

Anticipated acquisition by EssilorLuxottica S.A. of Lenstec Optical Group Limited

Decision on relevant merger situation and substantial lessening of competition

ME/6937/21

SUMMARY

1. On 23 April 2021, EssilorLuxottica S.A. (**Essilor**) agreed to acquire the entire issued share capital of Lenstec Optical Group Limited (**Lenstec**) (the **Merger**). A 20% shareholding of Lenstec is already held by Shamir UK Limited (**Shamir**), a subsidiary of Essilor. Essilor and Lenstec 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 Essilor and Lenstec is an enterprise; that these enterprises will cease to be distinct as a result of the Merger; and that the share of supply test is met. Accordingly, the CMA 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.
3. The Parties overlap in the supply of finished ophthalmic glass and plastic lenses of all correction designs (**finished ophthalmic lenses**) in the UK. The CMA has therefore assessed the impact of the Merger in the supply of finished ophthalmic lenses in the UK.

Counterfactual

4. The CMA considers that Essilor (through Shamir) exercises material influence over Lenstec pre-Merger. While there is some evidence of Essilor and Lenstec competing against each other, the Parties do not compete with each other as strongly as they likely would in the absence of the material influence.

5. Further, based on the evidence assessed, the CMA considers that, absent the Merger, there is a realistic prospect that Lenstec would have been sold to an alternative third party which does not raise significant competition concerns. This would result in a situation where Essilor's material influence over Lenstec is removed and where Lenstec and Essilor compete independently of one another. The CMA considers this scenario to be the counterfactual where Essilor and Lenstec (under alternative ownership) would exert the strongest competitive constraint on each other and therefore against which the impact of the Merger should be assessed.

Horizontal unilateral effects in the supply of finished ophthalmic lenses in the UK

6. The CMA investigated whether the Merger could lead to horizontal unilateral effects in the supply of finished ophthalmic lenses in the UK. Unilateral effects can arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged entity profitably to raise prices or degrade non-price aspects of its competitive offering (such as quality, range, service and innovation) on its own and without needing to coordinate with its rivals.

Shares of supply

7. The evidence assessed indicates that Essilor already has some degree of market power and that it is the largest supplier of finished ophthalmic lenses in the UK, with a share of supply of [40-50]% by value in 2020. Lenstec's UK share of supply was [5-10]% for the same time period. The CMA therefore considers that the Parties have a high combined share of supply by value and that the increment arising as a result of the Merger is small (albeit appreciable). The CMA considers that, because there is some degree of differentiation in this market, the shares of supply should be considered alongside evidence on the closeness of competition between the Parties and the competitive constraints from alternative suppliers remaining post-Merger.

Closeness of competition

8. The CMA considers that the Parties have different commercial focuses, with Lenstec's position in the market primarily as a glazer limiting the extent to which it poses a competitive constraint on Essilor, a vertically integrated supplier. Customer submissions broadly support the view that the Parties are not close

competitors, with a number of customers not considering the Parties as close competitors and the majority of Lenstec's customers not considering Essilor as a viable option and *vice versa*. Also, the internal documents do not appear to suggest that Essilor views Lenstec as a particularly close competitor or a competitive threat, albeit they suggest that Essilor views Lenstec as a competitor as well as a customer.

9. The CMA therefore believes that on balance, the Parties are not particularly close competitors in relation to the supply of finished ophthalmic lenses in the UK.

Competitive constraints

10. The CMA believes that this is a fairly concentrated market, with only a few strong competitors (Hoya and Zeiss), a moderate competitor (Rodenstock) and a number of small independent laboratories with relatively low shares of the market.
11. Hoya, Zeiss and Rodenstock are all large international vertically integrated suppliers who compete for both independent opticians and large optical retail chains. These suppliers compete against both Essilor and Lenstec. This is reflected in the Parties' internal documents and the views of customers.
12. The CMA notes the asymmetric nature of constraint with regard to competition from independent laboratories. These suppliers compete more closely to supply independent opticians rather than larger optical retail chains primarily due to their lack of scale and capacity to serve large optical retail chains or supermarket opticians. The CMA therefore considers that independent laboratories would exert a moderate constraint on the Merged Entity at least in relation to independent opticians.

Conclusion

13. Despite Essilor's existing market power and the Parties' relatively high share of supply, the CMA has found that the Parties are not particularly close competitors in relation to the supply of finished ophthalmic lenses in the UK. In addition, there are a number of vertically integrated players active in the market such as Hoya, Zeiss and Rodenstock and also a number of independent suppliers, including Millmead, Norville, Dunelm, Optimum, and others remaining in the market. Together, the CMA considers that all these alternative players will continue to exert a strong competitive constraint on the Merged Entity.

14. As such, 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 finished ophthalmic lenses in the UK.

Decision

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