

Completed acquisition by Micronclean Limited of Guardline Technology Limited

ME/6353/13

The CMA's decision on reference under section 22(1) given on 20 May 2014. Full text of the decision published on 03 July 2014.

Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.

Summary

1. Micronclean Limited (Micronclean) is a joint venture between Fenland Laundries Limited (Fenland) and Micronclean (Newbury) Limited (Newbury). On 2 September 2013 Micronclean acquired the entire share capital of Guardline Technology Limited (Guardline) (together referred to as 'the parties').¹ This merger was called-in for investigation by the Office of Fair Trading (OFT), now the Competition and Markets Authority (CMA),² on 19 December 2013.
2. The CMA considers that the parties have ceased to be distinct and that the jurisdictional test is satisfied on the basis that the parties' combined share of supply in the provision of cleanroom laundry services in Great Britain (GB) exceeds 25%.
3. The parties overlap in a range of goods and services to customers operating within environments that are controlled for contaminants, for example NHS pharmacies and other aseptic manufacturers whose production is carried out in a 'cleanroom' (typically an area of production that is sterile³).
4. The CMA considered the impact of the merger on the supply of the higher and lower classifications of cleanroom laundry services in GB, referred to by the

¹ The term the 'parties' has also been used in this document to include the activities of Fenland and Newbury given their joint ownership of Micronclean.

² The CMA was established on 1 October 2013. By virtue of the Enterprise and Regulatory Reform Act 2013 and the Enterprise and Regulatory Reform Act 2013 (Commencement No 6, Transitional Provisions and Savings) Order, No 416 of 2014, the Office of Fair Trading's merger control functions were transferred to the CMA on 1 April 2014.

³ And/or controls for particulate contamination.

parties as 'full' and 'intermediate' cleanroom laundry services respectively. The CMA also considered the supply of full cleanroom laundry services with associated (ie bundled) intermediate cleanroom laundry services.

5. In the provision of full cleanroom laundry services the parties have a combined share of supply of approximately [80 to 90%], including a small increment of around [0 to 10%] from Guardline.
6. The CMA assessed the closeness of competition between the parties and considers, based on the evidence available, that the parties are not the closest competitors in the provision of full cleanroom laundry services. Guardline was a small supplier of full cleanroom laundry services that had won very little business from Micronclean.
7. Further, the evidence showed that a significant proportion of demand for full cleanroom laundry services is derived from NHS pharmacies and the pharmaceutical industry (aseptic manufacturers), in which Guardline had won only a very small number of contracts overall.
8. In addition, the evidence showed that Guardline was constrained by capacity issues and its future ability to improve its offer and expand its capacity was compounded by its financial position. The CMA notes that several Micronclean customers did not consider that Guardline met their requirements in terms of materials, technology and capacity. Overall, on the basis of evidence available, the CMA considers that pre-merger Guardline was a weak constraint on Micronclean.
9. Taking into account the available evidence, the CMA considers that Micronclean's closest competitor was Fishers. Fishers is the second largest supplier of full cleanroom laundry services, with approximately [10 to 20%] share of supply. From its base in Scotland, Fishers has served customers across GB and is at an advanced stage of planning in relation to setting up a distribution hub in England, which will further enhance its competitive offer. As such, Micronclean will continue to face a significant competitive constraint post-merger from Fishers.
10. The CMA received concerns from some former Guardline customers, which referred to a reduction in competition as a result of the merger. On the whole, the majority of third parties including customers did not raise concerns.
11. For the reasons set out above, given in particular the very limited constraint from Guardline on Micronclean pre-merger and the significant constraint from Fishers, the CMA therefore considers that the merger does not give rise to

significant competition concerns in the supply of full cleanroom laundry services in GB.

12. On the basis of the evidence available, the CMA did not find any competition concerns in relation to lower-level classifications of cleanroom laundry services (intermediate cleanroom laundry services) given the parties' small combined share of supply and the wide range of competing suppliers for these services. Given these conclusions, the CMA also considers that the merger also does not give rise to significant competition concerns in the supply of full and associated (bundled) intermediate cleanroom laundry services.
13. The parties also overlap in the supply of cleanroom consumables, but given the parties' shares of supply, the presence of many alternative suppliers and the lack of customer concerns, the CMA does not consider that the merger gives rise to competition concerns in this respect.
14. Therefore, on the basis of the evidence available to the CMA, it does not consider that the merger gives rise to a realistic prospect of a substantial lessening of competition (SLC).

Decision

15. This merger will therefore **not be referred** under section 22(1) of the Enterprise Act 2002 (the Act).

Parties

16. Micronclean is a joint venture formed by Fenland and Newbury. Fenland and Newbury supply laundry services to cleanroom operators (cleanroom laundry services). They also supply garments for rental, consumable products and cleanroom cleaning services. Both companies operate under the 'Micronclean' brand and present themselves as one business to customers for cleanroom laundry services.
17. Guardline principally supplied cleanroom laundry services, cleanroom cleaning, garments for rental and a range of consumable products. Its UK revenue in the financial year ending April 2012 was £[~~8~~] million with a significant proportion of revenue made up of sales of consumable products.⁴

⁴ As reported in the Report of the Directors and Financial Statements for the Year Ended 30 April 2012 for Guardline.

Transaction

18. On 2 September 2013, the parties entered into a share purchase agreement whereby Micronclean purchased the entire share capital of Guardline. The transaction was subsequently identified by the OFT (now the CMA) and an enquiry letter was sent to the parties on 19 December 2013. The extended statutory four-month period expires on 20 May 2014.

Jurisdiction

19. As a result of Micronclean's purchase of Guardline's entire share capital these two enterprises have ceased to be distinct. The parties have therefore been brought under the common ownership or control of Fenland and Newbury through their Micronclean joint venture. The parties overlap in the supply of full cleanroom laundry services and account for around [80 to 90]% share of supply in GB (see paragraph 72 below). The share of supply test in section 23 of the Act is therefore met.
20. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.

Rationale

21. Fenland and Newbury submitted that the key motivation for the merger was to acquire Guardline's consumables business. They told the CMA that this would allow them to supply a broader product range and to facilitate expansion into continental Europe.
22. Fenland and Newbury also submitted that Guardline's activities in cleanroom laundry services were of little significance given that, in their assessment, the cleanroom laundry market has limited potential to grow. Consistent with these submissions, Fenland and Newbury submitted an internal document which stated that Micronclean planned to conduct an acquisition in 2013 to further its consumable business.

Counterfactual

23. The CMA considers the effect of a merger compared with the most competitive counterfactual, providing that it considers that situation to be a realistic prospect. In practice, the CMA generally adopts the pre-merger situation (in

completed cases) as the counterfactual against which to assess the impact of the merger.⁵

24. The parties submitted that the cleanroom laundry operations of Guardline was loss making and had become unviable because of its high overheads, which it could only reduce with further significant investment to increase capacity and cleanroom laundry turnover. The parties told the CMA that Guardline was unable to raise additional investment funds because it had already exhausted all its credit lines and would have reduced its sales force and subsequently experienced a significant erosion in cleanroom laundry turnover, leading to its exit from the market.
25. For the CMA to accept a different counterfactual to the prevailing conditions of competition immediately prior to the merger, it would need, on the basis of compelling evidence, to believe that it was inevitable that Guardline would have exited from the market absent the merger. It would also need to be confident that there was no substantially less anti-competitive purchaser for Guardline than Micronclean.^{6 7}
26. The parties did not provide the CMA with sufficient evidence to establish on this basis that Guardline would have exited the market absent the merger. The CMA, therefore, considers that the appropriate counterfactual for the investigation is the pre-merger conditions of competition.
27. However, Guardline's financial position and the impact on its ability to increase its capacity and therefore constrain Micronclean will be considered in the competitive assessment.

Frame of reference

28. The parties overlap in the supply of a range of goods and services to manufacturers operating within environments that are controlled for contaminants. The parties principally overlap in the supply of cleanroom laundry services (of various classifications) to such manufacturers together with other cleanroom products (disposable garments and other disposable cleanroom apparel) and rental of cleanroom garments and apparel.

⁵ *Merger Assessment Guidelines*, paragraph 4.3.5.

⁶ See *merger Assessment Guidelines*, paragraph 4.3.10.

⁷ The parties submitted evidence that Guardline had previously attempted to sell the business to another laundry firm which had no cleanroom laundry activity in the UK.

29. The CMA considers that market definition serves only to provide a framework within which the competitive effects of the merger can be assessed and the following discussion therefore serves to examine the appropriate frame of reference for the competitive assessment. The CMA's approach is to consider whether narrow candidate product frames can be widened through substitution on the demand-side in the first instance, and then, if appropriate, to consider whether substitution on the supply-side allows the frame to be widened or aggregated.⁸

Product scope

Cleanroom laundry services and garments

30. The parties submitted, and third parties confirmed, that some manufacturing activities must be undertaken in controlled environments known as cleanrooms. For example, some pharmaceuticals must be produced in sterile environments that control microbiological contamination during production; similarly, semi-conductor manufacturers must prevent contamination of silicon wafers by particulates (eg skin and dirt).
31. Operators of controlled environments therefore require employees to wear special garments with certain properties that may include having features such as: low lint, fully enclosed seams, stretch cuffs, anti-septic properties and durability so that they may go through the decontamination process many times. Such garments also need to be laundered (and maintained) in a specific way and in a cleanroom environment commensurate to the manufacturer's cleanroom environment.

Types of cleanroom laundry services

32. The parties submitted, and third parties confirmed, that laundries can adhere to a variety of specifications or classifications in the way that they clean (and in some cases treat) their customer's garments. The specification or classification of laundering that is required depends on the underlying activity of each customer. Laundry facilities may be certified as meeting certain non-industry specific standards (such as ISO14644),⁹ or sector related standards that customers in specialised industries have to comply with and are usually set by

⁸ This approach is in line with the *Merger Assessment Guidelines*, paragraphs 5.2.6 to 5.2.19.

⁹ The ISO14644 classifications state the maximum number of particles per cubic metre of space within the controlled environment and classifies them from ISO1 (cleanest) to ISO9 (least clean). Some third parties referred to similar classification systems such as the US FED STD 209E. For convenience the CMA only refers to the ISO14644.

regulations or good practice guidelines.¹⁰ There are also other specific treatments or processes which are required for certain customers, such as gamma sterilisation of garments.

33. The highest specification laundry facilities are classified as 'cleanroom' laundries and the cleanroom garments need to be laundered and processed in accordance with the customer's specific requirements that may, for instance, include a particular ISO14644 classification or the Good Manufacturing Practice (GMP) Guidelines.¹¹
34. Newbury, Fenland and Guardline operate different levels of cleanroom laundry services. For instance, these companies each have facilities validated for ISO Class 4. Fenland also operates a cleanroom laundry validated for ISO Class 6 and Newbury a cleanroom laundry validated for ISO Class 7.
35. The parties submitted that customer requirements for cleanroom laundry services can form an almost continuous spectrum. These range from the highest level of cleaning specifications (for customers such as aseptic manufacturers¹² or NHS pharmacies) to requirements for a far lower-level of contamination control on the garments.
36. The CMA's investigation confirmed that there are a wide range of different cleaning specification requirements. It also indicated that there is a set of customer requirements that can only be served by operators of ISO Class 4 or ISO Class 5 cleanroom laundries. The parties referred to these services as full cleanroom laundry services.¹³
37. Similarly, there are some customer requirements that may be served by lower grade cleanrooms that are classified to ISO Class 6 to ISO Class 8. In the context of this case, the CMA refers to these as intermediate cleanroom laundry services.¹⁴
38. A number of customers told the CMA they did not consider intermediate cleanroom laundry services to be a substitute for full cleanroom laundry services on the basis that the lower cleaning specifications would be unsuitable

¹⁰ Such as Volume 4 of the GMP Guidelines, monitoring and supervision by the Medicines and Healthcare products Regulatory Agency (MHRA), or use of Hazard Analytical Critical Control Points (HACCAP) to control microbiological contamination in the food industry.

¹¹ Cleanroom laundry services may incorporate: the rental of garments, maintenance of garments, garment tracking, collection and delivery of garments and quality control.

¹² Manufacturers working in a sterile environment that controls microbiological contaminants.

¹³ Use of the term '*full cleanroom laundry services*' is adopted by the CMA throughout its decision document.

¹⁴ The CMA understands that full cleanroom laundries and Intermediate cleanroom laundries may also be distinct with respect to their adherence to other standards such as those described in footnote 11. The CMA refers to the ISO14644.

for the end use requirements and they would lose the required level of protection for the product being manufactured.

39. However, the parties have submitted that a number of Guardline's customers with intermediate laundry requirements were in fact purchasing full cleanroom laundry services, that is, their garments were being over-processed. The CMA considers that this is consistent with a proposition that higher specification cleaning than is necessary would be substitutable for the more intermediate requirements, subject to being competitive on cost. The parties submitted that the costs of providing full cleanroom and Intermediate cleanroom are not materially different. On the demand-side therefore, the CMA considers that the evidence points to there being substitution from Intermediate to full cleanroom laundry services but not vice-versa.
40. As mentioned above (paragraph 29), in the absence of demand-side substitution, in some circumstances the CMA may consider the response of suppliers to changes in prices and aggregate several narrow frames of reference into one broader one on this basis.¹⁵ In this case, the CMA notes there are significant differences between the production facilities used to supply full cleanroom laundry services and Intermediate cleanroom laundry services. The parties submitted that it is difficult to upgrade from Intermediate to full cleanroom status in a short time frame, although the reverse is straightforward as Intermediate cleanroom laundry services can be provided relatively easily using full cleanroom facilities, as evidenced by the fact that Guardline has been using its full cleanroom facility to service its Intermediate customers.¹⁶
41. The parties also submitted that Intermediate cleanroom laundry services face a significant constraint from laundries that do not have a cleanroom classification (known as 'barrier' laundries). This was supported by third party views. Several third parties told the CMA that Intermediate cleanroom laundries and barrier laundries are in competition. One third party said that some unclassified barrier laundries may provide a similar standard of service to Intermediate cleanroom laundry services and another said that, while some customers will value a 'cleanroom' classification, they may be willing to trade off quality for price.
42. Therefore, on the basis of the evidence available to it, the CMA has assessed the merger on the basis of separate frames of reference for full cleanroom

¹⁵ This applies where production assets can be used by firms to quickly shift capacity between the different services depending on demand for each and the same firms compete to supply these different products. See [Mergers Assessment Guidelines](#), paragraph 5.2.17 *et seq.* for an outline of the CMA's approach to supply-side substitution.

¹⁶ The additional costs of providing full cleanroom laundry services are primarily fixed. This is supported by Guardline activity where it supplied Intermediate cleanroom services using its full cleanroom production facilities. The CMA notes that Guardline did not operate a dedicated Intermediate cleanroom facility.

laundry services and Intermediate cleanroom laundry services (including laundry services supplied by barrier laundries), although it was not necessary for the CMA to conclude on this point as no concerns arise irrespective of whether these are considered separately or in combination.

Bundling of full and intermediate cleanroom laundry services

43. The parties and a number of third parties submitted that some customers of full cleanroom laundry services also have requirements for Intermediate cleanroom laundry services and can purchase these together as a bundle from the same supplier. Customers may require both types of laundry service because, for example, they operate different parts of their production process to different specifications or workers operating in a full cleanroom environment may be able to wear undergarments laundered to a lower standard than their outer garments.
44. The CMA noted that from the data submitted by the parties, [X] ([X]%) of Fenland's full cleanroom laundry customers also purchase Intermediate cleanroom services. The CMA also noted that the parties have identified that many former Guardline customers have both full and intermediate cleanroom laundry services. One of these customers is [X], which according to Guardline's sales records was one of its most significant customers.
45. The CMA therefore considered whether it is appropriate to define a frame of reference for full cleanroom laundry services and associated Intermediate cleanroom laundry services to the same customer. This would be appropriate if there is a significant number of customers requiring provision of the two services as a bundle and those customers have a strong preference to purchase these services from the same supplier.¹⁷
46. The CMA received mixed responses on this issue from third parties. One third party told the CMA that where a customer has requirements for both full and intermediate cleanroom laundry services it would typically prefer not to have two suppliers on site at the same time but would rather purchase these services together from one supplier. Some customers confirmed that it can be desirable to use a single supplier. However, one third party told the CMA that customers who require both full and Intermediate services tended to be large firms that may actually prefer to use multiple suppliers, for example one supplier for its full cleanroom laundry requirements and another for its lower level laundry requirements.

¹⁷ More specifically, if customers would not switch from purchasing the bundle to purchasing separately if the price of the bundle was to increase.

47. Based on the evidence available to it, it was not clear to the CMA to what extent customers may have a preference to purchase from a single supplier and the strength of their preferences for doing so. On the basis of the evidence available to the CMA and the mixed responses received from third parties, the CMA therefore considered it appropriate, on a cautious basis, to consider the supply of bundled full and intermediate cleanroom laundry services separately from standalone full cleanroom and standalone intermediate cleanroom laundry services.

Full cleanroom laundry services and rental of garments

48. The CMA considered whether it is appropriate to include rental of garments with the supply of full cleanroom laundry services.¹⁸ From the evidence available, many customer contracts include rental of garments (that is joint rental and laundry contracts) while some customers provide their own garments for laundry (process-only contracts). Third parties told the CMA that the cost of purchasing garments can be significant, sometimes running into tens of thousands of pounds and a process-only contract would require the customer to purchase the garments upfront. With the rental of garments, the cost of the garments is incorporated into the terms of the laundry contract.
49. The parties told the CMA that the [redacted] of full cleanroom laundry service revenue raised by Fenland (around [redacted]%) and Newbury (around [redacted]%) was from customers who contract rental and laundry jointly. The proportion of equivalent revenue raised by Guardline was substantially lower, at almost half (around [redacted]%).¹⁹
50. The CMA has not received sufficient evidence to assess the strength of the preferences of those currently sourcing a bundle, but considers that whether laundry and rental are considered separately or together has no material impact on the competition assessment.²⁰ On the basis of the evidence, the CMA has not found it necessary to conclude given that on any basis no competition concerns arise. The CMA has assessed the rental of garments as part of the overall full cleanroom laundry services for the purpose of its frame of reference.

¹⁸ It was not necessary to consider the possible inclusion of rental in Intermediate cleanroom laundry services because, as set out below, no concerns arise in the supply of Intermediate cleanroom laundry services.

¹⁹ The parties told the CMA that one reason for this was because of Guardline's inability to invest in garments.

²⁰ This is because the CMA considers that, if no concerns arise in the assessment of full cleanroom laundry services separately in the competition assessment, then no concerns are likely to arise in the assessment of combined full cleanroom laundry services with rental, particularly given Guardline's more limited presence in rental of garments and the fact that the parties' competitors also offer rental along their full cleanroom laundry services.

Disposable garments

51. The CMA assessed whether the supply of disposable garments could be considered as an alternative to the supply of cleanroom laundry services. The parties submitted that, although there is currently a limited tendency among customers to use disposable garments in GB, the CMA's assessment should take into account the increasing threat of customers switching from using laundered garments to disposable garments.
52. The parties submitted that the use of disposable garments would become prevalent since disposable garments are widely used outside of GB and imports are cheap and available. As evidence to support this contention, they highlighted a recent switch by the Australian business of one of their larger GB customers from laundry to disposables. The parties further submitted internal documents showing that in GB one of their customers had (at least partially) switched to disposables and three other customers were 'likely to switch'. The parties also pointed to Guardline's consumables business and not its cleanroom laundry business as the key driver for the merger as a result of their view that use of consumables as an alternative to laundered garments is likely to become more prevalent in the future.
53. The CMA, in the course of its investigation, asked the parties' current customers who they considered possible cleanroom laundry suppliers and a small proportion pointed to suppliers of consumables.²¹ One third party also said that disposables were more cost effective for those customers whose cleanroom garment requirements are small, but it also noted that as the price of disposable garments relative to cleanroom laundry had decreased over time so that disposable items may be cost effective for more customers.
54. However, most customers told the CMA that they would not switch to disposable garments following a 5% price increase in cleanroom laundry services. Some also said that disposable garments were not a suitable alternative. This is consistent with the fact that, as noted above, the parties' internal documents identified only a very small number of customers (less than [0 to 10%] of their total number of cleanroom laundry customers) that had switched or were likely to switch.
55. The CMA considers therefore that the available evidence does not indicate that customers are currently able and willing to substitute disposable garments for

²¹ Out of 33 Fenland customers, the parties submitted that four pointed to disposable garment suppliers and out of 20 Newbury customers, three pointed to disposable garment suppliers. The CMA notes, however, that these customers' responses do not unambiguously indicate that they would indeed switch from using laundry services to disposable garments.

full or intermediate cleanroom laundry services to an extent sufficient to consider these as part of the same frame of reference, although the CMA has taken account of the supply of disposable garments as a possible constraint in its competitive assessment. However, the CMA does not consider it necessary to conclude on whether disposable garments form part of the frame of reference as it is not determinative of the outcome of its competitive assessment.

In-house supply of cleanroom laundry services

56. The parties submitted that prior to expansion of outsourcing of cleanroom laundry services in the 1980s and 1990s, some cleanroom operators had on-premise laundries and therefore operated such laundry services in-house. The parties submitted that the threat of large customers switching back to in-house supply continues to pose a constraint on the parties.
57. The CMA raised the possibility of using in-house supply²² with a number of large customers and the response was mixed. One customer said that it would have the option to switch to in-house supply and indicated that this gave it negotiating strength, but other customers described such a switch as difficult or challenging and others said a large price rise in laundry services would need to occur before they would consider it.
58. On the basis of the mixed evidence from the large suppliers, and on a cautious basis, the CMA does not therefore consider it appropriate to include the provision of in-house supply of cleanroom laundry services in the relevant frame of reference.

Cleanroom consumables

59. The parties supply a wide range of disposable items used by cleanroom operators, including disposable garments, gloves, wipes, trigger sprays and mats. As no competition concerns arise with respect to any plausible frame of reference for the supply of cleanroom consumables, as set out below, the CMA does not consider it necessary to conclude on the precise market definition for these products and cleanroom consumables will not be considered further.

²² The CMA's general approach to whether or not to include self-supply in the frame of reference is set out in the [Mergers Assessment Guidelines](#), paragraph 5.2.20. Neither the parties nor third parties indicated that cleanroom operators that currently self-supply their laundry requirements (the evidence suggested there were few of these operators) would consider offering to supply laundry services to current customers of outsourced laundry services.

Geographic scope

60. The parties' full cleanroom laundries are located at Skegness in Lincolnshire (Fenland), and Newbury in Berkshire (Newbury). From those premises, they supply customers across GB.²³ Fenland complements its main cleanroom laundry facility with a network of hubs²⁴ in Grantham in Lincolnshire, Letchworth in Hertfordshire, Manchester, Newcastle, and Perth (Central Scotland). Prior to the merger, Guardline operated from facilities in Thetford (Norfolk). The parties' main competitor, Fishers, also supplies across GB from its facility in Livingston (Scotland).
61. The CMA understands from the parties' submissions and from third parties that the market operates by suppliers delivering to customers with their own fleet of vehicles or through couriers. This applies to both the parties and their competitors.
62. The parties submitted that they do not charge a higher price for delivery to customers further away from their laundry facilities, but charge customers at the same rate regardless of the distance from the laundry facility. Some third parties told the CMA that transport costs are higher when serving customers further away, but they indicated that transport costs may be absorbed and do not therefore have a significant impact on pricing in this market.
63. However, some third parties noted that supplying cleanroom laundry over greater distances can increase the (actual or perceived) risk of security of supply.²⁵ Use of couriers rather than a proprietary delivery fleet was also raised as a disadvantage, as some third parties stated that couriers provide a lower level of customer service. The CMA notes that Fenland uses a hub network (and overnight trunking) to supply a long distance from its laundry but it is not clear that this overcomes all of the above issues such that a supplier with facilities located far from customers may be a weaker competitor to supply those customers compared to a local supplier.
64. That said, the evidence considered by the CMA shows that suppliers compete across large areas of GB, although there are some indications from customers that suppliers based a long distance away from their customers (and/or relying on a courier service) may be a weaker competitive constraint, potentially due to transport costs, use of couriers and/or the (perceived) risk to security of supply.

²³ The parties submitted that none of Fenland, Newbury or Guardline operated in Northern Ireland.

²⁴ This is a distribution facility which is supplied from Skegness and from which local delivery vehicles operate.

²⁵ The CMA noted the parties' views that customers are dependent on the delivery of decontaminated garments and without them the customer's manufacturing activity, for example, would stop. Some customers may carry extra days' stock (or in some limited cases disposables) but these only provide cover for a limited period.

65. Based on the evidence set out above, the CMA has therefore assessed this merger as regards the supply of cleanroom laundry services on a GB-wide basis, while taking into account the impact of location, where relevant, in the competitive assessment below. However, the CMA does not consider it necessary to conclude on the geographic scope given that no concerns arise on any basis.

Conclusion on relevant frames of reference

66. On the basis of the evidence available, the CMA has considered the following frames of reference in its competitive assessment:

- the supply of (standalone) full cleanroom laundry services in GB;
- the supply of (standalone) intermediate cleanroom laundry services in GB;
- the supply of full cleanroom laundry services and associated intermediate cleanroom laundry services in GB; and
- the supply of cleanroom consumables in GB.

Horizontal issues

67. Horizontal effects can arise in a merger when a firm merges with a competitor that previously provided a competitive constraint, potentially allowing the merged firm to profitably raise prices unilaterally and/or degrade the quality of service offered to its customers compared with what would occur absent the merger.²⁶

68. As set out above, both Micronclean and Guardline supplied a range of consumables. The parties estimated that they have a combined share of supply of consumables in GB of [10 to 20]%, including an increment resulting from the merger of [0 to 10]%. The parties stated, and third parties confirmed, that there are many alternative suppliers of consumables and no customers raised any concerns about the merger with regard to consumables. The CMA therefore considers that the merger does not give rise to competition concerns in the supply of consumables in GB, and has focused its assessment on the supply of cleanroom laundry services.

²⁶ See [Merger Assessment Guidelines](#), paragraphs 5.4.1 to 5.4.12.

69. The CMA considers below evidence on the parties' share of supply, the closeness of competition between the parties, and the effectiveness of competing suppliers.
70. In its competitive assessment the CMA has focused on the supply of each of full and intermediate cleanroom laundry services and has not separately considered the supply of full cleanroom laundry services with (bundled) associated intermediate cleanroom laundry services. This is because if no concerns arise in the assessment of the supply of standalone full cleanroom laundry services, no competition concerns are likely to arise in the supply of full and associated intermediate cleanroom laundry services. In particular, the latter may be subject to the additional constraint that customers may unbundle their purchases of the full cleanroom laundry services and the associated intermediate services and source their intermediate cleanroom laundry requirements separately from the wider set of suppliers identified for intermediate cleanroom laundry services (including barrier laundries) below.
71. Below the CMA has for convenience used 'Micronclean' to refer to both Fenland's and Newbury's activities in the supply of cleanroom laundry services, given that both operate under the 'Micronclean' brand and present themselves as one business to customers for these activities.

Share of supply

72. The CMA estimates the total revenue associated with full cleanroom laundry services to be approximately £10 million in 2012/2013.²⁷ Based on revenue figures from the parties and third parties, the CMA estimated that Micronclean accounted for approximately [80 to 90%] (consisting of Fenland [50 to 60%] and Newbury [20 to 30%]) of supply. This includes the increment from Guardline, which is very small at approximately [0 to 10%].²⁸
73. Fishers, the next largest full cleanroom laundry services supplier after Micronclean, has an estimated share of supply of approximately [10 to 20%]. The other remaining competitor, Clean Linen Services (**CLS**), has around [0 to 10%].
74. The estimated shares of supply for suppliers of full cleanroom laundry services therefore show that pre-merger, Micronclean was by far the largest supplier, followed by Fishers and then Guardline and CLS.

²⁷ This was based on data provided by the parties and third parties to the CMA during the course of its investigation.

²⁸ The CMA estimates that the market for full cleanroom laundry and associated intermediate laundry services would be at least £12.8 - £14.4 million in 2012/2013.

75. The parties estimated that the intermediate cleanroom laundry market, including competing barrier laundries, is worth approximately £85 million. Fishers told the CMA that it operates an intermediate cleanroom laundry with revenues of around £[redacted] million per annum. There are also a large number of barrier laundries of which Johnson Apparelmaster and Berendsen are estimated by the parties to be, by a large margin, the largest suppliers. The parties estimated that they have a share of supply of around [0 to 10%]. Customer concerns related to full cleanroom laundry services or to customers who obtain full and intermediate cleanroom laundry services. Standalone intermediate cleanroom laundry services are not, therefore, considered further in the competitive assessment.

Strength of Guardline's constraint

76. The CMA considered the extent to which, pre-merger, the parties were constraining each other in the supply of full cleanroom laundry services. Unilateral effects resulting from a merger are more likely to arise where the merger eliminates a significant competitive force from the market.²⁹
77. The parties submitted that Micronclean did not consider Guardline's cleanroom laundry business as a strong constraint given the small revenues it generated in this sector and the lack of any serious activity by Guardline to gain business from Micronclean.
78. The CMA notes that Guardline had a very limited presence in the supply of full cleanroom laundry services. It generated approximately £[redacted] in 2012/2013 from cleanroom laundry services, but this includes garments that were over-processed (ie that were processed in Guardline's ISO Class 4 cleanroom laundry although the customer requirements would have allowed them to be processed in a ISO Class 6 or 7 cleanroom laundry).³⁰ The CMA noted that Micronclean generated significantly greater revenues of over £[redacted] million in 2012/13 from full and intermediate cleanroom revenues. Guardline earned only approximately £[redacted]³¹ from full cleanroom laundry services,³² which is significantly less than Micronclean, which earned approximately £[redacted] million in 2013 from full cleanroom laundry services.

²⁹ See [Mergers Assessment Guidelines](#), paragraph 5.4.5.

³⁰ Guardline had only one cleanroom laundry facility in Thetford, which was validated for ISO Class 4.

³¹ Annualised revenue at time of acquisition.

³² Estimate supplied by the parties. This revenue figure excludes the approximately £[redacted] of revenues associated with garments that Guardline was over-processing.

79. The parties also referred to the lack of any serious activity on the part of Guardline to gain business from Micronclean. The parties submitted evidence indicating that Guardline had tendered for a number of contracts for full cleanroom laundry services across customers, including aseptic manufacturers, NHS pharmacies and other small manufacturers in the micro-electronics and semi-conductor, medical devices, life sciences and precision engineering sectors.
80. Guardline was not very successful in winning business from Micronclean, nor, as the CMA understands, more generally. Evidence submitted by the parties indicated that, since 2011, Guardline only managed to win three contracts from Fenland (with a total annual value of £[redacted]) and only for supply to locations in Essex, close to its laundry facility) and only one contract from Newbury (annual value of £[redacted] to £[redacted] for a location in Staffordshire). The limited constraint from Guardline is supported by Fishers, the other main supplier of full cleanroom laundry services, which told the CMA that it comes up against Micronclean in almost all tenders but only infrequently against Guardline.
81. The parties submitted that demand for full cleanroom laundry services principally comes from the NHS pharmacies and the pharmaceutical industry (in particular aseptic manufacturers). A much smaller share of demand comes from other types of firms such as those producing semi-conductors, micro-electronics, medical devices and precision engineering.
82. With regard to NHS pharmacies, the CMA notes that Guardline had managed to win only 11 contracts to serve NHS pharmacies in its 12 years of operation. The CMA notes that Guardline's revenues earned from NHS pharmacies were a fraction of those earned by Micronclean (ie around £[redacted] versus £[redacted] million) and much smaller than the £[redacted] earned by Fishers per annum serving NHS Pharmacies. The CMA received mixed views on Guardline's ability to serve NHS pharmacies given their technical requirements.
83. Guardline did have one relatively large value contract with an aseptic manufacturer, [redacted], which generated around £[redacted] full and £[redacted] intermediate cleanroom laundry services revenue per annum. However, even including this contract, Guardline's revenues serving aseptic manufacturers were a small fraction of those earned by Micronclean and smaller than those earned by Fishers for this type of customer.
84. Furthermore, there is evidence that Guardline's behaviour with regards to [redacted] may have been constrained to a significant (or even greater) degree by Fishers than Micronclean.[redacted]. The CMA notes that since this contract award Fishers

has further improved its offering through expansion of its facility (see further below).

85. The evidence available to the CMA indicated that it was credible that Guardline could win some more small contracts but only had capacity to take one further customer of equivalent size to [X]. To serve any further customers beyond this, it would require significant levels of investment.³³
86. Guardline's credibility to win large contracts was, therefore, limited by its small size and, for instance, the significant investment required in garments to provide garment rental to such customers, as the evidence suggested that many full cleanroom laundry customers also rent the laundered garments (see paragraph 49 above). The parties stated that Guardline's ability to fund the necessary investments not only for rental garments but also more generally in its cleanroom laundry facility was very limited, which was supported by evidence submitted by the parties on Guardline's financial position. This suggests that not only was Guardline limited in its ability to effectively compete with Micronclean for the large customers within the NHS pharmacy and aseptic manufacture sectors, but its ability to compete with Micronclean for customers in other sectors (for instance, semi-conductor and microelectronics sectors) would also have been limited by the capacity constraints of its cleanroom laundry facility and potentially by the need to fund garment purchases.
87. This is supported by the very small number of Micronclean contracts Guardline had managed to win since 2011 and the low revenues these represented. This is further supported by the composition of Guardline's main customer base, which was predominantly made up of small customers outside of the NHS pharmacy and aseptic manufacturing sector.
88. In addition to Guardline's limited ability to win large contracts, several third parties raised doubts about its ability to meet customers' requirements given, for instance, the nature of its materials, technology and its lack of capacity. As a result, several customers told the CMA that they did not consider Guardline to be a feasible supplier.
89. The CMA asked a number of customers who they considered were credible suppliers of cleanroom laundry services. These questions were sent to Micronclean's Class 4 customers (those customers who required a full cleanroom laundry service). Of the Fenland customers, half of those that responded had considered Guardline as a possible supplier and of the

³³ The former owner of Guardline told the CMA that it would have been difficult for it to raise significant investment to increase its capacity in cleanroom laundry.

Newbury customers, around a third had considered Guardline as a possible supplier. While several of Micronclean's customers had considered Guardline as a possible supplier for their full cleanroom laundry requirements – and indeed a few of these customers raised concerns about the possible effects of the merger – a number of these did not consider Guardline to be a feasible supplier they could switch to. For example, some customers said that Guardline did not meet most, and in some cases all, of their requirements including materials (such as the quality of rental garments), technology and capacity.

90. From this evidence, the CMA considers that Guardline was a possible supplier for a number of customers in the full cleanroom laundry market but the evidence generally supports the fact that it was a weak constraint pre-merger and in the foreseeable future particularly given its lack of customer wins in the main NHS pharmaceutical sector over a 12 year period, capacity constraints and general lack of investment in its service provision. The CMA therefore went on to consider closely whether the loss of this weak constraint on Micronclean would nevertheless raise competition concerns or whether there would remain sufficient constraints in the market to constrain the merged entity.

Remaining suppliers of full cleanroom laundry services

91. The CMA has assessed the activity of the other suppliers of full cleanroom laundry services, Fishers and CLS, which are discussed in turn below.

Fishers

92. Fishers is a commercial laundry and textile rental services business employing over [X] people with an annual turnover of £[X] million in 2013. Fishers' full cleanroom laundry site is based in Livingston, Scotland. Fishers has invested in additional capacity to the Livingston facility in 2013. Fishers told the CMA that this was part of its long term plan for expanding its business further into England and Wales
93. Fishers has been rapidly growing its full cleanroom laundry business and now has an annual turnover for this business of approximately £[X] million, split evenly between Scotland and England and Wales. Fishers is the second largest supplier in GB. Fishers' main customer group are those small manufacturers where Guardline was in competition with Micronclean, but Fishers also has significant revenues in supply to NHS pharmacies and aseptic manufacturers.
94. Initially, Fishers concentrated its business in Scotland and North England, but has gained customers through a mixture of acquisition (most recently Origin

and Nitritex's full cleanroom laundry customers in 2012, which included some customers in South England) and open competition. In this regard, Fishers has been competing aggressively with Micronclean in Scotland and England and Wales. In addition to its customers in Scotland, Fishers now has clusters of customers in North East England, along the M4 corridor and in South West England, as far as Plymouth and Truro.

95. The parties provided evidence that contracts Fishers has won from Micronclean were of significant value. For example, the five contracts Fishers won from Fenland from 2011 to 2013 represented aggregate revenues of over £[redacted] per annum and included contracts for the aseptic manufacturing sector.
96. This is supported by evidence from Fishers, which showed that in the last three years it has won 11 contracts from Micronclean and Guardline in England and Wales, including South Wales, Midlands and Cambridgeshire. Some of these contracts were won as recent as late 2013 and 2014. Based on the parties' customer lists the CMA estimates that these most recent contract wins are together worth around £[redacted] per annum.
97. Fishers told the CMA that, having completed the first phase of its expansion by increasing its capacity in its Livingston facility to carry out full cleanroom laundry services, it has taken significant steps in expanding its business in England and Wales and winning business as evidenced by its recent contract wins from Micronclean. These steps have included:
 - Investment in a new fleet of vehicles. Fishers has recently invested in £4.4 million to its delivery fleet to support its overall growth plans.
 - Expanding its sales activity in England and Wales with the appointment of a new sales manager based in Swindon (who was formerly employed by Guardline and is shown by recent contract wins to be already winning new business for Fishers).
 - Setting up a distribution depot in Northampton to help build and diversify its business in the South.
 - Introduction of a new website.³⁴

³⁴ Fishers provided the CMA with evidence showing that this expansion plan was significantly advanced and likely to materialise in 2014. Fishers also said that a greater presence in England and Wales will lead to more business which in the future could lead to Fishers investing in a new full cleanroom laundry facility in England, although the CMA was not able to place significant reliance on this as it has not received sufficient evidence that this was likely to take place at this stage.

98. Some customers in the England raised concern about Fishers' security of supply given that its cleanroom facility is based in Livingston. However, Fishers informed the CMA that its delivery record was very good and that it believed that the establishment of a hub in England will increase customer confidence, as it will be able to keep contingency supplies closer to critical locations. Several customers, including in Southern England, did not raise concerns on this point.
99. While the CMA acknowledges the concerns raised by some customers over security of supply and the distance of Fishers from some customers, it considers that Fishers' recent expansion – underpinned by significant investment in capacity and sales and a credible commitment to expand distribution– suggests that it will be a strong constraint going forward and may become even stronger to the extent that its improved distribution may address preferences concerning security of supply of a few customers are likely to be addressed, at least to some extent. Further, the CMA notes that this expansion strategy has already resulted in several further wins of significant business from the parties following the merger.

Clean Linen Services (CLS)

100. The parties submitted that CLS has a Class 5 cleanroom laundry facility in Maidenhead, approximately 21 miles from its facility in Newbury, and would be able to bid for some contracts. CLS's facility conforms to ISO14644 and the EU GMP standards and it appears currently to focus its full cleanroom laundry services on cleanroom operators other than NHS pharmacies (which it does not currently serve) and aseptic manufacturers, which includes micro-electronics and semi-conductor customers. CLS has similar full cleanroom laundry revenues to Guardline's pre-merger.
101. Only one of the parties' customers named CLS as a credible alternative supplier. Another of the parties' aseptic manufacturing customers said they were aware that CLS provided cleanroom laundry services but felt their premises did not meet their required specifications.
102. That said, one third party told the CMA that CLS currently has a large cleanroom laundry services contract with NXP, a semi-conductor business.³⁵ It is therefore clear that NXP considers CLS as a credible supplier. The parties

³⁵ This was confirmed by CLS to the CMA.

submitted evidence that CLS won a contract for the rental of garments that was worth approximately £8,000 to Micronclean in 2011, but the CMA notes that this is only one rental contract with a relatively low value.

103. On balance, the CMA considers that the evidence suggests that CLS is not currently a strong constraint on the parties, but the CMA notes that, in view of CLS's cleanroom laundry revenues and the fact that it serves at least one large contract, the constraint from CLS is not significantly smaller than the constraint lost as a result of the merger.

Other constraints

104. Although the CMA considered there was insufficient evidence to include disposable garments in the relevant frame of reference, it considered the extent, if any, of constraint that the parties faced from disposable garments. There was little evidence from the CMA's enquires with the parties' customers that they considered disposable garments an alternative to full cleanroom laundry services, as set out above.
105. The CMA did not consider, on the basis of the evidence available, that the use of disposable garments provides a significant constraint on the parties at the present time, there is some evidence to suggest that disposable garments may constitute a more significant constraint on the parties in the future.

Conclusion

106. As set out above, the parties have a large combined share of supply in full cleanroom laundry services. However, the increment from Guardline is very small at [0 to 10%] and the evidence does not suggest that Guardline was any stronger than its share of supply suggests. Indeed, the CMA does not consider that, based on bidding evidence and third-party comments, Guardline was a strong pre-merger constraint on Micronclean's full cleanroom laundry activities. The evidence shows that Guardline was a small operator with limited spare capacity and a limited ability to win large contracts. It had won only a very small number of contracts from Micronclean in the past three years with a limited value. Further, a significant number of customers did not consider it to be a credible alternative to Micronclean.
107. Conversely, the evidence shows that Fishers provides a strong constraint on Micronclean. Although its current share of supply is significantly smaller than the parties' at around [10 to 20%], Fishers has invested heavily in increasing its capacity at its Livingston facility and from 2011 to 2013 has won a number of significant contracts from Micronclean, not only in Scotland where Fishers is

based but also in England and Wales. Furthermore, Fishers' portfolio of customers suggests it was active across all the main customer sectors pre-merger. The CMA therefore considers that pre-merger, Fishers was Micronclean's closest competitor. Furthermore, the evidence indicates that Fishers will continue to be a strong constraint on the parties post-merger with significant expansion plans in England.

108. The parties also continue to face some constraint from CLS, which has cleanroom laundry revenues that are similar to Guardline's and served at least one large contract.
109. On the basis of the evidence available, in particular the very limited pre-merger constraint from Guardline and the significant constraint the parties continue to face from Fishers, the CMA, therefore, does not consider that the merger gives rise to a realistic prospect of an SLC in the supply of full cleanroom laundry services in GB.

Barriers to entry and expansion

110. The CMA considered to what extent the parties would be constrained from increasing prices by the prospect of new entry or expansion. When assessing entry and expansion, the CMA will consider whether this would be (i) timely, (ii) likely, and (iii) sufficient to prevent a realistic prospect of an SLC arising from the merger.³⁶
111. The parties described three ways that a firm may enter the supply of full cleanroom laundry services: by upgrading an Intermediate facility, by building a full cleanroom area within an existing laundry, or by establishing a new cleanroom facility.
112. The CMA received estimates from some third parties suggesting that upgrading an existing Intermediate cleanroom may be difficult. Third parties also suggested that, while it may be possible to build a small full cleanroom laundry in an existing laundry for around £300,000, building an equivalently sized laundry to Fenland or Newbury would cost around £6 to 7 million. That said, the CMA noted that pre-merger, Fishers had embarked on an extensive expansion plan, increasing the capacity of its Livingston facility, and continues post-merger with extensive investment in delivery vehicles and advanced plans for a distribution hub in England. This has been discussed in detail above.

³⁶ [Merger Assessment Guidelines](#), paragraph 5.8.3.

113. However, on the basis that no significant competition concerns arise, the CMA does not consider it necessary to conclude on barriers to entry and expansion.

Buyer power

114. The CMA considered the extent to which customers may be able to use negotiating strength to limit the ability of a merged firm to raise prices.³⁷ During the investigation the CMA received a broad range of views on the question of whether customers had negotiating strength pre-merger. Around half of customers who responded believed they had some negotiating strength, with some attributing this to the available option of switching supplier.

115. However, the CMA noted that some customers raised a number of barriers to customers switching, such as the need to audit a supplier's full cleanroom laundry facility as well as its processes and controls, having to pay the residual value of the garments, and other risks associated with switching supplier. Such barriers to switching may impact on a customer's negotiating strength. The CMA received evidence that a relatively small number of customers switched supplier both during the pre-merger period and post-merger.

116. However, on the basis that no significant competition concerns arise, the CMA does not consider it necessary to conclude on countervailing buyer power.

Third party views

117. The CMA contacted many of the parties' customers as well as their competitors. Some customers raised concerns pointing to a reduction in competition, but the large majority of respondents did not raise concerns.

118. Third party views have been reflected above where appropriate.

Decision

119. The CMA does not, therefore, believe that it is or may be the case that the merger has resulted or may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

120. This merger will therefore **not be referred** under section 22(1) of the Act.

³⁷ See [Mergers Assessment Guidelines](#), paragraphs 5.9.1 to 5.9.8.

**SHELDON MILLS
SENIOR DIRECTOR OF MERGERS
COMPETITION AND MARKETS AUTHORITY**

20 May 2014