Case M1483J

# Proposed acquisition by VetPartners Practices Limited of the business of New Era Veterinary Hospital

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## Decision

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## Summary

1. VetPartners Practices Limited (**VetPartners**) proposes to acquire the business of New Era Veterinary Hospital (the **Target**) from Douglas John Hamilton, Peter Haworth, Ian Cox, Amanda Smith and Nicholas Thomas (the **Sellers**).

2. The transaction has been notified to the Jersey Competition Regulatory Authority (**JCRA**) for approval pursuant to Article 21 of the Competition (Jersey) Law 2005 (the **2005 Law**).

3. The JCRA has determined that the proposed acquisition will not lead to a substantial lessening of competition in any relevant market and hereby approves the notified transaction.

## The Notified Transaction

4. On 8 November 2019, the Channel Islands Competition and Regulatory Authorities[1] (**CICRA**) received a joint application from VetPartners (the **Purchaser**) and the Sellers (the **Notifying Parties**) for the proposed acquisition by the Purchasers through a newly formed, wholly owned subsidiary company, New Era Veterinary Hospital Limited (**NEVH Limited**) of the assets, goodwill, employees, contracts, leases and other business assets of the Target.

5. CICRA registered the application on its website with a deadline for comments of 22 November 2019. No submissions were received.

## The Parties

6. The Purchaser is a company incorporated and registered in England and Wales with company number 10084952. The Purchaser is part of the VetPartners group.

7. The Purchaser and other entities in the Purchaser's corporate group operate veterinary practices providing small animal, equine and farm animal care in the UK. They also make sales of pharmaceutical products into Jersey and provide laboratory services to a number of veterinary practices in Jersey.

8. The Sellers own and operate the New Era Veterinary Hospital practices in Jersey. According to information provided by the Notifying Parties, the Target business operated by the Sellers is the largest veterinary practice in Jersey. It has three veterinary surgeries and employs approximately 50% of the veterinary surgeons currently practising in Jersey.

[1] The JCRA and GCRA co-ordinate their activities with respect to competition law enforcement in the Channel Islands. For the purposes of this document, the JCRA and GCRA are together referred to as CICRA, and all references to CICRA should therefore be read as references to each of the JCRA and GCRA unless the context otherwise requires.

## Jersey: Requirement for JCRA Approval

9. Under Article 2(4)(b) of the 2005 Law, a merger[2] occurs where:

    a. an undertaking acquires the whole or a substantial part of the assets of another undertaking; and
    b. the result of the acquisition is to place the acquiring undertaking in a position to replace or substantially replace the other undertaking in the business in which that undertaking was engaged immediately before the acquisition.

    The notified transaction consists of the acquisition of the whole or a substantial part of the assets of the New Era Veterinary Hospital business, which will place the Purchaser in a position to replace the Target in the business that it was engaged in immediately prior to the acquisition. The transaction therefore constitutes a merger as defined by the 2005 Law.

10. According to Article 20(1) of the 2005 Law, a person must not execute certain mergers or acquisitions except with and in accordance with the approval of the JCRA.

11. The Notifying Parties state that the Target undertaking has more than 40% of the supply of veterinary services in Jersey. On that basis, the acquisition falls within the scope of Article 4 of the Competition (Mergers and Acquisitions) (Jersey) Order 2010 and requires the approval of the JCRA prior to its execution.

## Market Definition

12. Under Article 22(4) of the 2005 Law, the JCRA must determine if the merger would substantially lessen competition in Jersey or in any part of Jersey. To this end, the JCRA will identify the markets which are likely to be affected by the merger and then assess whether competition in these markets will be substantially lessened[3].

### Views of the Parties

13. The view of the Notifying Parties is that the relevant market is the supply of veterinary services in Jersey.

### CICRA Consideration

14. The relevant product market is defined primarily by reference to the likely response of consumers and competitors[4]. It will comprise products and/or services which are regarded as interchangeable or substitutable by the consumer, by reason of the product's characteristics, prices and intended use. An undertaking cannot have a significant impact on the prevailing conditions of a market if customers can easily switch to other service providers.

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2 For brevity, mergers and acquisitions are referred to as 'mergers' in this document.

3 In many cases, a market may already have been investigated and defined by CICRA or another competition authority. CICRA may take note of market definitions applied by other competition authorities, although these are not precedents. Competition conditions may change over time, changing the market definition. Market definition will always depend on the prevailing facts.

4 CICRA Guideline 7 – Market Definition

15. In the present case, there are a number of economic segments that are potentially relevant to the assessment of the notified transaction. These are:

   a. The supply of veterinary services in Jersey (or some subset thereof);
   b. The supply of veterinary pharmaceutical products into Jersey (or some subset thereof);
   c. The supply of laboratory services to veterinary practices in Jersey (or some subset thereof).

16. The precise market definitions can be left open in this case, since the transaction will not give rise to a substantial lessening of competition on any reasonable basis.

## Effect on Competition

### Horizontal effects

17. There is no overlap between the activities of the Target and those of the Purchaser in Jersey. The acquisition will therefore not give rise to unilateral anti-competitive effects on any relevant market in Jersey.

### Vertical effects

18. Vertical mergers are mergers where one party has a 'vertical' relationship with the other (for example, as a supplier to or customer of that party). The focus of control of these types of merger focuses on the ability and incentive to foreclose an actual or potential rival's access to supplies or markets as a result of the merger and whether such a strategy would have a significant detrimental effect on competition either up or downstream.

*The supply of veterinary pharmaceutical products*

19. The Notifying Parties state that there are three or four wholesalers supplying veterinary pharmaceutical products in the UK and that the Purchaser's share of the wholesale purchase of such products in the UK and the Channel Islands is approximately [0-20]%. Part of this is bought for "own use" by the Purchaser in its own veterinary practices. The remainder of the product is supplied by the Purchaser to third parties.

20. According to information provided by the Notifying Parties, large veterinary businesses (such as Independent Vetcare), buying groups of veterinary practices and large individual veterinary practices typically purchase pharmaceutical products directly from wholesalers (as does the Purchaser). Smaller veterinary practices would generally purchase from one of these, or from an online distributor, rather than directly from a wholesaler.

21. Given that the Purchaser's share of the wholesale purchase of pharmaceutical products in the UK and the Channel Islands is approximately [0-20]% and part of this is used for self-supply, it is likely that its share of the downstream distribution of those products in the UK and the Channel Islands is less than [0-20]%. In addition, as described above, there are multiple channels through which veterinary practices can purchase pharmaceutical products. On that basis, it is therefore unlikely

that the notified transaction will give rise to vertical anti-competitive foreclosure in respect of the supply of pharmaceutical products to veterinary practices in Jersey.

*Laboratory testing*

22. The Notifying Parties state that Jersey veterinary practices are able to obtain veterinary testing from any diagnostic laboratory to which they are licensed to send samples. They estimate that the value of sub-contracted laboratory testing work in the veterinary sector (i.e. work not performed by veterinary practices in-house) is worth in excess of £40 million per annum and that there are between 50 – 60 laboratories in the UK able to carry out such work. The Purchaser estimates that the value of the sub-contracted laboratory testing services that it provides to Jersey consumers is approximately £[✂] per annum and that the total value of the supply of those services to Jersey consumers from all sources is approximately £600,000 per annum (which would give the Purchaser a share of approximately [0-5-%].

23. Given the large number of suppliers of sub-contracted veterinary laboratory testing services available to consumers in Jersey and the Purchaser's very low share of the supply of such services, it is unlikely that the notified transaction will give rise to vertical anti-competitive foreclosure in respect of the supply of those services in Jersey.

## Decision

24. Based on the preceding analysis the JCRA concludes that the acquisition will not substantially lessen competition in Jersey or any part of Jersey. The merger is therefore approved under Article 22(1) of the 2005 Law.

**27 November 2019** **By Order of the Board of the JCRA**