



KPMG Economics

Ex-post merger evaluation

Presentation for ACE

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—

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Presentation outline



Overview of the study and some key considerations



Cases reviewed and evidence gathered



Findings



Recommendations



Cases reviewed
and evidence
gathered

Cases reviewed

Phase I cases

Sheffield City Taxis/Mercury Taxis

(CMA, October 2015)



CooperVision/Sauflon

(CMA, December 2014)



Ballyclare/LHD

(CMA, August 2014)



WRI/Hostelbookers

(OFT, August 2013)



Cartonplast/Demes

(OFT, March 2010)



Phase II cases

Cineworld/City Screen

(CC, October 2013)



Zipcar/Streetcar

(CC, December 2010)

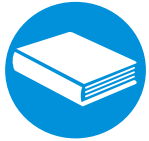


NBTY/Julian Graves

(CC, August 2009)



Evidence gathered



Industry reports and other publicly available information
(e.g., media reports)



Interviews with:

- merger parties
- competitors
- other stakeholders (e.g., local authorities, trade associations)



Quantitative data, including:

- prices
- online market coverage
- local and national market shares



Findings

Findings 1



Were the Authorities' predictions on entry/expansion realised?

In some cases, the Authorities' predictions were realised:



**Sheffield City
Taxis/Mercury Taxis**



WRI/Hostelbookers



CooperVision/Sauflon

Findings 1 (cont.)



Were the Authorities' predictions on entry/expansion realised?

In others, the Authorities' expectations did not materialise:



Cineworld/Cityscreen

- Entry did not occur (i.e. in Brighton)
- Entry did occur but was not timely (i.e., in Southampton)



Zipcar/Streetcar

- Entry but then exit



NBTY/Julian Graves

- Less weight on entry/expansion, but entry/expansion did not materialise



Cartonplast/Demes

- Named entrant didn't enter but someone else did



Ballyclare/LHD

- Named entrant has competed but not clear how successful

Findings 3



Was there a difference across Phase I and Phase II decisions?

- Predictions largely accurate in the Phase I decisions or other firms appear to have expanded
- In all of the three Phase II decisions, the CC's predictions have, to some extent, failed to materialise

Findings 4



Where the Authorities' predictions were not realised, was this 'foreseeable'?

Unclear how the Authorities evaluated **uncertainty** around entry

Cases:



Cineworld/City Screen



NBTY/Julian Graves



Ballyclare/LHD



Cartonplast/Demes



Zipcar/Streetcar

Authorities might have sought to **gather further evidence** to better predict outcomes

Cases:



Sheffield City
Taxis/Mercury Taxis



Zipcar/Streetcar

Findings 5



Where the Authorities' predictions were not realised, are there patterns in why that was the case?

Role of local policy or regulation on the ease or likelihood of entry/expansion

Cases:



Cineworld/City Screen



Zipcar/Streetcar



Sheffield City Taxis/Mercury Taxis

Inconsistent approach to the treatment of local regulation and planning permission

Cases:



Cineworld/City Screen

Tendency by prospective entrants to over-estimate their success in markets where local regulation/policy was important

Cases:



Cineworld/City Screen



Sheffield City Taxis/Mercury Taxis



Zipcar/Streetcar



Recommendations

Recommendation 1



Continue to seek evidence on factors making entry/expansion from closely related markets more likely, and develop consistency across cases:

- Costs
- Consumer preferences and demand patterns
- Commitment by entrants to enter the market or reposition
- Existing firms already actively monitoring suppliers in closely related markets

Cases:



WRI/Hostelbookers



CooperVision/Sauflon

Recommendation 2



Assess in more detail (and more systematically) the success of existing competitors with innovative products when assessing how successful their expansion might be:

- Consider factors highlighted in relation to entry from closely related markets (see previous slide)
- Helpful to consider evidence of patterns of innovation, take-up of innovative products in other geographic markets, and innovation pipeline for potential new entrants

For Phase II decisions, helpful to formalise the process of assessing the propensity for innovation to occur and pose a constraint

Cases:



**Sheffield City
Taxis/Mercury Taxis**



Cartonplast/Demes



Zipcar/Streetcar

Recommendation 3



Assess the likelihood of and ease of expansion more systematically across cases, including assessing whether:

- Existing suppliers may expand
- There are specific barriers to expansion (in addition to entry)

Cases:



Cartonplast/Demes



Zipcar/Streetcar



WRI/Hostelbookers



Ballyclare/LHD

Recommendations 4-6



- Ensure that local regulatory or policy restrictions are consistently given appropriate weight
- Continue to seek the views from local authorities on the potential impact of regulatory decisions on entry/expansion and look at other factors to test potential over-optimism of potential entrants
- Look at potential regulatory changes in markets where such changes are possible (e.g., taxis), and how these would impact entry/expansion

Cases:



Cineworld/City Screen



Zipcar/Streetcar



**Sheffield City
Taxis/Mercury Taxis**

Recommendation 7



Apply an additional focus when archiving information, to take into account information which might be helpful specifically for ex-post evaluation, and archive such material more carefully following closure of cases (e.g., data and assumptions used in analysis that might be useful for such evaluations)

Cases:



Cineworld/City Screen



NBTY/Julian Graves



Zipcar/Streetcar



Thank you



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