

Anticipated acquisition by Poundland Group plc of 99p Stores Limited

Summary of provisional findings

Notified: 25 August 2015

1. On 17 April 2015, the Competition and Markets Authority (CMA), in exercise of its duty under section 33(1) of the Enterprise Act 2002 (the Act), referred the anticipated acquisition by Poundland Group plc (Poundland) of 99p Stores Limited (99p) for further investigation and report by a group of CMA panel Members (Inquiry Group). The investigation was suspended for a period of three weeks at the request of Poundland and resumed on 8 May 2015. Throughout this report, we refer to Poundland and 99p collectively as the Parties.
2. Poundland is a retailer that sells grocery products, health and beauty products and general merchandise, almost all at a single price point (SPP) of £1. It has 547 stores in the UK, most of which are located on high streets and shopping centres. Poundland was listed on the London Stock Exchange in 2014. In the year to 29 March 2015 its revenues were £1.1 billion, with pre-tax profits of £36.2 million.
3. 99p operates 216 stores under the '99p store' brand, which sell similar products, primarily at a SPP of 99 pence. The majority of its stores are located in the south of England. 99p also operates 34 stores with different ranges and pricing models under the 'Family Bargains' and '99p Plus' brands. 99p is a private limited company. In the year to 1 February 2015, its revenues were £[redacted] million [redacted].
4. The value retail sector, of which SPP retail is a part, has experienced significant growth over the past decade, from £2.1 billion in estimated net sales in 2005 to £6 billion in estimated net sales in 2015. It is expected to continue to grow, as many value retailers have significant expansion plans. This sector includes the following categories, among others:
 - (a) SPP retailers, including Poundland, 99p and Poundworld Retail Limited (Poundworld), all of which operate across a large number of geographic

areas (the large SPP retailers) and numerous smaller SPP retailers, many of which have only one store (the small SPP retailers).

- (b) Limited assortment discounters (LADs), including ALDI Stores Limited (Aldi), Lidl UK GmbH (Lidl) and Iceland Foods Limited (Iceland), which sell primarily own-branded grocery products.
 - (c) Value general merchandise retailers (VGM retailers), including B&M European Retail Value S.A (B&M), Home Bargains (operated by TJ Morris Limited), Poundstretcher Limited (Poundstretcher) and Wilkinson Hardware Stores Limited (Wilko) as well as Poundworld's Bargain Buys and 99p's Family Bargains branded stores.
5. In recent years, the Big Four supermarkets (Asda Stores Limited (Asda), Tesco Stores Limited (Tesco), Wm Morrison Supermarkets plc (Morrison's) and J Sainsbury's plc (Sainsbury's)) have engaged in intense price competition. Some of this has involved the promotion of products at a fixed £1 price point, and in the case of Asda and Tesco, this has been done in dedicated areas within their stores, the latter under its Brand Outlet initiative.
 6. On 14 May 2014, KPMG, acting on behalf of 99p, approached Poundland. Following a lengthy due diligence and negotiation process, a sale and purchase agreement (SPA) between the shareholders of 99p and Poundland came into effect on 5 February 2015. As a result of this SPA, it is proposed that Poundland will acquire 100% of the share capital of 99p for a gross consideration of £55 million (the Transaction). We are satisfied that this Transaction will create a relevant merger situation.
 7. We first sought to identify the most significant alternatives available to the customers of the Parties, using three sources of evidence: a survey of Poundland's and 99p's customers which we carried out in June 2015, an analysis of the opening or closing of stores on the revenue of the Parties' stores located in their vicinity and an analysis of the product ranges of the Parties and a selection of other retailers. We provisionally concluded that the closest competitors to the Parties were other large SPP retailers, and that VGM retailers were also good alternatives to the Parties, albeit less close competitors than the large SPP retailers. The data from these three sources of evidence provided a mixed picture on the strength of the competitive constraint posed by supermarkets on the Parties' stores.
 8. Before turning to our analysis of the competitive effects of the Transaction, we considered what would have happened to 99p in the absence of the Transaction (the counterfactual). To reach a view, we examined three possible scenarios: the continuation of the pre-merger situation; the sale of

99p to an alternative purchaser; or the failure of 99p. In making our assessment, we considered the actions that had been taken by 99p's management, including the recruitment of a new Chief Operating Officer (COO) and implementation of a three-year plan, and evaluated the extent to which the negotiations between 99p and Poundland that took place over a period of over eight months had an impact on the performance of 99p. We provisionally concluded that the most likely scenario, and therefore the counterfactual we chose, was that 99p would have continued to implement its three-year plan. [X] We recognised that in the short term, the competitiveness of 99p may have declined, but given the underlying trend of the industry overall and recent injection of professional management, we considered that it would have been likely to survive, largely operating the same business. We considered, however, that it would have been likely to slow down its expansion plans.

9. We then turned to the assessment of the effects of the Transaction on competition. This took account of the shopping behaviour of customers, the closeness of competition between the Parties and the totality of competitive constraints exerted by other retailers on Poundland and 99p.
10. We provisionally found that:
 - (a) there is an increased propensity for UK customers from all socio-demographic groups to visit value retailers, including SPP retailers;
 - (b) as reported by a significant proportion of the retailers that submitted evidence to us, the single weekly shop has been replaced to some extent by more frequent so-called 'top-up' shopping or multi-outlet shopping involving a variety of stores including value retailers;
 - (c) the value of the average SPP shopping basket is small, and compared with the population of the UK as a whole, SPP retail customers, among other things, are more likely to have a lower average household income; and
 - (d) customers are primarily attracted to Poundland and 99p because of the affordability of their offer.
11. Bringing together the quantitative evidence we had used in our consideration of the economic market in which the Parties operate with qualitative evidence gathered from the Parties and other retailers, we provisionally concluded the following:
 - (a) The closest competitors to Poundland are the other large SPP retailers.

- (b) Of the VGM retailers, Home Bargains, B&M, Wilko and Bargain Buys are competitive constraints on the Parties, but not as close as the large SPP retailers. We infer from the evidence that Poundstretcher is a weaker competitive constraint than the other VGM retailers.
 - (c) With respect to the supermarkets, Tesco and Asda exert a similar or somewhat closer competitive constraint on the Parties to that exerted by the VGM retailers.
 - (d) The competitive constraint from other retailers, including the LADs, is weak.
- 12. We provisionally concluded that the constraint of stores located at a distance of over 1 mile from a Poundland or 99p store was likely to be negligible, and that catchment areas of up to 1 mile were appropriate for the analysis of the competitive effects of the merger. We also provisionally concluded that this analysis should take account of the diminishing constraint of competitors at a distance between 0.5 miles and 1 mile.
- 13. Having identified the relevant competitor set, as defined in paragraph 11 above, we sought to quantify the effects of the merger, using weights to reflect the varying strength of the constraints posed by different competitors and diminishing constraint of stores located further away from the Parties' stores.
- 14. Our assessment took account of the fact that the retail model of Poundland relies on a simple, low-cost business model, which, with few exceptions, has not in the past involved the variation of its offering locally in response to local changes in competition or to derive higher profits in areas where it did not face competitive constraints. We therefore sought to assess how the merger would change Poundland's incentives to flex its offering at the local level, by considering the extent to which the proportion of areas in which it faces no or a limited number of competing retailers increased significantly as a result of the merger. We provisionally found that the Transaction would not be likely to have such an effect on Poundland's incentives as the change in this proportion was not material.
- 15. We also considered whether the Transaction would create an incentive for Poundland to worsen any of the aspects of its offering on a national basis. This could be the case if, following the Transaction, Poundland faced limited competition in a significantly larger proportion of the areas in which it operates than before the Transaction. Through our quantitative analysis, we provisionally found that the Transaction would not be likely to have such effects.

16. In view of the above, we provisionally conclude that the proposed acquisition of 99p by Poundland may not be expected to result in an SLC within any market or markets in the UK for goods or services.