



Response to CMA consultation on approach to assessing merger efficiencies

February 2026

Executive summary

This submission focuses on the assessment of merger efficiencies within the CMA’s substantive analysis of whether a transaction gives rise to a substantial lessening of competition. It does not seek to argue that merger efficiencies should routinely outweigh competition concerns, nor that speculative or weakly evidenced merger efficiencies should be accepted. Rather, it addresses how the CMA can most effectively and proportionately assess efficiencies that are inherently dynamic in nature, particularly those related to investment and innovation.

Mergers may generate a wide spectrum of efficiencies. Some are near-term, tangible and relatively straightforward to evidence, such as cost savings or revenue synergies. Others — notably efficiencies arising from enhanced incentives or ability to invest and innovate — are longer-term, more uncertain, and less readily captured in pre-merger documentation, but may nevertheless be highly relevant to competition and customer outcomes.

Pre-merger due diligence is primarily designed to support valuation and transaction execution. As a result, it focuses on near-term “value levers” that are sufficiently certain to influence pricing and financing decisions. Detailed analysis of longer-term investment and innovation outcomes is often infeasible at this pre-merger stage, not least because of time constraints, information asymmetries, and limits on access to the target’s confidential data.

Drawing on experience of how mergers are evaluated and executed in practice, this submission highlights a structural gap between the evidence that firms and their advisors typically generate during a deal process, and the type and granularity of evidence that competition authorities may seek when assessing merger efficiencies.

This submission proposes two complementary approaches that could support a more robust and proportionate assessment of dynamic efficiencies:

- Extending value-lever analysis to innovation and investment efficiencies, recognising uncertainty explicitly through assumptions, contingencies, and discounting, in line with standard valuation practice.
- Using structured impact or causal-chain analysis to articulate how a merger is expected to enhance incentives to invest and innovate, and how those effects are likely to be passed through to customers in terms of quality, choice, lower prices, or speed of innovation.

While such approaches may not be proportionate in all cases, they could provide a useful framework for assessing dynamic efficiencies in larger or more complex transactions, where innovation incentives are central to competitive dynamics.

Overall, the CMA's approach to efficiencies would benefit from:

- Paying appropriate attention to the likelihood of merger efficiencies and the expected benefits to consumers, and weighing these up against the likelihood of an SLC and harm to consumers;
- Recognising the practical constraints that exist around evidencing merger efficiencies pre-merger and accepting a degree of uncertainty where this is inherent to dynamic competition;
- Adopting analytical tools that better capture the role of investment and innovation in driving long-term customer benefits;
- Embedding appropriate business and commercial expertise within the staff team, alongside economic and legal advisors, to ensure appropriate attention and scrutiny is applied to the merger rationale and synergy benefits claimed by the merging parties.

Theme 1 (a): The CMA's Framework for Assessing Efficiencies

CONSULTATION QUESTIONS: Theme 1 (a): The CMA's framework for assessing efficiencies

1. Is the CMA's current framework of requiring efficiencies to be rivalry-enhancing, timely, likely and sufficient, merger-specific, and benefit UK customers appropriate? If not, please explain why and how the CMA's framework should change.
2. Is the CMA taking an appropriate approach when assessing whether efficiencies are rivalry-enhancing, timely, likely and sufficient, merger-specific and benefit UK customers? For example:
 - a. What factors should the CMA consider when assessing the appropriate timeframe for efficiencies to be considered 'timely'?
 - b. In assessing sufficiency, how should the CMA balance competitive benefits and harms? In particular, how should the CMA balance competitive benefits and harms when they arise over different time periods or relate to different parameters of competition or groups of customers?
 - c. In considering merger specificity, how should the CMA assess whether there are less anticompetitive alternatives to the merger that could achieve the efficiencies in question?
 - d. How should the CMA assess the extent to which firms are likely to pass-through the benefits of efficiencies to customers? In what circumstances is pass-through likely to occur?
3. Are there some transactions which due to their nature or the characteristics of products or markets, are more likely to create efficiencies (for example, whether a merger is horizontal or vertical)?
4. Are there circumstances in which efficiencies arising from a merger could create competition concerns, and/or circumstances where such concerns are unlikely to arise?

The Framework Is Sound in Principle

The CMA's core framework for assessing efficiencies — requiring that efficiencies be rivalry-enhancing, timely, likely, sufficient, merger-specific and beneficial to UK customers — is conceptually appropriate. It reflects well-established principles in merger control and provides a structured basis for assessing whether efficiencies should offset potential competition concerns.

In our view, the principal challenge does not lie in the design of the framework, but in its application. Particularly, in relation to dynamic efficiencies arising from investment and innovation in differentiated and innovation-driven markets, which are a prominent feature of the UK's business environment.

Efficiencies Should Be Integrated into the Core Competitive Assessment

Efficiencies should not be treated as an exception or secondary consideration, but as part of the core assessment of whether a merger is likely to result in a substantial lessening of competition. The SLC analysis should assess, in the round and on a probabilistic basis, both potential harms and potential benefits arising from the transaction.

Competition does not centre on price alone. In many contemporary markets characterised by product differentiation, rapid technological change and high fixed or sunk costs, competition frequently centres on quality, innovation, ecosystem integration and speed of rollout. In such settings, dynamic and investment-related efficiencies may play a central role in shaping competitive outcomes over time. An assessment framework that gives real weight to these effects — alongside static price considerations — is therefore essential to reaching an economically grounded conclusion.

Recognising dynamic efficiencies does not require lowering evidential standards or accepting speculative claims. Rather, it requires ensuring that the same degree of analytical rigour and probabilistic judgment applied to potential harms is also applied to potential benefits, including those that manifest through innovation and non-price dimensions of competition.

Evidential Standards Must Reflect Commercial Realities

A recurring practical difficulty is the evidential burden placed on merging parties at the point of review. As set out in our previous response to the CMA's consultation on draft merger remedies guidance (November 2025), the structure and timing of the deals process inherently limits the extent to which detailed evidence of longer-term innovation and investment benefits can be generated pre-completion. That response explained the distinction between near-term, valuation-driven "value levers" and longer-term dynamic efficiencies, and the implications of statutory merger timetables for documentary evidence. We do not repeat that analysis here, but the same practical constraints are equally relevant in the context of the CMA's approach to efficiencies more generally. In summary, merger investigations typically take place prior to completion, at a stage when:

- access to the target's confidential information may be constrained;
- integration planning is not yet finalised;
- detailed joint investment plans may not have been developed; and
- transaction timetables impose significant time pressure.

At this stage, firms will often have undertaken high-level synergy modelling and strategic assessment, but may not have completed granular analysis of longer-term innovation or investment benefits. The absence of detailed documentation should not, in itself, be interpreted as evidence that such benefits are speculative or immaterial.

Evidential standards should be proportionate and aligned with commercial realities. While efficiencies must be supported by credible analysis, inherent uncertainty — particularly in relation to dynamic competition — should not result in an unduly dismissive approach.

Interpreting “Timely” in Dynamic Markets

The concept of “timeliness” warrants careful application in markets where innovation cycles and capital investment horizons are inherently longer-term.

Some merger benefits arise in the near term — for example, cost efficiencies from de-duplication, economies of scale, procurement savings or cross-selling opportunities. These “value levers” are typically identified and quantified during pre-merger due diligence because they directly affect valuation.

Other efficiencies, particularly those relating to investment and innovation, materialise over longer time horizons. These may include enhanced incentives to invest in R&D, the combination of complementary capabilities, reduced uncertainty around innovation outcomes, or scale effects that improve expected returns on future investment. Such benefits may be contingent on earlier synergies and are often more uncertain, but can nevertheless have material effects on competition through improved quality, choice and speed of innovation.

An overly narrow interpretation of “timely” risks excluding efficiencies that are central to the transaction’s commercial rationale simply because they unfold over a realistic business cycle. The relevant question is not whether efficiencies are immediate, but whether they are expected to materialise within a commercially reasonable timeframe.

A More Nuanced Approach to Merger Specificity

The requirement that efficiencies be “merger-specific” is also appropriate in principle, but should not be applied in an overly formalistic or binary manner.

In many cases, it may be theoretically possible for certain efficiencies to be achieved absent the merger — for example through contractual arrangements, partnerships, or organic expansion. The relevant question, however, is whether the merger materially increases the likelihood, scale or speed of achieving those efficiencies.

A merger may:

- reduce the cost or risk of an initiative, thereby lowering the effective hurdle rate and increasing expected returns;
- reduce contractual frictions and coordination risks that would otherwise impede execution;
- enhance monetisation prospects by providing improved access to customers, distribution channels or complementary assets; or
- strengthen balance sheet capacity and risk-sharing, enabling investments that would otherwise be deferred or abandoned.

Merger specificity should therefore be assessed in probabilistic terms: does the transaction increase the probability that the efficiency or innovation benefit will be realised?

Similarly, when considering less anticompetitive alternatives, the analysis should remain grounded in commercial reality. Alternatives may exist in theory, but the CMA should assess whether they are equally likely to generate the same efficiencies with comparable certainty, timing and scale.

The Role of Multidisciplinary Assessment

Assessing these issues robustly benefits from multidisciplinary expertise. Evaluating the impact of a merger on future investment incentives and business cases requires understanding:

- financial models and hurdle rates;
- integration feasibility and operational constraints;
- risk allocation and internal capital allocation and decision-making structures;
- how scale and complementarities affect expected returns.

Ensuring that efficiency assessments draw on appropriate commercial and financial expertise, alongside economic and legal analysis, would support rigorous evaluation of synergy claims and investment incentives.

Summary of response to Theme 1 (a):

In summary, while the CMA's framework is appropriate in principle, its application could be strengthened by:

- integrating efficiencies into the core competitive assessment rather than treating them as residual;
- applying proportionate evidential standards that reflect the stage of the transaction;

- interpreting “timely” in light of realistic investment and innovation cycles i.e. based on a commercially reasonable timeframe;
- assessing merger specificity in probabilistic and commercial terms rather than as a strict binary test; and
- ensuring that investigations are supported by appropriate commercial and financial expertise.

Theme 1b: The evidence base

CONSULTATION QUESTIONS: Theme 1 (b): The evidence base

1. What types and extent of evidence should the CMA consider when assessing potential rivalry-enhancing efficiencies? To what extent should this vary across different types of efficiencies?
2. What evidence should the CMA use to compare the likely magnitude of claimed efficiencies against the potential adverse effects on competition arising from a merger? What factors should determine the extent to which this assessment is quantitative or qualitative in nature?
3. What types of relevant evidence are held by merging parties, and are there types of evidence they find more difficult to produce? What sources of evidence other than those held by merging parties should the CMA consider?

Framing: Evidence Must Be Assessed in Commercial Context

The CMA typically reviews mergers that have not yet been completed. This timing has implications for firms’ ability to produce detailed information with which to quantify or evidence synergies. Firms may have completed high-level due diligence but lack full visibility needed for detailed analysis, particularly where the target is cautious about sharing confidential information prior to completion (as is often the case). The CMA tends to place greater weight on materials produced before notification or even before the merging parties started discussing the possibility to merge, on the assumption that later documents may be drafted to support clearance. However, the CMA should consider that gaps may reflect genuine data unavailability rather than strategic positioning.

Detailed post-merger integration and synergy planning is unlikely to be available prior to completion. This means that the acquiror’s analysis of synergies may have to be based on best estimates and educated guesses rather than detailed analysis of the target’s business.

For completed mergers, it may be expected that the Parties have made more progress in terms of synergy planning. However, where hold-separate provisions have been imposed, detailed post-merger integration and synergy planning may not yet be available.

Investment and innovation efficiencies are inherently more uncertain and longer-term. They may:

- depend on integration outcomes;
- be contingent on earlier cost or revenue synergies;

- unfold over sector-specific innovation cycles;
- involve optionality rather than fixed commitments.

For these efficiencies, the evidential approach should be more flexible. The relevant question is whether there is credible evidence that the merger strengthens the ability or incentive to invest and innovate — not whether the precise magnitude of future benefits can be forecast with precision.

Comparing Efficiencies with Potential Adverse Effects

When comparing the magnitude of claimed efficiencies against potential adverse effects on competition, the CMA should apply consistent analytical principles to both.

In particular: both harms and efficiencies are forward-looking and probabilistic; both may involve uncertainty and scenario analysis; and both may manifest over different time horizons.

In markets characterised by differentiated products and innovation rivalry, qualitative assessment of competitive dynamics and investment incentives may be as informative as static price modelling.

Theme 1 (c) Dynamic efficiencies and innovation

CONSULTATION QUESTIONS: Theme 1 (c): Dynamic efficiencies and innovation

1. In what circumstances can mergers positively impact the ability and incentives of the merged company to undertake R&D and/or innovate in the relevant products/markets?
2. What evidence should the CMA consider when assessing whether a merger will likely increase R&D and/or innovation in the relevant products/markets?
3. Are there circumstances in which mergers can foster innovation more broadly across a market or sector? Please provide evidence to support your answer.
4. To what extent, and how, should the CMA's approach differ between assessing static and dynamic efficiencies (eg with respect to the framework set out in paragraph 11 above)?
5. What are the challenges with assessing dynamic efficiencies as compared to static efficiencies? How can these challenges be overcome in practice?

How mergers can positively impact ability and incentives to invest and innovate

In many contemporary markets, competition is driven not solely by price but by innovation, product functionality, service quality, ecosystem integration and speed of technological development. In such markets, the central competitive question is often not simply whether a merger increases static market power, but how it alters the merged firm's incentives and ability to invest and innovate.

PwC's published analysis of global deal activity¹ highlights that strategic acquisitions are frequently used to build capabilities, accelerate transformation and reposition firms in higher-growth, innovation-intensive segments. In capital-intensive and technology-driven sectors in particular, transactions are often motivated by the desire to enhance long-term innovation capacity and productivity rather than by short-term cost savings alone. This supports the broader proposition that mergers can act as a mechanism for capital reallocation towards higher-growth and technologically dynamic activities.

Mergers can either weaken or strengthen innovation incentives depending on market circumstances. The CMA's framework should therefore explicitly consider how a transaction affects:

- expected returns to innovation;
- the cost and risk of investment into R&D and innovation;
- the ease and speed at which innovation can be realized.

(a) Increased expected returns to innovation

In infrastructure and network industries, minimum efficient scale may be necessary to justify next-generation investment (e.g., digital infrastructure roll-out, payments systems, advanced energy systems). In such cases, fragmentation may deter investment that consolidation makes viable.

PwC's commentary² on the deals market frequently notes that high-value transactions increasingly concentrate around sectors such as AI, infrastructure, digital and energy transition — areas where scale and capital intensity are closely linked to innovation capacity and productivity growth.

Innovation investment is typically assessed within firms through risk-adjusted return metrics (e.g., NPV relative to hurdle rate). A merger may increase the expected return to R&D by allowing the merged entity to capture a larger share of the value generated by successful innovation, for example arising through:

- increased scale, enabling innovation benefits to be monetised over a larger customer base;
- improved access to distribution channels or customer relationships, potentially increasing sales volumes, reducing marketing costs, and/or reducing volume risk.

Where innovation returns are proportional to scale, consolidation can increase the expected payoff to R&D and therefore stimulate investment.

¹ PwC, *Global M&A Industry Trends 2024 and 2019*

² PwC, *Global M&A Industry Trends 2024, 2025 and 2026*.

(b) Reduced costs and risks of R&D and innovation

Innovation competition often involves significant uncertainty regarding rival behaviour and duplication of effort. A merger between firms pursuing overlapping R&D paths may reduce strategic uncertainty and allow resources to be redeployed more efficiently, including sharing R&D resources such as specialised talent and access to capital.

Reduced uncertainty can increase the probability that projects pass internal investment thresholds. In commercial terms, this may be reflected in:

- lower effective hurdle rates;
- improved risk-adjusted returns;
- greater willingness to fund long-horizon projects.

Such effects are particularly relevant in sectors characterised by high technological risk and long development cycles (e.g., advanced manufacturing, digital infrastructure, frontier technologies).

(c) Complementarities: Ease and speed at which innovation can be monetized

Many innovation benefits arise from combining complementary technologies, data assets, distribution networks or product capabilities.

A merger may unlock and accelerate innovation by:

- enabling integration of complementary product portfolios;
- reducing coordination frictions between separately governed entities;
- creating new product categories that neither party could efficiently develop alone;
- aligning strategic priorities and capital allocation decisions.

These complementarities are often central to transaction rationale in technology, financial services and digital platform markets.

Evidence the CMA should consider

When assessing dynamic efficiencies, the CMA should be mindful that pre-merger due diligence focuses on near-term, valuation-relevant synergies. The CMA's expectations on quality of evidence in relation to dynamic innovation and investment benefits should recognise that firms may have limited ability

perform detailed synergy analysis pre-integration due to lack of information. PwC's research on value creation³ consistently finds that companies that embed formal value creation methodologies and integration planning early in the deal lifecycle are more likely to realise innovation and growth outcomes.

One way advisors and firms can improve the assessment of dynamic efficiencies is to extend the concept of value-lever analysis to cover innovation and investment benefits. While such benefits are often more uncertain than near-term cost or revenue synergies, standard valuation techniques already provide tools for dealing with uncertainty, including scenario analysis, sensitivity testing and the application of appropriate discount rates.

For example, where a merger increases the scale of the combined customer base or improves per-customer profitability, this may enhance the expected returns to future investment. These effects can, in principle, be reflected in discounted cash-flow analysis by comparing the net present value of planned investments under pre-merger and post-merger scenarios. It may be appropriate to distinguish between efficiencies arising from existing investments and those contingent on future investment decisions, with uncertainty reflected explicitly in the assumptions used.

Such analysis is already familiar to deal practitioners and could be adapted, on a proportionate basis, to provide the CMA with more structured evidence on dynamic efficiencies.

The full spectrum of potential merger benefits should be considered, from near-term, tangible, high-probability benefits to the longer-term, less certain, and more intangible investment and innovation benefits of the type described in this note. Where firms and advisors have been able to incorporate and evidence such longer-term benefits into traditional value-levers analysis such as is typically performed in due-diligence, or employ the tools of impact analysis, to better evidence potential merger benefits, the CMA should be open to considering them.

From PwC's experience, innovation can be wider than developing and researching new products. Namely, there is opportunity to invest in innovation of expanding the product offering i.e. akin to conglomerate mergers where parties offer multiple products together. This can improve incentives to innovate, and can improve innovation across the market or sector. For example, in manufacturing software channels: acquiring adjacent technologies (e.g., Computer-Aided Manufacturing, Manufacturing Execution System, 3D printing/scanning, Product Lifecycle Management, and Product Data Management) broadens the solution set and creates stronger incentives to invest in integration and proprietary add-ons.

³ PwC, *Creating value beyond the deal: Insights from global M&A practitioners 2019*
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Theme 2: The CMA's efficiencies process

CONSULTATION QUESTIONS: Theme 2: The CMA's efficiencies process

1. How effectively does the CMA engage with merging parties on rivalry-enhancing efficiency claims? Are there any ways in which this could be improved?
2. What barriers are there to merging parties making and substantiating rivalry enhancing efficiency claims through the different stages of a case? Are there practical steps the CMA could take to reduce or remove these barriers?
3. Are there any learnings which the CMA can take from how efficiencies are considered in other jurisdictions or by other regulatory bodies?
4. Are there any other ways in which the CMA's approach to assessing rivalry-enhancing efficiencies could be improved to embody the 4P principles of pace, predictability, proportionality and process?

Engagement with parties on efficiency claims

The CMA's engagement on rivalry-enhancing efficiencies can be improved by treating efficiencies as an integral part of the competitive assessment from the outset, rather than as a late-stage "add-on". Early engagement matters particularly for dynamic efficiencies, where evidence is often iterative and may require structured articulation of investment logic, dependencies and time horizons.

Practical improvements could include:

- **Early identification and discussion:** as early on as possible, the CMA could signal which efficiency categories appear potentially decision-relevant (e.g., variable cost savings, scale-enabled investment, innovation complementarities), and what evidential standards it is likely to apply. Clear signposting on "what good looks like" would be helpful - especially for innovation claims where parties can struggle to anticipate how the CMA will weigh qualitative evidence versus modelling.
- **Structured templates:** a short, standardised efficiencies pro-forma (what is the mechanism by which the efficiency arises; what is the customer outcome; what is the time horizon; what is the best available evidence at this stage; what are key uncertainties) would help parties focus on what the CMA needs, and help case teams compare claims consistently.

These process improvements align with the CMA's broader commitment to the 4P principles of pace, predictability, proportionality and process.

Barriers to making and substantiating efficiency claims

There are recurring barriers that inhibit parties from advancing robust efficiency evidence through the life of a merger case:

(a) Timing and information constraints

At the stage the CMA reviews mergers, parties may not have full access to detailed integration planning or the target's most granular data, particularly for dynamic efficiencies. This creates a structural gap between what the CMA may wish to see and what can realistically be produced pre-completion (especially under statutory timetables).

(b) Uncertainty is treated asymmetrically

Dynamic efficiencies often involve uncertainty and, if the CMA treats uncertainty as a reason to discount efficiencies, while simultaneously relying on probabilistic inference to establish certain theories of harm (especially in innovation markets), parties may rationally conclude that pursuing efficiencies is unlikely to influence outcomes.

(c) Merger-specificity and timeliness can operate as formalistic filters

If “merger-specificity” and “timeliness” are applied in overly binary ways, potentially important efficiencies can be screened out before they are weighed in the round. This is particularly relevant where the merger increases the *probability*, *speed* or *scale* of innovation and investment rather than being the only theoretical route to those outcomes.

(d) Resource intensity and proportionality

Producing robust dynamic-efficiency evidence (e.g., scenario analysis, investment case comparisons, causal-chain articulation) can be costly and time-consuming. Parties may not invest in this unless they have clarity that it will be decision-relevant and assessed predictably.

Practical steps the CMA could take to reduce barriers

A more effective process could include:

1. Front-loading efficiencies as a live workstream

Make efficiencies part of the initial case theory and information plan, instead of a late response to provisional findings.

2. A staged evidential approach

Accept “best available evidence” early (including structured qualitative material) with a clear pathway to supplement it later as information becomes available.

3. Explicit treatment of uncertainty

Encourage scenario/sensitivity approaches and explain how uncertainty will be weighed

(including discounting over time), rather than requiring point estimates which may be highly uncertain.

4. Improved transparency in decision documents

Where efficiencies are submitted, explain clearly what was accepted and what was rejected, and why (e.g., mechanism failure, insufficient linkage to customer outcomes, not considered merger-specific on realistic counterfactual, not timely relative to harm).

5. Multidisciplinary scrutiny

Particularly for innovation and investment efficiencies, ensure case teams have access to appropriate commercial and financial capability alongside economics and legal analysis, to rigorously interrogate feasibility, investment thresholds, integration dependencies and monetisation pathways.

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