

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

## Decision on acceptance of undertakings in lieu of reference

**ME/6967-21**

The CMA's decision to accept undertakings in lieu of reference under section 73(2) of the Enterprise Act 2002 given on 27 June 2022. Full text of the decision published on 6 July 2022.

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

### Introduction

1. On 19 August 2021, CVS Group plc (**CVS**) acquired Quality Pet Care Ltd (**The Vet**) (the **Merger**).
2. On 18 February 2022, the Competition and Markets Authority (**CMA**) decided under section 22(1) of the Enterprise Act 2002 (the **Act**) that it is or may be the case that the Merger constitutes a relevant merger situation that has resulted or may be expected to result in a substantial lessening of competition (**SLC**) within a market or markets in the United Kingdom (the **SLC Decision**).
3. On 25 February 2022, CVS offered undertakings in lieu of reference to the CMA for the purposes of section 73(2) of the Act. On 2 March 2022, CVS offered modified undertakings to the CMA (the **Proposed Undertakings**). The CMA gave notice to CVS on 4 March 2022 pursuant to section 73A(2)(b) of the Act, that it considered that there were reasonable grounds for believing that the undertakings offered, or a modified version of them, might be accepted by the CMA under section 73(2) of the Act and that it was considering CVS' offer (the **UILs Provisional Acceptance Decision**).
4. The text of the SLC Decision and the UILs Provisional Acceptance Decision are available on the CMA webpages.<sup>1</sup>

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<sup>1</sup> See [CVS / Quality Pet Care merger inquiry - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/cvs-quality-pet-care-merger-inquiry).

## The undertakings offered

5. As set out in the SLC Decision, the CMA found a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of standard small animal veterinary services in the local areas of Bristol, Nottingham, Portsmouth, Southampton and Warrington (together, the **SLC areas**).
6. As set out in the UIL Provisional Acceptance Decision, CVS offered to divest the entire The Vet business (including the eight The Vet practices) (the **Divestment Business**), as set out in the proposed undertakings published by the CMA (the **UILs**).<sup>2</sup> The Divestment Business includes all assets of the business (including leases) and key staff and will be divested as a going concern on a cash free/debt free basis.
7. CVS also offered to enter into an agreement for the sale and purchase of the Divestment Business with an upfront buyer, before the CMA finally accepts the UILs. CVS proposed TPV (UK Holdings) Limited (**TPV**) as the upfront buyer. On 24 May 2022, CVS and TPV entered into a Share Purchase Agreement for the entire share capital of The Vet. This agreement is conditional on acceptance by the CMA of the Proposed Undertakings, including approval of TPV as the buyer of the Divestment Business.

## Consultation

8. On 25 May 2022, pursuant to paragraph 2(1) of Schedule 10 to the Act, the CMA published the UILs, inviting interested parties to give their views on the UILs. The relevant text from the consultation is set out at Annex 1 of this decision.<sup>3</sup> For the reasons set out in the consultation, the CMA's preliminary view was that the UILs would resolve the SLC identified in the SLC decision in a clear-cut manner, ie without giving rise to material doubts about the overall effectiveness of the UILs or concerns about their implementation.<sup>4</sup>
9. The CMA received one submission during the consultation period. This third party did not raise any concerns in relation to the effectiveness of the UILs to address the SLC. However, the third party did express concerns about TPV as the proposed purchaser of the Divestment Business. In particular, this third party raised concerns in relation to: (i) TPV's financial resources; (ii) its ability to recruit and retain vets; and (iii) the potential for unforeseen increased costs in upscaling TPV's current

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<sup>2</sup> See [Proposed undertakings \(publishing.service.gov.uk\)](https://publishing.service.gov.uk).

<sup>3</sup> The full consultation text was published on [Consultation of acceptance \(publishing.service.gov.uk\)](https://publishing.service.gov.uk).

<sup>4</sup> [Merger remedies, \(CMA87\), December 2018](#), Chapter 3, in particular paragraphs 3.27, 3.28 and 3.30.

business model to manage the integration and operation of the eight practices of the Divestment Business with a fully-staffed central management and support teams. The third party also submitted there were risks arising from the operational and culture changes that would be needed given TPV's focus on 'exceptional care', compared with The Vet's value pricing model.

10. The CMA carefully assessed the concerns raised during the consultation as part of its purchaser approval process. On the points raised above, the CMA notes:
  - (a) TPV provided detailed financial projections to the CMA. Based on its own analysis of these projections, the CMA believes that TPV is capable of financing the acquisition and funding the ongoing development of the Divestment Business and its existing business from its projected turnover.
  - (b) TPV provided the CMA with a detailed integration plan which covers: (i) its recruitment and retention strategy, which would seek to ensure that the Divestment Business is able to recruit and retain veterinary talent; and (ii) its plans to ensure effective senior management coverage and oversight of the operations of the eight practices of the Divestment Business. Based on its own analysis of this plan, the CMA believes that TPV will be able to effectively integrate and manage the Divestment Business, including in relation to the recruitment and retention of vets.
  - (c) With regards to the cultural alignment between TPV and the Divestment Business, the CMA notes that TPV plans to improve, rather than degrade, the services available at the eight practices of the Divestment Business. The CMA considers that any operational and cultural differences between TPV and The Vet are likely to have lessened since 2019, when The Vet began to move away from its previous 'value-pricing' strategy.<sup>5</sup> Therefore, the CMA does not consider that any operational and cultural differences between the Divestment Business and TPV give rise to material risks in relation to the suitability of TPV as a purchaser for the Divestment Business.
11. Accordingly, the submission made during the consultation did not cause the CMA to change its preliminary view that the UILs would be acceptable (and the CMA has not otherwise become aware of any information that might cause a change in this view), and that TPV would be a suitable purchaser of the Divestment Business.

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<sup>5</sup> See paragraph 109 of the SLC Decision.

12. The CMA therefore considers that the UILs offered by CVS are clear-cut and appropriate to remedy, mitigate or prevent the competition concerns identified in the SLC Decision, and that TPV is a suitable purchaser of the Divestment Business.

## **Decision**

13. For the reasons set out above, the CMA considers that the UILs provided by CVS are as comprehensive a solution as is reasonable and practicable and remedy, mitigate or prevent the SLC identified in the SLC Decision and any adverse effects resulting from it. The CMA has therefore decided to accept the UILs offered by CVS pursuant to section 73 of the Act. The Merger will therefore not be referred for a phase 2 investigation.
14. The undertakings, which have been signed by CVS and will be published on the CMA webpages, will come into effect from the date of this decision.

**Colin Raftery**  
**Senior Director, Mergers**  
**Competition and Markets Authority**  
**27 June 2022**

**ANNEX 1:**

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

## Notice under paragraph 2(1) of Schedule 10 to the Enterprise Act 2002 (the Act) – consultation on proposed undertakings in lieu of reference pursuant to section 73 of the Act

ME/6967-21

### INTRODUCTION

1. On 19 August 2021, CVS Group plc (**CVS**) acquired Quality Pet Care Ltd (**The Vet**) (the **Merger**).
2. On 18 February 2022, the Competition and Markets Authority (**CMA**) decided under section 22(1) of the Act that it is or may be the case that the Merger constitutes a relevant merger situation<sup>6</sup> that has resulted or may be expected to result in a substantial lessening of competition (**SLC**) within a market or markets in the United Kingdom (the **SLC Decision**). The text of the SLC Decision is available on the CMA webpages.<sup>7</sup>
3. On 25 February 2022, CVS offered undertakings in lieu of reference to the CMA for the purposes of section 73(2) of the Act. On 2 March 2022, CVS offered modified undertakings to the CMA (the **Proposed Undertakings**).
4. On 4 March 2022, the CMA gave notice to CVS, pursuant to section 73A(2)(b) of the Act, that it considers that there are reasonable grounds for believing that the undertakings offered, or a modified version of them, might be accepted by the CMA under section 73(2) of the Act and that it is considering CVS' offer (the **UIL Provisional Acceptance Decision**).

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<sup>6</sup> Pursuant to section 25(4) of the Act the four-month period mentioned in section 24 of the Act is extended while the CMA is seeking undertakings in lieu of reference.

<sup>7</sup> See [CVS / Quality Pet Care merger inquiry - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/cvs-quality-pet-care-merger-inquiry).

5. Pursuant to 73A(3) of the Act the CMA had until 4 May 2022 to decide whether to accept this undertaking. On 21 April 2022, the CMA extended the period under section 73A(4) of the Act. The extension ends on 1 July 2022.

## THE UNDERTAKINGS OFFERED

6. As set out in the SLC Decision, the CMA found a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of standard small animal veterinary services in the local areas of Bristol, Nottingham, Portsmouth, Southampton and Warrington (together the **SLC areas**).
7. As set out in the UIL Provisional Acceptance Decision, to address the SLC identified by the CMA, CVS has offered undertakings to divest the entire The Vet business (including the eight The Vet practices) (the **Divestment Business**). The Divestment Business will include all assets of the business (including leases) and key staff and will be divested as a going concern on a cash free/debt free basis. The text of the undertakings is available on the CMA webpages.<sup>8</sup>
8. CVS has also offered to enter into an agreement for the sale and purchase of the Divestment Business with an upfront buyer before the CMA finally accepts the Proposed Undertakings (the **Upfront Buyer Condition**). CVS has proposed TPV (UK Holdings) Limited (**TPV**) as the upfront buyer. On 24 May 2022, CVS and TPV entered into a Share Purchase Agreement for the entire share capital of The Vet. This agreement is conditional on acceptance by the CMA of the Proposed Undertakings, including approval of TPV as the buyer of the Divestment Business.

## CMA ASSESSMENT

9. The CMA currently considers that, subject to responses to the consultation required by Schedule 10 of the Act, the Proposed Undertakings will resolve the SLC identified in the SLC Decision in a clear-cut manner, ie the CMA currently does not have material doubts about the overall effectiveness of the Proposed Undertakings or concerns about their implementation.<sup>9</sup> This is because the Proposed Undertakings would result in the full divestment of The Vet business by CVS and would restore the competitive constraint provided by The Vet on CVS (and vice versa) that would otherwise have been lost in the SLC areas as a result of the merger.

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<sup>8</sup> See [CVS / Quality Pet Care merger inquiry - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/cvs-quality-pet-care-merger-inquiry).

<sup>9</sup> [Merger remedies \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/648877/merger-remedies) (CMA87), December 2018, Chapter 3, paragraph 3.28.

10. The CMA also considers that the Proposed Undertakings would be capable of ready implementation because the Divestment Business is a standalone business and includes all assets (excluding management)<sup>10</sup> that enabled The Vet to viably operate and compete with CVS prior to the acquisition by CVS and since the implementation of an Initial Enforcement Order on 22 September 2021.
11. The Upfront Buyer Condition means that the CMA would only accept the Proposed Undertakings after CVS has entered into an agreement with a nominated buyer that the CMA considers to be suitable. The CMA considers that an Upfront Buyer Condition is necessary because the identity of the purchaser will affect the effectiveness of the Proposed Undertakings to remedy the CMA's competition concerns. The evidence available to the CMA indicates that TPV has sufficient resources and expertise to provide the necessary management support to enable the Divestment Business to operate as a competitor to CVS immediately.

### **Suitability of the proposed purchaser**

12. In approving a purchaser, the CMA's starting position is that it must be confident, without undertaking a detailed investigation, that the proposed purchaser will restore pre-merger levels of competition. The CMA therefore seeks to ensure that:
  - (a) the acquisition by the purchaser remedies, mitigates or prevents the SLC concerned and any adverse effect resulting from it, achieving as comprehensive a solution as is reasonable and practicable;
  - (b) the proposed purchaser is independent from and has no significant connection to the merger parties that may compromise the purchaser's incentives to compete with CVS (eg an equity interest, common significant shareholders, shared directors, reciprocal trading relationships or continuing financial assistance);
  - (c) the proposed purchaser has sufficient capability, including access to appropriate financial resources, expertise (including managerial, operational and technical capability) and assets, to enable the divested business to be an effective competitor in the market. This access should be sufficient to enable the divestiture package to continue to develop as an effective competitor. The proposed purchaser is reasonably expected to obtain all

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<sup>10</sup> The Vet management exited the business at the time of the acquisition by CVS. The Vet has been managed by a Hold Separate Manager appointed under Directions issued by the CMA on 6 October 2021 pursuant to paragraph 10 of the Initial Enforcement Order. The CMA understands that the role of the Hold Separate Manager will cease on completion of the sale and purchase agreement.

necessary approvals, licences and consents from any regulatory or other authority;

- (d) the proposed purchaser is committed to, and has an appropriate business plan and objectives for competing in, the relevant markets, and that the purchaser has the incentive and intention to maintain and operate the relevant business as part of a viable and active business in competition with CVS and other competitors in the relevant market; and
- (e) the acquisition by the proposed purchaser does not create a realistic prospect of further competition or regulatory concerns.<sup>11</sup>

13. Subject to the responses to this consultation, and having regard in particular to the criteria set out in paragraph 12 above, the CMA currently considers TPV to be a suitable purchaser of the Divestment Business for the following reasons:

- (a) The CMA currently considers that the acquisition by TPV of the Divestment Business would remedy, mitigate or prevent the SLCs concerned and any adverse effect resulting from them, achieving as comprehensive solution as is reasonable and practicable. This is because it would allow the Divestment Business to compete in each of the SLC areas, as well as the other local areas in which The Vet operates, fully replacing the competitive constraint previously provided by The Vet.
- (b) The evidence available to the CMA indicates that TPV, The Pet Vet (UK Veterinary Services) Ltd (**The Pet Vet**)<sup>12</sup> and all other related entities are independent of CVS and do not appear to have any significant connection to CVS that may compromise its incentives to compete with CVS if it were to acquire TPV.
- (c) The evidence available to the CMA indicates that TPV has both the capabilities and access to appropriate financial resources to acquire and operate the Divestment Business as an effective competitor:
  - (i) In relation to its relevant managerial, operational and technical expertise, The Pet Vet was formed in 2010 and currently operates four veterinary practices in Rotherham, Doncaster, Barnsley and Lincoln. TPV told us that it considers The Vet practices to be operationally and culturally very similar to those operated by The

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<sup>11</sup> [CMA87](#), paragraphs 5.20 to 5.27.

<sup>12</sup> TPV is a holding company of 50% of the shares of The Pet Vet. The other 50% of shares in The Pet Vet are held in trust for the benefit of the immediate family members of The Pet Vet's chairman.

Pet Vet. TPV submitted that ‘the extensive experience available from the board of directors in managing businesses post acquisition and the experience in running ‘at scale’ veterinary services mean The Pet Vet is uniquely placed to integrate the QPC [The Vet] business.’ TPV provided detailed plans to integrate, maintain and develop the Divestment Business, and on this basis, the CMA considers that TPV has the appropriate managerial, operational and technical expertise to operate the Divestment Business as an effective competitor in the market for standard small animal veterinary services.

- (ii) In relation to its financial resources, TPV is a profitable and growing business. In the year ended 30 April 2021, The Pet Vet had a turnover of £[REDACTED]<sup>13</sup> with an operating profit of £[REDACTED].<sup>14</sup> TPV provided the CMA with evidence of its financial resources and debt funding arrangement, which show that it is capable of financing the acquisition, the ongoing development of the Divestment Business and its existing business from its projected turnover. The CMA considers that TPV has the necessary financial resources to operate the Divestment Business as an effective competitor in the market for standard small animal veterinary services.
- (d) TPV has discussed its plans for the Divestment Business with the CMA and provided detailed financial projections, based on The Pet Vet’s prior performance and assumptions about the revenue and cost savings it expects to achieve within the Divestment Business. The CMA considers that these assumptions are reasonable. TPV separately provided the CMA with details of its management plans and operational strategy, including the transition and eventual integration of the Divestment Business into The Pet Vet. The plans, financial projections, management plans and overall strategy indicate that TPV has the necessary understanding of the Divestment Business’s operational dynamics and is committed to operating it as a viable competitor to CVS and other competitors in each of the SLC areas, as well as the other local areas in which The Vet operates. The CMA notes that TPV intends to extend the contracts of the Hold Separate Manager and Chief Financial Officer for a period of two weeks post-completion. The CMA considers that these transitional arrangements should

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<sup>13</sup> Up from £[REDACTED] in the year ended 30 April 2020.

<sup>14</sup> Up from £[REDACTED] in the year ended 30 April 2020.

support the immediate viability of the Divestment Business by mitigating any risks to continuity of service.

- (e) The evidence available to the CMA indicates that the acquisition of the Divestment Business by TPV should not create a realistic prospect of further competition concerns. The Pet Vet's existing practices are in different geographic locations to each of The Vet's practices such that there is no possibility of an SLC as a result of horizontal unilateral effects in any of the local areas. Nor are there any vertical links between TPV (including The Pet Vet and all other related entities) and The Vet that could give rise to competition concerns.

14. Therefore, subject to responses to this consultation, the CMA currently considers TPV to be a suitable purchaser of the Divestment Business.

### **Proposed decision and next steps**

15. For the reasons set out above, the CMA currently considers that the Proposed Undertakings and the purchase of the Divestment Business by TPV are, in the circumstances of this case, appropriate to remedy, mitigate or prevent the competition concerns identified in the SLC Decision and form as comprehensive a solution to these concerns as is reasonable and practicable.
16. The CMA therefore gives notice that it proposes to accept the Proposed Undertakings in lieu of a reference of the Merger for a phase 2 investigation. The text of the proposed undertaking is available on the CMA web pages.<sup>15</sup>
17. Before reaching a decision as to whether to accept the Proposed Undertakings, the CMA invites interested parties to make their views known to it. The CMA will have regard to any representations made in response to this consultation and may make modifications to the Proposed Undertakings as a result. If the CMA considers that any representation necessitates any material change to the Proposed Undertakings, the CMA will give notice of the proposed modifications and publish a further consultation.<sup>16</sup>
18. Representations should be made in writing to the CMA, preferably by email, and be addressed to:

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<sup>15</sup> See [CVS / Quality Pet Care merger inquiry - GOV.UK \(www.gov.uk\)](http://www.gov.uk).

<sup>16</sup> Under paragraph 2(4) of Schedule 10 to the Act.

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**Deadline for comments:13 June 2022**