

Anticipated acquisition by Platinum Equity, LLC of Wesco Aircraft Holdings, Inc

Decision on relevant merger situation and substantial lessening of competition

ME/6848-19

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 2 January 2020. Full text of the decision published on 18 February 2020.

Please note that [X] indicates figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

SUMMARY

1. Platinum Equity, LLC (**Platinum**) has agreed to acquire Wesco Aircraft Holdings, Inc (**Wesco**) (the **Merger**). Platinum owns two aerospace parts distributors: Pattonair Holdings Ltd (**Pattonair**) and Adams Aviation Supply Company Limited (**Adams Aviation**). Platinum and Wesco are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of Platinum and Wesco is an enterprise; that these enterprises will cease to be distinct as a result of the Merger; and that the turnover test is met. Accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. The Parties overlap in the supply of C-class aerospace parts (**C-class parts**) which are small, low value parts for aircraft. The CMA found that suppliers in this industry generally supply most of the full range of products within the C-class parts category. In addition, suppliers generally supply in various geographic regions globally and several customers who responded to the CMA's investigation also have a global presence. The CMA has therefore

assessed the impact of the Merger in the supply of C-class parts on a global basis.

4. The CMA did not find competition concerns as the evidence indicates that the merged entity would have a relatively modest share of supply, with the Merger leading to a small increment, that the Parties are not particularly close competitors due to each Party having a different competitive focus, and that the Parties compete regularly with a number of other distributors, which would continue to constrain the merged entity. Additionally, the CMA found that the Parties face some competitive constraints from manufacturers and, to a more limited extent, from logistics service providers.
5. The CMA believes that these constraints, taken together, are sufficient to ensure that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects.
6. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

7. Platinum is a US-based private equity investment firm. It owns two aerospace parts distributors: Pattonair and Adams Aviation. Pattonair makes most of its sales from the distribution of C-class parts and related services to the commercial aviation industry in the EEA. Adams Aviation¹ supplies both C-class parts and chemicals used on aircraft (**chemicals**) mainly in the general aviation sector (which involves smaller aircraft such as private jets). Platinum's turnover in 2018 was approximately £[REDACTED] worldwide and approximately £[REDACTED] in the UK.²
8. Wesco is owned by US-based Carlyle Group LP, a portfolio company, and is a global distributor of C-class parts and chemicals.ⁱ Wesco's turnover in the year ending September 2018 was approximately £1.2 billion worldwide and approximately £81 million in the UK. Wesco earns the majority of its revenue in the US.

¹ Adams Aviation was acquired by Platinum on 30 August 2019.

² Pattonair's turnover in 2018 was approximately £[REDACTED] worldwide and approximately £[REDACTED] in the UK. Adams Aviation's turnover in 2018 was approximately £[REDACTED] worldwide and approximately £[REDACTED] in the UK.

Transaction

9. Platinum will acquire Wesco for \$1.9 billion under an 'Agreement and Plan of Merger' dated 8 August 2019.
10. The Parties informed the CMA that the Merger was also the subject of review by competition authorities in Canada, Germany, Poland and the US, which all cleared the Merger unconditionally.

Transaction rationale

11. The Parties submitted the following in relation to the rationale for the transaction:
 - (a) The Merger will allow Pattonair to be combined with Wesco, creating significant opportunities to realise synergies. Adams Aviation is limited in size and scope and therefore does not feature in the deal rationale to a considerable degree.
 - (b) The businesses are highly complementary in that they have different focuses in terms of region, products and sector.
12. The CMA considers that the above is consistent with the Parties' internal documents which show the complementary nature of Wesco and Pattonair. Adams Aviation only features in the transaction rationale to a very limited degree due to its limited size and scope.

Jurisdiction

13. Each of Platinum and Wesco is an enterprise. As a result of the Merger, these enterprises will cease to be distinct.
14. The UK turnover of Wesco exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied.
15. The CMA therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
16. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 12 November 2019 and the statutory 40 working day deadline for a decision is therefore 9 January 2020.

Counterfactual

17. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers the CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.³
18. In this case, the CMA has received no evidence supporting a different counterfactual, and the Parties and third parties have not put forward arguments in this respect. Therefore, the CMA believes the prevailing conditions of competition to be the relevant counterfactual.

Background

19. Wesco distributes both C-class parts and chemicals. Platinum distributes C-class parts through Pattonair and Adams Aviation, and chemicals through Adams Aviation only (although with very limited chemicals sales).⁴ The CMA found that Adams Aviation is very small in its contribution to the combined market share of the Parties in the relevant market,⁵ and that it only features to a limited degree in the Parties' plans for combining of their respective businesses due to its differing focus on the general aviation sector, as opposed to the commercial aviation sector where Pattonair and Wesco are active. Accordingly, the CMA has focussed in the rest of this decision on the overlap between Wesco and Pattonair in C-class parts.⁶

³ *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.5. The *Merger Assessment Guidelines* have been adopted by the CMA (see *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, Annex D).

⁴ Adams Aviation global 2018 sales of chemicals were around \$[REDACTED], accounting for less than [REDACTED] [0-5%] of the chemicals market globally.

⁵ For example, Adams Aviation's global 2018 sales of C-class parts and chemicals were around \$[REDACTED], accounting for less than [REDACTED] [0-5%] of the C-class parts and chemicals market, based on the Parties' submission.

⁶ However, the CMA has taken into account Adams Aviation's shares of supply in the competitive assessment.

Products and customers

20. C-class parts, unlike A-class⁷ and B-class⁸ parts, are low value parts that are not repaired but replaced when damaged. The Parties submitted that C-class parts are small in size and constitute about 2.5% of the value of an aircraft but up to 80% of the volume of its components.
21. End customers of C-class parts include aircraft original equipment manufacturers (**OEMs**), tier 1 and tier 2 suppliers,⁹ and aftermarket participants such as aircraft operators and maintenance, repair and overhaul facilities. These end customers source C-class parts either from distributors (such as the Parties), third-party logistics companies, or directly from manufacturers.¹⁰
22. The supply of parts can be accompanied by ancillary services such as kitting, line-feed, warehouse management and consultancy services.¹¹ Customers purchase parts under a number of different contract types, which can be broadly grouped under: (i) direct contracts (including ad-hoc and long-term agreements), and (ii) solutions contracts (including just-in time and service provision agreements).

Pricing

23. The Parties submitted that, for direct contracts, prices are generally determined with reference to an internal list, but the final price may be negotiated based on key factors such as volume and type of C-class part, frequency and complexity of delivery, availability of product, and length of the commitment. Under long-term agreements, which are typically five years in length, the agreed price is normally fixed for the entire period.
24. Customers that responded to the CMA's investigation confirmed that prices are generally fixed for the entire length of the contract and are generally renegotiated shortly before the end of the period.

⁷ These are high-value repairable parts that constitute approximately 75% of the value of an aircraft.

⁸ These are parts that can be economically repaired when damaged and constitute about 20% of the value of an aircraft.

⁹ Tier 1 suppliers design and manufacture a complete system or subsystem which they supply directly to an OEM. There are a number of aerospace systems such as engines, landing gears, avionics, fuel management, cabin systems, aerostructures and power systems. If a system is more complex, the tier 1 supplier sources the system components from the system manufacturer, otherwise known as a tier 2 supplier. Tier 2 suppliers are manufacturers of system components which are ready to be installed by tier 1 suppliers or by OEMs.

¹⁰ Pattonair submitted that some parts purchased by OEMs are passed to the aftermarket.

¹¹ Kitting involves pre-assembling C-class parts in traceable kits according to a customer's needs. Line-feed services involve "feeding" the required parts to a production line according to the rate of production.

25. The Parties submitted that for solutions contracts, typically awarded by tender, prices offered in bids are based on volume and type of C-class part, frequency of delivery, location and complexity of ancillary services.
26. The Parties submitted that the prices do not change depending on whether a customer is an OEM or aftermarket customer. However, as prices depend on volumes and availability, the price charged to aftermarket customers is typically higher reflecting the lower volumes that they purchase.

Competition parameters

27. The Parties submitted that the key competition parameters for direct contracts are availability and price of the particular parts, while for solution contracts price is less important, but quality requirements and service levels are key.¹² Other parameters include inventory, capacity, notice for orders and ordering systems.
28. Customers that responded to the CMA's investigation indicated to the CMA that the most important factors in deciding their C-class parts supplier(s) are quality, availability and price. The CMA found that customers also attached some importance to additional services. In addition, one customer mentioned documentation and material traceability and another customer on-time delivery as important factors.

Frame of reference

29. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.¹³
30. As discussed above (see paragraph 19), the Parties' main overlap is in the supply of C-class parts.

¹² Under some contracts there is purely a long term service involved, eg the distributor manages inventory and acts as an agent on behalf of the customer for the purchase of parts, not making any margin on the product but only charging a service fee.

¹³ [Merger Assessment Guidelines](#), paragraph 5.2.2.

Product scope

31. The Parties overlap in the supply of the following C-class parts categories: aerospace fasteners, electrical products, bearings, machined products, seals and clamps.
32. In line with *Boeing/KLX*,¹⁴ the Parties submitted that they consider that the appropriate product frame of reference would be the supply of all C-class parts and chemicals, or alternatively the supply of particular categories of such parts.
33. The CMA has considered in turn:
 - (a) Whether different categories of parts should be considered under the same frame of reference;
 - (b) Whether parts and chemicals should be considered under the same frame of reference;
 - (c) Customer segmentation; and
 - (d) Other possible segmentations.

Categories of parts

34. Notwithstanding the Parties' submission that the appropriate product frame of reference could be the supply of particular categories of C-class parts (see paragraph 32 above), the Parties also submitted that it is not appropriate to segment the market into different categories of C-class parts. In particular the Parties submitted that:
 - (a) From a demand-side perspective, while C-class parts belonging to different categories are not substitutable, they are typically bought together from the same suppliers (sometimes even in kits);
 - (b) On the supply-side, the requirements to supply different categories (in terms of warehousing, transportation, quality standards, etc) are the same, most suppliers do not specialise in a particular category,¹⁵

¹⁴ Case M.8985 Boeing / KLX, Article 6(1)(b) decision, 1 October 2018, Paragraph 23.

¹⁵ Even though there are some suppliers who do appear to focus on some parts more than others, the Parties submitted that distributors may end up doing this simply because it so happens that their present customers require those particular parts more so than others. An example of this is Pattonair's focus on fasteners and machined parts due to the engine needs of its main customer [X].

expanding or increasing supply into any category is easy and there are examples of competitors who have done so in the past;¹⁶

- (c) Product margins and the parameters of competition do not vary substantially across categories;
 - (d) The Parties' internal teams (eg marketing, pricing, etc) are the same and work across all categories; and
 - (e) All categories are typically stored and supplied from the same facilities.
35. Customers broadly confirmed that they tend to buy multiple categories of parts from the same supplier.
36. Moreover, competing distributors that responded to the CMA's investigation almost all supply multiple (in some cases most or all) categories of parts,¹⁷ although some suppliers noted that expanding into the supply of certain new categories can require significant investments or can be difficult due to a limited customer base.
37. The evidence indicates that distributors supply a range of different C-class parts categories and, in turn, customers buy a range of C-class parts from the same suppliers. The CMA also found that the Parties' internal documents were consistent with their submission that C-class parts should not be segmented into different categories. Accordingly, the CMA has assessed the impact of the Merger using a frame of reference encompassing all C-class parts. The CMA has nevertheless taken account of any differences between product categories, where relevant, in its competitive assessment.¹⁸

Parts and chemicals

38. The Parties submitted that the frame of reference should include the supply of both parts and chemicals. In particular, the Parties' submissions in relation to the different categories of parts (see paragraph 34 above) were also submitted in support of a frame of reference including both parts and chemicals.
39. However, the CMA found the following evidence during its merger investigation:

¹⁶ In particular, the Parties explained expanding into a new category just requires a distributor to have: (i) a relationship with a manufacturer to supply the product; (ii) the ability to promote the new product with an effective sales team; (iii) warehouses to store the products; and (iv) an effective quality department to check parts.

¹⁷ In particular, this includes fasteners, bearings, electrical products, lighting and machined parts.

¹⁸ For the avoidance of doubt, given that some customers also value related services (see paragraph 28 above), the CMA considers the provision of such services together with the supply of parts.

- (a) Many of Wesco's internal documents analyse the parts and chemicals businesses separately;
 - (b) Wesco's financial analysis of the transaction dated June/July 2019 shows that, for its business, parts have consistently [~~8~~] margins than chemicals;¹⁹
 - (c) Of all the distributors of C-class parts that responded to the CMA's merger investigation, only one supplies both parts and chemicals;
 - (d) A number of parts distributors submitted that they are not interested in supplying and/or well-placed to supply chemicals, observing that the supply of chemicals involves specific storage and shipping restrictions; and
 - (e) Several chemical distributors submitted that they have no interest or plans to expand into the supply of parts.
40. Based on this evidence, the CMA considers that chemicals should not be considered within the same frame of reference as C-class parts. Given the very minimal overlap between the Parties in chemicals (see paragraph 19 above), the CMA has not considered chemicals further in this decision.

Segmentation by customer type

41. In *Boeing/KLX*, the EC left open the question of whether different customer segments should be identified for OEMs and the aftermarket.²⁰
42. The Parties submitted that the purchasing requirements of the two customer types are not sufficiently distinct for separate frames of reference to be identified. In particular:
- (a) On the demand-side, the products are functionally interchangeable, there are similar service requirements, and the unit prices are the same (although they depend on volumes, and as such they are usually lower for OEM customers); and
 - (b) On the supply-side, most suppliers (in particular distributors) are active in both segments, the basic capabilities required of suppliers are the same, and the Parties were not able to provide share of supply and market size estimates for such a split.

¹⁹ Annex 21 of the MN, [~~8~~] presentation dated June/July 2019, slide 15.

²⁰ Paragraphs 22 and 24 of the *Boeing/KLX* decision.

43. All the competitor distributors that responded to the CMA's merger investigation told the CMA that they supply both OEM and aftermarket customers. One competitor explained to the CMA that it may be common practice to supply both OEM and aftermarket customers because the parts required for the two segments are generally the same. Another competitor told the CMA that the needs of OEM and aftermarket customers were different logistically in that the latter group requires ad-hoc supplies on an immediate basis. However, this competitor also confirmed that they supply both segments.
44. The CMA also notes that there is virtually no distinction between OEM and aftermarket customers in the internal documents provided by the Parties.
45. Based on this evidence, the CMA has assessed the impact of the Merger using a frame of reference including both OEM and aftermarket customers.

Other segmentations

46. C-class parts may also be distinguished according to the type of aircraft in which they are used (eg commercial or military) and whether supplied by distributors or manufacturers.
47. The Parties submitted that identifying different markets according to the type of aircraft would not be appropriate due to supply-side factors, although on the demand-side there are often differences. In relation to manufacturers and distributors, the Parties submitted that customers use both to procure parts, and switch between these channels.
48. In *Boeing/KLX*, the EC did not find that segmentations by type of aircraft or supplier would be appropriate, whilst leaving the exact product market definition open.²¹ The EC did not find any evidence for a segmentation according to aircraft type. In relation to the segmentation by supplier type, respondents to the EC's market investigation explained that they procure from both manufacturers and distributors, although noting that distributors were able to offer additional services.
49. Based on the Parties' internal documents and third party responses to the CMA's merger investigation, the CMA does not consider that a further segmentation by aircraft type is appropriate.
50. The CMA found that some customers did consider manufacturers and distributors as equally suitable and that a number of manufacturers also

²¹ Paragraphs 22-23 of the *Boeing/KLX* decision.

provided the same services as distributors. The CMA found that manufacturers exerted some constraint on distributors which is further discussed in paragraphs 90-94.

51. Therefore the CMA has assessed the impact of the merger using a frame of reference encompassing all types of aircraft and both distributors and manufacturers. However, the CMA has considered differences between distributors and manufacturers in the competitive assessment below, where relevant. The CMA has also taken into account differences in relative market strengths of the Parties within this frame of reference as part of its competitive assessment, including for fasteners, a segment where the Parties have a slightly higher share of supply than for all C-class parts.

Conclusion on product scope

52. For the reasons set out above, the CMA has considered the impact of the Merger by reference to the supply of C-class parts.

Geographic scope

53. In *Boeing/KLX*, the EC concluded that the relevant market is worldwide or at least EEA-wide.²²
54. In line with that decision, the Parties submitted that the geographic market is at least EEA-wide, if not worldwide. In particular, the Parties submitted that:
- (a) Pattonair and Wesco have respectively [X] and [X] distribution centres covering whole regions and supplying into [X]. For example, Pattonair supplies [X] from its distribution facilities in [X], and Wesco supplies various [X] locations from its distribution centres in [X];²³
 - (b) Tenders are contracted on either a regional or global basis, and parts are then supplied by distributors to different customer sites often in multiple countries;
 - (c) There are minimal differences between customers in Europe and the rest of the world because most customers operate globally;

²² Paragraph 34 of the *Boeing/KLX* decision.

²³ The Parties told the CMA that distribution centres are large centralised storage locations (the main warehouse facilities), which receive products from manufacturer-distributors and then distribute such products to customers or forward stocking locations. Forward stocking locations are facilities where inventory is stored at strategically located sites close to customers for increased service speeds. The CMA also notes that Wesco sometimes supplies [X] from its forward stocking location in [X].

- (d) Pattonair and Wesco's account management teams are active globally;
- (e) There is minimal difference in profitability across regions; and
- (f) The Parties' and competitors' teams normally operate and have regional or global responsibilities irrespective of their actual location.

55. The CMA also found during its merger investigation that:

- (a) The Parties' main competitors as well as the Parties themselves supply worldwide and do not focus on a particular region;
- (b) One competitor specifically explained that there are no substantial differences between the European market and the rest of the world – this competitor also explained that prices are influenced by a number of factors, but not by geographical proximity;
- (c) Another competitor explained that some of the main customers such as [X] and [X] are global businesses with global supply chains;
- (d) Customers' responses indicated that different customers tend to procure C-class parts at different geographic and organisational levels.

56. For these reasons, the CMA believes that the impact of the Merger should be assessed on a global basis.²⁴

Conclusion on geographic scope

57. For the reasons set out above, the CMA has considered the impact of the Merger on a global basis.

Conclusion on frame of reference

58. For the reasons set out above, the CMA has considered the impact of the Merger in the following frame of reference: the supply of C-class parts on a global basis.

²⁴ The CMA notes that shares of supply at global and EEA level are very similar.

Competitive assessment

Horizontal unilateral effects

59. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or to degrade quality on its own and without needing to coordinate with its rivals.²⁵ Horizontal unilateral effects are more likely when the merging parties are close competitors.
60. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to horizontal unilateral effects in the supply of C-class parts on a global basis. In doing so, the CMA looked in turn at:
- (a) Shares of supply;
 - (b) Closeness of competition between Pattonair and Wesco; and
 - (c) Competitive constraints from other suppliers.

Shares of supply

61. Table 1 below shows the estimated shares of supply of the Parties and of their competitors in both the C-class parts market. Table 1 also shows the fasteners segment within the frame of reference for C-class parts, which is the category of part where the Parties have a higher combined share, relative to its share of all C-class parts.
62. The CMA considers that these estimates are only indicative, noting that the CMA's estimate of the total market size is based on evidence available from third parties, and that there are no public sources for calculating market size.²⁶ Consequently the CMA has treated its estimates of shares of supply with caution for the purposes of its decision.²⁷

²⁵ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

²⁶ In particular, the CMA found different estimates of the total market size in the Parties' estimates, external reports and *Boeing/KLX*. The CMA found no evidence suggesting that one of these estimates was more reliable than the others. Moreover, since the market is fragmented, the CMA was able to verify the sales of a limited number of competitors.

²⁷ The CMA also notes that, as explained in the competitive assessment below, the Parties have somewhat differentiated focusses, and as such market shares are not particularly informative in this case.

Table 1- Estimated shares of supply (worldwide, 2018)

<i>Supplier</i>	<i>All C-class parts</i>	<i>Fasteners only</i>
Pattonair	[X] [0-5%]	[X] [0-5%]
Adams Aviation	[X] [0-5%]	[X] [0-5%]
Wesco	[X] [5-10%]	[X] [10-15%]
Combined	[X] [10-15%]	[X] [15-20%]
BDS	[X] [10-20%]	[X] [10-20%]
Arconic	[X] [5-10%]	[X] [10-20%]
PCC	[X] [5-10%]	[X] [10-20%]
Lisi	[X] [0-5%]	[X] [5-10%]
Adept	[X] [0-5%]	[X] [0-5%]
Align	[X] [0-5%]	[X] [0-5%]
Others	[X] [50-60%]	[X] [30-40%]
Total*	100%	100%

Source: CMA analysis of the Parties' and third parties' data and estimates.

Note: The total market size is based on estimates from the Global Market Insights' report 'Aerospace & Defense C Class Parts Market, 2025' dated 2019. These estimates are more conservative than the Parties' submission.

63. As shown in Table 1, the CMA estimates that the merged entity would have a relatively modest combined share of supply of C-class parts of [X] [10-15%] with a relatively small increment of [X] [0-5%]. The CMA considers that the market overall is fragmented, with a large number of competitors, and with even the largest competitors – BDS and manufacturers Arconic, Lisi and PCC – having relatively modest or low estimated market shares.
64. Also, in the fasteners segment, the Parties' combined share of supply of [X] [15-20%] is only slightly higher with a relatively small increment of [X] [0-5%].

Closeness of competition

65. The CMA has examined the closeness of competition between Pattonair and Wesco and has considered: (i) the Parties' submissions; (ii) internal documents; (iii) bidding data; (iv) win/loss data; and (v) third party views.

The Parties' submissions

66. The Parties submitted that Pattonair and Wesco have adopted different competitive positions. They submitted that:
- (a) Pattonair primarily focuses on parts for aircraft engines, which represent [X]% of its parts' revenues, whereas Wesco primarily focuses on parts for aircraft frames, which represent [X]% of its revenues;
 - (b) Pattonair mainly supplies parts for commercial aircrafts, accounting for [X]% of its revenues whereas Wesco supplies parts for both commercial and military aircrafts in [X]. Only [X] of Pattonair's top five customers

[REDACTED], and Wesco has [REDACTED] defence customers and [REDACTED] commercial customers among its top five;²⁸ and

(c) [REDACTED]% of Pattonair's revenues are generated in the EEA, and [REDACTED]% of Wesco's revenues are generated in the Americas.

67. The CMA assessed these points in the light of the evidence set out below.

Internal documents

68. The CMA reviewed the Parties' internal documents. A number of documents show that Pattonair and Wesco compete with each other as distributors in the C-class parts market.²⁹ However, these documents also reference a number of other distributors, as well as manufacturers, as competitors (including BDS, Align, Adept, Satair, Saywell, Wencor, PCC and Lisi). For example, one of Wesco's documents lists BDS, Pattonair, Align and Adept as Wesco's main parts competitors, while one of Pattonair's internal documents (produced for its investors describing Wesco's business for potential acquirers) shows a chart where Align, BDS, Wesco, Adept, Wencor, Saywell, PCC and others are included as Pattonair's main competitors.

69. The CMA considers that a number of the Parties' documents also broadly confirm the complementary nature of the two businesses as described in paragraph 11 above and support the Parties' submission that they focus on somewhat different aircraft parts and geographies.³⁰

Bidding data

70. Both Pattonair and Wesco submitted data on all their recent bids (from 2017 to 2019 for the former, and from 2018 to 2019 for the latter).

71. Table 2 below shows the results from the CMA's analysis of Pattonair's bidding data.

²⁸ Pattonair's top five customers are [REDACTED], while Wesco's top customers are [REDACTED]. [REDACTED] is by far Pattonair's main customer, accounting for [REDACTED]% of its revenues.

²⁹ These include: [REDACTED].

³⁰ See for example Annex 010 ([REDACTED]) and PEG_049 [REDACTED].

Table 2– Pattonair’s bidding data analysis (worldwide, 2017-2019)

All C-class parts					
Competitor	Bids count	Bids value	Share by count	Share by value	
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]

Source: CMA analysis of Pattonair’s data.

Note: Some bids have more than one competitor – hence the total shares are greater than 100%.

- 72. The CMA interpreted this data cautiously, given that for around 50% of its bids Pattonair was not able to identify its competitors.³¹
- 73. Nevertheless, the CMA considers that the results indicate that Pattonair’s main competitors were BDS, Wesco, Adept and Align. A number of further competitors also appear a number of times in the data, including Wencor, Fastener Tool and manufacturers.
- 74. The CMA also analysed the fasteners segment separately and found similar results to the results for all C-class parts shown in the table above.
- 75. Table 3 below shows the results from the CMA’s analysis of Wesco’s bidding data.³²

³¹ Pattonair explained that for some tenders it has limited or no information about the other competitors who participated.

³² Unlike Pattonair, Wesco provided bidding data split for different geographic regions. On a cautious basis, the CMA focussed its analysis of Wesco’s bidding data on the EMEA, where Pattonair has a stronger presence.

Third party views on closeness

82. The CMA collected information on closeness of competition from the Parties' customers, competitor distributors and manufacturers.
83. The CMA asked the Parties' customers to indicate Pattonair's and Wesco's closest competitors. Around half of the customers that responded to the CMA's merger investigation included Wesco among Pattonair's closest competitors. Almost half of the customers that responded to the CMA's merger investigation included Pattonair among Wesco's closest competitors. However, the majority of customers included BDS among the closest competitors of both Parties (mainly as the number one closest competitor). Also, several customers included Align among the closest competitors of both Pattonair and Wesco. Finally, the customers' responses listed several other competitors, including ALA, Adept, Satair, Apollo and Peerless Aerospace.
84. The CMA also asked competitor distributors and manufacturers how closely Pattonair and Wesco compete with each other. A few competitors noted similarities between Pattonair and Wesco. However, most competitors indicated that Pattonair and Wesco are not particularly close competitors. These competitors flagged in particular the fact that Pattonair focusses mainly on parts for engines and European customers (and in particular on its main customer [X]), while Wesco is a more global distributor with a stronger focus on parts for airframe and American customers.
85. Overall, the CMA considers that third party feedback indicates that Pattonair and Wesco do compete with each other in the C-class parts market (at least for some customers), but that the two businesses have somewhat differentiated application (engine versus airframe), customer and geographic focus, and that both compete regularly with BDS and a number of other significant competitors.

CMA conclusion on closeness of competition

86. Based on the evidence set out above, the CMA believes that Pattonair and Wesco are not particularly close competitors, while acknowledging that the Parties do compete for at least some customers.

Competitive constraints

Distributors

87. The Parties submitted that they face a number of competing distributors in the market, including BDS, Align and Adept.

88. Based on the available evidence, in particular the Parties' internal documents and third party feedback described above (see paragraphs 68-84), the CMA found that they face competition from a number of distributors of C-class parts such as BDS, Align and Adept (see paragraph 68 above). The CMA considers that BDS is a large distributor with a considerable share of supply and, along with Align and Adept, is a close competitor of the Parties, having competed with the Parties on a number of occasions. In addition, the CMA found, based on the Parties' internal documents, bidding data and customer responses to the CMA's merger investigation, that the Parties have also competed against several other distributors, including ALA, Electro Enterprises, Peerless, Proponent, Satair, Seytec and Wencor.
89. The CMA considers that these distributors exert a material competitive constraint on both Pattonair and Wesco.

Manufacturers

90. The Parties submitted that C-class parts manufacturers also provide significant competitive constraints as several customers purchase directly from manufacturers rather than distributors.
91. The CMA found that there were a number of manufacturers who have competed with the Parties and other distributors, bidding in the same tenders. Examples of competing manufacturers are Arconic, Lisi and PCC. The CMA also notes that, like distributors, a number of manufacturers offer services including kitting, line-feed, warehouse/inventory management, consultancy and/or aftermarket services.
92. However, based on evidence from one manufacturer and the submission of the Parties, the CMA also notes differences between manufacturers and distributors. Manufacturers may be more likely to accept orders for larger volumes and customers which have an anticipated and substantial level of C-class parts requirements. This may not be suitable for customers which have requirements for smaller orders on an ad-hoc basis. Distributors may be more suited to aggregating and stocking supplies from manufacturers, and then distributing them in smaller amounts to customers.
93. The CMA received mixed feedback on whether customers consider C-class parts distributors and manufacturers to be equally suitable suppliers of parts and related services. Whilst a number of customers indicated that both distributors and manufacturers were equally suitable, some customers said there were differences between the two. One customer said that due to the pressures of reducing inventory, there was more of a desire to rely on distributors. One customer told the CMA that distributors were able to offer

better lead times and another customer said that they had switched from manufacturers to distributors because manufacturers were unable to fulfil its requirements to the same extent.

94. Overall, recognising the different competencies of manufacturers and distributors from customer feedback, the CMA considers that manufacturers exert some competitive constraint on the Parties.

Logistics providers

95. The Parties submitted that they also compete with logistics providers which are fundamentally focussed on supplying services associated with C-class parts. The CMA found that a Wesco internal document dated April 2019 mentions generalist logistics companies as potential competitors for bids.³⁴ However, the CMA did not find other internal documents of the Parties referencing logistics providers as competitors.
96. The responses the CMA received from logistics providers suggests that they offer most of the related services that distributors and manufacturers offer. Furthermore, one logistics provider explained that it would be relatively easy to expand into offering other services. However, in relation to the supply of C-class parts, the responses suggested that it may be difficult for logistics providers to switch to supplying C-class parts themselves.
97. Overall, based on this evidence, the CMA considers that logistics providers currently may exert some competitive constraint on the Parties, but mainly in relation to the provision of services related to the supply of C-class parts.

Third party views on competition

98. The CMA contacted the customers, distributors, manufacturers and logistics service providers involved in the C-class parts market. Only a few customers raised concerns regarding the possibility of a reduction of competition and the possibility of higher prices. In addition, only a few competitors expressed concerns, saying that there could be a reduction in competition as a result of the Merger. No other third parties raised concerns about the Merger.

³⁴ Annex 29, [X], slide 2.

99. The large majority told the CMA they had no concerns. The most commonly cited reason given by third parties which did not have any concerns was the presence of sufficient alternative suppliers in the market.

Conclusion on horizontal unilateral effects

100. For the reasons set out above, the CMA believes that the merged entity would have a relatively modest share of supply, with the Merger leading to a small increment. The CMA also believes that the Parties, whilst having competed with each other on a number of occasions, are not close competitors because the evidence indicates they have notably different strengths and strategic focuses in relation to customer types and geographic regions. Both also compete regularly with a number of other distributors who exert a material competitive constraint. Additionally, they face, to a degree, competitive constraints from manufacturers and to a more limited extent from logistics service providers. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of C-class parts on a global basis.

Third party views

101. Third party comments have been taken into account where appropriate in the competitive assessment above.

Decision

102. Consequently, the CMA does not believe that it is or may be the case that the Merger may be expected to result in an SLC within a market or markets in the United Kingdom.
103. The Merger will therefore **not be referred** under section 33(1) of the Act.

Alex Olive
Director
Competition and Markets Authority
2 January 2020

ⁱ 'Wesco is owned by US-based Carlyle Group LP' should read 'Wesco is majority owned by US-based Carlyle Group LP'.