

# Completed acquisitions by Independent Vetcare Limited (IVC) of multiple independent veterinary businesses

## Summary of the CMA's findings

ME/7026-7033/22

### SUMMARY

#### The Parties and the Mergers

1. These decisions relate to the completed acquisitions by Independent Vetcare Limited (**IVC**) of eight independent veterinary businesses (the **Targets**):
  - (a) Penrose Veterinary Group Limited (**Penrose**), based in Colchester, Essex;
  - (b) Kevin Castle (Pet Care) Limited (**Pet Care**), based in Erith, Kent;
  - (c) Swayne & Partners Topco Limited (**Swayne**), based across Suffolk;
  - (d) Treforest Vets (Holdings) Limited (**Treforest**), based across South Wales;
  - (e) Mercer & Hughes Limited (**Mercer & Hughes**), based across Essex;
  - (f) Swaffham Veterinary Centre Limited (**Swaffham**), based in Norfolk;
  - (g) Anglesey Pet Clinic Ltd (**Anglesey**), based on the Isle of Anglesey, and
  - (h) Chiltern Equine Clinic (**Chiltern**) based in and around Berkshire.
2. IVC is a large multinational veterinary group, whose ultimate shareholders include a number of private equity funds and management investors including EQT Private Equity and Silver Lake, and Nestlé. Alongside other related veterinary businesses, IVC operates over 1,000 veterinary practices in the UK, providing services to small animals, equine, and farm animals. It also provides

out of hours (OOH) (eg emergency) veterinary services, including to practices not owned by IVC, to small animals through its **Vets Now** business.

3. Each of the Targets are independent veterinary practices located in areas across England and Wales. They provide first opinion veterinary services to small animals such as cats and dogs, except for Chiltern, which provides veterinary services to horses and ponies. Together, these transactions are referred to as the **Mergers**. IVC and each of the Targets are together referred to as the **Parties**.
4. Each of the Mergers completed between 16 September 2021 and 22 March 2022.

### **CMA jurisdiction**

5. The Competition and Markets Authority (**CMA**) has jurisdiction to review a merger where either (a) the target company generates more than £70 million of turnover in the UK (the turnover test); or (b) the merger results in the parties having a share of supply of goods or services of any description in the UK (or in a substantial part of the UK) of 25% or more, and the merger results in an increment to the share of supply (the share of supply test).
6. The Targets' revenues do not meet the turnover test but the CMA found that, in relation to each Merger, IVC and the relevant Target supply more than 25% of small animal veterinary services, equine veterinary services or small animal OOH services in the local areas where they overlap, and that an increment in the share of supply is brought about by the merger in each instance.
7. Shares of supply were calculated on the basis of full-time equivalent (**FTE**) vets or, in the case of OOH services and with respect to the Treforest Merger, by their combined 'share of shops' in the relevant local areas. The CMA believes that each Merger will result in an increment to the relevant share of supply and that, in relation to each Merger, the share of supply relates to a substantial part of the UK.
8. The CMA believes that the four-month statutory period for a Phase 1 decision in completed mergers (as extended) has not yet expired. While each of the Mergers completed between 16 September 2021 and 22 March 2022, the CMA does not believe that material facts about the Mergers were made public at this time. The four-month period therefore started when material facts were made available to the CMA (in response to questions sent to IVC by the CMA) on 24 August 2022.

## Counterfactual

9. The CMA assesses whether a merger could lead to a substantial lessening of competition (**SLC**) relative to the competitive situation without the merger (the **counterfactual**). As set out in the CMA's guidance, only events that would have happened in the absence of the merger(s) under review – and are not a consequence of it – can be incorporated into the counterfactual. For completed mergers, the CMA generally adopts the pre-merger conditions of competition as the counterfactual.
10. For most of the Mergers, the CMA considers that the counterfactual consists of the pre-merger conditions of competition. Approximately 10 months after the Penrose transaction completed, IVC closed one of the sites it acquired as part of the Penrose Merger (the **Stratford St Mary** site). In light of compelling evidence that the closure of this site was inevitable and unrelated to the Merger, the CMA considers that the counterfactual for that transaction should be based on a scenario in which the Stratford St Mary site would have closed irrespective of the Penrose Merger.

## Frame of reference

11. The CMA considered whether the Mergers would lead to a loss of competition between IVC and the Targets in each of the local areas where they are based. To do so, the CMA considered how their services overlap, which meant focussing its analysis on the most significant competitive alternatives available to the customers of the Parties.
12. The CMA considered the impact of the Mergers in relation to small animal veterinary services provided on a commercial basis during daytime hours, first opinion equine veterinary services, including veterinary services provided by ambulatory equine vets, and small animal OOH services provided on a business-to-consumer basis.
13. The Mergers took place against a backdrop of increased demand for veterinary services, a shortage of vets and veterinary nurses in the UK and an increasing trend towards consolidation in the veterinary industry, with large numbers of independent practices like the Targets being bought by corporate groups like IVC.

## Industry background

14. These corporate groups, including IVC, 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, OOH 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).

## **Competitive Assessment**

15. As competition between veterinary practices, including those operated by IVC and each of the Targets, generally takes place at the local level, the CMA conducted a local area analysis to identify specific areas in which the relevant Mergers give rise to a realistic prospect of a SLC.

### *Small animal and equine veterinary services*

16. The CMA assessed the likelihood of IVC's acquisition of the Targets resulting in an SLC in the supply of small animal veterinary services or the supply of first opinion equine veterinary services.
17. The CMA based its analysis on average catchment areas for veterinary sites (reflecting where 80% of the relevant Parties' customers are located). The CMA considered that it may also be appropriate to consider a site's individual catchment area in instances where the average catchment area identifies no competitors.
18. The CMA calculated market shares in these catchment areas using the number of FTE vets working at the sites in each catchment area. While there is no single measure that can capture every aspect of competition in a market, the CMA believes that the number of FTE vets serving the customers of a site for small animal or equine veterinary services is reflective of the level of demand at that site and its competitive strength.
19. The CMA considered that competition concerns would arise in any local area where IVC and the relevant target overlap and have a combined share of supply of 30% or more. The threshold chosen for determining whether competition concerns arise is a case-by-case assessment taking into account all the facts and circumstances of a given case. In these cases, 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 other types of practices operating in the local area) in these cases, as well as the absence of probative evidence (for example from a consumer survey or previous CMA analysis of

the sector) that has been used to support higher thresholds in previous cases in other industries.

20. On this basis, the CMA believes that there is a realistic prospect of a SLC arising in 23 local areas around the Penrose, Pet Care, Swayne, Treforest, Mercer & Hughes, and Anglesey Mergers in relation to small animal veterinary services and four local areas around the Chiltern Merger in relation to equine veterinary services.

### *OOH*

21. The CMA assessed the likelihood of IVC's acquisition of Swayne and Swaffham resulting in an SLC in the supply of small animal OOH services. As this is the first time the CMA has assessed small animal OOH services, and in light of the limited data available, the CMA used a filter (based on a combined share of 30%) to remove from consideration any areas which do not raise competition concerns.
22. It was not possible for IVC to provide specific data on drivetime catchment areas in relation to the provision of OOH services. On a cautious basis the CMA based its analysis on two different drivetimes from the provider, in line with submissions and data from IVC. The CMA calculated market shares in each of these catchment areas using a share of shops (as reliable revenue and FTE data were not available and because small animal OOH services are typically staffed by a single vet).
23. Due to high combined shares of supply in at least one catchment area and evidence indicating that alternative suppliers are unlikely to exert a sufficient constraint on IVC and Swaffham/Swayne, the CMA found that there was a realistic prospect of a SLC in relation to four local areas.

### **Conclusion**

24. As set out above, the CMA believes that it is or may be the case that the Mergers have 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, first opinion equine veterinary services and OOH veterinary services (as relevant) in various local areas in England and Wales.
25. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (the **Act**). IVC has until 24 February 2023 to offer undertakings to the CMA that might be accepted by the CMA. If no such undertakings are offered, then the CMA will refer the Mergers pursuant to section 22(1) of the Act.