Acquisition by IAA, Inc. of SYNETIQ Holdings Limited

Decision on relevant merger situation and substantial lessening of competition

ME/6972/21

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 2 March 2022. Full text of the decision published on 5 May 2022.

Please note that [✂] indicates figures or text which have been deleted or replaced in ranges at the request of the parties and third parties for reasons of commercial confidentiality.

SUMMARY

1. On 26 October 2021, IAA International Holdings Limited (**IAA UK**), an indirect wholly owned subsidiary of IAA, Inc. (**IAA**), acquired the entire issued share capital of SYNETIQ Holdings Limited (**SYNETIQ**) (the **Merger**). IAA and SYNETIQ are together referred to as the **Parties** or, 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 IAA and SYNETIQ is an enterprise; that these enterprises have ceased to be distinct as a result of the Merger; and that the turnover test is met. The four-month period for a decision, as extended, has not yet expired. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.

3. The Parties overlap in the supply of salvage vehicle commercialisation services (**salvage services**) to insurance companies in the UK, and in the supply of salvage vehicles in the UK.

4. Providers of salvage services (also referred to as **salvagers**) collect, store and commercialise (eg, through the sale of the vehicle or their parts) salvage vehicles on behalf of upstream customers such as insurance companies, fleet management companies, claims management companies and the police (collectively, **upstream**

customers). Where fit for sale, salvagers sell salvage vehicles to downstream customers such as body shops, repairers, material recyclers and end-customers (collectively, **downstream customers**) via online auctions. Salvagers – including the Parties – are therefore active in both the supply of salvage services to upstream customers and the supply of salvage vehicles to downstream customers.

5. There is also a vertical relationship between the Parties, as SYNETIQ licenses certain IT solutions to third party salvagers for use in the supply of salvage services (and, relatedly, the supply of salvage vehicles), namely: (i) Frontier Salvage, for management of salvage vehicles (**Frontier Salvage**); (ii) Frontier Dismantling, for management of salvage vehicle parts (**Frontier Dismantling**); and (iii) a white-label online auction platform which licensed salvagers use to sell their salvage vehicles (**SYNETIQ's white-label auction platform**).

6. The CMA considered whether the Merger may give rise to a substantial lessening of competition (**SLC**) as a result of:

   (a) horizontal unilateral effects in the supply of salvage services to insurance companies in the UK;

   (b) horizontal unilateral effects in the supply of salvage vehicles in the UK; and

   (c) total input foreclosure of rival salvagers in the UK through refusal to supply each of Frontier Salvage, Frontier Dismantling and SYNETIQ's white-label auction platform.

Horizontal unilateral effects

7. In relation to the supply of salvage services to insurance companies in the UK, the CMA found that salvagers serving insurance companies include one very large supplier (Copart), and that the Parties are two smaller suppliers in this segment. Salvagers may be distinguished, in particular, based on their ability to provide nationwide coverage (as one of the most important service parameters for insurance companies) and further, their ability to offer inhouse dismantling services. Both Parties offer nationwide coverage. SYNETIQ offers inhouse dismantling services but IAA does not offer such services. A number of insurance companies that responded to the CMA's market investigation suggested that IAA's lack of inhouse dismantling capabilities meant that the Parties were not close competitors. In addition, insurance companies told the CMA that there are sufficient alternative salvagers that will constrain the Merged Entity post-Merger, and pointed to a number of credible alternatives capable of providing nationwide coverage.

8. In light of the above, 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 the supply of salvage services to insurance companies in the UK.

9. In relation to the supply of salvage vehicles in the UK, the CMA found that the competitors that the Parties face in the supply of salvage services to insurance companies are also present in the supply of salvage vehicles. Furthermore, the Parties are likely to face a broader set of competitors in the supply of salvage vehicles as salvage vehicles may be sourced not only from insurance companies, but also from other entities such as claims managers or the police. Accordingly, 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 the supply of salvage vehicles in the UK.

Vertical effects

10. For each of Frontier Salvage, Frontier Dismantling and SYNETIQ's white-label auction platform, the CMA considered whether the Merged Entity might foreclose rival salvagers by refusing access to the input.

11. In relation to Frontier Salvage, the CMA found that the Merged Entity is unlikely to have the ability to foreclose rivals who use Frontier Salvage given the imminent introduction of at least two alternatives within the next year. Moreover, any loss of access to Frontier Salvage is unlikely to impact on the ability of salvagers to compete given the timeframe in which alternatives are expected to be available, and given that insurance companies indicated that they do not consider that a delay in processing salvage vehicles would materially affect the competitiveness of a supplier.

12. For completeness, the CMA also assessed the incentive of the Merged Entity to foreclose rivals. The CMA found that it is not clear that a total foreclosure strategy would be profitable because of mixed evidence in relation to potential downstream gains of a foreclosure strategy: (i) evidence from insurance companies indicated that a foreclosure strategy would be unlikely to impact the competitiveness of rivals, indicating that insurance companies may be unlikely to switch away from foreclosed salvagers; and (ii) the strength of other salvagers (eg Copart) may mean that the Merged Entity may not win the contract from the foreclosed rival in the event that switching were to occur.

13. Accordingly, the CMA believes that the Merged Entity is unlikely to have the ability to foreclose rival salvagers by denying them access to Frontier Salvage. Additionally, it is unlikely that the Merged Entity would have the incentive to foreclose competitors.

14. In relation to Frontier Dismantling, third party evidence indicated that there is an effective alternative to Frontier Dismantling which has been widely used by rival salvagers for a number of years. Accordingly, the CMA considered the Merged Entity will not have the ability to foreclose rival salvagers by denying them access to Frontier Dismantling.

15. In relation to SYNETIQ's white-label auction platform, the CMA found that the Merged Entity is unlikely to have the ability to foreclose [✂] (the [✂] rival who currently licenses SYNETIQ's white-label auction platform) [✂] given the imminent introduction of at least two alternatives within the next year. Moreover, any loss of access to SYNETIQ's white-label auction platform is unlikely to impact on the ability of salvagers to compete given the timeframe in which alternatives are expected to be available, and given that insurance companies indicated that that in general, they would not be impacted materially by delays to the sale of salvage vehicles as a result of disruption to an auction platform.

16. For completeness, the CMA also assessed the incentive of the Merged Entity to foreclose rivals. The CMA found that it is not clear that a foreclosure strategy would be profitable because of mixed evidence in relation to potential downstream gains of a foreclosure strategy: (i) evidence from insurance companies indicated that a foreclosure strategy would be unlikely to impact the competitiveness of rivals, indicating that insurance companies may be unlikely to switch away from foreclosed salvagers (and any foreclosure could only delay the ability of rival salvagers to monetise salvage vehicles in the short-term) and (ii) the strength of other salvagers (eg Copart) may mean that the Merged Entity may not win the contract from the foreclosed rival in the event that switching were to occur.

17. Accordingly, the CMA believes that the Merged Entity is unlikely to have the ability to foreclose rival salvagers by denying them access to SYNETIQ's white-label auction platform. Additionally, it is unlikely that the Merged Entity would have the incentive to foreclose competitors.

18. In light of the above, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of vertical effects arising from total input foreclosure of rival salvagers in the UK through refusal to supply Frontier Salvage, Frontier Dismantling or SYNETIQ's white-label auction platform.

19. For these reasons, the CMA does not believe that the Merger gives rise to a realistic prospect of an SLC in the UK as a result of horizontal unilateral or vertical effects.

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

ASSESSMENT

PARTIES

21. IAA is an international company active primarily in the supply of salvage services (and, correspondingly, the supply of salvage vehicles) in the United States, Canada and – through its subsidiary, IAA UK – in the UK.[1] IAA has been active in the UK since around 2015.[2] The turnover of IAA in the financial year 2021 was approximately £1.4 billion worldwide and approximately £[✂] in the UK.[3]

22. SYNETIQ is active in the UK, primarily in the supply of salvage services (and, correspondingly, the supply of salvage vehicles). SYNETIQ has inhouse dismantling capability meaning it is a direct supplier of reusable vehicle parts to downstream customers such as repairers and body shops, and to insurance companies that use them to repair vehicles. In addition, SYNETIQ supplies certain IT solutions (namely, Frontier Salvage and Frontier Dismantling) and a white-label auction platform to third party salvagers.[4] SYNETIQ was formed in 2019 through a merger of Car Transplants Limited, Motorhog Limited (including FAB Recycling Limited) and DH Systems Consultancy Limited, an IT solutions provider.[5] The turnover of SYNETIQ in the financial year 2021 was approximately £152 million, all of which was generated in the UK.[6]

TRANSACTION

23. On 21 October 2021, IAA UK**,** an indirect wholly owned subsidiary of IAA, agreed to acquire the entire issued share capital of SYNETIQ for a consideration of £225 million, subject to working capital and other adjustments.[7] The Merger completed on 26 October 2021.[8]

[1] Final Merger Notice submitted by the Parties to the CMA on 12 January 2022 (**FMN**), paragraphs 10 and 13.
[2] In 2015, KAR Auction Services (of whom IAA was previously a part of) acquired HBC Vehicle Services, which was subsequently rebranded to IAA in 2019 (see press releases here and here).
[3] Email from O'Melveny Myers (**OMM**) to the CMA dated 25 February 2022. Of this turnover, approximately £23 million was attributable to SYNETIQ, which was included in IAA's financial data as of 27 October 2021.
[4] These solutions were formerly been supplied by DH Systems Consultancy Limited. See further paragraph 49 below.
[5] FMN, paragraph 15.
[6] FMN, paragraph 5.
[7] FMN, paragraphs 19 and 21.
[8] FMN, paragraph 23; press release available here.

JURISDICTION

24. Each of IAA and SYNETIQ is an enterprise. As a result of the Merger, IAA and SYNETIQ have ceased to be distinct.

25. The UK turnover of SYNETIQ exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied.

26. The Merger was publicly announced on 22 October 2021[9] and was completed on 26 October 2021.[10] The four-month deadline for a decision under section 24 of the Act is 25 March 2022, following an extension under section 25(1) of the Act.

27. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.

28. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 13 January 2022 and the statutory 40 working day deadline for a decision is therefore 9 March 2022.

COUNTERFACTUAL

29. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For completed mergers the CMA generally adopts the pre-merger conditions of competition as the counterfactual against which to assess the impact of the merger.[11] However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.[12]

30. In this case, there is no evidence supporting a different counterfactual, and the Parties and third parties have not put forward arguments in this respect. Therefore, the CMA believes the pre-Merger conditions of competition to be the relevant counterfactual.

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[9] Press release available here.
[10] FMN, paragraph 23; press release available here.
[11] See Merger Assessment Guidelines dated March 2021 (**CMA129**), paragraph 3.1.
[12] See CMA129, paragraphs 3.12 to 3.16.

BACKGROUND

The salvage vehicle supply chain

31. Salvage vehicles are damaged vehicles. Typically, salvage vehicles are damaged vehicles that are deemed uneconomical for repair by insurance companies, fleet management companies and claims management companies (eg, the insurance company considers that the cost of repairing the vehicle is greater than the cost of paying the policyholder for a replacement vehicle).[13] Salvage vehicles may also be damaged vehicles recovered by public authorities, such as the police, or vehicles deemed uneconomical for repair by private sellers.[14]

32. Broadly, the salvage vehicle supply chain involves the following stages:[15]

    (a) **Initial recovery**. A damaged vehicle (or a notification that a vehicle is damaged) is received by upstream customers of salvage services such as insurance, fleet management or claims management company (who deems it, or considers it likely to be, uneconomical for repair) or the police.

    (b) **Collection, storage and processing.** The salvager collects[16] the damaged vehicle from the upstream customer (or the upstream customer's customer, eg the policyholder in case of an insurance company) and transports it to its site (or one of its sites) for processing. The salvager then typically assesses the level of damage to the vehicle to determine – together with other relevant factors[17] – the appropriate disposal channel for the vehicle, ie:

        (i) **Sale via online auction**. Vehicles that are suitable for repair are typically sold via online auction.[18]

        (ii) **Dismantling and sale of economically reusable parts**. Vehicles that are not suitable for repair but that have reusable parts may be dismantled and the parts then sold or recycled. Depending on the salvager, such dismantling and sale may be undertaken inhouse or by third party providers.[19]

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[13] FMN, paragraph 2.
[14] FMN, paragraph 2.
[15] FMN, paragraph 60.
[16] Such collection may also be referred to as 'recovery'.
[17] Such factors may include upstream customer contract terms, market conditions and, depending on the salvager's business model, the salvager's own business requirements. [✂], page 14.
[18] Salvagers may use proprietary or third party auction platforms. For example, in the UK, Copart, SYNETIQ, IAA and Recycling Lives have proprietary auction platforms, whereas [✂] license SYNETIQ's white-label auction platform.
[19] Whilst SYNETIQ dismantles vehicles inhouse, IAA does not have inhouse dismantling capability.

(iii) **Scrap**. The most seriously damaged vehicles must be scrapped in whole.

33. Salvagers may use IT solutions to manage (eg by tracking stock levels, costs and invoices) the processing of salvage vehicles (**salvage vehicle management systems**) and salvage vehicle parts (**salvage parts management systems**).[20]

The supply of salvage services to insurance companies

34. The Parties primarily overlap in the supply of salvage services to insurance companies. The majority of IAA's revenues in the UK are generated from [✂].[21]

35. Generally, salvage services are provided to insurance companies pursuant to multiyear (typically, three-year[22]) contracts awarded by tender.[23] While the business models of salvagers may vary (for example, unlike IAA, SYNETIQ has inhouse dismantling capabilities), contracts with insurance companies usually require that the salvager provides nationwide vehicle collection, inspection, storage and processing services.[24] Salvagers generate revenue from margin achieved on the onward sale of salvage vehicles (or their parts) via the disposal channels described above.[25]

COMPETITIVE ASSESSMENT

36. In assessing a completed merger, the CMA is required to consider whether it is or may be the case that the merger 'has resulted, or may be expected to result, in a substantial lessening of competition within any market or markets in the United Kingdom for goods or services'.[26] The assessment of the relevant market is an analytical tool that forms part of the analysis of the competitive effects of the merger and should not be viewed as a separate exercise.[27] In this case, the CMA assessed dynamics relevant to the Parties' activities in the supply of salvage services to insurance companies[28] and in the supply of salvage vehicles in the UK, including

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[20] SYNETIQ's response to the CMA's RFI dated 15 December 2021, submitted on 22 and 23 December 2021. As with auction platforms, salvagers may use proprietary or third party salvage vehicle or salvage parts management systems. For example, in the UK, Copart, SYNETIQ, IAA and Recycling Lives have proprietary salvage vehicle management systems whereas other salvagers may use third party systems under licence.
[21] FMN, paragraph 13.
[22] FMN, footnote 19.
[23] FMN, paragraph 56. The Parties' submissions were also consistent with evidence received from insurance companies during the CMA's investigation.
[24] FMN, paragraphs 71, 73 and footnote 13.
[25] Salvager contracts with insurance companies typically adopt one (or a combination) of two payment models for vehicles processed by the salvager. The salvager may purchase the salvage vehicle once the insurance company clears it for disposal for a set percentage the vehicle's pre-accident value (the '**PAV model**'). Alternatively, for vehicles sold at auction, the insurance company may receive a set percentage of the 'hammer' price on sale (the **'consignment model**'). FMN, paragraphs 66 to 67.
[26] Section 22(1) of the Act.
[27] CMA129, paragraph 9.1.
[28] Insurance customers are primarily the only upstream customer group served by both Parties (see paragraph 34).

dynamics in the supply of IT solutions (auction platforms, salvage vehicle management systems, salvage parts management systems) as relevant.[29] The CMA notes that its assessment of the evidence for the purpose of its consideration of whether the Merger may be expected to result in an SLC does not depend on the precise definition of the relevant market.[30]

Horizontal unilateral effects

37. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or to degrade quality on its own and without needing to coordinate with its competitors.[31] Horizontal unilateral effects are more likely when the merging parties are close competitors.

38. The CMA has considered two theories of harm in relation to horizontal unilateral effects: (i) horizontal unilateral effects in the supply of salvage services to insurance companies in the UK; and (ii) horizontal unilateral effects in the supply of salvage vehicles in the UK.

Horizontal unilateral effects in the supply of salvage services to insurance companies in the UK

39. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to horizontal unilateral effects in the supply of salvage services to insurance companies in the UK. In its assessment, the CMA considered: (i) the Parties' and competitors' shares of supply; (ii) closeness of competition between the Parties; and (iii) the competitive constraints remaining post-Merger.

Shares of supply

40. Table 1 below presents volume estimates based on the number of salvage vehicles processed by salvage service suppliers for insurance companies in the UK in 2020.

[29] One third party raised concerns that the Merger would result in competition concerns as a result of increased concentration in the supply of reusable vehicle parts on the basis that both Parties directly compete in the supply of reusable vehicle parts. However, IAA told the CMA that it is not currently active in (nor does it have any plans to commence) the supply of vehicle parts in the UK. FMN, paragraph 16 and footnote 8, Parties' response to RFI dated 17 November 2021, submitted on 26 November 2021.
[30] CMA129, paragraph 9.2.
[31] CMA129, paragraph 4.1.

Table 1: Shares of supply for salvage services to insurance companies in the UK, 2020.

Supplier	*Share, %, 2020*
IAA	[5-10]
SYNETIQ	[5-10]
Merged Entity	**[10-20]**
Copart	[60-70]
E2E[32]	[10-20]
Hills[33]	[0-5]
Others	[0-5]

Source: CMA estimates based on data from the Parties and third parties.

41. The share data suggests that Copart is by far the largest supplier with a share in excess of [60-70]%. There are a few other suppliers with moderate shares, including the Parties and E2E and a number of smaller suppliers, including Hills. Post-Merger, the Merged Entity would be the second largest supplier with a combined share of [10-20]% and an increment of [5-10]% (the CMA notes that the majority of IAA's share of supply relates to vehicles processed for [✂], see paragraph 34). Copart will remain the largest supplier to insurance companies in the UK by a significant margin and E2E will be the third largest supplier.

42. The CMA considers that the nature of demand (contracts are usually tendered around every 3 years[34]) may mean that shares of supply at any particular point in time are not particularly probative of a supplier's competitive strength (given that a gain or loss of a single contract could have a material impact on shares of supply). As such, the CMA placed more weight on evidence of closeness of competition between the Parties and of the competitive constraints from alternative suppliers. Nevertheless, the CMA considers that the high share of supply attributed to Copart indicates that it has been significantly more successful at winning insurance company contracts relative to the other salvagers, including the Parties.

Closeness of competition

43. The Parties submitted that they do not compete closely in the supply of salvage services to insurance customers, given:

[32] E2E is a membership organisation comprised of a number of salvagers as its members. E2E acts as a single interface between upstream customers and its members (who provide the salvage services as a collective network).
[33] Hills is a member of E2E, [✂]. This estimate refers to Hills' share of supply independent of its activities as part of E2E.
[34] FMN, footnote 19.

(a) they are not aware of any cases in which one of them would have replaced the other as the incumbent salvager to an insurance company; and

(b) they attract different insurance customers given differences in their salvage service offering, namely SYNETIQ has inhouse dismantling capability whereas IAA does not.[35]

44. The CMA gathered evidence from a range of UK insurance companies in the course of its investigation. As insurance companies requiring salvage services are sophisticated and well-informed customers, the CMA placed weight on evidence received from these customers regarding competitive alternatives to the Parties.

45. Insurance companies identified a number of factors as important when selecting a salvager: national coverage, price that the insurance company gets for a salvage vehicle,[36] processing and recycling capabilities (eg inhouse dismantling capability and the ability to resupply reusable vehicle parts to insurance companies), service quality and compliance with relevant regulations and industry best practice. Of these, two in particular – national coverage and recycling capabilities – may differ significantly between salvagers.

(a) **National coverage:** most of the insurance companies that responded to the CMA's investigation indicated that the ability for a salvager to provide nationwide coverage (ie collection of a salvage vehicle) is one of the most important service parameters they consider when selecting a salvager. Evidence received from insurance companies indicated that there are four salvagers – Copart, IAA, SYNETIQ, and E2E[37] – that provide national coverage, and that Hills [✂]. On this basis, the CMA considers that salvagers with nationwide coverage may compete more closely with each other than with regional salvagers.

(b) **Recycling capabilities:** a number of insurance companies indicated that they do not consider that the Parties compete particularly closely because of their different capabilities. According to some insurance companies, salvagers' recycling capabilities (see paragraph 45) are important for some insurance companies because (i) there is value for them in knowing which company will handle the dismantling of non-roadworthy vehicles and (ii) the ability to get reusable vehicle parts from the salvager (which can be used by them to repair

[35] FMN, paragraphs 87 to 90.
[36] Eg percentage of the pre-accident value or the sales price achieved at the auction sale (see footnote 25 above).
[37] The majority of insurance companies that responded to CMA's investigation considered E2E without SYNETIQ a suitable provider of salvage services for their needs, including through offering national coverage. See further paragraph 49 below.

other vehicles) makes the salvage services supply chain more sustainable. In this regard, SYNETIQ’s business model is more similar to that of E2E and Hills, both of which have the capability to dismantle vehicles inhouse (in the case of E2E, via its members) and to supply reusable vehicle parts. The Parties’ internal documents were consistent with the insurance companies’ views set out above.[38]

46. The CMA considers that there is a small group of relatively close competitors in the supply of salvage services (namely, Copart, the Parties, E2E and Hills),with SYNETIQ in particular facing closer competition from E2E and Hills than from IAA.

Competitive constraints

47. Most insurance companies that responded to the CMA’s investigation indicated there are sufficient alternative salvagers that will constrain the Merged Entity post-Merger, including in particular Copart, E2E and Hills, who all offer nationwide coverage [✂] (see paragraph 45(a)). No insurance companies raised concerns about the impact of the Merger on competition in the supply of salvage services.[39]

48. Copart is and will remain the largest salvager servicing insurance companies in the UK by a significant margin. Copart indicates that it provides services to ‘21 of the top 25 UK insurance companies’ in the UK.[40] All insurance companies who responded to the CMA’s investigation consistently indicated that Copart is a very strong competitor.

49. Post-Merger, E2E will be the third largest salvager in the UK.[41]

    (a) The CMA notes that SYNETIQ was formed as the combination of two E2E members, Car Transplants Limited and Motorhog Limited together, with DH Systems Consultancy Limited, a supplier of IT solutions (including Frontier Salvage, Frontier Dismantling and a white-label auction platform) [✂]. Since its formation, SYNETIQ [✂][42] and the CMA anticipates that SYNETIQ is unlikely to bid as part of the E2E consortium following the Merger. The CMA therefore considered the constraint from E2E excluding SYNETIQ as an active member.

[38] For example, [✂] dated May 2021, page 25, and [✂] dated 2021, page 17.
[39] Two competitors raised concerns that the Merger would lead to a negative impact on competition as it would reduce choice for insurance companies.
[40] Copart’s website: https://remarketing.copart.co.uk/insurance-vehicles/.
[41] See footnote 32.
[42] [✂].

(b) Insurance companies that responded to the CMA's investigation indicated that E2E (without SYNETIQ) is a strong competitor. [✂].[43]

50. Post-Merger, Hills will be the fourth largest salvager in the UK. Hills competes for insurance company contracts as part of E2E [✂]. [✂].[44] Like SYNETIQ, Hills also has inhouse dismantling capability and supplies reusable vehicle parts. Evidence from some third parties indicates that this is increasingly an attractive and important proposition for insurance companies as it is a more sustainable business model.

51. The CMA considers that each of Copart, E2E and Hills will continue to provide a material competitive constraint on the Merged Entity following the Merger.

52. Feedback received from insurance companies suggested that several smaller suppliers may also provide a competitive constraint following the Merger. In particular, some insurance companies who responded to the CMA's investigation indicated that Recycling Lives, Suretrak and Jonathan Lloyd are also capable of providing salvage services with a nationwide coverage. Two insurance companies that have a sizeable presence currently procure salvage services from Suretrak and Jonathan Lloyd respectively.

Conclusion

53. For the reasons set out above, the CMA believes that there are sufficient alternatives to constrain the Merged Entity in the supply of salvage services to insurance companies in the UK post-Merger. In particular, the Merged Entity will continue to be constrained by Copart (who will remain the largest supplier by a significant margin), E2E (who will be the third largest supplier) and Hills, who, along with E2E, is a closer alternative to SYNETIQ than IAA for insurance companies who prefer a salvager with recycling capabilities. In addition, the Merged Entity will also be constrained by a number of smaller suppliers including Recycling Lives, Suretrak and Jonathan Lloyd.

54. Accordingly, 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 salvage services to insurance companies in the UK.

Horizontal unilateral effects in the supply of salvage vehicles in the UK

55. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to horizontal unilateral effects in

[43] Call between [✂] and the CMA on 6 December 2021.
[44] [✂].

the supply of salvage vehicles in the UK. The CMA focussed its assessment on the degree of constraint from competitors.

56. Given that all salvagers active in the supply of salvage services to insurance companies in the UK are also active in the supply of salvage vehicles to downstream customers in the UK, the CMA's assessment indicates that the competitors that the Parties face in the supply of salvage services to insurance companies – such as Copart, E2E and Hills – are also present in the supply of salvage vehicles.

57. Furthermore, the Parties are likely to face a broader set of competitors in the supply of salvage vehicles as salvage vehicles may be sourced not only from insurance companies, but also from other entities such as claims managers or the police. Third parties who responded to the CMA's investigation generally indicated that downstream customers are neither able, nor consider it important, to differentiate salvage vehicles by the upstream customer category (eg whether the vehicle was obtained by the salvager from an insurance company or another customer category).

58. In light of the above, 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 the supply of salvage vehicles in the UK.

Vertical effects

59. Vertical effects may arise when a merger involves firms at different levels of the supply chain, for example a merger between an upstream supplier and a downstream customer or a downstream competitor of the supplier's customers.

60. The concern with an input foreclosure theory of harm is that the merged entity may use its control of an important input to harm its downstream rivals' competitiveness, for example by refusing to supply the input (total foreclosure) or by increasing the price or worsening the quality of the input supplied to them (partial foreclosure). This might then harm overall competition in the downstream market, to the detriment of customers.[45]

61. The CMA considered three theories of harm in relation to vertical effects: (i) total input foreclosure of rival salvagers in the UK through refusal to supply Frontier Salvage; (ii) total input foreclosure of rival salvagers in the UK through refusal to

[45] CMA129, paragraph 7.9.

supply Frontier Dismantling; and (iii) total input foreclosure of rival salvagers in the UK through refusal to supply SYNETIQ's white-label auction platform.[46]

62. The CMA considered these three theories of harm following concerns raised by third parties including [✂].[47] For each of the three vertical theories of harm, the CMA considered: (i) the ability of the Merged Entity to foreclose rival salvagers by refusing access to the input, in particular, the extent to which customers would be able to prevent any attempted foreclosure by developing their own alternatives to SYNETIQ's products, or switch to other existing credible alternatives; and, where appropriate (ii) its incentive to do so.

Total input foreclosure of rival salvagers in the UK (Frontier Salvage)

63. As set out above, SYNETIQ licenses Frontier Salvage to third party salvagers who do not currently have a proprietary salvage vehicle management system. SYNETIQ generates fees from licensees [✂].[48]

Ability

64. The CMA assessed whether the Merged Entity would have the ability to foreclose rival salvagers who use Frontier Salvage by refusing access to it. When assessing this, the CMA considered the extent to which the ability of the Merged Entity to foreclose its rivals is limited by contractual protections, the importance of salvage vehicle management systems in the supply of salvage services to insurance customers (and relatedly, salvage vehicle supply) and the alternatives available that competitors could switch to.

65. SYNETIQ's current contracts with licensees are [✂] contracts with a [✂] termination notice.[49] As such, SYNETIQ may be limited in its ability to refuse access to customers of Frontier Salvage immediately. However, the CMA considers that contracts may not completely remove a firm's ability to harm its rivals given that the contracts might not prevent all ways in which the competitiveness of rivals could be

[46] The CMA also considered vertical effects arising from a partial foreclosure strategy (eg by increasing prices of the input or degrading the technical capabilities of the input) or through access to potentially commercially sensitive information relating to rival salvagers' offering as a result of providing the input (see CMA129, paragraph 7.3). However, given that, as set out below, the CMA found that, in each case, the Merged Entity would not be able to harm competitors through a refusal to supply the input owing to the availability of alternatives, the CMA found that the Merged Entity would not be able to foreclose competitors through a partial foreclosure strategy or access to such information. Therefore, the CMA has not discussed this further in the decision.
[47] [✂].
[48] SYNETIQ's response to CMA's RFI dated 15 December 2021 submitted on 21 December and 22 December 2021.
[49] SYNETIQ's response to CMA's RFI dated 15 December 2021 submitted on 21 December and 22 December 2021.

harmed.[50] In this instance, to the extent that the contract provides any protection, this is of limited duration ([✂]).

66. Evidence received from all salvagers during the CMA's investigation suggested that they consider salvage vehicle management systems (such as Frontier Salvage) to be an important input for them effectively to provide services to insurance companies. In particular, Frontier Salvage allows rival salvagers to manage effectively the entire process from collection of the vehicle through to its disposal (eg by sale via an auction platform, dismantling or scrapping) in a timely and efficient manner. However, some insurance companies indicated that a delay in processing salvage vehicles would not materially impact the salvage service they receive.[51]

67. The evidence gathered by the CMA suggests that currently there are limited alternatives to Frontier Salvage. Copart and Recycling Lives have their own proprietary salvage vehicle management systems. [✂]. Two [✂]use a system called [✂], but one third party told the CMA that this is an outdated system that is no longer well-maintained. Furthermore, all salvagers who responded to the CMA's investigation who use Frontier Salvage indicated that they do not consider that there are credible alternatives to Frontier Salvage (including off-the-shelf solutions) currently available (apart from the recent developments described below).

68. There are, however, at least two credible alternatives that are expected to be fully ready for use before the end of the year. These alternatives have recently been developed, or are in the final stages of development, by [✂][52]:

    (a) One salvager has developed a substitute system to Frontier Salvage.[53] This system [✂].

    (b) Another salvager has developed another substitute system to Frontier Salvage. This system [✂].

69. The CMA considers that the Merged Entity is unlikely to have the ability to foreclose competitors who use Frontier Salvage given the imminent introduction of at least two alternatives under development by [✂]. These alternatives are likely to be available within the next year to act as a replacement to Frontier Salvage [✂]. The CMA notes that the concerns about access to Frontier Salvage were raised

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[50] CMA129, paragraph 7.15.
[51] Under the consignment model, a delay in receiving returns from the sale of the salvage vehicle is not particularly important for the insurance company (delays can also be due to other reasons, eg to hold off selling a car if there is an oversupply at that time to maximise returns). Under the PAV model, a delay in processing the vehicle would have no impact on the insurance company as their returns are based on a pre-determined value.
[52] See paragraph 49(a).
[53] [✂].

specifically by [✂] and that the new products are being developed by [✂]. Moreover, any loss of access to Frontier Salvage is unlikely to impact on the ability of salvagers to compete given the timeframe in which alternatives are expected to be available, and given that insurance companies have indicated that they do not consider that a delay in processing salvage vehicles would materially affect the competitiveness of a supplier. However, for completeness, the CMA also assessed the incentive of the Merged Entity to foreclose rivals.

Incentive

70. The CMA considered whether a total foreclosure strategy would be profitable by comparing the likely downstream gains versus the likely upstream losses of such a strategy.

71. In relation to the potential upstream losses that would be incurred if the Merged Entity stopped supplying Frontier Salvage to rival salvagers, the evidence reviewed by the CMA suggests that the revenue lost from foreclosing rivals is likely to be low. SYNETIQ's revenue from supplying Frontier Salvage to third party salvagers in 2021 was at most [✂][54] [✂].

72. The CMA received mixed evidence in relation to the potential downstream gains to the Merged Entity of a foreclosure strategy.

73. First, it is unclear that any foreclosure would impact on the competitiveness of its salvager rivals. As set out in paragraph 66, on the one hand, a number of salvagers told the CMA that a salvage vehicle management system was important for salvagers to be able to effectively provide salvage services to insurance companies. However, insurance companies told the CMA that a delay in processing salvage vehicles would not materially impact them. This indicates that insurance companies may be unlikely to switch away from foreclosed salvagers.

74. Second, any downstream gains would be uncertain given that the Merged Entity may not win the contract from the foreclosed rival. In particular, the CMA notes that Copart has a strong track record of winning contracts (it reportedly serves 21 of the 25 largest insurance customers, see paragraph 48 above). This indicates that, to the extent that insurance companies switch salvagers as a result of a foreclosure strategy, the Merged Entity is unlikely to capture a large number of the insurance

[54] FMN, footnote 62.

companies switching away from rivals (insurance companies may switch to a rival of the Parties, such as Copart).[55]

75. Given that there may be limited switching by insurance companies, and the Merged Entity may not win insurance contracts as a result of a foreclosure strategy, the CMA considers that it is unlikely that the Merged Entity would have the incentive to foreclose competitors.

Conclusion

76. For the reasons set out above, the CMA believes that the Merged Entity is unlikely to have the ability to foreclose rival salvagers by denying them access to Frontier Salvage. Additionally, it is unlikely that the Merged Entity would have the incentive to foreclose competitors.[56] Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of vertical effects arising from total input foreclosure of rival salvagers in the UK through refusal to supply Frontier Salvage.

Total input foreclosure of rival salvagers in the UK (Frontier Dismantling)

77. The CMA considered whether the Merged Entity might foreclose rival salvagers who use Frontier Dismantling by refusing access to it.

78. As discussed above, Frontier Dismantling is a stock management system for vehicle parts used by salvagers. Currently, a number of salvagers license Frontier Dismantling from SYNETIQ. SYNETIQ generates fees from licensees [✂].[57]

Ability

79. The CMA assessed whether the Merged Entity would have the ability to foreclose rival salvagers who use Frontier Dismantling by refusing access to it. When assessing this, the CMA considered the extent to which the ability of SYNETIQ to foreclose its rivals is limited by contractual protections, the importance of Frontier Dismantling in the supply of salvage services to insurance customers (and relatedly, salvage vehicle supply) and the alternatives available that competitors could switch to.

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[55] Copart's ability to compete would not be affected by any total foreclosure strategy as it has its own proprietary vehicle salvage management system.
[56] Given these conclusions, the CMA has not needed to consider the effect of such a foreclosure strategy.
[57] SYNETIQ's response to CMA's RFI dated 15 December 2021 submitted on 21 December and 22 December 2021.

80. SYNETIQ's current contracts with licensees are [✂] contracts with a [✂] termination notice.[58] As such, SYNETIQ may be limited in its ability to refuse access to customers of Frontier Dismantling immediately. However, the CMA considers that contracts may not completely remove a firm's ability to harm its rivals given that the contracts might not prevent all ways in which the competitiveness of rivals could be harmed.[59] In this instance, to the extent that the contract provides any protection, this is of limited duration ([✂]).

81. Some salvagers told the CMA that they consider salvage parts management systems (such as Frontier Dismantling) to be an important input in order for them to effectively provide salvage services to insurance companies.

82. The evidence gathered by the CMA indicated that there will continue to be sufficient alternatives to Frontier Dismantling available following the Merger.

    (a) Several salvagers told the CMA that 'Pinnacle Professional Yard Management Software' operated by Hollander International is an effective alternative to Frontier Dismantling. Third parties noted that this is an established product, with almost half of the salvagers who use third party vehicle parts management systems already using this system instead of Frontier Dismantling (with some using it for a number of years).

    (b) One salvager told the CMA that it is in the process of developing its own proprietary system which will have the same functionalities as Frontier Dismantling and Pinnacle. [✂].

Conclusion

83. For the reasons set out above, the CMA does not consider that the Merged Entity will have the ability to foreclose rival salvagers by denying them access to Frontier Dismantling.[60]

84. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of vertical effects arising from total input foreclosure of rival salvagers in the UK through refusal to supply Frontier Dismantling.

[58] SYNETIQ's response to CMA's RFI dated 15 December 2021 submitted on 21 December and 22 December 2021.
[59] CMA129, paragraph 7.15.
[60] Given this conclusion, the CMA has not needed to consider the Merged Entity's incentive to pursue, or the effect of, such a strategy.

Total input foreclosure of rival salvagers in the UK (SYNETIQ's white-label auction platform)

85. In the present case, the CMA considered whether the Merged Entity might foreclose rival salvagers by refusing access to SYNETIQ's white-label auction platform.

86. As discussed above, SYNETIQ provides licensed access to a white-label online auction platform to other salvagers which they use to sell salvage vehicles via online auctions. [✂] is the [✂] rival to which SYNETIQ currently licenses its white-label auction platform.[61]

Ability

87. The CMA assessed whether the Merged Entity would have the ability to foreclose rival salvagers that use SYNETIQ's white-label auction platform by refusing access to it. When assessing this, the CMA considered the extent to which the ability of the Merged Entity to foreclose its rivals is limited by contractual protections, the importance of an auction platform in the supply of salvage services to insurance customers (and relatedly, the supply of salvage vehicles) and the alternatives available which competitors could switch to.

88. SYNETIQ's current license agreement with [✂] is for an initial period of [✂] from [✂] with [✂] notice period for termination of the contract in the initial [✂] (the notice period reduces to [✂] if the term of the license agreement is extended).[62i] As such, SYNETIQ's ability to refuse access to [✂] of its white-label auction platform immediately may be limited. However, the CMA considers that contracts may not completely remove a firm's ability to harm its rivals given that the contracts might not prevent all ways in which the competitiveness of rivals could be harmed.[63] In this instance, to the extent that the contract provides any protection, this is of limited duration ([✂]).

89. Most salvagers who responded to the CMA's investigation stated that online auctions are the only viable channel for selling salvage vehicles which suggested that access to an auction platform is an important input for salvagers. However, some insurance companies told the CMA that in general, they would not be

[61] SYNETIQ also licenses its white-label auction platform currently to [✂]. The CMA has focused its assessment on [✂] given that [✂].
[62] Email from OMM to the CMA dated 2 February 2022.
[63] CMA129, paragraph 7.15.

impacted materially by delays to the sale of salvage vehicles as a result of disruption to an auction platform.[64]

90. The evidence gathered by the CMA suggests that currently there are limited alternatives to SYNETIQ's white-label auction platform. Copart and Recycling Lives have proprietary online auction platforms. [✂]. All salvagers that responded to the CMA's investigation told the CMA that off-the-shelf solutions, marketplaces like eBay and specialised online auction platforms for used vehicles like Manheim Auctions are not a credible channel for the sale of salvage vehicles.

91. There are, however, at least two credible alternatives that have recently been developed or are in the final stages of development and are expected to be fully ready for use before the end of the year:

    (i) [✂] told the CMA that it is in the final stages of developing its own proprietary online auction platform, [✂]. [✂] also told the CMA that auction platforms are not complex to develop.

    (ii) Another salvager [✂] told the CMA that it is in the final stages of developing a proprietary online auction platform. [✂].

92. For the reasons set out above, the CMA considers that the Merged Entity is unlikely to have the ability to foreclose salvagers (in particular, [✂]) given the imminent introduction of at least two alternatives within the next year to act as a replacement to SYNETIQ's white-label auction platform. The CMA notes that the alternatives are being developed by [✂], both of whom would have the incentive to make the alternative available to [✂] to increase the attractiveness of the platform by increasing the number of vehicles listed on the platform (see paragraph 95 below) as well as to the extent it improves the competitiveness of their bids. Moreover, given the fact that any withdrawal of SYNETIQ's white-label auction platform to [✂] would be likely to occur at the earliest after [✂] due to the contractual termination period, any loss of access to SYNETIQ's white-label auction platform is unlikely to impact on the ability of [✂] to compete given the timeframe in which alternatives are expected to be available, and given that insurance companies indicated that in general, they would not be impacted materially by delays to the sale of salvage

[64] Under the consignment model, a delay in receiving returns from the sale of the salvage vehicle is not particularly important for the insurance company (delays can also be due to other reasons, eg to hold off selling a car if there is an oversupply at that time to maximise returns). Under the PAV model, a delay in processing the vehicle would have no impact on the insurance company as their returns are based on a pre-determined value.

vehicles as a result of disruption to an auction platform. However, for completeness, the CMA has also assessed the incentive of the Merged Entity to foreclose rivals.

Incentive

93. The CMA considered whether a total foreclosure strategy would be profitable by comparing the likely downstream gains versus the likely upstream losses of such a strategy.

94. In relation to the potential upstream losses that would be incurred if the Merged Entity stopped supplying SYNETIQ's white-label auction platform to rival salvagers, the evidence reviewed by the CMA suggests that the revenue lost from foreclosing rivals is likely to be low. SYNETIQ's revenue from supplying its white-label auction platform to third party salvagers in 2021 was approximately £[✂].[65]

95. The CMA has also received evidence suggesting that the number of vehicles on an auction platform affects the attractiveness of that platform for customers: a platform with a larger number of vehicles will be more attractive, and therefore will likely attract a larger volume of customers. In addition to revenues associated with supplying the white-label platform to third parties, SYNETIQ likely derives a benefit from their participation on the platform as their listings increase the number of vehicles on the platform, which in turn strengthens the overall platform in a way that benefits SYNETIQ's own listings. The losses that SYNETIQ might occur indirectly as a result in a reduction in the number of listings if it were to foreclose other users of the auction platform cannot be specifically quantified by the CMA at this time.

96. In relation to the potential downstream gains to the Merged Entity of a foreclosure strategy, the impact on any rival salvagers of foreclosure to SYNETIQ's white-label auction platform will relate to the ability of the rival salvager to monetise the salvage vehicles that it collects, stores, and processes on behalf of insurance companies. In relation to such impact on the competitiveness of salvagers in the supply of salvage services to insurance companies, insurance companies told the CMA that they would not be materially impacted by delays to the sale of salvage vehicles as a result of disruption to an auction platform. As such, insurance companies are unlikely to switch away from foreclosed salvagers. In relation to the impact of such foreclosure strategy on the competitiveness of salvagers in the supply of salvage vehicles, the CMA notes that if a rival salvager is foreclosed from SYNETIQ's white-label auction platform, they will lack a route to market for the salvage vehicles that they handle. Notwithstanding this, given the CMA's findings in paragraph 92 above

[65] FMN, footnote 62.

in relation to the imminent introduction of at least two alternatives within the next year, any foreclosure could only delay the ability of rival salvagers to monetise salvage vehicles in the short-term (as opposed to preventing rival salvagers from being able to monetise their salvage vehicles at all).

97. Furthermore, any downstream gains would be uncertain as downstream customers may not switch to the Merged Entity's auction platform but another rival (for example, Copart, who processes a much larger number of salvage vehicles than the Parties).

98. Given the evidence outlined above, the CMA considered that the Merged Entity would not have the incentive to foreclose competitors.

Conclusion

99. For the reasons set out above, the CMA believes that the Merged Entity is unlikely to have the ability to foreclose rival salvagers by denying them access to SYNETIQ's white-label auction platform. Additionally, it is unlikely that the Merged Entity would have the incentive to foreclose competitors.[66] Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of vertical effects arising from total input foreclosure of rival salvagers in the UK through refusal to supply SYNETIQ's white-label auction platform.

BARRIERS TO ENTRY AND EXPANSION

100. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no SLC. In assessing whether entry or expansion might prevent an SLC, the CMA considers whether such entry or expansion would be timely, likely and sufficient.[67]

101. However, the CMA has not had to conclude on barriers to entry or expansion as the Merger does not give rise to competition concerns on any basis.

THIRD PARTY VIEWS

102. The CMA contacted customers and competitors of the Parties. Third party comments have been taken into account where appropriate in the competitive assessment above.

[66] Given these conclusions, the CMA has not needed to consider the effects of any foreclosure strategy.
[67] See CMA129, from paragraph 8.40.

DECISION

103. Consequently, the CMA does not believe that it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC within a market or markets in the United Kingdom.

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

Sorcha O'Carroll

Director
Competition and Markets Authority
2 March 2022

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[i] The first sentence of paragraph 88 should read as follows: SYNETIQ's current license agreement with [✂] is for an initial period of [✂] from [✂] with [✂] notice period for termination of the contract in the initial [✂] (the notice period reduces to [✂] if the term of the license agreement is extended).