Anticipated acquisition by Montagu Private Equity LLP where it agreed to (i) acquire certain ParentPay (Holdings) Limited (PPH) securities, and (ii) sell its shares in Capita ESS Limited (ESS) to PPH, in consideration for further securities in PPH.

Decision on relevant merger situation and substantial lessening of competition

ME/6921/20

SUMMARY

1. On 14 December 2020, funds managed and/or advised by Montagu Private Equity LLP (collectively referred to as **Montagu**) acting through Tiger Topco Limited, ParentPay (Holdings) Limited (**PPH**) and the shareholders of PPH agreed to create a joint venture combining PPH and one of Montagu's subsidiaries, Capita ESS Limited (**ESS**) (the **Merger**). Montagu and PPH are together referred to as the **Parties**, and for statements referring to the future, the **Merged Entity**.

2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of Montagu, ESS and PPH 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. ESS and PPH overlap in the supply of parental engagement software to schools in the UK. ESS also supplies management information system software (**MIS**) to UK schools and PPH supplies payments software to UK schools. The CMA has therefore assessed the impact of the Merger in the following frames of reference:

   (a) Supply of parental engagement software to schools in the UK

   (b) Supply of MIS to schools in the UK; and

(c) Supply of payments software to schools in the UK.

Horizontal unilateral effects in the supply of parental engagement software

4. The CMA investigated whether the Merger could lead to horizontal unilateral effects in the supply of parental engagement software given that both Parties are active in the supply of such software.

5. The CMA found that, while the Parties are close competitors in the supply of parental engagement software to schools in the UK, they have a modest combined share of supply of under 15%. The Parties will continue to be constrained by the two largest suppliers ParentMail (IRIS Group) and Teachers2Parents (Community Brands), as well as Juniper and School Cloud which will have similar shares of supply to the Merged Entity and a large number of smaller suppliers. The CMA therefore believes 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.

Conglomerate effects in the supply of MIS and payments software

6. MIS software interacts with a variety of complementary software such as payments, parental engagement and other types of software (eg accounting). In order to operate effectively these complementary software products need to access the data that is stored in a school's MIS.

7. Montagu's MIS software (SIMS) is used by the large majority of UK schools and PPH's main payments software (ParentPay) is the leading payments software among UK schools. The CMA also found that only a limited number of schools have switched MIS in the past (albeit this is slowly changing for particular types of schools) due to considerable switching costs, eg the need to provide staff training, the risks associated with large data transfers and time-consuming switching processes. Switching payments software has also been limited.

8. Various third parties raised concerns with the CMA that the Merged Entity would foreclose competitors by worsening the quality and/or increasing prices for the integration with SIMS and PPH's payments software or stopping access to those products for competing suppliers altogether.

9. The CMA has therefore considered whether the Merged Entity could use:

   (a) PPH's payments software to foreclose competing MIS software providers to protect the position of SIMS; and/or

   (b) SIMS to foreclose competing providers of payments software.

Foreclosure of competing MIS software providers

10. In relation to the potential foreclosure of competing MIS software providers, the CMA found that payments software is an important complementary product to MIS software. PPH's payments software (ParentPay) is also the leading product in the market. The CMA therefore could not exclude that the Merged Entity would have the ability to engage in total foreclose of other MIS software providers by preventing them from integrating their software with ParentPay (ie only offering ParentPay to schools using SIMS).

11. However, the CMA found that the Merged Entity would lack the incentive to foreclose rival MIS software providers in this way. The direct effect of total foreclosure is that a PPH payments customer that is currently using MIS software other than SIMS would be forced to make a choice between switching from their current MIS to SIMS or switching away from PPH. Due to the relatively higher barriers to switching MIS software, the declining competitiveness of SIMS, and the availability of alternative payments software with equivalent functionality to PPH's payments software, the CMA considers that the majority of such customers would switch away from PPH as a result of such a foreclosure strategy.

12. Although foreclosure might have some benefits, for example by reducing churn of SIMS customers, taking account of current churn rates and the number of customers that currently use PPH's payment software with a different MIS to SIMS, the CMA does not consider that the likely reduction in churn would be sufficient to offset the losses of PPH payments customers. There are also additional costs that would reduce the Merged Entity's incentive to engage in such a strategy. For example, such a strategy would prevent PPH from competing to supply schools that use a MIS other than SIMS and that currently have no payments software. The number of schools using payments software is growing rapidly and so the loss of potential customers could be significant (there are approximately 2,000 non-SIMS schools that do not have payments software).

13. The CMA also investigated whether the Merged Entity would have the ability and incentive to partially foreclose rival MIS software providers, such as through reducing the quality of the integration between PPH's payments software and rival MIS software and/or deciding to only offer certain payments functionality to SIMS customers.

14. As regards ability, the CMA has doubts as to whether the Merged Entity would be able to partially foreclose rival MIS software providers. This is because the CMA considers differences in functionality or the level of integration between

PPH’s payments software and a MIS may not be enough to influence a school’s choice of MIS.

15. On a cautious basis, however, the CMA considered whether the Merged Entity would have the incentive to engage in partial foreclosure and found that it would not. In particular, the CMA considered that in order for partial foreclosure to generate some benefit for the Merged Entity, any changes in integration and/or functionality would need to be significant enough to affect a customer’s decision about its MIS (most likely by discouraging a customer from switching away from SIMS if they also currently use PPH’s payments software). However, the CMA considers that any change that is significant enough to affect a customer’s decision whether to switch from SIMS, would also risk losing customers that currently use PPH’s payments software with a different MIS (bearing in mind the higher costs of switching MIS and the availability of other payments software). It may also discourage schools that do not currently use payments software that use non-SIMS MIS from using PPH’s payments software in the future. The CMA considers that these losses would outweigh the benefits of a partial foreclosure strategy.

16. The CMA therefore believes that there is no realistic prospect that the Merged Entity would have the incentive to engage in the foreclosure of competing MIS providers.

Foreclosure of competing payments software providers

17. In relation to this theory of harm, the CMA considered whether the Merged Entity would have the ability and incentive to foreclose rival payments software providers, such as by not providing access to data stored on SIMS to competing providers of payments software (total foreclosure), or by reducing the quality of the integration between SIMS and competing payments software or increasing prices for data access (partial foreclosure).

18. The large majority of schools in the UK use SIMS as their MIS and payments software requires access to data stored on a MIS to function. The CMA found that the Merged Entity would not be able to engage in total foreclosure (ie preventing schools that use rival payments software from using SIMS) because the Merged Entity will be under a legal obligation to offer manual access to data stored in SIMS. However, the CMA found that the Merged Entity would have the ability to prevent payments software competitors from accessing data stored in SIMS via an API. The Merged Entity could also contractually restrict aggregators from sharing data with specific third party software suppliers. This would leave payments software competitors with the only option of manually downloading data from SIMS. As this is less attractive (time consuming), the CMA considers that the Merged Entity would have the

ability to engage in partial non-price foreclosure.The CMA does not consider that the Merged Entity would have the ability to foreclose rival payments software providers through increasing the cost of API access given the low value of these fees relative to software providers' revenues.

19. The CMA also found that the Merged Entity would not have the incentive to foreclose rival payments software providers. While SIMS has a large share of supply, SIMS is much more profitable than PPH's payment software and the Merged Entity would risk losing a significant proportion ofSIMS customers that do not use PPH's payments software, in particular given that SIMS has been losing customers in recent years. The CMA considers that this significantly dampens the Merged Entity's incentive to engage in a foreclosure strategy. In addition, the CMA considers that such a strategy would be contrary to the rationale of the Merger which is to reduce churn away from SIMS.

20. The CMA therefore believes that there is no realistic prospect that the Merged Entity would have the incentive to engage in the foreclosure of competing payments software providers.

21. The CMA therefore believes that the Merger does not give rise to a realistic prospect of an SLC as a result of conglomerate effects.

22. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).