediary	Phone call
Inlec	Intermediary	Phone call
Instruments4Hire	Intermediary	Phone call
Interlligent	Intermediary	Phone call
Instrumex	Intermediary	Email
ISS Aberdeen	Intermediary	Email
Keysight	OEM	Phone call
Leasametric	Intermediary	Email
Link Microtek	Intermediary/OEM	Phone call
MCS	Intermediary	Phone call
Rohde & Schwarz	OEM	Phone call
TES	Intermediary	Phone call
Testwall	Intermediary	Email
TICS International	Intermediary	Email
TRS RenTelco	Intermediary	Phone call
Viavi	OEM	Phone call

Source: CMA.

1. The Parties gave us contact details for 14 TME rental providers and 16 OEMs or resellers of new or used equipment.¹ The Parties have then added companies to the list of rental suppliers, but without providing contact details. Among rental suppliers, we have had telephone conversations with all those in the original list for which the Parties had estimated rental revenues in the UK of at least £[REDACTED],² with the exception of ISS Aberdeen, which we have contacted by email. In addition, we contacted the US-based provider TRS RenTelco. We have also received written responses from two smaller suppliers. We have contacted four of the five largest OEMs in the UK,³ plus the slightly smaller EXFO and Link Microtek, the UK representative of TME manufacturer Narda.
2. We have not contacted all of the companies that the Parties listed as minor rental competitors.

¹ [REDACTED]

² Merger Notice, Table 17.

³ Merger Notice, paragraph 90.

Appendix E: Evidence from customer calls and online questionnaire

Introduction

1. This appendix provides details of the evidence received from the Parties' customers, both through telephone conversations and through an online questionnaire. This evidence is referred to in Chapters 5 to 7 of the provisional findings.
2. During the phase 2 inquiry, we have held phone calls with 29 rental customers (most of whom have relatively large rental expenditures), while we have received responses to the online questionnaire from 55 further customers (most of whom have relatively small rental expenditures).¹
3. The online questionnaire mainly related to a single, most recent purchase, whereas in the phone calls we were able to address more general issues about customer choices and availability of alternative suppliers. The sample size of the online questionnaire is small and predominantly consists of responses from customers with low rental expenditure.² Therefore, in our view this information is insufficient for robust quantitative inferences to be made (eg for diversion ratios to be calculated). Nevertheless, we have used the online questionnaire results in a qualitative manner to inform our view.
4. After providing some overall statistics about the customers contacted, the appendix discusses the evidence received in the following six sections.
 - (a) Customer views about the choice between renting and purchasing TME equipment.
 - (b) Evidence regarding the availability of internal supply and demonstration equipment as an alternative to TME rental.
 - (c) Evidence on the dimensions of competition in TME rental.
 - (d) Customer preferences for single or multi-sourcing.

¹ Online questionnaire responses from customers contacted by phone have been discarded and are not included in this figure.

² Likewise, the Parties have noted that 38 of the 55 respondents to the online questionnaire discussed a rental which lasted less than three months whilst only 12 of 54 respondents to the relevant question had rented equipment for more than 12 months (≈). As a result, respondents to the online questionnaire predominantly discussed short term rentals. This again illustrates why the online questionnaire responses cannot be used to draw robust quantitative inferences about the population of the Parties' customers.

- (e) Evidence on competition between the Parties.
- (f) Evidence on competition between the Parties and other rental providers.
- (g) Customer views of the merger.

The customers contacted

5. The Parties provided contact details for all UK-based customers that placed a rental order with them between October 2015 and September 2017. After accounting for duplicates and multiple entries referring to the same corporate customer, the two datasets include [redacted] customers for Electro Rent and [redacted] customers for Microlease. Of these, [redacted] of Electro Rent's customers and [redacted]³ of Microlease's customers had a non-zero spend in 2016.
6. Figure 1 and Figure 2 below, show the distribution of the Parties' customers and associated spend in 2016, split according to the size of individual customers' spend.⁴ What emerges from the figures is that:
 - (a) The majority of the Parties' rental customers (by number) spent less than £[redacted] during the entire year [redacted]. [redacted].
 - (b) These small customers, however, account for a small proportion of the Parties' rental revenues (less than 10%). Most revenues are concentrated on a small number of large customers. This is made even clearer in Table 1, which shows that, in 2016, the top 20 customers accounted for [redacted]% of Electro Rent's rental revenues and [redacted]% of Microlease's rental revenues.

Figure 1: Distribution of customers according to their annual spend (2016)

[redacted]

Source: CMA analysis of Parties' data.

Figure 2: Distribution of rental revenues according to customers' annual spend (2016)

[redacted]

Source: CMA analysis of Parties' data.

³ One customer ([redacted]) also appeared with a positive rental spend in the dataset, but told us that it did not rent from the Parties, instead using finance leases.

⁴ Only customers with a positive spend in 2016 have been included.

Table 1: The Parties' rental revenues in 2016 from major customers

Customer	Microlease		Electro Rent	
	Rental revenues (£)	% of total	Rental revenues (£)	% of total
Top 10 customers	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Top 20 customers	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Top 30 customers	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	100	[REDACTED]	100

Source: CMA analysis of Parties' data.

7. Given the presence of a large number of very small customers and a small number of large customers, we have used two different approaches in seeking evidence from customers:
 - (a) We had extensive discussions by phone with many of the Parties' customers with large rental expenditures.
 - (b) We used an online questionnaire as a way to contact customers with small rental expenditures.

8. Calls have been held with 29 customers:⁵ 11 included in only Microlease's customer list, three in only Electro Rent's list, and 15 included in both. Most of them were among the 20 customers with the highest rental expenditures from each of the Parties; they accounted, in 2016, for 50-60% [REDACTED] of Microlease's and 60-70% [REDACTED] of Electro Rent's rental revenues. With respect to the industries⁶ these customers are active in:
 - (a) 10 customers operate in R&D and manufacture of telecommunications equipment (or RF equipment);
 - (b) 15 install and/or manage mobile/wireless telecommunications networks;
 - (c) Four install and/or manage wireline telecommunications networks;
 - (d) Three are active in the aerospace and defence industry;
 - (e) One is part of the semiconductor industry (ie what the Parties' defined as 'Infotech'); and
 - (f) One is a calibration company.

9. A full list of the customers contacted is included in Annex A.

⁵ We also talked with one customer ([REDACTED]), who despite being listed in Microlease's customer list was not a rental customer, instead using finance leases.

⁶ Note that these numbers will not add up to 29, as some customers are active in more than one industry.

10. The online questionnaire was sent to all email addresses included in the list of customers who rented at least one item from either Microlease or Electro Rent between October 2015 and September 2017. We received 55 responses, 50 from Microlease's customers and five from Electro Rent's customers.^{7, 8} Given the small number of responses and since the respondents were predominately customers with smaller rental expenditure, the results of the online questionnaire do not allow us to draw statistically reliable inferences on the Parties' customer populations. For this reason, in order to avoid suggesting a level of accuracy that the small number of responses does not provide, the results will not be expressed in this appendix using percentages, nor have diversion ratios been computed.⁹ Instead, in line with CMA practice, we indicate the number of respondents choosing each option in response to the various questions.
11. The customers who responded to the online questionnaire were typically renting only a low value of TME at any one time. Of the 46 customers responding to the relevant question,¹⁰ 26 had spent less than £5,000 in total on TME rental over the last two years, with only four respondents having spent more than £50,000. Aggregated responses to the online questionnaire are reported in Annex B.
12. Respondents to the online questionnaire were asked to indicate the types of equipment they had rented. Typically, respondents were renting either RF and Microwave equipment (such as signal generators or network analysers) or general-purpose test equipment (such as oscilloscopes or multimeters), with 27 and 21 respondents respectively having rented these types of equipment in the last two years. 17 respondents had rented either wireline or wireless telecoms equipment.

The choice between rental and purchase

13. The evidence we have received from customers indicates that rentals and purchases are usually chosen in response to different requirements, and that

⁷ There were two additional responses to the online questionnaire which were discarded. One customer ([REDACTED]) we have contacted by phone. The other responded to the Microlease version of the online questionnaire explaining that it was not a customer of the Parties.

⁸ The Microlease version of the online questionnaire was sent to 910 email addresses, while the Electro Rent version was sent to 98. The response rates were therefore 6.04% for Microlease and 6.12% for Electro Rent. We note that, in the Parties' customer datasets, several companies were associated with multiple email addresses. In these cases, the online questionnaire was sent to all addresses. If, instead of email addresses, individual companies are considered, the response rates are slightly higher than the figures reported here.

⁹ In response to our working papers, the Parties suggested that we should use this data to calculate diversion ratios.

¹⁰ Question 21 of the online questionnaire (see Annex B).

purchase is not a close alternative to rental in a significant number of situations.

14. The evidence discussed in this section indicates that, even for customers renting equipment for long periods, there are several reasons why rental can be strongly preferred to purchase. These reasons include capital expenditure constraints, uncertainty over the time the equipment will be needed, the possibility of flexing the number of items rented in response to fluctuations in workloads, and of rapidly receiving a replacement if an item is damaged or needs calibration. Leasing is also not generally seen as an alternative to rental.
15. The online questionnaire responses also suggest that rental and purchase are not usually seen as close alternatives. Although 17 out of 55 respondents said that purchase was an available option for the last piece of equipment they rented from the Parties,¹¹ the number was much lower when respondents were asked about their next best option.¹² In this case, most respondents said they would have used another rental supplier, with 34 of 55 respondents giving this response. Only seven customers said they would have purchased the equipment, while seven respondents said they would have used TME which they already owned. No customers indicated leasing equipment as their best alternative to rental.¹³

Length of requirements

16. The length of time for which a piece of equipment is needed is an important factor in the choice between rental and purchase. Several (eight) of the customers contacted by phone typically rent individual items of equipment to cover short-term needs.
 - (a) ALTA Communications typically rented for one to three weeks.¹⁴ While it owned most of the equipment it used, it resorted to rental in case of short-term needs and for some specialist equipment. It told us that the choice between rental and purchase was fairly obvious.¹⁵
 - (b) AltioStar often rents with an initial three month contract which regularly rolls over to a six month rental. Although it rents only 20% of the items it

¹¹ Question 6 of the online questionnaire (see Annex B).

¹² Question 7 of the online questionnaire (see Annex B).

¹³ Question 7 of the online questionnaire (see Annex B). The other responses were 'don't know' (3) and 'other' (4).

¹⁴ ALTA Communications has recently ceased operations.

¹⁵ [REDACTED]

uses, in those cases where it currently rents it does not consider purchase as an alternative, given the short-term nature of the requirements.¹⁶

(c) [X] % of Ericsson's rentals are, at least initially, short-term. It does not see purchase as an alternative in these cases.¹⁷

(d) Other customers who rent only for short periods are Radio Design, Thales, Qorvo, Cobham Wireless and CommScope.¹⁸

17. The customers who responded to the online questionnaire also overwhelmingly rented TME for only short periods. Of 55 respondents, 38 had most recently rented TME for less than three months, and 13 of these had most recently rented for less than two weeks. Additionally, of the 54 respondents to the relevant question,¹⁹ only 12 had rented equipment for more than 12 months at any point in the last three years.

18. Those customers who expressed a view varied in their opinion regarding the minimum length of use that might justify purchasing the equipment. Overall, customers appeared to consider that equipment would have to be used for at least 12 months, and more often between two and three years, before the cost of rental and purchase would become comparable. However, this would depend on a variety of factors such as the utilisation and price of the equipment concerned. Of the nine customers that gave us an estimate:

(a) Four indicated a period between two and three years. MJ Quinn told us that only if the equipment is used for two to three years does purchase make financial sense.²⁰ Similarly, Telent does not purchase TME unless it expects to need it for two to three years.²¹ WHP Telecoms considered that it would take three years before the rental cost exceeded the purchase price for a typical piece of equipment.²² Savills Telecom considered that it would take around two and a half years for rental fees on a typical piece of equipment to be equal to the purchase cost. This figure, however, does not take into account the maintenance and calibration costs associated with owning equipment, over which it has little visibility.²³

¹⁶ [X]

¹⁷ [X]

¹⁸ [X]

¹⁹ Question 10 of the online questionnaire (see Annex B).

²⁰ [X]

²¹ [X]

²² [X]

²³ [X]

- (b) Five other customers indicated shorter periods. Qorvo prefers to buy the equipment for expected uses as low as two to three months.²⁴ Cobham Wireless tends to buy the equipment for projects lasting longer than one year, although this might depend on the cost of the equipment and on whether it would have a longer-term use within the business.²⁵ Killarney Telecommunications also told us that, because of its frequency of use, the equipment it buys would have a repayment period of around 12 months.²⁶ Similarly, Trescal would typically rent the equipment that is needed for less than one year.²⁷ Thales told us that a good rule of thumb is that purchase is preferred to rental if the equipment is needed for 18 months or more.²⁸
- (c) Finally, Babcock told us that lease-purchase typically makes financial sense only if the item is regularly used for four to five years.²⁹

Other factors influencing the choice between rental and purchase

19. Customers indicated a number of other reasons why rental may be preferred to purchase and which meant that the decision between rental and purchase did not amount to a simple consideration of the length of time for which an item would be required:
- (a) Eleven customers indicated that the duration of the requirement is often uncertain and that rental provides flexibility in the face of fluctuating workload.³⁰
- (b) Five customers mentioned the need for calibration and the fact that rental allows them to have the required number of items, even when some need to be repaired or recalibrated.³¹ Four further customers stressed the cost of repair and calibration services,³² with one of those four customers³³ and one other customer³⁴ adding that if purchase is chosen, it would be

24 [X]
 25 [X]
 26 [X]
 27 [X]
 28 [X]
 29 [X]
 30 [X]
 31 [X]
 32 [X]
 33 [X]
 34 [X]

necessary to build up a sufficiently large stock of equipment to keep work going while some items are repaired.³⁵

- (c) Two customers said that equipment that is used infrequently will be typically rented.³⁶ One of these customers also remarked that since equipment is costly to maintain, it is preferable not to hold it if not used.³⁷
- (d) Five customers indicated cashflow or capital expenditure constraints.³⁸
- (e) Four customers told us that rental makes it possible to always use the most up-to-date equipment in the face of frequent technological change.³⁹

20. Because of these reasons, there are customers who rent for relatively long periods but still prefer rental over purchase.

- (a) Trescal gave us the example of a piece of equipment that it had rented for 'at least 10-15 years'. While in hindsight it would have been preferable to purchase the item rather than renting it, the original rental was viewed as being short-term and Trescal never had sufficient certainty about how much longer the item would be needed to justify its purchase.⁴⁰
- (b) AceAxis typically rents TME for between one and five years; the main reason is the uncertainty over the length of the time the equipment will be needed. It also 'rents to buy', either through explicit 'rent-to-buy' agreements, or by offering to buy out rental stock after having used it for a significant period.⁴¹
- (c) Arris typically rents for short initial periods of around six months, but rolls these rental periods over several times, so that a given piece of equipment is often rented for between 18 and 30 months. The reasons for renting instead of purchasing are the cost of the equipment, the need for annual calibration and the fact that rental companies can guarantee a constant availability of the necessary number of items.⁴²
- (d) Babcock typically rents equipment for a period of 12-24 months. Rental gives greater flexibility: it is often uncertain for how long a piece of

³⁵ We note, however, that one customer ([REDACTED]) does not see the replacement of damaged equipment as a reason to prefer rental over purchase, as rental providers have to be paid a fraction of the value of the equipment if this is damaged ([REDACTED]).

³⁶ [REDACTED]

³⁷ [REDACTED]

³⁸ [REDACTED]

³⁹ [REDACTED]

⁴⁰ [REDACTED]

⁴¹ [REDACTED]

⁴² [REDACTED]

equipment will be needed and rented equipment can be easily returned if no longer required. Rental providers also take care of recalibration.⁴³

- (e) Clarke Telecom hires the equipment for extended periods, typically using it for 12 months at a time before sending it back to be recalibrated. Rental is preferred to purchase because of the calibration and repair service offered by rental suppliers, and the availability of replacements for any item that needs to be repaired or recalibrated.⁴⁴
- (f) ICS usually rents on 12 month contracts which are often rolled over, sometimes on an indefinite basis. Rental is preferred to purchase as the equipment quickly becomes obsolete. ICS installs and maintains mobile telecommunications network, and technological change in the sector is frequent.⁴⁵
- (g) Killarney Telecommunications usually rents long-term, for up to two years. Although it has recently explored the possibility of purchasing a greater proportion of the equipment it uses, it expects to continue to rent 30% of the equipment, which would provide flexibility.⁴⁶
- (h) Mono Consultants usually uses rental contracts of 12 months (with additional flexibility provided by one month rentals). These 12 month contracts provide a baseline level of equipment and the number of contracts is adjusted each year depending upon forecast demand. As a result, equipment will often be rented significantly beyond the initial 12 month contract. However, Mono Consultants did not consider purchase to be an alternative to rental for its requirements due to the cost of purchasing equipment, the risks associated with technological change and the difficulties associated with reselling old equipment.⁴⁷
- (i) WHP Telecoms also agrees rental contracts with an initial 12-month duration, which are then regularly rolled over. However, the advantages of rental in terms of the support services provided and the significant cost involved in purchasing equipment meant that it is reluctant to purchase equipment.⁴⁸

43 [X]
44 [X]
45 [X]
46 [X]
47 [X]
48 [X]

The extent to which rental and purchase are close alternatives

21. In the previous two sub-sections we have analysed the factors that influence the choice between rental and purchase. This sub-section presents the customers' overall views on whether purchase is a close alternative to rental for their TME requirements.
22. Purchase was not a close alternative to rental for 22 of the 29 rental customers we spoke to. These 22 customers can be divided into four groups, depending on what they told us about the substitutability between rental and purchase.
23. 13 customers explicitly told us they do not consider purchase to be a close alternative for all, or the vast majority, of their rental requirements:
 - (a) AltioStar told us that, 'when it decides to rent, purchase is not a genuine alternative'.⁴⁹
 - (b) 8point8 'does not consider purchase to be an alternative to rental for its equipment requirements'.⁵⁰
 - (c) Redhall Networks 'does not consider purchasing equipment to be a viable alternative method of acquiring the equipment it requires'.⁵¹
 - (d) ICS told us that 'purchase is not a viable alternative, primarily because of the frequency of technological change'.⁵²
 - (e) MJ Quinn told us that 'the purchase of TME was not considered to be a viable alternative to rental'.⁵³
 - (f) TRL Technology told us that 'purchasing [...] would typically not be cost effective' and that 'in most cases, choosing to rent rather than purchase equipment was as a "no-brainer"'.⁵⁴
 - (g) Ericsson explained that '[~~80~~]%' of its rental requests are, at least initially, short-term, for which therefore purchase is not considered as an alternative'.⁵⁵

49 [~~80~~]
50 [~~80~~]
51 [~~80~~]
52 [~~80~~]
53 [~~80~~]
54 [~~80~~]
55 [~~80~~]

- (h) Jonics observed that ‘purchasing would be three times as costly’ as renting the equipment it needs.⁵⁶
- (i) ALTA Communications explained that ‘the choice between purchasing and renting the equipment was fairly obvious: rental was used for short-term needs, and in those cases purchase was not a close alternative’.⁵⁷
- (j) WHP Telecoms explained that, if rental prices were increased, it would still rent ‘unless the price rises were so extreme as to push it towards purchasing its equipment’.⁵⁸
- (k) CommScope told us that, while it rarely rents, in such circumstances ‘purchase is not an option since CommScope will not want to commit to owning the item’.⁵⁹
- (l) Com Dev Europe specified that ‘purchase is not a viable alternative to rental for [%X]% of the equipment it currently rents’.⁶⁰
- (m) Mono Consultants explained that ‘purchase is not considered a viable alternative for the equipment which it typically rents. It has explored the possibility of purchasing rather than renting in the past, but the advantages of rental over purchase are such that it does not routinely research purchase as an alternative to rental for individual pieces of equipment’.⁶¹

24. Four further customers (Babcock, Clarke Telecom, Arris and Savills Telecom) told us that they generally seek to rent rather than purchase because of the flexibility renting provides and/or because of the calibration and repair services provided by their rental supplier.⁶² Moreover:

- (a) Babcock added that, while in the past it has lease-purchased some equipment, this typically makes sense only if the item is regularly in use for four to five years.⁶³
- (b) Clarke Telecom has owned equipment in the past, but now rents almost all of its TME.⁶⁴

56 [X]
 57 [X]
 58 [X]
 59 [X]
 60 [X]
 61 [X]
 62 [X]
 63 [X]
 64 [X]

- (c) Arris typically purchases fibre optic cleaning and scoping equipment, which is quite cheap and requires very little maintenance and calibration, but typically rents RF meters, as they are more expensive and need annual calibration.⁶⁵
- (d) Savills Telecom added that, even if, in view of the merger, it was exploring the possibility of purchasing some equipment, it would still need to rent a significant proportion of its requirements.⁶⁶
25. Magdalene has run an internal investigation on whether to purchase the equipment, but the decision has been to continue renting it, partly because of repair and calibration costs.⁶⁷
26. Finally, for four customers, the lack of substitutability can be clearly inferred because they rent only for short projects, while purchase is preferred for equipment with long-term use.
- (a) Telent told us that it typically rents equipment if the project for what it is needed is expected to last two to three years or less. This is based 'purely on cost considerations, in that the payback time for buying the equipment instead of renting is about this length in time.'⁶⁸
- (b) Radio Design mostly purchases the equipment it uses but, in case of a short-term need (two to three weeks), it first tries to loan the equipment from manufacturers and, if this is not possible, it rents it.⁶⁹
- (c) Trescal 'typically rents equipment which is needed for less than a year'.⁷⁰
- (d) Cobham Wireless generally prefers to purchase the equipment, but has rented it in the case of short or transition projects.⁷¹
27. For six of the remaining seven customers we talked to, purchase appears to be a close alternative to rental for at least part of their requirements,⁷² while one customer did not provide a clear indication of their preferences.⁷³
28. The evidence from our customer calls is consistent with the evidence from the online questionnaire in indicating that purchase is not a close alternative for

65 [REDACTED]
66 [REDACTED]
67 [REDACTED]
68 [REDACTED]
69 [REDACTED]
70 [REDACTED]
71 [REDACTED]
72 [REDACTED]
73 [REDACTED]

many rental customers. The respondents to the online questionnaire were generally renting for shorter periods and, all else equal, purchase is less likely to be an alternative to rental for shorter compared to longer rentals. Only seven respondents said that purchasing was their next best alternative to renting from one of the Parties whilst no respondents indicated that leasing was their next best alternative. In contrast 34 of 55 respondents indicated that rental from another supplier was their next best alternative.⁷⁴

Leasing options

29. All customers we spoke to were asked about the alternatives to rental and few mentioned leasing as an alternative.⁷⁵ Most customers who were explicitly asked about leasing indicated that this was not a valid alternative to rental. Telent told us that, for [REDACTED] reasons, it does not see leasing as a reasonable alternative to renting or buying TME.⁷⁶ Similarly, Telelink does not consider leasing to represent a cost-effective option⁷⁷ and Killarney Telecommunications prefers a straight purchase to leasing options, as banks provide better rates on loans.⁷⁸ Finally, MJ Quinn, having asked for quotations covering rental, purchase and finance deals, has concluded that neither purchase nor leasing are a close alternative to rental.⁷⁹
30. Two customers mentioned leasing as an option they use, although rarely. Thales UK told us that leasing and rent-to-buy are sometimes considered, but 'not too often'.⁸⁰ Similarly, Babcock has in the past lease-purchased items, but only if it was expecting to use them for four to five years.⁸¹ In addition, WHP Telecoms stated that a hire-purchase option had been raised by an OEM ([REDACTED]), but WHP Telecoms had not explored this option.⁸² AceAxis was the only customer telling us of entering into 'rent-to-buy' agreements for second-hand equipment with some frequency.⁸³
31. Responses to the online questionnaire also suggest that leasing is not often a viable alternative to rental. Only three of 55 respondents reported that in relation to the last item they rented from the Parties, it would have been viable to acquire the equipment on a finance lease or an operating lease.⁸⁴

⁷⁴ Albeit as discussed further below, 16 customers did not know which alternative supplier they would have used.

⁷⁵ One customer only leased and did not in fact rent any equipment.

⁷⁶ [REDACTED]

⁷⁷ [REDACTED]

⁷⁸ [REDACTED]

⁷⁹ [REDACTED]

⁸⁰ [REDACTED]

⁸¹ [REDACTED]

⁸² [REDACTED]

⁸³ [REDACTED]

⁸⁴ Question 6 of the online questionnaire (see Annex B).

Moreover, no respondents indicated leasing as the next best option to their latest rental from the Parties.⁸⁵

Internal supply and demonstration equipment

Internal supply

32. Internal supply⁸⁶ refers to those cases in which customers can use equipment that is available internally, either in the same business unit or in a different business unit.
33. The results of the online questionnaire show that, for some customers, internal supply is the closest alternative to renting equipment from one of the Parties. Of the 55 respondents to Question 7 (see Annex B), seven indicated that had their rental supplier (Microlease or Electro Rent) not been able to supply the item(s) they required, their next best option would have been using equipment already owned.⁸⁷ This number, however, must be compared to the 34 respondents who told us that they would have rented the equipment from another rental supplier.
34. Customer calls and follow-up emails also provide information on the extent to which internal supply is an alternative to TME rental for the customers contacted. Overall, the evidence suggests that internal supply is unlikely to be a close alternative for the majority of rented items for most of the customers we talked to. In particular:
 - (a) Three customers told us that, in most cases, internal supply is not an option for them. For one customer this is because other business units in the same company do not use the same type of equipment.⁸⁸ Another customer told us that internal supply from other locations overseas is a last resort, as transportation costs and import taxation duties make it prohibitively expensive.⁸⁹ The third customer explained that most of its equipment is rented.⁹⁰

⁸⁵ Question 7 of the online questionnaire (see Annex B).

⁸⁶ Sometimes referred to as 'in-house' or 'self' supply.

⁸⁷ Only 10 of 55 respondents viewed internal supply as even 'a viable option'.

⁸⁸ [REDACTED]

⁸⁹ [REDACTED]

⁹⁰ [REDACTED]

- (b) 12 customers appear to own no testing equipment or very few items compared to their rental volume.⁹¹ For these customers, internal supply is therefore either impossible or very unlikely.
- (c) Four further customers told us that the types of equipment they rent are different from the types of equipment they own.⁹² In particular, one of them added that the items it owns are typically generic testers and are not technology specific, while rental is used to fulfil the need for the many variations and models of testers required for its various projects.⁹³ A second customer told us that it rents high value equipment, often requiring expensive options that are used only once or twice; given such limited use, the customer tends not to own such equipment. Moreover, the option to utilise equipment from other sites is limited, for example as the majority of equipment used in other sites may also be rented.⁹⁴ For these customers, therefore, internal supply is usually not an option.
- (d) One customer told us that the equipment it owns is generally different from the equipment it rent; the only items which it both owns and rents are [REDACTED], which are rented to meet peaks in demand.⁹⁵ For this customer, therefore, it is reasonable to infer that internal supply is not an option for many of its rental requirements. A second customer made this explicit, telling us that internal supply would not make economic or financial sense for the same two reasons discussed above.⁹⁶ Similarly, a third customer explained that, until now, internal supply was not an alternative to rental because rental was used to source additional items when all the owned ones were being used; going forward, internal supply will continue not to be an option as this customer will tend to rent equipment different to that which it owns.⁹⁷
- (e) Two of the customers contacted operate multiple business divisions and the equipment they own could be used across each of these divisions. They told us that they would only consider rental when the required equipment was not available internally.⁹⁸

91 [REDACTED]

92 [REDACTED]

93 [REDACTED]

94 [REDACTED]

95 [REDACTED]

96 [REDACTED]

97 [REDACTED]

98 [REDACTED]. In the case of one of these customers ([REDACTED]), the stock is managed by Microlease.

35. For one customer, on the other hand, internal supply is an alternative, as it reduced its rental expenditure by 40% by moving equipment within the business.⁹⁹
36. No clear inference can be drawn from the other four customers we spoke to, as they own a significant volume of TME, but the possibility of using internal supply as a substitute for rental was not discussed in the calls.

Demonstration equipment

37. Two customers we called¹⁰⁰ told us that demonstration equipment was an alternative to rental. However, both customers noted that this was only possible for short periods of time, for example rentals lasting less than two weeks. One of these customers stated that demonstration equipment was intended to illustrate the capability of equipment to customers who are considering purchase. As a result, when this customer used demonstration equipment rather than rental it was often because it faced a short-term requirement and rental suppliers imposed minimal rental durations which exceeded the length of its requirements (eg the customer required an item for one week but rental suppliers required a minimum one month rent).¹⁰¹

Dimensions of competition in TME rental

38. The customer calls provided insights into the factors considered important to competition between rental suppliers.¹⁰²
39. The most important single factor mentioned by customers was price. This was mentioned by 19 of the 29 customers contacted¹⁰³ and a number of customers provided specific examples of instances where they had sought quotes from multiple suppliers with the specific intention of negotiating over prices.¹⁰⁴
40. Speed of delivery and quick replacement or turnaround of items needing repair or calibration were also mentioned as important factors by a number of customers. Both are linked to the depth of a rental supplier's stock, as

⁹⁹ [REDACTED]

¹⁰⁰ [REDACTED]

¹⁰¹ [REDACTED]

¹⁰² This issue was not covered in the online questionnaire.

¹⁰³ [REDACTED]

¹⁰⁴ As noted in paragraph 53, seven customers described using quotations from both Parties to negotiate better terms.

availability of items in stock is a necessary condition for quick deliveries and replacements.

- (a) Speed of delivery was explicitly mentioned as an important consideration by seven customers.¹⁰⁵ In particular, AltioStar told us that, as only 30-40% of its rental requirements are planned, equipment is often needed very quickly.¹⁰⁶ Similarly, for MJ Quinn, equipment that can be provided only with a delay is 'no good'.¹⁰⁷ Flomatik also told us that it had taken a number of additional steps to address delivery issues it has been facing.¹⁰⁸
- (b) The fast turnaround or replacement of equipment returned to be repaired or recalibrated has been indicated as a requirement by five customers: Clarke Telecom, Cobham Wireless, ICS, Mono Consultants and Magdalene.¹⁰⁹
- (c) Cobham Wireless stressed that fast turnaround is possible only if the supplier has additional pieces of equipment in stock.¹¹⁰ The importance of stock availability was emphasised also by AceAxis, MJ Quinn and CommScope.¹¹¹
- (d) Magdalene also told us that rental providers with in-house calibration and repair facilities are better able to achieve rapid turnaround.¹¹² MJ Quinn also mentioned recalibration services as an important aspect of customer service.¹¹³

41. Views varied across customers as to whether having a UK presence is important for a rental supplier supplying UK customers.¹¹⁴

- (a) Five customers see a lack of a UK presence as a severe limitation. Two customers (8point8 and Flomatik) told us that Electro Rent's lack of a UK presence was considered to be a serious obstacle, as it was felt that the support services offered by a Europe-based firm could not be available sufficiently quickly.¹¹⁵ Babcock wants its TME rental provider to have a

¹⁰⁵ [REDACTED]. In addition, one customer ([REDACTED]) told us that it needs equipment at very short notice only occasionally ([REDACTED]).

¹⁰⁶ [REDACTED]

¹⁰⁷ [REDACTED]

¹⁰⁸ [REDACTED]

¹⁰⁹ [REDACTED]

¹¹⁰ [REDACTED]

¹¹¹ [REDACTED]

¹¹² [REDACTED]

¹¹³ [REDACTED]

¹¹⁴ The issue was explicitly discussed with only nine customers.

¹¹⁵ [REDACTED]

UK presence, as on occasion it requires equipment at short notice and may need to collect it directly.¹¹⁶ Similarly, Ericsson did not select Electro Rent as a rental provider in the UK (despite using it as supplier in the Benelux) because it lacked a UK presence.¹¹⁷ The final customer, Mono Consultants, stated that a UK presence was important because this customer regularly needed to swap out equipment and it does not consider that a non-UK supplier would be able to achieve reliable turnaround times.¹¹⁸

- (b) Three customers consider a UK presence as an advantage, but not necessary, for dealing with a rental supplier. Thales UK told us that a UK presence is an advantage, given the importance of quick delivery of the equipment.¹¹⁹ For Cobham Wireless, although the fact that Microlease is based in Harrow may be an advantage, dealing with suppliers based overseas is not a major problem, since the equipment can still be shipped quickly.¹²⁰ Com Dev Europe told us that Electro Rent's location in Belgium raised the possibilities of delays in the delivery of equipment.¹²¹
- (c) Four other customers told us that a UK presence is not a factor in their choice of rental provider. A physical UK presence was not considered important by Redhall Networks, Trescal and Savills Telecom.¹²² Similarly, Telent does not require rental suppliers to have a UK presence; it decided to use Electro Rent after deliberately looking for suppliers outside the UK, because of the high prices it was offered by Livingston and Microlease.¹²³

Preference for single- or multi-sourcing

- 42. Customers we spoke to expressed mixed views on the importance of being able to single source and on their willingness to source from multiple suppliers.¹²⁴
- 43. Seven of 29 customers explicitly expressed a preference for sourcing all the equipment they need from a single supplier. These customers stated that

¹¹⁶ [REDACTED]

¹¹⁷ [REDACTED]

¹¹⁸ [REDACTED]

¹¹⁹ [REDACTED]

¹²⁰ [REDACTED]

¹²¹ [REDACTED]

¹²² [REDACTED]

¹²³ [REDACTED]

¹²⁴ This issue was not covered in the online questionnaire.

single sourcing provided logistics efficiencies and reduced overheads and provided the possibility of obtaining volume discounts and better prices.¹²⁵

44. Of these benefits, customers most frequently cited logistics efficiencies and reduced overheads. For example:

(a) One customer ([REDACTED]) told us that each potential rental supplier needs to be 'onboarded' and that the required background checks are costly and time consuming. It therefore makes no sense to 'onboard' a large number of suppliers that are then only infrequently used.¹²⁶

(b) Similarly, General Dynamics does not see dealing with multiple suppliers as a palatable option given the overheads and time involved.¹²⁷

(c) Killarney Telecommunications prefers to source the entire range of equipment from a single supplier, certainly for any individual crew, but also more generally, because it is simpler.¹²⁸

(d) Cobham Wireless also told us that it is more efficient from a logistical perspective to use a single supplier. However, it would consider using multiple suppliers if the cost savings were sufficient. In 2016, for example, although Microlease was its preferred choice, Cobham Wireless was prepared to source from Interlligent and Electro Rent.¹²⁹

45. Other customers appear to be willing to multi-source.

(a) AceAxis typically seeks quotes from all possible suppliers. It is only because [REDACTED].¹³⁰

(b) ICS typically rents from both Microlease and Electro Rent. It has also looked at other potential suppliers.¹³¹

(c) Thales UK also regularly uses both Electro Rent and Microlease, and has also made use of other smaller rental suppliers, although typically for highly specialised equipment not stocked by the Parties.¹³²

125 [REDACTED]
126 [REDACTED]
127 [REDACTED]
128 [REDACTED]
129 [REDACTED]
130 [REDACTED]
131 [REDACTED]
132 [REDACTED]

- (d) Finally, Savills Telecom operates a two-supplier model, where the role of the second supplier is to provide an alternative rental option and supply the equipment not available quickly from the main supplier.¹³³

Competition between the Parties

46. Most of the customers contacted by phone consider both Microlease and Electro Rent as close alternatives; among the customers who did not, the majority either did not shop around or were concerned about Electro Rent's lack of UK presence. Electro Rent is seen by several customers as offering lower prices and seven customers reported seeking quotations from both Parties and using these to negotiate better terms.
47. On the other hand, very few of the Microlease customers who responded to the online questionnaire indicated Electro Rent as an alternative supplier for their latest rental.

Evidence from phone calls

48. Of the 29 customers we contacted,¹³⁴ 20 considered both Parties as credible competitors, having used or actively considered both of them for their rental needs.¹³⁵ One further customer although only having considered its options to a limited extent and not having used Electro Rent before, expressed concerns with the merger, suggesting that it sees Electro Rent as a potential supplier.¹³⁶
49. Of the seven customers who did not indicate Electro Rent as a credible supplier in the UK:
- (a) Three (8point8, Flomatik and Ericsson) told us that the problem was Electro Rent's lack of a UK presence. Ericsson does however use Electro Rent as a rental supplier in the Benelux.¹³⁷
 - (b) Cobham Wireless explained that Electro Rent did not have sufficient quantities of some of the TME items it requires¹³⁸ and CommScope was

¹³³ [REDACTED]

¹³⁴ ALTA Communications ceased operations and another ([REDACTED]) was not a rental customer so did not express views on the credibility of Electro Rent as a rental supplier.

¹³⁵ [REDACTED]. Note that one customer ([REDACTED]) told us that it did not consider Electro Rent as a supplier only because it had the impression that the merger with Microlease had already been completed.

¹³⁶ [REDACTED]

¹³⁷ [REDACTED]. A similar issue was mentioned by Babcock, which did however consider Electro Rent as a credible supplier when it tendered rental services in 2016, after having visited Electro Rent's new UK premises ([REDACTED]).

¹³⁸ [REDACTED]

seeking equipment from specific manufacturers and Microlease was the UK technology partner of these firms.¹³⁹

- (c) The remaining two customers do not appear to have actively shopped around. Arris told us that it only used Microlease and that, by looking online, it did not think it could get a better price elsewhere.¹⁴⁰ We note that, as prices are individually negotiated, online quotations may not provide a good indication of actual prices. Another customer, Qorvo, has not had any recent contact with Electro Rent.¹⁴¹
50. Finally, Telelink told us that it has used only Electro Rent in the last two years, during which period it has not shopped around for alternative providers.¹⁴² While it had shopped around before then, it did not tell us which suppliers were considered at that time.
51. Seven customers stressed that Electro Rent tended to offer lower prices than Microlease:
- (a) Telelink carried out an assessment of the available rental options two years ago and decided to use Electro Rent because of its cheap prices and high-quality equipment.¹⁴³
 - (b) Similarly, MJ Quinn switched from Microlease to Electro Rent three years ago after running a cost analysis. This cost assessment has been repeated since and Electro Rent remains its preferred choice.¹⁴⁴
 - (c) Trescal also considers Electro Rent to be cheaper.¹⁴⁵
 - (d) Ericsson conducted a comparative exercise between Microlease and Electro Rent, discussing the rental of the same type of equipment (PIM testers) for three years. While quotations were very similar for a three year rental, Microlease required a longer rental period in order to charge a low monthly rate. As a result, if Ericsson needed to reduce the rental period, a higher rate would be applied by Microlease than by Electro Rent.¹⁴⁶

139 [REDACTED]
140 [REDACTED]
141 [REDACTED]
142 [REDACTED]
143 [REDACTED]
144 [REDACTED]
145 [REDACTED]
146 [REDACTED]

- (e) Thales UK noted a sharp increase in rental prices in the aftermath of the merger between Microlease and Livingston, before Electro Rent offered lower prices undercutting Microlease.¹⁴⁷
 - (f) In 2008, Telent looked to Electro Rent in an attempt to reduce TME rental costs, and found that Electro Rent could offer the required equipment at a saving to Telent of about [REDACTED]%. Microlease and Livingston were initially unable to compete with Electro Rent on price, but then reduced their prices over time.¹⁴⁸
 - (g) Com Dev Europe described how Electro Rent's prices were generally lower and told us that if Electro Rent's service quality and inventory was as good as Microlease's, the potential cost savings would put it in a strong position to supply Com Dev Europe.¹⁴⁹
52. Views varied in relation to how the quality of service offered by Electro Rent compared with Microlease. While Telent told us that Microlease (and Livingston) provided a better service than Electro Rent,¹⁵⁰ MJ Quinn described Electro Rent's customer service – with respect to stock availability, recalibration services and reliability of delivery dates – as 'second to none'.¹⁵¹
53. Seven customers explicitly told us they have sought quotations from both Parties and used these to negotiate better terms.
- (a) Altiostar has typically approached both Microlease and Electro Rent (and, previously, Livingston as well) when looking to rent and has used this range of options to negotiate better prices;¹⁵² another four customers (Jonics, ICS, Mono Consultants and WHP Telecoms) adopted a similar approach.¹⁵³
 - (b) General Dynamics has traditionally played Microlease and Electro Rent against each other when contracting over contracts covering all its expected requirement for 12 months.¹⁵⁴

147 [REDACTED]

148 [REDACTED]

149 [REDACTED]

150 [REDACTED]

151 [REDACTED]

152 [REDACTED]

153 [REDACTED]

154 [REDACTED]

- (c) Ericsson told us that it has tried to use comparable quotations from Electro Rent to negotiate with Livingston (Microlease) over prices and terms. [REDACTED].¹⁵⁵

Evidence from the online questionnaire

54. Respondents to the online questionnaire were asked the following questions which are relevant to competition between the Parties:¹⁵⁶
- (a) If the next best alternative for your last rental was another rental supplier, which rental supplier would you have used?¹⁵⁷
- (b) Which suppliers have you used in the last two years for TME rental in the UK?¹⁵⁸
55. When asked which TME rental suppliers they had used in the last two years, respondents to the online questionnaire who were customers of Microlease responded noticeably differently to the very small number of respondents who were customers of Electro Rent. All of the four Electro Rent customers who answered the question named Microlease as a rental supplier they had used, while, among the 44 Microlease customers who answered the equivalent question, only four said that they had used Electro Rent.
56. 34 of 55 respondents said that they would have used another rental supplier had rental from the relevant Party not been an option for their most recent rental. Of the five Electro Rent customers who answered in this way, three named Microlease as their preferred alternative. Among Microlease customers, on the other hand, by far the most popular response was to say that they did not know who they would use had they not used Microlease, with 16 of 29 Microlease customers giving this response; Electro Rent was mentioned by only two respondents.
57. Compared to customers contacted by phone, Microlease's customers who responded to the online questionnaire show a lower level of awareness of other rental providers.

¹⁵⁵ [REDACTED]

¹⁵⁶ Customers were also asked specifically whether they had rented an item for more than 12 months and if so the alternatives available to them when they did so (Questions 10 to 18 of the online questionnaire (see Annex B)). However, this question was only answered by a few respondents and we consider the number of responses to be too low to provide meaningful insights.

¹⁵⁷ Question 8 of the online questionnaire (see Annex B).

¹⁵⁸ Question 22 of the online questionnaire (see Annex B).

Availability of other rental providers

58. Most of the customers contacted by phone did not consider there to be any credible alternative rental provider to the Parties for the majority of their TME requirements. Although there are some specialist providers who are perceived as credible suppliers of specific types of equipment, the majority of customers considered that these specialists do not represent alternatives for most of the equipment used by them or supplied by the Parties. Moreover, the preference of some consumers for single-sourcing their equipment limits the ability of these specialists to compete with the Parties. Customers also did not feel that these specialists had sufficient stock depth to provide rental equipment and support services rapidly enough to compete with the parties. OEMs were not indicated as a material source of rental TME.
59. The limited range of alternative rental options was further reinforced by the results of the online questionnaire. 34 of 55 respondents said that rental from another provider was their next best alternative if they had been unable to rent from the Party they used in their most recent rental transaction. However, very few Microlease customers could name who they would have used under these circumstances. Moreover, no single alternative to the Parties had been used by more than a handful of respondents in the last few years.

Evidence from phone calls

60. Of the 29 customers we contacted,¹⁵⁹ 18 had not used any rental suppliers other than the Parties,¹⁶⁰ while 17 viewed Microlease and Electro Rent as their only options, at least for the majority of the equipment they rent.^{161,162} In one case the customer was unable to switch as it was bound by global contracts negotiated by its parent company.¹⁶³
61. Three customers had recently contacted the alternative TME rental suppliers listed in the CMA phase 1 questionnaire,¹⁶⁴ but could not find credible alternative rental suppliers by this means.

¹⁵⁹ ALTA Communications ceased operations and did not express views on the credibility of other sources of TME rental, although it did state the equipment could be rented from EXFO.

¹⁶⁰ [REDACTED]

¹⁶¹ [REDACTED]

¹⁶² We note that this figure includes only those who considered Microlease and Electro Rent as their only options. As noted at paragraph 49, seven customers indicated that they did not consider Electro Rent to be an alternative to Microlease at all.

¹⁶³ [REDACTED]

¹⁶⁴ This list of alternative suppliers was submitted by the Parties to the CMA in phase 1 ([REDACTED]).

- (a) Jonics provided the most extensive description of the results of such an exercise. It reported that:¹⁶⁵
- (i) it was previously unaware of many of the suppliers suggested by the Parties;
 - (ii) from the companies listed in the questionnaire, only one responded to its enquiries with an offer to supply the equipment, and this was at around twice the price offered by Microlease. This firm appeared to Jonics to be sub-renting from Microlease; and
 - (iii) Inlec and Caltest could not supply the equipment it required, and EMC Hire could provide the equipment in too small a quantity.
- (b) MJ Quinn found that alternative suppliers either did not stock the equipment required by MJ Quinn, stocked out of date versions of the equipment, or could only provide the equipment after a long delay, as it was already rented out. [REDACTED].¹⁶⁶
- (c) Mono Consultants found that none of these suppliers could fulfil its rental requirements. A number offered to sell the equipment to Mono Consultants but the price quoted was uncompetitive compared to the prices offered by Microlease or Electro Rent and the customer did not view purchase as a viable alternative.¹⁶⁷
62. 13 of the customers we contacted emphasised that potential alternative rental providers either did not have a sufficiently large stock to provide for their TME requirements, or did not stock a wide enough range of equipment to be a credible rental alternative for their overall TME rental requirements.¹⁶⁸
63. Only a minority of customers had used rental suppliers other than the Parties and in many cases these customers described these alternative suppliers as fulfilling particularly specific requirements. Of the eight customers who told us they had used alternative rental suppliers, one did not name the firms in question, instead saying that it uses 'small, bespoke companies' for particularly specialised equipment.¹⁶⁹ Another sourced a minority of equipment from an installation partner, [REDACTED].¹⁷⁰ The other six customers

¹⁶⁵ [REDACTED]
¹⁶⁶ [REDACTED]
¹⁶⁷ [REDACTED]
¹⁶⁸ [REDACTED]
¹⁶⁹ [REDACTED]
¹⁷⁰ [REDACTED]

mentioned a number of firms:¹⁷¹ TES (mentioned by five customers),¹⁷² EMC Hire (five customers),¹⁷³ MCS (three customers),¹⁷⁴ Caltest (one customer)¹⁷⁵ and National Instrument Hire (one customer).¹⁷⁶

64. Amongst those firms that were named as possible alternative suppliers, a persistent theme was that these firms are typically highly specialised and offer a credible alternative to the Parties only within narrow subsets of the products offered by the Parties:

- (a) EMC Hire was named by five customers,¹⁷⁷ and noted to specialise in electromagnetic calibration equipment. It was used by three customers for only this part of their rental requirements¹⁷⁸ whilst another noted that the equipment supplied by EMC Hire was highly specialised.¹⁷⁹
- (b) MCS was noted by three customers to focus on high-end, specialist equipment,¹⁸⁰ and was usually mentioned as either a supplementary source of high-end TME rental by firms who mainly rented from the Parties,¹⁸¹ or as a provider of equipment for purchase.¹⁸²
- (c) Moreover, customers noted that the stocks of EMC Hire¹⁸³ and MCS¹⁸⁴ do not fully overlap with the stocks of Microlease and Electro Rent, and it was noted by one customer that the specialist equipment rented from EMC Hire and MCS is not generally available through Microlease or Electro Rent.¹⁸⁵
- (d) TES has supplied equipment to four of the customers we contacted,¹⁸⁶ although for one of these this was more often for purchase,¹⁸⁷ while another customer had used TES to supplement a larger rental order from the Parties with specialist equipment.¹⁸⁸ Another customer told us that TES offers a similar range of equipment to Microlease and Electro Rent,

¹⁷¹ One customer ([REDACTED]) also mentioned Gracey, which it uses to rent sound measurement equipment ([REDACTED]).

¹⁷² [REDACTED]

¹⁷³ [REDACTED]

¹⁷⁴ [REDACTED]

¹⁷⁵ [REDACTED]

¹⁷⁶ [REDACTED]

¹⁷⁷ [REDACTED]

¹⁷⁸ [REDACTED]

¹⁷⁹ [REDACTED]

¹⁸⁰ [REDACTED]

¹⁸¹ [REDACTED]

¹⁸² [REDACTED]

¹⁸³ [REDACTED]

¹⁸⁴ [REDACTED]

¹⁸⁵ [REDACTED]

¹⁸⁶ [REDACTED]

¹⁸⁷ [REDACTED]

¹⁸⁸ [REDACTED]

but on a much smaller scale.¹⁸⁹ The [REDACTED] scale of TES's rental business is reflected in its annual rental revenues of £[REDACTED].¹⁹⁰ One customer however, noted that TES would stock 'a large percentage' of its TME requirements.¹⁹¹

- (e) TRS RenTelco was mentioned by only one customer, but this customer understood that TRS RenTelco was unable to supply the equipment adapted to European frequencies, and the customer was also deterred by the transit costs incurred by using a US-based rental company.¹⁹²
- (f) Interlligent was mentioned by only two customers. One of these customers was deterred by the long lead time required to supply the equipment,¹⁹³ and the other customer did not think that Interlligent was primarily a rental supplier.¹⁹⁴

65. Moreover, several customers explained to us that they prefer to source all of their rented TME from the same provider (see paragraphs 42 to 45(d), above). This limits the ability of specialist firms to compete for rental with Microlease and Electro Rent, even in the kinds of equipment they specialise in:

- (a) EMC Hire and MCS were considered as potential rental suppliers by one customer for some of its requirements, but were not used in practice to supply any equipment because their range of stock was too small.¹⁹⁵
- (b) Seven customers also explained in general terms that the breadth of the Parties' stocks was a factor with which alternative firms could not compete.¹⁹⁶

66. The lack of depth of potential suppliers' stock was also frequently mentioned by customers as a limitation on the ability of these suppliers to compete with the Parties. A number of customers explained to us that they often need to rent a large number of the same piece of equipment at the same time, and as such their ability to rent from small firms without large stocks is severely limited. Three customers noted that smaller suppliers lacked the depth of stock to compete effectively with the Parties.¹⁹⁷

189 [REDACTED]
190 [REDACTED]
191 [REDACTED]
192 [REDACTED]
193 [REDACTED]
194 [REDACTED]
195 [REDACTED]
196 [REDACTED]
197 [REDACTED]

67. As discussed above, the speed with which equipment and support services can be delivered is considered important by customers, and this limits the ability of smaller firms to compete. We received some evidence from customers that the speed with which the Parties can deliver equipment and support services cannot be replicated by smaller TME rental firms.
- (a) Cobham Wireless had considered using Interlligent in 2016 for a large rental order, but had instead used Microlease because Interlligent needed eight weeks to buy in the necessary stock.¹⁹⁸
 - (b) General Dynamics had recently rented a high value piece of equipment from Microlease. It had identified one other (unnamed) supplier, but that supplier only owned a very small number of pieces of that equipment, and General Dynamics would have had to wait until the item returned from its current loan.¹⁹⁹
 - (c) Magdalene chooses to source its equipment from the Parties, because it does not think that smaller firms can achieve comparably short lead times.²⁰⁰
68. Finally, four customers said that they had been in contact with OEMs about renting TME directly from them.²⁰¹ One of these was ALTA Communications, which has gone out of business.²⁰² Of the remaining three customers, one was able to borrow equipment from manufacturers for short periods of time because it is a large customer,²⁰³ and another was directed by the manufacturers to rent from Microlease.²⁰⁴
69. The final customer described how it is occasionally able to use demo stock supplied by OEMs [REDACTED] for very short-term rentals [REDACTED].²⁰⁵

Evidence from the online questionnaire

70. As seen in paragraph 56, above, 34 customers said they would have sought another rental supplier had they been unable to rent from the Party they had actually used for their most recent rental. While 16 customers did not know which supplier they would have used, the others named several alternatives in addition to the Parties: EMC Hire (three respondents), MCS (three

198 [REDACTED]
199 [REDACTED]
200 [REDACTED]
201 [REDACTED]
202 [REDACTED]
203 [REDACTED]
204 [REDACTED]
205 [REDACTED]

respondents), TES (three respondents), Inlec and Interlligent (one mention each).²⁰⁶

71. When looking more generally at the rental suppliers used by respondents to the online questionnaire in the last two years, several third-party suppliers were mentioned, the main ones being EMC Hire, TES and MCS. Of the 48 respondents to the relevant question, seven named EMC Hire, four named MCS, and seven named TES. The rental suppliers mentioned by one or two respondents were Caltest, Inlec, Instruments4Hire and National Instrument Hire.²⁰⁷

Views on the Merger

72. Of the 29 rental customers we called, 20 expressed a concern with the merger (see Table 2 in Annex A). For two others, a concern could be clearly inferred because they used to seek quotes from both Parties and used these to negotiate lower prices and that they have not indicated any alternative rental supplier.²⁰⁸ Six customers told us that they had no concern. One of the customers contacted (ALTA Communications) had ceased its activity²⁰⁹ so the question was no longer relevant for it.
73. Overall, the concerned customers account for 30-40% [X%] of Microlease's rental revenues in 2016 and 50-60% [X%] of Electro Rent's.²¹⁰ These figures increase to 40-50% [X%] of Microlease's 2016 rental revenues and 50-60% [X%] of Electro Rent's if the two customers where concerns can be clearly inferred are included. Generally, those customers with concerns told us that the merger would eliminate competition from their supply chain, leaving them with a single rental provider.
74. Of the six customers who told us they were not concerned with the merger:
- (a) Two (Qorvo and [X]) are not directly involved in negotiations with rental providers, which are carried out centrally by their parent company.²¹¹

²⁰⁶ As seen in paragraph 56, of the five Electro Rent customers, three named Microlease as their preferred alternative. Among Microlease customers, Electro Rent was mentioned by two respondents.

²⁰⁷ As seen in paragraph 55, all of the four Electro Rent customers who answered the question named Microlease as a rental supplier they had used, while, among the 44 Microlease customers, only four said that they had used Electro Rent.

²⁰⁸ [X]

²⁰⁹ [X]

²¹⁰ Note that the customers contacted by phone accounted for 50-60% [X%] and 60-70% [X%] of Microlease's and Electro Rent's 2016 rental revenues respectively.

²¹¹ [X]

- (b) Arris has never rented from Electro Rent and told us that, given its choice of the latest equipment from a specific manufacturer (Viavi), it sees Microlease as its only possible rental provider.²¹² CommScope was in a similar position given that it seeks equipment manufactured by a specific manufacturer (Keysight) which is not readily available from Electro Rent.²¹³
- (c) Telelink typically rents for long periods and increasingly uses purchased equipment, as it operates on fairly long contracts which give it relative certainty on its equipment needs.²¹⁴
- (d) Flomatik did not view Electro Rent as an alternative due to its lack of a physical UK presence.²¹⁵

75. Concerns with the merger were less common among the customers who responded to the online questionnaire. Of the 49 customers who responded to the relevant question,²¹⁶ 15 expressed concerns about the merger,²¹⁷ against 26 who did not.²¹⁸ The difference between the views of the customers who responded to the online questionnaire and of those contacted by phone may be related to the difference in average rental expenditure between these two groups. It is reasonable to expect customers with higher spend (such as most of those we talked to on the phone) to be on average more concerned about the impact of a merger than customers whose spend is very low, such as the majority of the respondents to the online questionnaire.
76. Of the 15 concerned respondents, a number submitted comments on the reasons why they were concerned, usually focusing on expectations of reduced choice of supplier and increases in prices. While most responses discussed a reduction in choice in quite general terms, two respondents noted explicitly that they expected to be left with only one possible supplier.

²¹² [REDACTED]

²¹³ [REDACTED]

²¹⁴ [REDACTED]

²¹⁵ [REDACTED]

²¹⁶ Question 23 of the online questionnaire (see Annex B).

²¹⁷ One of the concerned respondents was only concerned that the current Microlease sales representative, with whom the respondent has a good relationship, might be replaced after the merger.

²¹⁸ Seven respondents chose the option 'Don't know'.

Annex A: Details of customers contacted

1. We have had telephone conversations with 29 of the Parties' customers, selected as follows:
 - (a) Initially, we set up phone calls with customers contacted in the course of the phase 1 investigation and that, based on their previous submissions, appeared to have a good knowledge of the rental market.
 - (b) Subsequently, we identified the 20 largest customers of both Parties, based on rental spend in 2016. While some had been included in the first group of calls, we tried to contact all the others. We have been able to reach 28 of these 36 customers.²¹⁹
2. The full list of customers we spoke to is provided in Table 2 below.

²¹⁹ One of these customers ([REDACTED]), however, turned out not to be a rental customer, instead using finance leases. This customer has not been included in Table 2. The final customer contacted was not amongst the top 20 largest customers of either Party based on rental expenditure.

Table 2: Customers contacted by phone during the phase 2 inquiry

<i>Customer</i>	<i>Industry</i>	<i>Spend from Microlease in 2016 (£)</i>	<i>Rank among Microlease customers</i>	<i>Spend from Electro Rent in 2016 (£)</i>	<i>Rank among Electro Rent customers</i>	<i>[X]</i>
8point8	Mobile telecom (installation)	[X]	[X]	[X]	[X]	[X]
AceAxis	Telecom equipment manufacturer	[X]	[X]	[X]	[X]	[X]
ALTA Communications	Wired telecom (installation and commission)	[X]	[X]	[X]	[X]	[X]
AltioStar	R&D of telecom equipment	[X]	[X]	[X]	[X]	[X]
Arris	Telecom equipment manufacturer and installer	[X]	[X]	[X]	[X]	[X]
Babcock	Mobile telecom (installation and maintenance)	[X]	[X]	[X]	[X]	[X]
Clarke Telecom	Mobile telecom (installation)	[X]	[X]	[X]	[X]	[X]
Cobham Wireless	Mobile telecom (installation) and telecom equipment manufacturer	[X]	[X]	[X]	[X]	[X]
Com Dev Europe	Aerospace hardware	[X]	[X]	[X]	[X]	[X]
CommScope	Microwave antennae systems	[X]	[X]	[X]	[X]	[X]
Ericsson	Mobile and wired telecom (management)	[X]	[X]	[X]	[X]	[X]
Flomatik	Mobile and non-mobile telecoms design and servicing	[X]	[X]	[X]	[X]	[X]
General Dynamics	Telecom equipment manufacturer (for the defence industry)	[X]	[X]	[X]	[X]	[X]
ICS	Mobile telecom (installation and maintenance)	[X]	[X]	[X]	[X]	[X]
Jonics	Mobile telecom (installation and maintenance)	[X]	[X]	[X]	[X]	[X]
Killarney Telecommunications	Mobile telecom (installation and maintenance)	[X]	[X]	[X]	[X]	[X]
Magdalene	Mobile telecom (installation and maintenance)	[X]	[X]	[X]	[X]	[X]
MJ Quinn	Wired telecom (maintenance and repair)	[X]	[X]	[X]	[X]	[X]
Mono Consultants	Mobile telecom (installation and maintenance)	[X]	[X]	[X]	[X]	[X]
Qorvo	Semiconductors	[X]	[X]	[X]	[X]	[X]
Radio Design	Telecom equipment manufacturer	[X]	[X]	[X]	[X]	[X]
Redhall Networks	Mobile telecom (installation)	[X]	[X]	[X]	[X]	[X]
Savills Telecom	Mobile telecom (installation)	[X]	[X]	[X]	[X]	[X]
Tealink	Mobile telecom (installation)	[X]	[X]	[X]	[X]	[X]
Telent	Mobile and (mostly) wired telecom (maintenance)	[X]	[X]	[X]	[X]	[X]
Thales	A&D	[X]	[X]	[X]	[X]	[X]
Trescal	Calibration	[X]	[X]	[X]	[X]	[X]
TRL Technology	Defence and Security	[X]	[X]	[X]	[X]	[X]
WHP	Mobile telecom (installation and maintenance)	[X]	[X]	[X]	[X]	[X]

Source: CMA.

Annex B: Aggregated responses to the online questionnaire

1. The online questionnaire consisted of 23 questions. This Annex presents only the results of those questions which concern the respondents' rental behaviour.¹
2. The online questionnaire was sent separately to customers of Microlease and Electro Rent. The Party named in the questions was the one the recipient was a customer of. The Party name has been replaced in this Annex with '...'. Where 'Electro Rent/Microlease' appears as a response, this represents Electro Rent customers responding with 'Microlease' and vice versa.

Q3: Approximately, what was the duration of your most recent rental (or how long you expect it to be if ongoing)?	
	Number
Less than 2 weeks	13
2 weeks - less than 1 month	14
1 month - less than 3 months	11
3 months - less than 6 months	9
6 months - less than 12 months	5
12 months - less than 18 months	1
18 months or more	2
Respondents	55

Q4: And how many pieces of equipment did you rent?	
	Number
1	34
2	9
3	5
4	2
5	2
6	2
More than 6	1
Respondents	55

Q5: Please indicate the category of items rented on that occasion. Please select all that apply.	
	Number
RF and Microwave Test Equipment (eg Signal Generators, Network Analysers, Spectrum Analysers)	28
Telecoms wireline (eg optical fibre, ethernet and transmission testing equipment)	7
Telecoms wireless (eg cable and antennae test, wireless test sets, field survey equipment)	1
General purpose test equipment (eg oscilloscopes, multimeters, power, industrial)	13
Other	7
Respondents	55

¹ The Annex does not, for example, report the answers provided to Question 1 of the online questionnaire, in which respondents submitted the date of their most recent rental.

Q6: Which of the following were viable options for you, if you had not rented the item(s) from ...? Please select all that apply.	
	Number
Finance lease	2
Operating lease	1
Purchase	17
Used equipment already owned	10
Rental from a different supplier	34
Don't know	4
Other	6
Respondents	55

Q7: And if ... had not been able to supply the rental item(s) you required what would have been your next best option?	
	Number
Finance lease	0
Operating lease	0
Purchase	7
Used equipment already owned	7
Rental from a different supplier	34
Don't know	3
Other	4
Respondents	55

Q8: Which supplier would you have rented from?	
	Number
Electro Rent/Microlease	5
EMC Hire	3
Interlligent	1
TES	3
Inlec	1
MCS Test Equipment	3
Other	2
Don't Know	16
Respondents	34

Q10: Have you rented an item from ... for 12 months or more in the last 3 years?²	
	Number
Yes	9
No	42
Respondents	51

Q12: Approximately, what was the total cost?	
	Number
Less than £5,000	4
£5,000-£9,999	1
£10,000-£24,999	1
Respondents	6

² Customers who had reported that their most recent rental lasted longer than 12 months were not asked Questions 10 to 19 of the online questionnaire.

Q13: Approximately, what was the duration of the rental (or how long you expect it to be if ongoing)?	
	Number
12 months - less than 18 months	3
18 months or more	3
Respondents	6

Q14: And how many pieces of equipment did you rent?	
	Number
1	2
2	2
3	0
4	0
5	1
6	1
More than 6	0
Respondents	6

Q15: Please indicate the category of items rented on that occasion. Please select all that apply.	
	Number
RF and Microwave Test Equipment (eg Signal Generators, Network Analysers, Spectrum Analysers)	3
Telecoms wireline (eg optical fibre, ethernet and transmission testing equipment)	0
Telecoms wireless (eg cable and antennae test, wireless test sets, field survey equipment)	1
General purpose test equipment (eg oscilloscopes, multimeters, power, industrial)	2
Other	0
Respondents	6

Q16: Which of the following were viable options for you, if you had not rented the item(s) from ...? Please select all that apply.	
	Number
Finance lease	0
Operating lease	0
Purchase	1
Used equipment already owned	3
Rental from a different supplier	4
Don't know	1
Other	0
Respondents	6

Q17: And if ... had not been able to supply the rental item(s) you required what would have been your next best option?	
	Number
Finance lease	0
Operating lease	0
Purchase	0
Used equipment already owned	0
Rental from a different supplier	4
Don't know	2
Other	0
Respondents	6

Q18: Which supplier would you have rented from?	
	Number
Electro Rent/Microlease	0
EMC Hire	1
Interlligent	0
TES	1
Inlec	0
MCS Test Equipment	1
Other	0
Don't Know	1
Respondents	4

Q20: We would like to understand some more general background about the TME equipment you require. Please indicate which categories of TME equipment you have rented in the UK in the last 2 years. Please select all that apply.	
	Number
RF and Microwave Test Equipment (eg Signal Generators, Network Analysers, Spectrum Analysers)	27
Telecoms wireline (eg optical fibre, ethernet and transmission testing equipment)	11
Telecoms wireless (eg cable and antennae test, wireless test sets, field survey equipment)	6
General purpose test equipment (eg oscilloscopes, multimeters, power, industrial)	21
Other	6
Respondents	48

Q21: Approximately, what was your total spend on TME rental in the UK over the last 2 years?	
	Number
Less than £5,000	27
£5,000-£9,999	8
£10,000-£24,999	5
£25,000-£49,999	4
£50,000-£99,999	2
£100,000 or more	2
Respondents	48

Q22: Please indicate which suppliers you have used in the last 2 years for TME rental (for equipment required in the UK). Please select all that apply.	
	Number
Caltest	1
Electro Rent/Microlease	8
EMC Hire	7
eTest Equipment	0
First Rental	0
Inlec	1
Instruments4Hire	1
Interlligent	0
MCS	4
National Instrument Hire	1
TES	7
Other	2
Respondents	48

Q23: Do you have views regarding the merger of Electro Rent and Microlease/Livingston Hire?	
	Number
I am concerned about the merger	15
I have no concerns about the merger	26
Don't Know	8
Respondents	49

Appendix F: Lost opportunities analysis

Introduction and summary

1. During the phase 1 investigation, the Parties commissioned from economic consultants RBB Economics (RBB) an analysis of Microlease's 'lost opportunities', looking at cases in which Microlease provided a quotation for a rental contract, but the contract was not won.¹
2. For some ([X]%) of Microlease's lost opportunities, the information recorded included the reason for loss and, if relevant, the competitor(s) to which the opportunity had been lost. This data was used to estimate the number and value of opportunities that were lost to:
 - (a) different types of TME supply (rental, purchase of used or new equipment, use of manufacturer's demonstration equipment,² or customer's internal supply³); and
 - (b) specific competitors, including both intermediaries and Original Equipment Manufacturers (OEMs).
3. The main results of RBB's analysis can be summarised as follows:
 - (a) Most opportunities (over [X]% by number) for which the information was available were lost to options other than rental (either purchase or internal supply).
 - (b) Rental from a different supplier was the customer's choice in approximately [X] of lost opportunities. Electro Rent was the alternative rental supplier most frequently chosen, especially if the analysis is limited to customers who rented from Microlease at some point. Rental from OEMs was extremely rare.
 - (c) Purchase of the equipment was chosen more frequently for opportunities of higher value and longer duration.
4. The Parties submitted that this analysis illustrated that:

¹ The Parties also provided a similar data set for Electro Rent. However, the number of lost opportunities in this dataset is small and a competitive alternative can be identified for only [X] opportunities. We agree with RBB that the small sample size means that the Electro Rent data is not probative. For that reason, we discuss only the analysis of the Microlease data.

² A manufacturer's demonstration equipment is essentially free rental equipment supplied by the OEM.

³ Internal supply is where a customer decided to use their own equipment (eg from other product departments, departments located abroad, or partner organisations).

- (a) Microlease lost opportunities to a wide number of competitors;
 - (b) the number of contracts lost to Electro Rent was limited; and
 - (c) a significant number of contracts were lost to other forms of TME supply, including purchase and internal supply.
5. Our view is that the extent to which the lost opportunities analysis is informative for our assessment must be considered in light of the other available evidence. This is because the lost opportunities analysis is an analysis of circumstances in which a customer decided not to rent from Microlease. However, our assessment requires an understanding of the options available in circumstances when customers decided to rent from the Parties pre-merger. Therefore, and as the Parties have noted (see paragraph 33(b),⁴ in applying the lost opportunities analysis to our assessment it is necessary to assume that the options used by customers when they decided not to rent from Microlease are also close alternatives in circumstances where customers currently rent. The reasonableness of this assumption must be assessed in light of the other available evidence. As we explain, in our view that evidence does not support the assumption which must be made.
6. Furthermore, there appear to be inaccuracies in the information recorded on lost opportunities, which create doubt about the credibility of the results of the analysis. The sample on which the analysis is based may also be slightly biased towards larger opportunities, for which purchase is more likely to be an alternative.

The Parties' analysis⁵

7. This section presents the methodology adopted by RBB and summarises the results it obtained.

Data and methodology

8. Microlease provided all available data on TME rental opportunities lost in the UK between March 2014 and February 2017 (this covered [REDACTED] opportunities). For each tender, Microlease provided the following relevant information: the customer/account name, the tender creation date, the tender close date, the rental value, the reason for loss (likely selected from a drop-down list), and

⁴ [REDACTED]

⁵ [REDACTED]

the competitor to which the tender had been lost as far as Microlease was aware. In some cases, Microlease identified a set of possible competitors.

9. When analysing the data, RBB excluded those opportunities which were considered to be unreliable, not relevant, or for which no information was available for the purpose of the analysis. In particular, the following opportunities were excluded:
 - (a) opportunities that closed prior to March 2015, as Microlease progressively introduced the [X] database (which records this data) from March 2015 onwards; for this reason, opportunities closed prior to March 2015 are not reliable;
 - (b) transactions that were identified by Microlease as having been created in error, duplicates, internal transactions (ie sales to Microlease) and test transactions;
 - (c) opportunities lost to Microlease's other departments (eg sales of equipment by Microlease); and
 - (d) opportunities where Microlease did not identify the competitor that won and the reason for loss was also unknown.
10. This reduced the number of relevant opportunities to [X], with those identified in paragraph 9(d) accounting for the majority of cases where opportunities were not analysed (see Table 1 below).
11. This data was used to estimate the share of Microlease's lost UK TME rental opportunities that was lost to:
 - (a) different types of TME supply (eg other rental suppliers, purchase, internal supply); and
 - (b) specific competitors.
12. Shares were computed by dividing the number (or value) of the opportunities falling in the relevant category by the number (or value) of all opportunities lost to relevant alternatives. The latter include all UK TME rental opportunities where Microlease stated that the reason for loss was 'purchase new/used', 'rental', 'manufacturer demo' or 'internal supply'. Opportunities for which the reason for loss was 'budgetary only', 'cancelled requirement', 'lack of budget', and 'Microlease declined' were excluded for the purpose of this calculation, as these alternatives are deemed to be unrelated to competitive constraints. This

exclusion left [X] lost opportunities (valued altogether at £[X] million) on which the analysis was based.⁶

Table 1: Total and excluded observations

<i>Observations</i>	<i>Number of observations</i>
Unreliable observations or not lost:	
Before March 2015	[X]
Errors, duplicates, tests	[X]
Lost to Microlease	[X]
No information	[X]
Observations not relevant for the analysis	[X]*
Observations used in the analysis	[X]
Total number of observations	[X]

Source: CMA analysis of the Parties' data.

* Observations where the reason for loss was 'budgetary only' ([X]), 'cancelled requirement' ([X]), 'lack of budget' ([X]), or 'Microlease declined' ([X]).

13. The Parties have referred to these shares as 'diversion ratios', being the ratios of the relevant opportunities 'diverting' to specific competitors or types of alternative supply. However, we note that these are not diversion ratios in the usual sense used in a merger inquiry. Usually a diversion ratio measures the share of a firm's existing sales which would switch to each competitor in response to, for example, a price rise or if the firm had been unable to supply the product. However, in this case the 'diversion ratios' are not related to Microlease's sales but to the options used in circumstances where, pre-merger, a customer decided not to use Microlease.

Results

14. The results of the Parties' analysis show that in [X]% of the opportunities lost by Microlease the customer decided to rent the equipment from a different supplier (see Figure 1). In the remaining cases, the equipment was either purchased ([X]%) or sourced internally by the customer ([X]%). A small

⁶ The following additional adjustments were made:

- For [X] relevant opportunities, Microlease identified only a set of possible competitors to which the opportunity had been lost. In those cases, the opportunities were allocated equally between each named possible competitor.
- In [X] opportunities, Microlease indicated the opportunity was lost to another rental supplier, but no competitor information was provided. These [X] opportunities were apportioned to other known TME rental suppliers in proportion to the number and value of opportunities lost by Microlease to each of them.

number of customers obtained the equipment in the form of a demonstration piece directly from the manufacturer ([REDACTED]%).

15. Figure 1 shows that the proportion of opportunities lost to purchase is significantly higher in terms of value of opportunities than in terms of their number; the opposite is the case for opportunities lost to internal supply. This indicates that purchase is significantly more likely to be chosen by customers in the case of higher-value lost opportunities, while internal supply is significantly more common for lower-value lost opportunities.

Figure 1: Lost opportunities by type of alternative supply

[REDACTED]

Source: The Parties ([REDACTED]).

Note: This and the following figures are taken from the Parties' submissions. In the submissions, the term 'tender' was used to denote opportunities, although the vast majority of these were not formal tenders.

16. The Parties have argued that this provides evidence that Microlease is constrained not only by rental suppliers, but by a wider range of competitors; moreover, the possibility for customers of sourcing the equipment internally has been described as an additional constraint.
17. When looking at the identity of individual competitors (see Figure 2), the analysis indicates that:
 - (a) Electro Rent is the single competitor with the highest share, at [REDACTED]%, both in terms of number and of value of opportunities.
 - (b) [REDACTED] is the other intermediary with a significant share, equal to Electro Rent in terms of value. The shares of other intermediaries are much lower.
 - (c) A significant share, especially in terms of value, is directed towards OEMs ([REDACTED]%), with two OEMs ([REDACTED]) accounting for over half of this. However, no single OEM accounted for more than [REDACTED]% of lost opportunities in terms of number.
 - (d) A significant share of low-value opportunities are lost to several minor competitors (included in the 'Other' category in Figure 2).

Figure 2: Lost opportunities by competitor

[REDACTED]

Source: The Parties ([REDACTED]).

18. If we focus only on lost opportunities where the customer decided to rent the equipment from an alternative supplier, Electro Rent is by far the most commonly chosen supplier ([REDACTED]⁷ opportunities out of a total of [REDACTED]), although the share in terms of value is still similar to TES.⁸ Moreover, although the Parties have submitted that some OEMs are also active in equipment rental,⁹ only [REDACTED] opportunities have been lost to rentals from an OEM ([REDACTED]).

The Parties' sensitivity analysis

19. During phase 1, at the CMA's request, the Parties performed a series of sensitivity analyses. This involved splitting the data in a variety of different ways.¹⁰ In most cases, these splits resulted in very small sample sizes. As a result, our view is that, in most cases, the results cannot be given evidential weight.
20. The exceptions are the following two tests: (i) limiting the analysis to customers who rented from Microlease at some point, and (ii) limiting the analysis to rental agreements whose length is less than six months.

Including only customers who rented from Microlease at some point

21. In phase 1, the Parties repeated the analysis described above considering only those customers that also appeared in the list of contracts won by Microlease (ie where it has been confirmed that the customer has actually rented some TME item from Microlease at some stage, although not on this occasion). The aim is to make the customer sample more representative of the population of Microlease's rental customers. This stricter selection criterion reduces the number of observations available for the analysis to [REDACTED].
22. A comparison of Figure 1 and Figure 3, below, shows that these customers used other sourcing methods (rental, purchase, manufacturer demonstration pieces and internal supply) in proportions similar to the baseline analysis. In particular, customers who rented from Microlease at some point do not appear more likely to use other rental suppliers when they decide not to rent from Microlease.

⁷ In some cases, more than one possible winner is indicated for a lost opportunity.

⁸ [REDACTED]

⁹ [REDACTED]

¹⁰ These splits included by the customer's sector of activity, the equipment manufacturer and the product group.

Figure 3: Lost opportunities by type of alternative supply (customers who rented from Microlease at some point)

[REDACTED]

Source: The Parties ([REDACTED]).

23. As for the identity of the competitors winning the contracts, Electro Rent has a much clearer lead among intermediaries than in the baseline analysis. Although the proportion of value won by Electro Rent is not significantly higher (see Figure 4), [REDACTED] won only [REDACTED]% by number and [REDACTED]% by value. If internal supply is excluded, Electro Rent's share is significant in terms of number of opportunities ([REDACTED]).

Figure 4: Lost opportunities by competitor (customers who rented from Microlease at any time during the period covered by the lost opportunities analysis)

[REDACTED]

Source: The Parties ([REDACTED]).

24. This sensitivity analysis shows that the results obtained in the baseline case are broadly robust to the exclusion of customers who have not rented from Microlease at any time during the period covered by the Lost Opportunities analysis.

Splitting opportunities by length of rental

25. When lost opportunities are split according to the required duration of the rental, it is interesting to observe the differences between rentals below [REDACTED] months ([REDACTED] observations) and those of higher duration. As shown in Figure 5, [REDACTED]. The proportion of opportunities lost to rental also appears slightly higher than in the baseline case, but the difference may not be statistically significant.

Figure 5: Lost opportunities by type of alternative supply (duration below 6 months)

[REDACTED]

Source: The Parties ([REDACTED]).

26. Among intermediaries, similarly to the baseline case (as shown in Figure 4), Electro Rent is the competitor accounting for the largest share of Microlease's lost opportunities of duration [REDACTED], in terms of both number and value, followed closely by [REDACTED] (see Figure 6).

Figure 6: Lost opportunities by competitor (duration below 6 months)



Source: The Parties ([REDACTED]).

27. In summary, this sensitivity analysis shows, as expected, that shorter rental requests lost by Microlease are less likely to be lost to purchase.

Our assessment

28. The Parties submitted that this analysis illustrated that:
- (a) Microlease lost opportunities to a wide number of competitors;
 - (b) the number of contracts lost to Electro Rent was limited; and
 - (c) a significant number of contracts were lost to other forms of TME supply, including purchase and internal supply.
29. The Parties argued that this provided evidence that Microlease was subject to competitive constraints coming from many directions (other rental providers, equipment manufacturers and customers' internal supply) and that Electro Rent was therefore not providing a major competitive constraint.
30. Our analysis is aimed at assessing the validity of the Parties' interpretation of the results. In particular, our assessment of the Parties' analysis concerns three areas:
- (a) *External validity* – The extent to which the analysis of Microlease's lost opportunities (ie of customers who decided not to use Microlease) is relevant to our assessment of the merger.
 - (b) *Data accuracy* – Whether the data on lost opportunities used for the analysis is accurate or plausible.
 - (c) *Representativeness of the sample* – The extent to which the available data is likely to provide reliable insights into the alternatives to which Microlease lost opportunities.

External validity

31. The 'lost opportunities' analysis provides information about the alternatives used by customers pre-merger when they decided not to rent from Microlease. However, in our assessment we need to understand the alternatives available to customers when pre-merger they decided to rent from

Microlease (or Electro Rent). This is because it is the alternatives available to customers in those circumstances which determine the merged entity's incentives to raise prices following the merger.

32. Therefore, the usefulness of the 'lost opportunities' analysis for our inquiry depends on the extent to which information about circumstances in which customers decided *not to* rent from Microlease is informative of the options available to customers when they decided pre-merger *to* rent from Microlease.
33. The Parties have submitted that there are a series of 'natural' inferences that allow one to use the lost opportunities analysis to draw conclusions about the alternatives available to customers when they decided to rent from Microlease:¹¹
 - (a) In the case of lost opportunities, '[t]he fact that the prior rental customer requested a rental quote is good evidence that the customer was genuinely considering renting'; as a result, 'if that prior rental customer chose to purchase TME, despite having sought out a rental price, it is reasonable to infer that purchasing was a credible alternative to renting'.
 - (b) Moreover, 'it is reasonable to infer that the same customer' (and/or other customers) 'is likely to have also considered purchasing TME as a credible alternative to renting on the occasion when it did rent from Microlease'.
34. The Parties have also argued that this interpretation is strengthened by the fact that the results of the CMA's customer questionnaire are in line with those of the lost opportunities analysis.¹²
35. We agree with the Parties that item (a), above, might generally hold (although, given that prices are individually negotiated, some customers may require a rental quote to establish the likely rental price whilst considering their options, even if purchasing ended up being the fairly obvious choice). We consider, however, that the evidence from other sources is sufficiently compelling to allow us to reject item (b) above. That evidence indicates that different forms of TME provision are often used to respond to different requirements. As a result, other forms of TME provision are not close alternatives to rental in a significant proportion of circumstances (see Chapter 5 and Appendices E and G).

¹¹ [REDACTED]

¹² [REDACTED]

36. Therefore, in our view, the evidence does not support the assumption required to use the lost opportunities analysis to infer information about the extent to which other options are close alternatives for customers in circumstances when they currently rent. We note that restricting the analysis to customers who have rented from Microlease at some stage (the first sensitivity analysis described above) does not resolve this problem. This is because the customer still did not decide to rent from Microlease on that occasion (albeit they have done so in the past). The evidence we have received illustrates that many customers use multiple forms of TME provision (eg a combination of rental and purchase) and that these forms of provision are often used to respond to different requirements.¹³ Consequently, knowing that a customer who purchased on one occasion has on some other occasion previously rented from Microlease does not resolve the limitations of the lost opportunities analysis.
37. We have reviewed the details of the lost opportunities associated with customers with whom we also held calls. This review has highlighted two examples which provide further evidence that the opportunities in the lost opportunities database are not reflective of the options available to customers in circumstances where they do rent from Microlease in the UK.
38. One rental opportunity is indicated as lost to [REDACTED], which is a TME rental supplier based in [REDACTED]. The Parties have not submitted that [REDACTED] is a competitor in the UK and we have received no evidence that this is the case. Given that the order was submitted by a multinational company ([REDACTED]), [REDACTED], the identity of the supplier suggests that the rental may not be related to the customer's UK operations.
39. Another opportunity was lost to [REDACTED], a supplier of audio visual equipment, and the type of equipment requested is listed as '[REDACTED]'. Again the Parties have not submitted that [REDACTED] is a competitor in the UK and we have received no evidence that this is the case. This suggests that this opportunity is not reflective of Microlease's UK TME rental activities.
40. The Parties have submitted that the evidence from the online questionnaire is broadly in line with the results of lost opportunities analysis, as 14 respondents indicated a non-rental option as their preferred alternative to renting from one of the Parties, while 34 indicated rental from an alternative supplier (see Appendix E), and that this indicates that the lost opportunities evidence is robust.¹⁴ However, we note that respondents to the questionnaire are predominantly customers with low rental expenditures. Specifically, 35 of

¹³ See Appendix E.

¹⁴ [REDACTED]

the 48 respondents to the question had rental expenditure of less than £10,000 in the last two years. Only four respondents had rental expenditure of £50,000 or more over the last two years (see Appendix E). Customers spending less than £5,000 per annum account for 0-5% [X%] of Microlease's and 5-10% [X%] of Electro Rent's 2016 UK rental revenues.

41. Therefore, the lost opportunities analysis focuses on customers who decided not to rent from Microlease and the online questionnaire focuses on the subset of the Parties' customers with lower rental expenditures. Consequently, neither piece of evidence allows one to make strong inferences about the options available to the wider set of Microlease and Electro Rent rental customers in circumstances where, pre-merger, they decided to rent from the Parties.

Data accuracy

42. It is unclear how accurate the information recorded in the lost opportunities database is. Other evidence we have received indicates that the information recorded in relation to some opportunities appears implausible. We also note that Microlease does not use the won and lost opportunities data in the ordinary course of business in a systematic way.¹⁵
43. Among the [X] opportunities used for the analysis, [X] opportunities from 2016 are indicated as lost to rental from [X]. The cumulative value of these opportunities was slightly above £[X]; their durations varied from [X] to [X] days. Such value appears grossly disproportionate to [X] overall rental revenue, which [X] has indicated as £[X] per month on average.¹⁶ This raises doubts regarding the accuracy of the information (eg the identity of the suppliers to which opportunities were lost) and, therefore, regarding the results of the lost opportunities analysis. In particular, the high share of rental opportunities lost to [X] (see Figure 2) appears implausible.

Representativeness of the sample

44. The limitations of the data mean that only a subset of the lost opportunities database can be analysed. In particular, for [X] opportunities no information was provided on the reason for loss. Therefore, in considering how to interpret this analysis we would also want to be comfortable that the available sample is representative of the totality of Microlease's lost opportunities. For example, if the information on the reason for loss were much less likely to be recorded

¹⁵ [X]

¹⁶ We consider it unlikely that Microlease would have quoted a price a lot higher than the next rental alternative available to the customer.

for opportunities associated with a lower rental revenue, the sample on which the analysis is based would be biased towards larger opportunities. This may bias the results of the analysis as, as seen in paragraph 15 above, larger opportunities are more likely to be lost to purchase.

45. It is not clear why information has not been recorded in some cases. The Parties have submitted that there is no reason to believe that there is a systematic bias in the data.¹⁷
46. One way in which the existence of any bias in the available data can be tested is to consider whether there are obvious systematic differences between the sample analysed and the lost opportunities which are not. Although differences could be tested across several dimensions, we have looked at the value of opportunities, comparing the values of the opportunities where no reason for loss is given and of those where the reason is indicated.
47. Excluding the opportunities where no value is indicated¹⁸ and those showing a value of £0,¹⁹ the average value of the opportunities for which no reason for loss is provided is £[REDACTED], while the average value of those including a reason for loss is £[REDACTED].
48. Both groups of opportunities include some outliers, as only three opportunities have a value higher than £[REDACTED]:
 - (a) One lost opportunity valued £[REDACTED] was lost to the sale of new equipment by Microlease itself.
 - (b) For two opportunities valued £[REDACTED] and £[REDACTED] no reason for loss is provided.
49. Excluding these outliers, the difference in the average value of the two groups of opportunities remains substantial: the average value of the lost opportunities for which no reason for loss is provided becomes £[REDACTED], while that of the opportunities where a reason is indicated is £[REDACTED]. In Annex A, we use a formal statistical test to show that the opportunities where the reason for loss are recorded were systematically more likely to be of higher value.
50. Therefore, while the difference between the two samples is relatively small, the fact that the reason for loss was more likely to be recorded for larger lost opportunities might introduce a bias in the sample used for the analysis. In particular, as purchase is a more common alternative for higher-value

¹⁷ [REDACTED]

¹⁸ 141 opportunities, all among those with no information on the reason for loss.

¹⁹ 74 opportunities with no reason for loss, and five opportunities for which the reason is indicated.

opportunities (see paragraph 15 above), the bias might lead to an overestimation of the frequency of rental opportunities lost to equipment purchase.

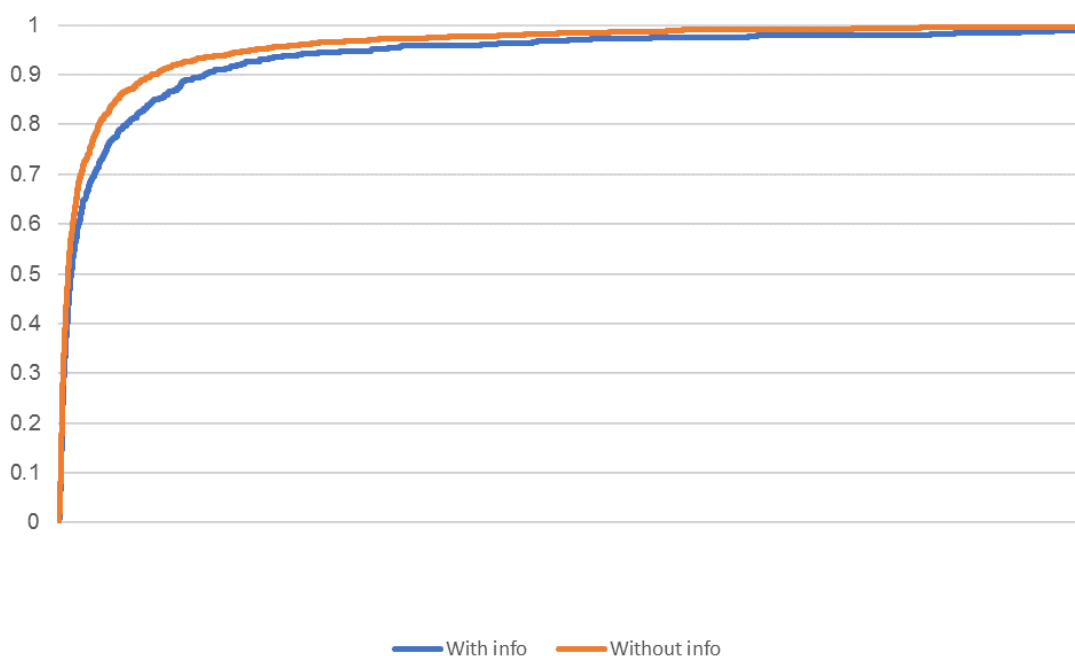
51. In response to our working papers, the Parties have argued that the lost opportunities analysis may in fact underestimate rather than overestimate the importance of purchase.²⁰ They submitted that this is because the ‘lost opportunities’ dataset includes a significantly lower proportion of opportunities with a duration longer than six months ([REDACTED]%) than the dataset of Microlease’s won opportunities ([REDACTED]%). The Parties, therefore, have argued that since, all else being equal, purchase is a closer alternative to rental in the case of longer rentals, purchase may be a stronger constraint in the case of the opportunities won by Microlease than the lost opportunities analysis suggests.
52. However, the Parties’ argument is based on a comparison of rental duration which is not on a like-for-like basis. The Parties’ comparison is based on the initially requested duration recorded in the lost opportunities database and the actual duration of opportunities won. If the initial duration of contracts won is considered, so that a like-for-like comparison is made, it appears that the proportion of contracts with a duration longer than six months is higher in the sample used for the lost opportunities analysis ([REDACTED]%) than in the won opportunities dataset ([REDACTED]%). This would imply that, if anything, the bias is in the direction we have identified above – ie the lost opportunities analysis may overstate the importance of purchase.

²⁰ [REDACTED]

Annex A: Statistical analysis of the lost opportunities dataset

1. Figure 7 compares the empirical distribution functions of the sample with information (which was analysed) and the sample without information (which was not).²¹ For each value, the empirical distribution shows the proportion of all opportunities with a value below that level. For example, Figure 7 illustrates that [%] of the opportunities without information have a value of £[%] or less.
2. It is evident from the figure that the empirical distribution function of the sample without information on the reason for loss (in orange) lies above the corresponding function for the sample with such information (in blue). This means that the first sample includes proportionally more low-value opportunities than the latter.

Figure 7: Empirical distribution functions



Source: CMA.

3. The Kolmogorov-Smirnov test can be used to formally test whether there is such a systematic bias. The result of the test indicates that the hypothesis that the two samples come from the same distribution can be rejected with a high degree of confidence (at a 1% confidence level).²² We can therefore conclude

²¹ The graph is cut at £100,000 in order to make the image more readable.

²² P-value is 0.002116.

that the opportunities where the reason for loss were recorded were systematically more likely to be of higher value.

Appendix G: Review of qualitative evidence from the Parties internal documents

Introduction

1. The provisional findings refer to evidence obtained from the Parties' internal documents. This appendix provides more detail of that evidence.
2. The Parties' internal documents cover the following issues:
 - (a) Background on (i) the main dimensions of competition between rental suppliers and (ii) how the Parties set prices.
 - (b) Competition between the Parties, including issues relating to Electro Rent's decision to establish a UK presence.
 - (c) Competition between the Parties and other rental suppliers.
 - (d) Competition between the Parties and OEMs.
 - (e) Barriers to entry and expansion.
3. These documents include:
 - (a) Internal email chains from Microlease.
 - (b) Email chains between Microlease and third parties.
 - (c) Due diligence reports and other papers which have been prepared by or delivered to senior management which set out the rationale and competitive background to the merger.
 - (d) Internal documents discussing prices and providing guidance to staff.
 - (e) Annual reports and strategy documents, such as business plans, from both parties.
 - (f) Electro Rent strategy and marketing documents concerning the opening of its UK premises.
 - (g) Microlease monthly sales reports, and CEO Board reports.
4. The nature of the Parties' business structures means that, although a number of documents specifically focus on the UK, the documents often discuss issues at a more general level eg at a European or occasionally global level.

Nonetheless, some, especially Microlease's monthly sales reports and Electro Rent documents relating to its UK expansion, have a clear focus on the UK or make specific reference to competition in the UK.

Background

5. This section summarises general evidence from the Parties' internal documents on: (i) the main dimensions of competition between rental suppliers and (ii) how the Parties set their prices.

Dimensions of competition between rental suppliers

6. The Parties' internal documents refer to price and product availability as the main parameters of competition between rental suppliers. Some documents also indicate the provision of support services (such as technical advice, calibration and repairs) and a local presence as being important, at least for some customers.

Price and product availability

7. Electro Rent notes in its 2015 Annual Report that:

Competition in our industry is concentrated on price. Our competitors engage in aggressive pricing for both rentals and sales. In order to maintain or increase our market share, we may choose to lower our prices, resulting in lower revenues and decreased profitability. In addition to price, we compete on the breadth of our product offerings, extensive sales channels, experienced customer and technical support and proprietary equipment management systems.¹

8. Microlease's monthly sales reports also cite price and product availability as a significant factor in a number of cases where business was lost to [REDACTED]. For example:

(a) In [REDACTED], Microlease lost a deal to [REDACTED] because [REDACTED].²

(b) In [REDACTED], a deal was lost because of [REDACTED].³

¹ [REDACTED]
² [REDACTED]
³ [REDACTED]

(c) Microlease lost a further deal to [X] in [X] because [X],⁴ albeit on a fairly low value deal worth only £[X].

(d) The sales report for [X] notes Microlease has '[X]'.⁵

9. Price and product availability are also referred to as important factors in Microlease's deal management guides (which summarise the relevant considerations for potential deals valued at €[X] or more). These documents refer to '[X]',⁶ [X],⁷ and '[X]' as important factors in customer choices.⁸

The importance of support services

10. The provision of support services such as technical advice and the calibration and repair of equipment also seems to be valued by customers. For example, Electro Rent's 2015 Annual Report states that: 'Most of our equipment is technically complex and must be tested and serviced when returned to us. We do most of that testing in house, using a team of experienced technicians and our state of the art calibration laboratory'.⁹ The provision of technical advice and support to customers is also mentioned in a number of documents.¹⁰

The relevance of a local presence

11. In its [X] European Business Plan, Microlease explicitly refers to its '[X]'¹¹ as a strength in the SWOT analysis. Microlease's October 2015 CEO Europe Board Report also mentions Microlease's UK presence as a reason for its success in 'maintaining a high winning ratio against [X]'.¹²
12. Microlease's internal documents suggest that for some customers a UK presence was seen as making Electro Rent a more attractive supplier: '[X]'.^{13,14}
13. Similarly, one of Microlease's deal management guides notes that a factor being considered by a customer was 'delivery time and the ability to support locally, hence the reason [X]'.¹⁵

⁴ [X]

⁵ [X]

⁶ [X]

⁷ [X]

⁸ [X]

⁹ [X]

¹⁰ For example, [X] and [X].

¹¹ [X]

¹² [X]

¹³ [X]

¹⁴ Likewise, a Microlease monthly sales report states that '[X]'.¹⁵

¹⁵ [X]

14. Electro Rent’s internal documents setting out its rationale for establishing a UK office also make it clear that a local presence is an important factor in competing for at least some customers. These documents are discussed in detail at paragraphs 46 to 52 below.

The Parties’ price setting

15. The Parties have provided a number of documents relating to how they set prices for rental customers. These documents illustrate that:
- (a) Prices are set on a customer-by-customer basis and, although guide prices are provided, sales staff are encouraged to use their knowledge of the customer’s requirements and options when setting prices.
 - (b) There are variations in guide prices across different geographic areas which is consistent with variations in competitive conditions varying across these areas.

Microlease’s [REDACTED] system

16. Microlease’s [REDACTED] system is used to produce guide prices for sales staff which are then used during negotiations with customers. These guide prices are based on five factors:¹⁶

- (a) [REDACTED]^{17,18,19}

[REDACTED].²⁰ This suggests [REDACTED] adjust for different market conditions (eg service standards or competitive interactions) across different territories and not just for [REDACTED].

- (b) [REDACTED]²¹

- (c) [REDACTED] – although in practice this functionality has never been used.²²

- (d) [REDACTED]²³

16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]

(e) [REDACTED]^{24,25}

17. Microlease told us that [REDACTED].²⁶ The internal documents which discuss Microlease's pricing system confirm that [REDACTED]. One Microlease internal document describes the motivation for using [REDACTED] when setting prices as follows:

[REDACTED]²⁷

18. Whilst the [REDACTED] system produces a guide price, several Microlease documents indicate that these guide prices are [REDACTED]. Salespeople will still be expected to '[REDACTED]'.²⁸

19. This desire for sales people [REDACTED] is also reflected in a number of other documents. For example:

(a) One presentation encourages salespeople to '[REDACTED]'.²⁹ The presentation states that a salesperson might wish to offer [REDACTED] because it:

[REDACTED].³⁰

(b) In an email briefing sales executives about the [REDACTED] pricing system, [REDACTED].

(c) In another internal email [REDACTED].³¹

20. Microlease's internal documents also indicate that [REDACTED]. For example, Microlease's Deal Management guides prompt the sales person [REDACTED].³²

21. Similarly, Microlease's monthly sales reports include regular discussions of [REDACTED]. For example, the June 2015 report states that '[REDACTED]'.^{33,34} These reports also include, from November 2015 onwards, a summary of key deals lost and won and the reasons why [REDACTED].³⁵ They also discuss, between March and October 2015, [REDACTED].

24 [REDACTED]
25 [REDACTED]
26 [REDACTED]
27 [REDACTED]
28 [REDACTED]
29 [REDACTED]
30 [REDACTED]
31 [REDACTED]
32 [REDACTED]
33 [REDACTED]
34 [REDACTED]
35 [REDACTED]

Electro Rent's price setting

22. Less detailed information has been provided regarding how Electro Rent sets its prices. However, the process appears to be broadly similar to that used by Microlease. Specifically:³⁶
- (a) Electro Rent divides equipment into [REDACTED] and a base price is set in [REDACTED] for each [REDACTED].
 - (b) Adjustments are then made at the [REDACTED] level to reflect nuances [REDACTED]. The Parties have submitted that adjustments are typically based on [REDACTED].
 - (c) The Parties submit that sales staff are provided with a degree of '[REDACTED]' and prices can be [REDACTED] as part of the selling process.
23. Electro Rent told us during the Main Party Hearing that most [REDACTED].³⁷

Evidence concerning competition between the Parties

24. The Parties frequently refer to each other in their internal documents, and the documents concerning Electro Rent's UK expansion clearly identify Microlease as the main competitor to Electro Rent in the UK.

Evidence of competition from Electro Rent in Microlease's internal documents

25. Microlease's internal documents suggest a persistent awareness of Electro Rent as a significant competitive presence in the market. These documents mention Electro Rent far more frequently than any other firm when discussing the competition faced by Microlease.
26. The Parties have submitted that several of Microlease's internal documents were produced at a time when [REDACTED]. We note that any such strategy would require that Microlease and Electro Rent had the potential to be close competitors, as otherwise the strategy would not be effective. Further, in terms of the specific documents reviewed, we note that:
- (a) No contemporaneous evidence to support such a strategy in relation to customers in the UK has been provided.
 - (b) Several documents pre-date [REDACTED].³⁸

³⁶ [REDACTED]

³⁷ [REDACTED]

³⁸ The earliest documents discussing [REDACTED] appear to date from [REDACTED].

(c) This explanation does not fit with the tone of many of the documents, which explicitly refer to Microlease responding to competition from Electro Rent rather than vice-versa.

27. At the Main Party Hearing, Microlease told us that most of the documents it has submitted are [REDACTED].³⁹ While we agree that many of these documents have a European or global focus, some, especially Microlease's monthly sales reports and Electro Rent documents relating to its UK expansion, have a clear focus on the UK or make specific reference to competition in the UK.

Microlease's [REDACTED] European Business Plan

28. The Executive Summary of Microlease's [REDACTED] European Business Plan mentions Electro Rent as a competitor; Electro Rent is the only firm mentioned by name in this summary and Electro Rent is clearly identified as a competitive threat to Microlease in Europe.⁴⁰

29. For example, this plan states that Microlease needs to '[REDACTED]'.⁴¹ The plan also identifies '[REDACTED]' as a [REDACTED] risk. The [REDACTED] rating of this risk appears to be based on the fact that [REDACTED] 'continues to happen'.⁴² In response, the plan suggests that Microlease should '[REDACTED]'.⁴³

30. This section of the Business Plan continues by stating that in competing on price, Microlease should do so '[REDACTED]'.⁴⁴ The Parties have submitted that the apparent existence of [REDACTED] is evidence that '[REDACTED]'.⁴⁵ We do not agree with this interpretation. The context of the document makes it clear that Microlease is considering how to respond to competition from Electro Rent. The fact that Microlease may be able to price [REDACTED] to Electro Rent does not imply the absence of a competitive constraint.

31. The plan also provides further evidence of the competitive interaction between Electro Rent and Microlease. In particular, it:

(a) identifies Electro Rent as Microlease's '[REDACTED]';⁴⁶

³⁹ [REDACTED]

⁴⁰ [REDACTED]

⁴¹ [REDACTED]

⁴² [REDACTED]

⁴³ [REDACTED]

⁴⁴ [REDACTED]

⁴⁵ [Response to phase 1 decision](#), page 9.

⁴⁶ [REDACTED]

- (b) warns that Microlease must '[REDACTED]'⁴⁷ (this was indeed the case; see paragraph 50, below);
 - (c) recommends ensuring '[REDACTED]';⁴⁸
 - (d) warns to [REDACTED], on the grounds that Microlease are [REDACTED];⁴⁹ and
 - (e) no other competitors for Microlease's rental business are named in this document.
32. Similar comments are included in the [REDACTED] European Business Plan which states that '[REDACTED]' and identifies a critical success factor as the need to '[REDACTED]'.⁵⁰

Microlease's monthly sales reports

33. Microlease's monthly sales reports provide an overview of significant sales activity on a monthly basis and the available reports cover the period [REDACTED] to [REDACTED]. The reports cover UK, Nordics & Export⁵¹ so are not UK specific. Nevertheless, the coverage of the UK is extensive.⁵²
34. Electro Rent is by far the most frequently mentioned competitor in these monthly sales reports. Between [REDACTED] and [REDACTED], Electro Rent is mentioned as a competitor on around [REDACTED] separate occasions.^{53,54} This is around [REDACTED] as many times as all other rental suppliers, including all those suggested by the parties, combined.^{55,56}
35. Of these occasions, [REDACTED] of them are discussions explicitly of one of the following: [REDACTED]. In addition, there are a further [REDACTED] occasions on which the sales reports discuss [REDACTED]. Given the UK focus of these reports and [REDACTED], it is reasonable to interpret these occasions as being highly likely to refer to competition with Electro Rent within the UK. In total, therefore, the sales

⁴⁷ [REDACTED]

⁴⁸ [REDACTED]

⁴⁹ [REDACTED]

⁵⁰ [REDACTED]

⁵¹ We do not have a clear definition of the customer locations covered by the 'Export' section, but we note that Microlease's sales manager for [REDACTED] produced the reports. The only data we have about the size of Microlease's revenue from 'Export' customers suggests that it was about £[REDACTED] in 2016/17, or about [REDACTED]% of the region's rental revenue in 2016/17. We understand that the £[REDACTED] figure does not include the Nordics ([REDACTED]).

⁵² For example, Microlease provided European wide sales data [REDACTED]. This data showed that in 2016 Microlease's UK rental revenues were £[REDACTED] whilst the combined rental revenues of Denmark, Finland, Norway and Sweden (the countries identified as in the Nordic region in the [REDACTED]) were £[REDACTED].

⁵³ [REDACTED]

⁵⁴ We estimate that Electro Rent is mentioned on [REDACTED] separate occasions in these reports. A separate occasion does not include two mentions of a firm which clearly refer to the same thing. For example, the report of [REDACTED] statement that '[REDACTED]' is counted as one mention of Electro Rent, even though the word 'Electrorent' is used twice. This figure is therefore not a simple word count.

⁵⁵ [REDACTED]

⁵⁶ We estimate that the total number of separate mentions of other firms as competitors is [REDACTED].

reports contain [REDACTED] separate occasions which can reasonably be interpreted as discussions of competition with Electro Rent specifically within the UK.

36. In the absence of more information on their customers, references to other rental suppliers cannot be disaggregated in this way. However, there are fewer than [REDACTED] occasions in which other competitors are mentioned in any context, including references to deals outside the UK.
37. Microlease's monthly sales reports also indicate that it showed a close interest in the possibility of a UK presence for Electro Rent. The sales reports provide regular updates on Electro Rent's UK operations, with references to Electro Rent's UK presence in [REDACTED].⁵⁷

Microlease's CEO updates

38. [REDACTED]^{58,59,60,61,62}

[REDACTED]⁶³

39. The [REDACTED] update states that Microlease's strategy for dealing with this competitive threat is '[REDACTED]'.⁶⁴
40. Similarly, the [REDACTED] states that the '[REDACTED]' and that Microlease '[REDACTED]'.⁶⁵
41. The CEO updates also express concern about [REDACTED]. For example, in the [REDACTED] report such concerns are expressed as follows: '[REDACTED]'.⁶⁶

Evidence of competition from Microlease in Electro Rent's internal documents

42. Because of its global focus, Electro Rent's internal documents are less likely to consider competition at the UK or the European level and are more likely to discuss global competitors. In such documents Microlease typically appears as part of a list of competitors rather than being mentioned as a threat individually. For example, Electro Rent's 2016 Annual Report states that 'The equipment rental, leasing and sales business is characterized by intense competition from several large competitors', adding that 'Our global

57 [REDACTED]
58 [REDACTED]
59 [REDACTED]
60 [REDACTED]
61 [REDACTED]
62 [REDACTED]
63 [REDACTED]
64 [REDACTED]
65 [REDACTED]
66 [REDACTED]

competitors in T&M rental area include McGrath RentCorp,⁶⁷ Continental Resources, Inc., Test Equity LLC⁶⁸ and Microlease plc'.⁶⁹

43. Electro Rent's 2013, 2014 and 2015 Annual Reports do describe the competitive situation on a region-by-region basis. All three of these earlier reports refer to the same two competitors in Europe: Microlease and Livingston Hire. For example, the 2015 and 2014 reports both state that 'In Europe, we compete for T&M rental business with Microlease plc and Livingston Group Ltd.'^{70,71}
44. Other Electro Rent documents also make explicit references to Microlease's '[REDACTED]'⁷² and to Microlease being the '[REDACTED]' [European] rental market in FY15'.⁷³
45. The main Electro Rent documents of direct relevance to our merger assessment, since they explicitly refer to the UK, are those associated with Electro Rent's UK presence.

Documents relating to Electro Rent's presence in the UK

46. These documents provide evidence that Electro Rent's lack of UK presence was seen as a constraint on its ability to compete with Microlease, and therefore that an increased UK presence on the part of Electro Rent would allow it to compete more closely with Microlease.
47. Electro Rent's internal documents suggest that there were three main elements to Electro Rent's rationale for establishing a UK presence:
 - (a) that it would raise brand awareness amongst UK customers;
 - (b) that it would allow Electro Rent to compete for customers for whom its lack of UK presence was a reason to prefer UK based suppliers; and
 - (c) that it could present itself as the only effective alternative to Microlease for UK customers.

⁶⁷ Parent of TRS RenTelco.

⁶⁸ McGrath RentCorp, ConRes, and Test Equity LLC are US-based firms, and primarily operate in the US.

⁶⁹ [REDACTED]

⁷⁰ [REDACTED]

⁷¹ [REDACTED]

⁷² [REDACTED]

⁷³ [REDACTED]

48. This rationale is reflected in Electro Rent's Marketing Campaign Program which offers the following reasons for wishing to develop a physical UK presence:
- (a) 'Because now [redacted] with the merge [sic] of two T&M suppliers;
 - (b) Now we are [redacted] in UK to enter this market;
 - (c) Our customer base is [redacted] in UK to open a local office; and
 - (d) Our clients have asked us [redacted]'.⁷⁴
49. This document goes on to state:
- Why are we focused on this/what are we trying to solve?... [redacted] ... local presence. [redacted]'.⁷⁵
50. Electro Rent's documents clearly present its strategy as using [redacted] to position itself as the only alternative to Microlease. For example:
- (a) An internal strategy document detailing Electro Rent's UK office rationale notes that 'recent competitive moves have seen the two primary UK (European?) competitors, merge' and that '[redacted]'.⁷⁶ This document also notes that '[redacted]'.

(b) Electro Rent also circulated an email to their UK customers in the aftermath of the acquisition of Livingston Hire by Microlease, with the header '[redacted]'.⁷⁷ This presented Microlease as [redacted] in TME rental, and Electro Rent's UK presence as a significant competitive threat to Microlease: '[redacted]'.

(c) This email further emphasises that the presence of Electro Rent provides 'a valuable T&M partner here in the UK, [redacted]'. Whilst the email does not name Microlease, it appears clear from the context that it is referring to Microlease.

(d) Electro Rent Marketing Campaign Program details this approach as follows: 'Who is our target customer and how do we reach them?... What is their problem/challenge? ... [redacted]'.⁷⁸

74 [redacted]
75 [redacted]
76 [redacted]
77 [redacted]
78 [redacted]

51. The Marketing Campaign Program considers the current market conditions in the UK. It does not mention any competitors other than Microlease, and dedicates [REDACTED] to a discussion of Microlease. In the section titled '[REDACTED]', [REDACTED] questions are addressed:

[REDACTED]⁷⁹

52. [REDACTED] of the [REDACTED] points listed as differentiators used by Microlease to outcompete Electro Rent in the UK are '[REDACTED]' and '[REDACTED]'.⁸⁰

53. According to [REDACTED].

Competition from other Rental Suppliers

54. While other rental suppliers are mentioned in the Parties' internal documents, they are referred to far less frequently than the Parties refer to each other.

55. For example, as noted at paragraph 34, above, the number of separate occasions on which any other rental suppliers are mentioned in Microlease's monthly sales reports is only [REDACTED] as many as the number of separate mentions of Electro Rent.⁸¹ Additionally, the majority of the suppliers⁸² suggested by the Parties as competitors in the Merger Notice do not appear at all in the Microlease sales reports.⁸³ Indeed in some cases, the documents note [REDACTED] competitors to Microlease.⁸⁴

56. Microlease's [REDACTED] business plan states that 'in the UK, there are other strong competitors, notably [REDACTED]' and that '[REDACTED] has also become a force in the UK'.⁸⁵ However, the strategy notes that accompany these references indicate that Microlease considered these suppliers as a limited threat stating that '[REDACTED]'.

57. The following sub-sections consider the alternative rental suppliers who are referred to in the Parties' internal documents and who the Parties have particularly highlighted as competitors in the UK. In addition to the suppliers discussed below, the Parties' internal documents also refer to a number of firms who compete with the Parties at the global level. For example, Electro

⁷⁹ [REDACTED]

⁸⁰ [REDACTED]

⁸¹ As noted at paragraph 33, Microlease's monthly sales reports are not UK specific, but rather UK, Nordics & Export. Nevertheless, the coverage in these reports of the UK is extensive, and well over [REDACTED] of the suggested competitors are not mentioned at all as competitors.

⁸² [REDACTED]

⁸³ [REDACTED]

⁸⁴ For example, this is the case for two of the deal management guides. In the case of [REDACTED] it is stated '[REDACTED]' ([REDACTED]). Similarly, the [REDACTED] deal management guide says that there is '[REDACTED]' ([REDACTED]).

⁸⁵ [REDACTED]

Rent's 2016 Annual Report states that 'our global competitors in T&M rental area include McGrath RentCorp [TRS RenTelco], Continental Resources, Inc., Test Equity LLC and Microlease plc'.⁸⁶

EMC Hire

58. EMC does not appear to be explicitly referred to in the Parties' internal documents as a rental competitor. Instead, [REDACTED].
59. [REDACTED]⁸⁷
60. This proposal suggests that EMC's focus is on products which are complementary rather than in competition to the Parties' current product range. Consistent with this, Microlease [REDACTED].⁸⁸

Inlec

61. Inlec is referred to [REDACTED] in Microlease's monthly sales reports. However, it is noted that '[REDACTED]'.⁸⁹
62. [REDACTED].⁹⁰ There is no reason to believe that this indicates the existence of significant competitive pressure from Inlec more broadly.

Interlligent

63. Interlligent is referred to [REDACTED] in the [REDACTED] Microlease deal management guides.⁹¹ Interlligent is also the most frequently cited supplier, other than Electro Rent, in Microlease's internal sales reports. The sales report of [REDACTED] reports a [REDACTED] opportunity valued at €[REDACTED] to [REDACTED] due to '[REDACTED]'.⁹² The [REDACTED] report then states '[REDACTED]'.⁹³
64. However, Interlligent is mentioned less than [REDACTED] as often as Electro Rent. This includes some references indicating a limit to Microlease's competitive interactions with Interlligent. For example, the [REDACTED] sales report states: '[REDACTED]'.⁹⁴

86 [REDACTED]
87 [REDACTED]
88 [REDACTED]
89 [REDACTED]
90 [REDACTED]
91 [REDACTED]
92 [REDACTED]
93 [REDACTED]
94 [REDACTED]

Leasametric

65. Leasametric is not mentioned at all in Microlease's monthly sales reports.⁹⁵ While it is [REDACTED] of only [REDACTED] European competitors mentioned in the description of Europe's competitive landscape in the Microlease Due Diligence Report, it is described as having a '[REDACTED]'.⁹⁶

MCS

66. MCS is referred to [REDACTED] times in Microlease's monthly sales reports.⁹⁷ For example, the [REDACTED] report refers to a deal with [REDACTED] for £[REDACTED] which was [REDACTED] due to '[REDACTED]'.⁹⁸ Whilst it is not clear that this is solely in relation to rental competition, since it refers to distribution, the [REDACTED] report then describes MCS as '[REDACTED]'.⁹⁹

TES

67. TES is referred to [REDACTED]¹⁰⁰ in the [REDACTED] Microlease deal management guides. TES is also referred to as a competitor [REDACTED] in the Microlease monthly sales reports.¹⁰¹ For example, the [REDACTED] report identifies a [REDACTED] deal with a value of £[REDACTED] which was lost to TES and states that '[REDACTED]'.¹⁰²

TRS RenTelco

68. As evidence that TRS RenTelco competes with the Parties, the Parties have provided [REDACTED].¹⁰³
69. However, TRS RenTelco is not referred to as a competitor to the Parties in other internal documents. [REDACTED].¹⁰⁴
70. In the context of discussing potential customer reactions to the merger of the Parties, Microlease's Sales Director for Europe ([REDACTED]) remarked in a December [REDACTED] European Sales Report to the Board that '[REDACTED]', although he further notes that '[REDACTED]'.¹⁰⁵

⁹⁵ [REDACTED]

⁹⁶ [REDACTED]

⁹⁷ This figure excludes one reference to MCS as [REDACTED], and one to MCS activity in [REDACTED].

⁹⁸ [REDACTED]

⁹⁹ [REDACTED]

¹⁰⁰ [REDACTED]

¹⁰¹ [REDACTED]

¹⁰² [REDACTED]

¹⁰³ [REDACTED]

¹⁰⁴ [REDACTED]

¹⁰⁵ [REDACTED]

Competition from OEMs

71. This section summarises the evidence of (i) OEMs as rental providers, specifically in the UK, (ii) competition between rental and purchase (particularly from OEMs) and (iii) OEMs as partners of the Parties.

The OEMs as rental providers

72. The Parties' internal documents do not provide evidence that OEMs are meaningful rental competitors to the Parties in the UK.
73. Microlease's Due Diligence Report notes the presence of 'OEM offering rental service for RF, Mobile test, and EMC equipment'.¹⁰⁶ This document identifies [REDACTED] as the largest OEM providing such a service. The report estimates that [REDACTED] European rental revenues are larger than any firm other than the Parties.
74. However, [REDACTED] estimated European revenues in this document are significantly smaller than Microlease's and approximately [REDACTED] of Electro Rent's. Furthermore, the UK is specifically mentioned as an exception and a case where [REDACTED] does not offer such services. Microlease's Due Diligence Report states that in the UK Microlease is a 'rental partner' rather than a competitor to [REDACTED].¹⁰⁷
75. A confidential information memorandum provided by Electro Rent notes that, although OEMs may sell TME to consumers, 'OEMs do not themselves typically provide a rental or leasing alternative due to [REDACTED]',¹⁰⁸ instead seeing Electro Rent as a 'key partner'.
76. OEMs are also described by a Microlease due diligence report as having '[REDACTED]'. This report summarises the following views of OEMs:
- (a) [REDACTED]
 - (b) [REDACTED]
 - (c) [REDACTED]¹⁰⁹

Competition between rental and purchase

77. The Parties' internal documents discuss (i) the general factors considered by customers when deciding between rental and purchase and (ii) more direct

¹⁰⁶ [REDACTED]

¹⁰⁷ [REDACTED]

¹⁰⁸ [REDACTED]

¹⁰⁹ [REDACTED]

references to competition between the Parties and OEMs or purchase more generally.

General factors influencing the choice of rental or purchase

78. TME can be acquired in a number of different ways such as renting, purchasing and leasing. A theme throughout the Parties' documents is that the Parties should build their business strategies around persuading customers of the greater benefits of TME rental in order to expand rental penetration. For example, [REDACTED] Microlease Information Memorandum of [REDACTED] states that 'a market shift is taking place with TME users recognising the reduced cost, increased flexibility and improved access to latest technology offered by the rental model, therefore increasing rental penetration'.¹¹⁰
79. The main advantages of rental rather than purchase for customers highlighted in internal documents include:
- (a) The flexibility to adjust in response to short-run requirements (eg for a short-term need or for a piece of equipment with a low utilisation rate), allowing customers to respond to changes in demand, situations when equipment is required at short notice¹¹¹ and to return products when they are no longer required.
 - (b) The ability for customers to access more up-to-date technology (especially in sectors where technology changes frequently) without the need to incur the costs and risks associated with purchasing equipment.
 - (c) The reduced requirement for capital expenditure¹¹² and the subsequent consequences for cash flow.
 - (d) The provision of ancillary services, particularly maintenance, recalibration and the replacement of faulty or damaged equipment which are included in rental contracts.
80. For example, Electro Rent's Press Presentation of 2015 lists the following as advantages of TME rental over TME purchase:¹¹³
- (a) 'Maintenance and calibration are included.

¹¹⁰ [REDACTED]

¹¹¹ For example, the benefits of rental in terms of delivery times are also noted in McGrath RentCorp's 2014 Annual report which states that 'delivery times for the purchase of T&M equipment can be lengthy; thus, renting allows the customer to obtain the equipment expeditiously' ([REDACTED]).

¹¹² For example, [REDACTED].

¹¹³ Similar advantages are also included in a Microlease presentation for [REDACTED] ([REDACTED]).

- (b) Guarantee the continuity of your project.
- (c) Always use the latest technology.
- (d) Replacement Units are always available.
- (e) Only Pay for Equipment you are using.
- (f) No cost of ownership.
- (g) [Useful for] short- or mid-term needs'.¹¹⁴

81. Of these factors, the flexibility provided by renting features particularly prominently. Rental is described in various documents as being 'adapted to short-term needs ... companies rent equipment if they are only going to require the equipment for a short period of time',¹¹⁵ and as ideal for customers 'working on a particular project with a limited timeline'¹¹⁶ or who are conducting 'temporary or periodic work'¹¹⁷

82. In terms of what a short-term requirement is in this context, Electro Rent's Confidential Information Memorandum states that: 'T&M equipment [TME] services stand as a lower-cost option relative to ownership of equipment in many cases, in particular when:

- (a) expected duration of use is less than [REDACTED];
- (b) expected utilization is less than [REDACTED]%; and
- (c) the customer is focused closely on [REDACTED]'.¹¹⁸

83. These general factors led [REDACTED] to create a summary of the behaviour of different customer groups in the Microlease Due Diligence Report which showed which groups generally rented or generally purchased their TME and which groups do both. For example, Figure 1 below shows that Telecoms Installation and Commissioning Specialists typically rent their TME for use in network deployment and operations and maintenance work, while Network Operators tend to purchase TME for operations and maintenance use, while they both purchase and rent for network deployment uses.¹¹⁹

¹¹⁴ [REDACTED]
¹¹⁵ [REDACTED]
¹¹⁶ [REDACTED]
¹¹⁷ [REDACTED]
¹¹⁸ [REDACTED]
¹¹⁹ [REDACTED]

Figure 1: Tendency to rent and purchase TME in the Telecoms Sector

[REDACTED]

Source: The Parties ([REDACTED]).

84. Further evidence regarding the substitutability of rental and purchase and the factors considered by customers is also provided by:
- (a) Evidence on Microlease's 'EasyRent' programme.
 - (b) Examples from Microlease's deal management guides.
 - (c) Evidence on competition from sales made by OEMs.
- *EasyRent*
85. Microlease's EasyRent option allows customers to convert TME rental into purchase after holding a piece of TME for a given time. An email sent by the Microlease CEO to Keysight explains that '[REDACTED]'.^{120,121}
86. It is further explained in this email that EasyRent '[REDACTED]'.¹²² This lack of competition between EasyRent and traditional rental is consistent with many rental customers having specific demands for which purchase and ownership of the equipment is either not viable or is not attractive.
- *Examples from Microlease's deal management guides*
87. Microlease uses deal management guides for enquiries with a value in excess of €[REDACTED], and has submitted a summary of the [REDACTED] such enquiries which relate to the UK since [REDACTED]. These guides describe many aspects of the customers' decision-making procedure, including the alternatives to rental, the alternative suppliers, the budget and the critical decision criteria.¹²³
88. In [REDACTED]¹²⁴ of the [REDACTED] Deal Management Guides submitted by Microlease, it is made clear that the customer does not have any credible alternative to TME rental for all or the vast majority of their requirements.¹²⁵ For example, [REDACTED]

¹²⁰ Note that this percentage figure refers to a percentage of the rental list price.

¹²¹ [REDACTED]

¹²² [REDACTED]

¹²³ [REDACTED]

¹²⁴ These are the documents for [REDACTED] and [REDACTED].

¹²⁵ Note that [REDACTED] of these [REDACTED] documents, while it refers to a customer who may choose to either rent or purchase, appears to be at a somewhat preliminary stage, with [REDACTED] for missing information.

guide states [redacted]¹²⁶ and purchase only appeared to be a viable alternative for one of the pieces of equipment.

89. In [redacted], either the customer is not considering a UK requirement or it is not clear that rental is actually being considered at all.¹²⁷

90. In [redacted] the customer is reported as having alternatives to rental but it is generally unclear how close these alternatives are to rental for these customers. Specifically:

(a) [redacted] is reported to have access to in-house inventory [redacted] but has decided to rent '[redacted]'.¹²⁸

(b) [redacted] is reported to be considering purchasing a piece of equipment but is also exploring rental because of the high value of the equipment and uncertainty about the utilisation of the equipment.¹²⁹

(c) [redacted] is reported to be considering purchase '[redacted]'.¹³⁰ However, this deal is also described as 'still vague needs qualifying'.

(d) [redacted] appears to be considering both rental and purchase, although the closeness of these alternatives for [redacted] is unclear. The deal guide notes that 'From a rental perspective – [redacted] ... Our competition [is] [redacted]'.

91. The factors cited in these guides regarding why renting is favoured to purchase by these customers are also consistent with the evidence presented at paragraphs 79 to 83 above. For example, reasons why rental was being considered include 'uncertainty about the utilisation of kit',¹³¹ 'cost and technical service/support'¹³² and 'upfront costs – On going support/maintenance costs – [redacted]'.¹³³

92. The short-term nature of the requirements is also mentioned in a number of cases where customers would definitely rent. One customer ([redacted]) wanted to rent because their equipment requirement was only due to last for [redacted] months,¹³⁴ while the fact that another ([redacted]) had only a 'temporary

¹²⁶ [redacted]

¹²⁷ The guide for [redacted] appears to be focused on a requirement for [redacted] rather than the UK. [redacted] appear to be 'looking for purchase or financial solution' and whilst it is noted that the 'tender could be split' it is not clear that the customer is actually considering rental.

¹²⁸ [redacted]

¹²⁹ [redacted]

¹³⁰ [redacted]

¹³¹ [redacted]

¹³² [redacted]

¹³³ [redacted]

¹³⁴ [redacted]

requirement'¹³⁵ for the equipment meant that they were only interested in rental.

References to competition from OEM sales

93. Microlease's [REDACTED] European Business Plan, [REDACTED], notes that 'in many cases, the main competitive threat to a rental or a financial solution is not a rental competitor but an alternative, like purchase, or doing nothing'. The plan goes on to state that, while not directly competing in the rental market '[REDACTED]'.¹³⁶
94. Each monthly sales report between [REDACTED] dedicates a short section to discussing attempts to convert buyers into renters. While most of the points discussed in these sections are in relation to Microlease's marketing efforts around this strategy, there are a [REDACTED] number of successes recorded in these reports, such as: '[REDACTED]'.¹³⁷
95. In Microlease's monthly sales reports (which have a very strong UK focus) we have identified [REDACTED] instances in which references are made to either rental deals being lost to purchase, a customer considering purchasing instead of renting, or to purchase being attractive for a specific piece of equipment. This contrasts to around [REDACTED] references to Electro Rent in the same documents and around [REDACTED] references to other rental suppliers.
96. The clearest reference to competition from equipment sales is an internal email sent on [REDACTED] by Microlease's [REDACTED], to a number of Microlease employees. It reads '[REDACTED]'. The reason given for this view is that '[REDACTED]'.¹³⁸
97. Similarly, Microlease's [REDACTED] European Business Plan expresses concern that '[REDACTED]'¹³⁹ is a threat to its rental business. Microlease's [REDACTED] also notes [REDACTED]¹⁴⁰ offered by OEMs.¹⁴¹
98. The approach that is suggested in this business plan to head off the possibility of rental customers instead purchasing from OEMs is not to [REDACTED], but rather to educate customers about 'the value of rental or other financial solutions, and the value of all the benefits'.¹⁴²

135 [REDACTED]
136 [REDACTED]
137 [REDACTED]
138 [REDACTED]
139 [REDACTED]
140 [REDACTED]
141 [REDACTED]
142 [REDACTED]

99. Microlease's strategy is to particularly emphasise [REDACTED] which are described as: 'storage and security, disposal management, reduced performance and productivity, unrecognised obsolescence, management and tracking costs, depreciation, cost of capital, maintenance, calibration and repair'.¹⁴³
100. According to 'FY 17 calendar Growth & Market drivers EMEA', an Electro Rent¹⁴⁴ [REDACTED].
101. Finally, Electro Rent's 2016 Annual Report only considers competition from OEMs in relation to Electro Rent's TME sales and not in relation to Electro Rent's TME rental: 'In equipment sales, we also compete with sales by our suppliers, including Keysight, Anritsu, Rohde and Schwarz and Tektronix, and their distributors'.¹⁴⁵

References to competition from leasing, internal supply or demonstration stock

102. The Parties' internal documents do not refer to leasing, internal supply or the use of demonstration equipment as meaningful competitive alternatives to TME rental.^{146,147}

The OEMs as partners

103. The Parties' internal documents frequently refer to the OEMs as partners rather than as competitors. For example:
- (a) While [REDACTED] is mentioned in the [REDACTED] Information Memorandum of [REDACTED] as one of Microlease's 'closest [rental] competitors'¹⁴⁸ alongside [REDACTED] and [REDACTED], the report principally mentions [REDACTED] as a partner. The memorandum also notes Microlease's 'strong relationships with ... [REDACTED]'.¹⁴⁹
- (b) Microlease's [REDACTED] European Business Plan notes that 'OEMs are of course firstly partners and customers'.¹⁵⁰ While the same paragraph names [REDACTED] as a competitor, this is in the context of new TME sales, rather than rental. The main concern expressed in this section about

¹⁴³ [REDACTED]

¹⁴⁴ [REDACTED]

¹⁴⁵ [REDACTED]

¹⁴⁶ The Parties provided a number of emails discussing the provision of demonstration equipment to customers. However, these [REDACTED] and did not evidence a meaningful competitive interaction between TME rental and demonstration equipment.

¹⁴⁷ One of the [REDACTED] Microlease deal management guides does refer to [REDACTED].

¹⁴⁸ [REDACTED]

¹⁴⁹ [REDACTED]

¹⁵⁰ [REDACTED]

OEMs is that '[REDACTED]',¹⁵¹ not that OEMs might themselves compete with Microlease's rental business.

104. The Parties' internal documents suggest that OEMs also view the Parties as partners and customers rather than competitors. For example, in an update to Microlease when preparing a due diligence report [REDACTED] discusses OEM feedback in which a 'majority [of OEMs] see Microlease as business partner (as opposed to customer or competitor)'.¹⁵² Microlease were 'praised for being a strategic partner, with good technical knowledge of products'.
105. The importance of these supplier relationships appears frequently in the Parties' documents. For example, Microlease refers to its '[REDACTED]'¹⁵³ as a barrier to entry into the global TME rental market, and its [REDACTED] European Business Plan suggests that Electro Rent is a competitive threat in part because it has '[REDACTED]'.¹⁵⁴
106. Similarly, Electro Rent's Marketing Campaign Program describes Microlease's 'ATP Status & Demo Pool' and its 'relationships with manufacturers' as [REDACTED].¹⁵⁵

Evidence concerning the ease of entry and expansion

107. Internal documents from both Microlease and Electro Rent indicate that it would be difficult for a new competitor to replicate the services provided by the Parties.
108. A Microlease Management presentation about [REDACTED],¹⁵⁶ for example, lists seven '[REDACTED]':¹⁵⁷
- (a) Leading market position;
 - (b) £[REDACTED] rental asset pool;
 - (c) >30 years industry experience;
 - (d) Long-term customer relationships (see also paragraphs 107 and 108);
 - (e) Unique OEM relationships;

¹⁵¹ [REDACTED]

¹⁵² [REDACTED]

¹⁵³ [REDACTED]

¹⁵⁴ [REDACTED]

¹⁵⁵ [REDACTED]

¹⁵⁶ The codename for the merger of Microlease and Electro Rent.

¹⁵⁷ [REDACTED]

- (f) Local presence in all core markets; and
- (g) Fully integrated service offering.
109. Documents produced by third parties on Microlease’s behalf make similar claims which imply that the TME market exhibits high entry barriers. [REDACTED] Microlease Information Memorandum of [REDACTED] states that Microlease’s ‘broad geographic footprint, large asset pool and strong service levels and reliability provide strong competitive advantages and [REDACTED]’.¹⁵⁸
110. This memorandum further emphasises that Microlease has a ‘robust business model with [REDACTED]’ on a global scale. The memorandum notes that ‘Microlease has over 30 years of experience, high levels of [REDACTED] business, a large and diverse asset pool (c.£ [REDACTED] at cost) and a [REDACTED] European position (c. [REDACTED]% market share)’, and argues that ‘these factors are [REDACTED], and consequently there are [REDACTED] providers that can compete with Microlease on a global scale’.¹⁵⁹
111. Similarly, a number of Electro Rent’s internal documents emphasise the difficulties facing a new competitor in trying to replicate Electro Rent’s services. An information memorandum produced by [REDACTED] for Electro Rent notes that ‘The Company’s hard-to-replicate service offering, footprint and equipment portfolio has resulted in the Company becoming a critical and trusted partner of its customers and positions Electro Rent to capitalize on numerous favorable secular and end market trends to drive future growth’.¹⁶⁰
112. This memorandum also notes the importance of a large product stock in competing in the TME rental market, noting that: ‘[REDACTED]. Electro Rent’s proven ability to offer complete solutions is highly valued by its customers and represents a distinct competitive advantage relative to other providers of T&M equipment.’¹⁶¹
113. Moreover, concerning the European market, it is stated in Microlease’s due diligence report that ‘There appears to be no logical rationale for [REDACTED] to try and substantially take share in Europe given: [REDACTED]’.¹⁶²
114. Furthermore, the importance of supplier relationships (paragraph 108(e)), industry experience (paragraph 108(d)) and customer relationships

158 [REDACTED]

159 [REDACTED]

160 [REDACTED]

161 [REDACTED]

162 [REDACTED]

(paragraph 108(c)) imply potentially significant barriers to expansion for suppliers active in rental in different sectors or supplying different equipment.

Appendix H: Rental duration and rental yield

Overview

1. This appendix summarises the evidence regarding:
 - (a) rental duration and roll-on, and
 - (b) rental yield.

Rental duration and roll-on

Summary

2. The Parties have submitted that a significant proportion of their rental revenue is generated from long-term rentals and that this supports their argument that other forms of TME provision, specifically purchase, are close alternatives to TME rental.¹
3. The evidence we have received indicates that:
 - (a) The average actual rental duration is in excess of [X] months (paragraph 7(a)).
 - (b) Around [X] of Microlease's rental income is derived from contracts with an actual duration in each of the following intervals: less than 12 months, 12-36 months and 36 months or more (paragraphs 7(d) and 11(c)).
 - (c) However, contracts are often extended significantly beyond their initial duration with the average contract lasting for [X] times as long as its initial duration (paragraphs 13 to 18). For example, [X]% of Microlease's revenue is derived from contracts with an original duration of at least 36 months whilst [X]% of Microlease's rental revenue is derived from contracts with an initial duration of less than six months.
4. In our view, in light of the other available evidence, the fact that contracts are regularly extended significantly beyond their initial duration indicates that customers are often unwilling or unable to commit to renting for the period of

¹ For example, [Response to the Phase 1 Decision](#), paragraph 7.1.

time for which they may ultimately require an item and value the flexibility provided by TME rental.

The Parties' analysis of rental duration

5. Microlease² has provided data showing the proportion of UK rental revenue derived from contracts of different lengths over the period [X] to [X].³ A contract can cover a number of different items of equipment and the number of items associated with a contract may vary over time (eg if a subset of items are returned).⁴ Therefore, the data does not necessarily show the length of time for which individual items are rented by customers and may overstate the length of time for which individual items are rented. The data records the contracts which were active in each month over this period and the rental revenue earned from each contract in the relevant month. It also includes information about the start and end date of the contract.
6. The Parties' analysis includes both contracts which have ended and contracts which are ongoing.⁵ Where a contract has ended the actual duration of the contract is used in the analysis. Where a contract is still ongoing the later of the agreed contract end date and the date of the analysis is used as an estimated end date.⁶ Ongoing contracts account for [X]% of the revenue contained in this dataset.⁷
7. The data provided by Microlease is summarised in Figure 1. This data shows that:⁸
 - (a) The average duration of the contracts in the data is [X] months.
 - (b) [X]% of Microlease's revenue during this period was derived from contracts which lasted 12 months or less.

² The Parties have made a number of other submissions regarding rental duration and rental duration is referred to in a number of internal documents. Given that the other evidence is broadly consistent with the analysis discussed here and since this is the most comprehensive analysis, this appendix does not discuss these other submissions in detail.

³ [X]

⁴ [X]

⁵ We note that there are some examples of contracts which have been running for extremely long periods of time. For example, one open contract is reported as having been in operation for almost [X] years. Of the [X] unique contracts in the data, [X] have a duration of over five years.

⁶ In some cases, the agreed end date has passed but the contract is still ongoing and a new end date has not been recorded in the data. In such cases 21 November 2017 is used as the end date.

⁷ [X]

⁸ The results of this analysis are broadly consistent with a range of other evidence provided by the Parties. For example, the Parties' have submitted that the average UK contract duration for Electro Rent is [X] weeks ([X]) and Microlease's Due Diligence Report ([X]) states that over [X]% of contracts last more than 12 months.

- (c) [X]% of Microlease's revenue during this period was derived from contracts which lasted 12-36 months.
- (d) [X]% of Microlease's revenue during this period was derived from contracts which lasted more than 36 months.

Figure 1: Microlease UK rental revenue by actual duration band

[X]

Source: Microlease ([X]).

Our analysis of rental duration

8. As noted at paragraph 6, ongoing contracts account for a significant proportion of the contracts in the data and, where contracts are ongoing, the Parties' analysis uses an estimated end date based on the currently agreed end date of the contract. As the analysis at paragraphs 13 to 18 below shows, contracts are often extended beyond the agreed end date. This means that the Parties' analysis will tend to underestimate the true contract duration.
9. One way to address this issue is to repeat the Parties' analysis but to focus on the early months of the data provided. Doing so reduces the need to estimate the eventual end date and duration of each contract because a larger proportion of end dates and durations are known.⁹
10. The Parties' analysis ends in [X] which means that for many contracts analysed the actual end date and duration of the contract is unknown. For example, a contract with an eventual duration of four months beginning in August 2017 will be open at the time of the analysis and its duration will have to be estimated. This will not be the case if the analysis focuses on the older data provided by the Parties. For example, if only the data covering [X] to [X] is analysed then, since the entire dataset continues until [X], all contracts with an actual duration of [X] or less will have come to an end and will have their actual duration recorded.¹⁰
11. Therefore, we have repeated the Parties' analysis focusing only on the contracts which were ongoing during the period [X] to [X]. The results of this analysis are broadly similar to the Parties' analysis although, as expected, a

⁹ The disadvantage of focusing on a shorter period is that the data becomes more susceptible to short-term fluctuations in the mix of contract durations, eg if, by chance, a certain month has an unusually high proportion of one month contracts.

¹⁰ This is reflected in a comparison of the proportion of sales value associated with open contracts, where the end date is known, if [X] to [X] is used for the analysis rather than [X] to [X]. In the former case [X]% of the sales value is associated with open contracts whilst in the latter case [X]% of sales value is associated with open contracts.

slightly higher proportion of revenue is associated with longer duration contracts. Specifically, when focusing on the [X] to [X] period:

- (a) [X]% of Microlease's revenue is associated with contracts which lasted 12 months or less compared to [X]% in the Parties' analysis.
 - (b) [X]% of Microlease's revenue is associated with contracts which lasted 12-36 months compared to [X]% in the Parties' analysis.
 - (c) [X]% of Microlease's revenue is associated with contracts which lasted at least 36 months compared to [X]% in the Parties' analysis.
12. Overall, around [X] of Microlease's revenue is associated with rentals that last for 12 months or less, around [X] with rentals of 12 to 36 months, and around [X] with rentals of 36 months or more.

The Parties' analysis of roll-on

13. TME rental customers regularly extend rental contracts, often for considerable periods of time. Microlease has provided an analysis which compares the initially requested contract duration to the actual contract duration for contracts with UK customers which closed between [X] and [X].¹¹ The Parties have used this data to calculate the 'roll-on' for each contract, ie the extent to which contracts were extended. The Parties have considered two measures of roll-on:
- (a) Duration roll-on – this measure compares the requested and actual duration of Microlease's contracts. For example, a rental with an initial request of seven days has a duration roll-on of 100% if the rental only lasts seven days and 300% if it lasts 21 days. This measure treats all contracts equally and, therefore, does not account for differences in the values of different contracts.
 - (b) Value roll-on – this measure compares the estimated original value¹² and the actual value of Microlease's contracts. For example, if the initial value of a rental was £300 then the value roll-on is 100% if the realised value is £300 and 300% if the realised value is £900.
14. Table 1 summarises the results of the Parties' analysis. It can be seen that:
- (a) Contracts are regularly extended significantly beyond the original contract duration. On average Microlease's rental contracts are

¹¹ [X]

¹² The original value has been estimated by pro rating the actual value.

extended over [X] times the initially requested duration (the duration roll-on over all contracts is [X]%). The average value roll-on over all contracts is [X]%, so that revenue from the average contract is almost [X] the initial value.

- (b) The greatest percentage roll-on is for contracts with a shorter initial duration. However, there is still significant roll-on even for contracts with a longer initial duration. For example, the duration roll-on is [X]% for contracts with an initial contract duration of 24-36 months. This implies that a contract with an initial duration of 24 months will typically last for almost [X] years ([X] months).

Table 1: Microlease contract roll-on

<i>Original contract duration</i>	<i>Duration roll-on (%)</i>	<i>Value roll-on (%)</i>
Less than 4 weeks	[X]	[X]
1-3 months	[X]	[X]
3-6 months	[X]	[X]
6-12 months	[X]	[X]
12-24 months	[X]	[X]
24-36 months	[X]	[X]
36 months or more	[X]	[X]
All contracts	[X]	[X]

Source: Microlease ([X]).

15. Additional analysis provided by the Parties also illustrates that, even for contracts of similar length, there is variation in the extent to which contracts are extended. For example, of contracts with an original duration of 12 to 24 months:
- (a) [X]% of contracts have a duration roll-on of 100% or less (ie they end on time or early);
 - (b) [X]% of contracts have a duration roll-on of 100-200%; and
 - (c) [X]% of contracts have a duration roll-on of more than 200% (ie they last at least twice as long as initially requested).

Our assessment of roll-on

16. Overall, the prevalence of roll-on means that typical actual contract durations are quite different to the typical contract durations initially requested.
17. Figure 2 shows the same analysis as Figure 1 above, but using initially requested contract durations. The analysis shows that:

- (a) The average requested duration of contracts in the data provided is [REDACTED] months.
- (b) [REDACTED]% of Microlease's revenue during this period was derived from contracts with an initial duration of less than 12 months.
- (c) [REDACTED]% of Microlease's revenue during this period was derived from contracts with an initial duration of 12 to 36 months.
- (d) [REDACTED]% of Microlease's revenue during this period was derived from contracts with an initial duration of more than 36 months.

Figure 2: Microlease UK rental revenue by original duration band

[REDACTED]

Source: CMA analysis of Microlease data.

- 18. A comparison of Figure 1 and Figure 2 shows that a higher proportion of Microlease's revenue comes from shorter contracts when original rather than actual duration is used. This reflects the fact that contracts are regularly extended beyond their initial duration.
- 19. The Parties have submitted that the extent to which contracts are extended means that Microlease is unable to identify which contracts are truly short-term when setting prices and implies that, even for contracts with a short initial duration, Microlease must set prices which are competitive vis-à-vis other options including purchase.¹³
- 20. We do not agree that initial duration is not a good predictor of actual duration and that initial duration cannot be used to identify contracts which are likely to be short-term in nature. We note that in the data provided by the Parties there is a significant correlation between the requested and actual duration of a contract and the requested duration explains a significant proportion of the actual duration.¹⁴ Therefore, contracts with a longer initial duration are more likely to have a longer actual duration.
- 21. The Parties' submission that they cannot identify which contracts are short is inconsistent with other submissions they have made. The Parties have told us

¹³ [REDACTED]

¹⁴ Specifically, across all contracts the correlation between initial and actual duration is [REDACTED] and for closed contracts (where the actual duration is known) the correlation is [REDACTED]. The Parties submitted that the r-squared of a regression between actual and requested duration is [REDACTED]%, that this was low and that it illustrated that initial duration could not be used to reliably predict actual duration. We agree that the r-squared is [REDACTED]% but disagree that this means that initially requested duration is not a useful predictor of actual duration.

that they adjust their weekly rental rates for reasons that are related to the [REDACTED]. Specifically, the Parties have explained that [REDACTED] due to:¹⁵

(a) [REDACTED]

(b) [REDACTED]

22. In our view, the fact that contracts are so regularly extended to such a degree indicates that, at the start of a rental contract, customers are often unable or unwilling to commit to renting the item for as long as they eventually require. This is consistent with the evidence discussed elsewhere (including in the Parties' internal documents) which indicates that rental is often used to provide flexibility when faced with uncertain workloads and when customers do not want to commit to acquiring an item or renting it for an extended period of time.
23. We agree with the Parties that, in some cases, customers are likely to request a short initial duration in the expectation that they are likely to extend their contract. This is consistent with Microlease's [REDACTED].¹⁶
24. Consequently, neither actual nor initially requested duration is a perfect measure of the duration which a customer might have had in mind when deciding whether to rent an item. This limits, to some degree, the extent to which an analysis of rental durations can inform the extent to which purchase is a close alternative to rental, especially given that rental duration is not the only factor which affects the decision between rental and purchase.
25. However, in our view, initially requested duration is more likely than actual duration to reflect the initial plans and constraints of a customer¹⁷ and is, therefore, more informative of the alternatives that customer was considering when they made the decision to rent.
26. This is because requesting a shorter initial duration than is required is costly for a customer, since a shorter initial duration is associated with a higher weekly rental rate (see paragraph 21).¹⁸ This suggests that customers choosing a shorter duration must either: a) be quite confident that they actually only need the item for that shorter duration or b) benefit in other ways from requesting a shorter duration (eg because they maintain flexibility or they face expenditure constraints).

¹⁵ [REDACTED]

¹⁶ [REDACTED]

¹⁷ For example, both in terms of the intended length of rental but also any constraints on capital expenditure and the desire to retain flexibility.

¹⁸ The Parties [REDACTED].

27. Both of these factors also affect the attractiveness of purchase to a customer. All else being equal, purchase is less attractive relative to a shorter duration rental and purchase is also less attractive if there are other factors that make a customer unable or unwilling to commit to renting an item for as long as they may eventually require it. Therefore, actual duration is informative of both the time period over which a customer believes they require the product and the other constraints which they face, both of which affect the suitability of purchase and rental for that customer.

Rental yield

28. Gross rental yield (commonly referred to simply as rental yield) is the rental revenue earned in a given month on assets which are currently on rent, relative to the original acquisition cost of those assets. This section summarises the Parties' submissions regarding rental yield and our assessment of those submissions.

The Parties' submission

29. The Parties have provided data for Microlease, for [REDACTED] to [REDACTED], and Livingston Hire, for [REDACTED] to [REDACTED].¹⁹ For the period [REDACTED] to [REDACTED], where data has been provided for both companies, approximately [REDACTED]% of total revenue is associated with each of Microlease and Livingston Hire.
30. Figure 3 illustrates the evolution of rental yield for Microlease and Livingston Hire.

Figure 3: Microlease and Livingston Hire rental yields (2012-2017)

[REDACTED]

Source: Microlease ([REDACTED]).

31. The Parties have submitted that:
- (a) Livingston Hire data shows [REDACTED] rental yield, once a transitory period between [REDACTED] and [REDACTED] when the Microlease and Livingston Hire systems were combined is accounted for.^{20,21}

¹⁹ [REDACTED]

²⁰ [REDACTED]

²¹ [REDACTED]

- (b) Microlease data shows a [redacted] over time and [redacted] and this is evidence of the competitive pressures from, amongst other things, OEM pricing.²²

Our assessment

32. Our assessment of the Parties' submission regarding rental yield covers two points:
- (a) the timing of the [redacted] in Microlease's rental yield; and
 - (b) the evidence concerning the factors which have caused changes in Microlease's rental yield.

The timing of the [redacted] in Microlease's rental yield

33. The Microlease data shown in Figure 3 indicates that rather than [redacted] throughout the period [redacted] to [redacted], Microlease's rental yield [redacted] from [redacted] to [redacted], followed by [redacted] from [redacted], since when Microlease's rental yield has been [redacted].²³

Evidence concerning the factors which have caused changes in Microlease's rental yield

34. Average rental yields are likely to be affected by a variety of factors. For example, because different products earn different rental yields, changes in the mix of products on hire will affect the *average* rental yield, even if there is no change in the yield for each product.²⁴ Similarly, if there is a shift in the average rental duration, this is likely to affect average yield, since yields differ for contracts of different duration. Another possible factor is changes in competition: an increase in the competitive pressures facing a supplier would be expected to lead to a reduction in prices and therefore a reduction in rental yield.
35. To understand which factors have, in practice, affected rental yield we requested that the Parties provide documents discussing the evolution of rental yield in the UK over the last two years.²⁵ The documents provided

²² [redacted]

²³ For example, between [redacted] and [redacted] Microlease's monthly rental yield is [redacted]% but Microlease's average monthly rental yield is [redacted]% for the period [redacted] to [redacted] compared to [redacted]% for the period [redacted] to [redacted]. Then Microlease's monthly rental yield [redacted] from [redacted]% in [redacted] to [redacted]% in [redacted]. From [redacted] onwards, Microlease's monthly rental yield, whilst fluctuating month-to-month, appears [redacted] with an average monthly rental yield of [redacted]% over this period.

²⁴ For example, [redacted] indicates a range of [redacted] in Microlease's [redacted] of [redacted]% to [redacted]%.

²⁵ CMA Market Questionnaire question 8(b). The question asked was: 'Please provide all documents available to the Parties which discuss the evolution of rental income in the UK over the last two years.'

generally discuss the evolution of rental yield at the European level in factual terms and do not discuss the causes of any fluctuations in rental yield.

36. The one exception we have identified is the Microlease Due Diligence Report prepared by [REDACTED]. This document considers the evolution of Microlease's rental yield in Europe over the period [REDACTED] to [REDACTED] and states that:²⁶

[REDACTED]

37. The report goes on to state that rental yield in Europe is expected to [REDACTED] '[REDACTED]';²⁷ statements elsewhere in the report suggest that this is a reference to a reduction in competition following the acquisition of Livingston Hire by Microlease. For example, the report states '[REDACTED]'.^{28,29} The report does not refer to competition from OEMs as a factor [REDACTED] in Microlease's rental yield.
38. The description of the evolution of rental yield in this report is consistent with the observed evolution of Microlease's UK rental yield. As described in paragraph 33, Microlease's rental yield declined [REDACTED] prior to [REDACTED] before dropping [REDACTED] until [REDACTED], at which point [REDACTED], and has been [REDACTED] since the start of [REDACTED].
39. Therefore, the evidence from the Parties' internal documents suggests that factors other than competition from OEMs were behind the [REDACTED] in Microlease's rental yield.
40. Regarding the evolution of Microlease's rental yields since the [REDACTED]; the Parties' submitted that the fact that Microlease's rental yields [REDACTED] is evidence of the competitive constraints faced by the Parties and is evidence that an SLC would not arise following the merger.
41. However, as we have noted above, a range of factors affect the evolution of rental yields and in our view it is not possible to put much weight on any individual factor or explanation given the available evidence. We note that the Parties themselves have offered multiple explanations as to why Microlease's rental yields [REDACTED] following the Livingston merger. On the one hand, the Parties have submitted that [REDACTED] due to competition from OEMs and other rental suppliers.³⁰ On the other hand, they have argued that, shortly after the Livingston merger, [REDACTED] (which would also hold yields down).³¹

²⁶ [REDACTED]

²⁷ [REDACTED]

²⁸ [REDACTED]

²⁹ It appears that from [REDACTED] Microlease specifically [REDACTED].

³⁰ [REDACTED]

³¹ [REDACTED]

Appendix I: The Parties' mystery shopping exercises

1. The Parties commissioned two 'mystery shopping' exercises, one from [REDACTED], the other from [REDACTED]. Both consultants contacted the same list of six rental suppliers ([REDACTED]). The two exercises differed in that:
 - (a) [REDACTED] contacted the rental suppliers on a Friday morning, asking for two pieces of equipment to be rented for one month and delivered by the following Wednesday. If available, the equipment was actually delivered and paid for.
 - (b) [REDACTED] asked for quotations for three and six-month rentals of a longer list of items, with the contract to be started two weeks after the initial contact. The equipment was not actually delivered.
2. The Parties submitted this analysis as evidence supporting the existence of 'alternative, credible supply in the UK'.¹ However, we believe that the mystery shopping exercises have significant limitations.

[REDACTED] mystery shopping

3. [REDACTED] was able to receive the requested equipment by the Wednesday deadline only from [REDACTED]. [REDACTED] delivered the equipment on Thursday afternoon. [REDACTED] delivered it on Thursday morning, but could only supply equipment from manufacturers different from the one requested ([REDACTED]).
4. [REDACTED] shipped the equipment from the US. [REDACTED] received an email from FedEx in relation to customs clearance, requesting additional information to be provided.² This suggests that sourcing the equipment from outside the EU might be a lengthier and more cumbersome process.
5. A quote had not been obtained from [REDACTED] after one week. Communications with [REDACTED] were also problematic and no delivery took place. This, however, appears to be related to [REDACTED] doubts about the nature of the order. Emails show [REDACTED] uneasiness with sharing price information when the purpose of the order is unclear.³

¹ [REDACTED]

² [REDACTED]

³ [REDACTED]

[REDACTED] mystery shopping

6. The [REDACTED] mystery shopping exercise does not appear to suffer from the same flaw as the [REDACTED] exercise. It is clear for the interaction with [REDACTED] that [REDACTED] was perceived as a valuable potential customer.⁴
7. Quotations were received from all competitors, although it took six days to get one from [REDACTED] and five days from [REDACTED]. [REDACTED] gave quotations for some items, but was unable to do so for [REDACTED] equipment, as the units in the US were based on a different standard.

Our Assessment

8. Both mystery shopping exercises suffer from limitations that severely reduce the weight that can be assigned to them as evidence of the availability of alternative rental suppliers:
 - (a) It is unclear how the list of items to rent was decided and to what extent these items are representative of Microlease's overall rental business in the UK.
 - (b) As the lists are different for each competitor contacted and no information is given on the prices that would have been charged by the Parties for the same items, it is difficult to judge whether the quotations obtained were 'competitive'.
 - (c) Only one unit was requested for each of the items, although several customer calls have highlighted that larger customers tend to require multiple units of at least some items.⁵
9. Some of these limitations are inherent in any mystery shopping exercise in this market. For example, any such exercise will necessarily include a small sample of the wide range of TME supplied by the Parties. As most alternative rental suppliers are small and focus on specific types of items, it will always be difficult to generalise the findings. Moreover, in a market where prices are customised and the identity of the customer is important, the results obtained in a mystery shopping exercise may never fully reflect what real customers would face.
10. Overall, the results of the two mystery shopping exercises are not inconsistent with the presence of limited rental alternatives for rental customers. In

⁴ [REDACTED]

⁵ [REDACTED]

particular, the fact that [X] could receive the requested equipment on time only from one supplier does not support the Parties' argument on the existence of credible, alternative rental suppliers.

Glossary

A&D	Aerospace and Defence.
Act	Enterprise Act 2002 .
CC 2 Revised	Merger Assessment Guidelines (CC 2 Revised) .
CMA	Competition and Markets Authority.
Electro Rent	Electro Rent Corporation.
EMC equipment	Electro-Magnetic Compatability equipment.
Infotech	Industrials/Information Technology, includes semiconductor technology used in automotive, transportation, oil & gas, broadcast & media and general electronics applications.
Livingston	Part of the Microlease Group, acquired in 2014.
Microlease	Microlease Inc. and TEAM .
OEM	Original Equipment Manufacturer.
Parties	Throughout this document, where relevant, we refer to Electro Rent and Microlease collectively as ‘the Parties’
Phase 1	The investigation, by the CMA , of the transaction to determine whether the statutory test for reference to an in-depth phase 2 has been met.
Phase 2	An in-depth inquiry by the CMA of the transaction following the reference from phase 1 .
R&D	Research and development.
Rental yield	Rental revenue earned in a given month on assets which are currently on rent, relative to the original acquisition cost of those assets.
RF	Radio Frequency.
RMS	Relevant merger situation.
Roll-on	The extent to which rental contracts are extended, given by the actual duration of a rental expressed as a percentage of

	the initial contract duration. Sometimes referred to as 'duration roll-on'.
SLC	Substantial lessening of competition.
TEAM	Test Equipment Asset Management Limited.
Telecoms	Telecommunications, which includes equipment manufacturers, installation and commissioning providers.
TME	Testing and measurement equipment. (The Parties also refer to TME as T&M.)
UILs	Undertakings in lieu of a reference to phase 2 .