

Anticipated acquisition by Ritchie Bros. Auctioneers Incorporated of Euro Auctions Group

Summary of the CMA's decision on relevant merger situation and substantial lessening of competition

ME/6958/21

Introduction

1. Ritchie Bros. Auctioneers Incorporated (**Ritchie Bros**) has agreed to acquire Euro Auctions Group (which consists of Euro Auctions Limited, William Keys & Sons Holdings Limited, Equipment Sales Ltd, and Equipment & Plant Services Ltd, and their subsidiaries, as well as certain assets belonging to Euro Auctions FZE, together **Euro Auctions**) (the **Merger**). Ritchie Bros and Euro Auctions are together referred to as the **Parties**.
2. The Parties facilitate the sale and purchase of used heavy machinery for the construction, agriculture and transport industries via auctions, listing websites and marketplaces.
3. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of Ritchie Bros and Euro Auctions 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.

Frame of reference

4. In determining the product frame of reference, the primary overlap between the Parties is in the supply of auction services for used heavy construction machinery. Sales within this frame of reference account for the majority of the Parties' gross transaction value (**GTV**) in the UK. The Parties' auction services operate as two-sided platforms, with the Parties competing to attract buyers of machinery on one side and sellers on the other.

5. The CMA assessed whether the product frame of reference should be widened to include auction services for heavy machinery used in agriculture and transport. Based on the evidence received from the Parties and third parties, the CMA found on the demand side that:
 - (a) for buyers with demand for specific machinery (eg particular construction equipment), machinery for other industries (eg agriculture or transport) is generally not substitutable;
 - (b) buyers with a general demand for heavy machinery (such as resellers) tend to specialise in a particular industry (eg construction) and will seek platforms with a large volume of machinery for that particular industry; and
 - (c) sellers of heavy machinery typically specialise in a particular industry and seek platforms that have a large pool of buyers for machinery for that particular industry.
6. On the supply side, the CMA found that:
 - (a) the Parties' sales are mostly derived from auctions of construction machinery; and
 - (b) other auction services suppliers are mainly focused on one particular industry.
7. In light of this evidence, the CMA did not consider it appropriate to widen the frame of reference to include auction services for heavy machinery used in agriculture and transport.
8. The CMA also assessed whether the other methods of sale for heavy machinery should be included in the product frame of reference, including marketplaces, listings, brokers, dealers and OEM sales. Based on the evidence from the Parties and third parties, the CMA found that:
 - (a) other sales methods offer materially different services for buyers and sellers of heavy machinery; for example, marketplaces offer less liquidity than auctions (with fewer buyers and sellers), they offer "buy now" functionality (which auctions do not offer), they require sellers and buyers to deal directly with each other (unlike auction services, which intermediate), and they do not generally offer storage options for equipment prior to sale (unlike auction services);
 - (b) the vast majority of the Parties' buyers and sellers did not list providers of other methods of sales as alternatives to the Parties; and

- (c) the Parties' internal documents did not indicate that their auction services face a strong constraint from other methods of sales, nor that the customers see marketplaces as an alternative to auctions.
- 9. The CMA therefore did not consider it appropriate to widen the frame of reference to include other methods of sale for heavy machinery.
- 10. In terms of the geographic frame of reference, the CMA assessed the Merger on a UK-wide basis in light of evidence that:
 - (a) both Parties have physical auction and storage sites in the UK, and the equipment sold through their auctions is often heavy and therefore expensive to transport long distances;
 - (b) the Parties' customers did not consider overseas auction providers to be an alternative; and
 - (c) the set of competitors active in the UK is distinct from other countries.
- 11. The CMA has therefore assessed the impact of the Merger in the supply of auction services for used heavy construction machinery in the UK.

Competitive assessment

- 12. The CMA's competitive assessment considered the shares of supply; the closeness of competition between the merging Parties; the constraint from alternative suppliers of auction services for used heavy construction machinery; and the constraint from alternative methods of sale.
- 13. The CMA found that the Parties have a very high combined share of supply of [80-90]% by GTV in the supply of auction services for used heavy construction machinery in the UK, with an increment of [10-20]%. The CMA found that Euro Auctions is by far the largest supplier of auction services for used heavy construction machinery in the UK, with Ritchie Bros being the next largest UK supplier.
- 14. The CMA found that the Parties compete closely, as evidenced by their internal documents and third-party views. Ritchie Bros' internal documents identify Euro Auctions as the market leader in the UK, from which Ritchie Bros must win customers in order to grow. Similarly, Euro Auctions' internal documents benchmark its performance against Ritchie Bros. Customers also generally considered the Parties to be close competitors with few alternative suppliers available, while the majority of competitors ranked both Parties as their top two competitors.

15. The CMA also found that the Merged Entity would face no other significant competitors post-Merger. Its next largest competitor in the supply of auction services for used heavy construction machinery would have a significantly smaller share of only [5-10]% and all remaining competitors would have shares of less than [0-5]%. In addition, the Parties' internal documents and third-party views did not indicate that other auction services suppliers pose a significant constraint on the Parties. The CMA therefore found that other auction suppliers do not compete closely with the Parties and offer a limited competitive constraint.
16. The CMA also considered the competitive constraint from alternative methods of sale for used heavy construction machinery, which the Parties submitted pose a constraint on their business. The CMA did not see any evidence, either from third parties or internal documents, to suggest that online marketplaces act as a significant constraint on auction services. The CMA also considered the potential constraint from private listings, OEMs, brokers and dealers. On the basis of third-party evidence and internal documents, the CMA found that these methods of sale do not materially constrain the role played by auctions and may act as complementary ways to achieve a sale rather than as substitutes to an auction.
17. The majority of the Parties' customers and competitors that engaged with the CMA's investigation also expressed concerns about the Merger, including that it would lead to a reduction in choice and price increases.

Barriers to entry and expansion

18. The CMA found that there are likely to be high barriers to entry for suppliers of auctions for used heavy machinery, which may be exacerbated by the two-sided nature of the market.
19. Competitors highlighted challenges in establishing reputation and scale; raising the necessary significant investment; and building a physical presence. Reputation and physical location were generally submitted by buyers and sellers as being important factors when choosing an auctioneer.
20. Competitors suggested that it would take five to ten years to establish a reputation in the market. This is consistent with the fact that Ritchie Bros, an experienced auction provider with a significant presence in North America, took more than five years to build a modest UK market share of [10-20]%.
21. The CMA noted that network effects arising from the two-sided nature of a market are likely to reinforce any barriers to entry, as the cost of building a sufficiently large customer base on both sides of the market to attract other

customers, and therefore compete, is likely to be high. Buyers and sellers of the Parties' auction services generally stated that they preferred larger sized auctioneers: for buyers this meant a large number of heavy equipment suppliers to buy from, and for sellers a large pool of bidders. As such, the CMA considers that network effects are likely to be present in this market.

22. The CMA therefore found that entry and/or expansion by third parties would not be sufficiently timely, likely or sufficient to offset the effects of the Merger on competition.

Conclusion

23. The CMA therefore believes that the Merger gives rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects in the supply of auction services for used heavy construction machinery in the UK.
24. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (**the Act**). The Parties have until 11 March 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 sections 33(1) and 34ZA(2) of the Act.