

Completed Acquisition by VetPartners Limited of Goddard Holdco Limited

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

ME/6967/21

SUMMARY

- The Parties and the Merger
1. The CMA has found that the completed acquisition by VetPartners Limited (**VetPartners**) of Goddard Holdco Limited (**Goddard**) (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 first opinion veterinary care to small animals, on a commercial basis, during standard daytime hours (**standard small animal veterinary services**) in 11 local areas in Greater London.
 2. VetPartners and Goddard are together referred to as **the Parties** or the **Merged Entity**.
 3. VetPartners operates over 550 veterinary practices across the UK that provide veterinary services primarily for small animals (and also has some facilities providing services for farm and equine animals). VetPartners is ultimately owned by BC Partners, a private equity firm.
 4. Goddard is a provider of veterinary services relating only to small animals. Prior to the Merger, Goddard was the largest remaining independent veterinary provider in the UK, operating 47 sites. This includes three hospitals – Mandeville Hospital, Stone Lion Hospital and Wanstead Hospital – and 44 practices. The majority of these sites are located in Greater London.

5. The Parties provide their services mostly at first opinion practices (unless specified otherwise, first opinion practices are referred to as **practices** in this decision) and a limited number of Royal College of Veterinary Surgeons (**RCVS**) accredited veterinary hospitals (**hospitals**) (practices and hospitals are collectively referred to as **sites** in this decision).
 - CMA jurisdiction

6. 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). Goddard's revenues do not meet the turnover test, but the CMA has concluded that VetPartners and Goddard have a combined share of supply exceeding 25% in several local areas in the UK, when measured by either their combined share of full-time equivalent (**FTE**) vets or by their combined 'share of shops' in those areas, and that an increment in share of supply is brought about by the Merger.
 - Frame of reference

7. The CMA's investigation considered whether the Merger would lead to a loss of competition between VetPartners and Goddard and whether the competitive alternatives that would remain after the Merger would continue to sufficiently constrain the Merged Entity. To do so, the CMA considered in detail how the Parties' 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 for specialist care 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) provided at a site as opposed to at the customer's home or online;
 - (e) administered during standard daytime hours, instead of as part of out-of-hours care; and

- (f) located in or around Greater London.
- Competitive assessment

Competitive dynamics in the supply of veterinary services

8. There has been significant change in the ownership of veterinary sites in recent years. While independent veterinary sites 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 veterinary sites (or smaller groups of vet sites) by corporate groups.
9. These corporate groups, including VetPartners, 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

10. As part of its investigation, the CMA gathered information on over 100 small animal veterinary sites 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 VetPartners and Goddard and internal business documents that the Parties had produced in the ordinary course of business, provides the basis for the CMA's decision.
11. In the course of its investigation, the CMA received a number of specific concerns relating to the Merger (as well as broader concerns, not limited to the local areas affected by the Merger, 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

12. The evidence available indicates that VetPartners and Goddard are close competitors in Greater London because their veterinary sites are often located in close proximity to each other, and they have similar competitive offerings.
13. As competition between individual sites 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 VetPartners and Goddard in the overlap areas. The CMA found that consumers generally select a vet within a relatively short distance of their home and so based its analysis on catchment areas for veterinary sites (reflecting where 80% of the Parties' customers are located) on a drive time of around 11-15 minutes.
14. The CMA calculated shares in these catchment areas based on the number of FTE vets working at each of the sites in each catchment area. Based on the evidence available to it in this case, the CMA believes that calculating shares of supply based on the number of FTE vets provides a good indication of a site's current competitive strength and capacity to compete for new customers, given that the number of vets at a site will broadly reflect consumer demand for its services. While the Parties suggested that market shares could be calculated on a 'share of shops' basis (ie shares of sites in specific local areas), the CMA found significant variance in the size of sites in the catchment areas, which limits the reliability of this method as a measure of competitive strength. 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.
15. When calculating the shares of VetPartners and Goddard, the CMA considered the relevant competitor set to include other standard small animal veterinary services, with the weight of a competitor's site based solely on the number of FTE vets. The CMA considered that the constraint exercised by sites outside the primary competitive set described in paragraph 7 above (such as charities or home visit vets) is not material and therefore that such suppliers should not be included in market share calculations (or, for the reasons set out in the competitive assessment in this decision, be given

material weight when assessing the market share threshold at which concerns are considered to arise).

16. The threshold chosen for determining whether competition concerns arise is made on a case-by-case basis, taking account of all the facts and circumstances of a given case. Based on the evidence obtained in this case, the CMA determined that a 30% share threshold is appropriate to identify areas in which there is a realistic prospect of an SLC arising. This reflects, in particular, the weak nature of the out-of-market constraints (from different types of veterinary sites and sites located outside the catchment areas), as well as the absence of probative evidence (for example from a consumer survey or previous detailed CMA analysis of the sector) that has been used to support higher thresholds in previous cases.
17. The CMA considered whether any additional factors or measures should be included in its local area analysis but did not identify any measure that could systematically capture other important aspects of competition in a sufficiently robust and consistent manner.
 - Decision
18. The CMA believes that it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC as a result of horizontal unilateral effects in relation to the supply of standard small animal veterinary services in the local areas centred around the Parties' following 11 veterinary sites: Goddard Wanstead, Forest Veterinary Centre Epping, Palmerston Veterinary Group Buckhurst, Goddard Chingford, Goddard Loughton, Goddard South Woodford, Goddard Walthamstow, Best Friends Isle of Dogs, Best Friends Oakhill, Forest Veterinary Centre Woodford and Palmerston Veterinary Group Walthamstow.
19. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (the **Act**). VetPartners has until 6 May 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.