

# Acquisition by CVS Group plc of Quality Pet Care Ltd (trading as The Vet)

## Summary of the CMA's findings

ME/6967/21

### SUMMARY

#### *The Parties and the Merger*

1. The CMA has found that the completed acquisition by CVS Group plc (**CVS**) of Quality Pet Care Ltd (**The Vet**) (the **Merger**) gives rise to a realistic prospect of a substantial lessening of competition as a result of horizontal unilateral effects in the supply of standard first opinion small animal veterinary services in the local areas of Bristol, Nottingham, Portsmouth, Southampton and Warrington.
2. CVS and The Vet are together referred to as **the Parties**.
3. CVS operates over 450 veterinary practices across the UK, including some that provide specialist referral treatment and some that provide out-of-hours care. It is also active in related services including (i) diagnostic laboratories, (ii) pet crematoria, and (iii) retail of prescription and non-prescription drugs, pet food, and other animal related products to consumers. It is one of six large corporate veterinary groups active in the UK.
4. The Vet is a chain of eight small animal veterinary practices in the UK located in Bristol, Liverpool, Morden, Nottingham, Waltham, Portsmouth, Southampton, and Warrington.

#### *CMA jurisdiction*

5. The Competition and Markets Authority (**CMA**) has jurisdiction to review a merger where either (a) the target company generates more than £70 million of turnover in the UK (the turnover test); or (b) the merger results in the parties having a share of supply of goods or services of any description in the UK of 25% or more, and the merger results in an increment to the share of supply (the share of supply test). The Vet's revenues do not meet the turnover test, but the CMA has concluded that CVS and The Vet have a combined share of supply exceeding 25% in various local areas

in the UK, when measured either by their combined share of full-time equivalent (**FTE**) vets or by their combined 'share of shops', and that an increment in share of supply is brought about by the Merger. Therefore, the CMA has concluded that it has jurisdiction to review the Merger.

### ***Frame of reference***

6. The CMA's investigation considered whether the Merger would lead to a loss of competition between CVS and The Vet. To do so, the CMA considered in detail how their services overlap, which meant focussing its analysis on the most significant competitive alternatives available to the customers of the Parties. To this end, the CMA focussed on the supply of veterinary services that are:
- (a) first opinion as opposed to provided only after a referral had been made;
  - (b) provided to small animals as opposed to farm or equine animals;
  - (c) provided on a commercial basis, instead of by charitable providers;
  - (d) administered during standard daytime hours, instead of as part of out-of-hours care; and
  - (e) located in the eight local areas in the UK where The Vet is active.

### ***Competition Assessment: horizontal unilateral effects in the supply of standard first opinion small animal veterinary services in the UK***

#### ***Competitive dynamics in the supply of veterinary services***

7. There has been significant change in the ownership of vets' practices in recent years. While independent veterinary practices accounted for 89% of the UK veterinary industry in 2013, this had fallen to approximately 45% by 2021, primarily as the result of the acquisition of large numbers of independent practices (or smaller groups of vets' practices) by corporate groups.
8. These corporate groups, including CVS, typically use a significantly different business model to independent practices, in particular because other businesses that they own give them the ability to cross-sell products and services (such as referral treatment, out-of-hours care, and pet cremation). The evidence available to the CMA also shows that corporate groups often seek to establish a significant presence within specific localities, which can allow them to benefit from economies of scale and networks of linked services (but can result in competition concerns

where an acquisition would reduce the competitive constraints that the acquirer would face in a given area following a merger).

### *The CMA's investigation*

9. As part of its investigation, the CMA gathered information on over 200 small animal veterinary practices active in and around the local areas potentially affected by the Merger, as well as input from charitable providers of veterinary care, industry bodies and other interested third parties. This input, together with submissions from CVS and The Vet and internal business documents that the Parties had produced in the ordinary course of business, provides the basis for the CMA's decision.
10. In the course of its investigation, the CMA received a number of specific concerns relating to the Merger (and, more generally, about the potential harms raised by increasing levels of concentration in veterinary services). Some third parties suggested that high levels of corporate consolidation in local areas through the acquisition of independent vet practices were leaving consumers with a lack of sufficient alternatives. Third parties also noted that the implications of corporate consolidation were not always obvious to customers because some corporate owners decide not to rebrand independent veterinary practices after buying them.

### *The loss of competition within the areas affected*

11. While CVS submitted that it does not compete closely with The Vet at present, the evidence provided does not fully support this position. Given the importance of location and reputation in customer decision-making, and the fact that CVS and The Vet are located in close proximity to each other (and no evidence was provided that they have significantly different reputations in any of the catchment areas), the CMA considers that there is significant competitive interaction between them (and other suppliers of the same type) in each of these local areas.
12. As competition between individual practices takes place at the local level, the CMA carried out a local area analysis based on an estimation of the combined shares of supply of CVS and The Vet in the overlap areas. The CMA found that consumers generally select a vet within a relatively short distance of their home and based its analysis on a catchment area for veterinary practices (reflecting where 80% of the Parties' customers) is around 9-12 minutes' drive time.
13. The CMA calculated shares in these catchment areas based on the number of FTE vets employed at each of the practices in each catchment area. In the circumstances of this case, the CMA believes that calculating shares of supply

based on the number of FTE vets provides a good indication of a practice's current competitive strength and capacity to compete for new customers, given the number of vets at a practice will reflect consumer demand for that practice's services. While the Parties suggested that market shares should be calculated on a 'share of shops' basis, the CMA found significant variance in the size of practices in the catchment areas, with some having less than one FTE vet and others having more than 15. On this basis, while the CMA recognises that no single measure can capture every aspect of competition in a market, it considers that the number of FTE vets is the most appropriate measure on which shares of supply can be systematically assessed in this case and will more accurately capture competition dynamics than the alternative method suggested by the Parties.

14. When calculating the shares of CVS and The Vet, the CMA considered the relevant competitor set to include other first opinion veterinary practices providing care to small animals during standard daytime hours on a commercial basis, with an equal weight applied to each practice based on the number of FTE vets. The CMA considered whether a different weight should be applied depending on whether the practice was independent or corporate owned but received mixed and insufficient evidence on this point. The CMA considered that the constraint exercised by practices outside the primary competitive set described in paragraph 5 above (such as charities or practices providing only out of hours care) is not material and therefore that such suppliers should not be included in market share calculations (or, as described below, given material weight in assessing the market share threshold at which concerns are considered to arise).
15. The threshold chosen for determining whether competition concerns arise is a case-by-case assessment taking into account all the facts and circumstances of a given case. In this case, the CMA determined that a 30% share threshold is appropriate to identify areas in which there is a realistic prospect of a substantial lessening of competition (**SLC**) arising. This reflects, in particular, the weak nature of the out-of-market constraints (from different types of practices and practices located outside the catchment areas) in the case, as well as the absence of probative evidence (for example from a consumer survey or previous CMA analysis of the sector) that has been used to support higher thresholds in previous cases.
16. The CMA considered whether any additional factors or measures should be included in its local area analysis. CVS did not make specific proposals on this point, and the CMA did not identify any measure that could systematically capture other important aspects of competition in a sufficiently robust and consistent manner.

***Decision***

17. The CMA believes that it is or may be the case that the Merger has resulted, or may be expected to result, in a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects in relation to the supply of standard first opinion small animal veterinary services in the local areas of Bristol, Nottingham, Portsmouth, Southampton and Warrington.
18. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (the **Act**). CVS has until 25 February 2022 to offer an undertaking to the CMA that might be accepted by the CMA. If no such undertaking is offered, then the CMA will refer the Merger pursuant to section 22(1) and 34ZA(2) of the Act.