



# DETERMINATION OF MERGER NOTIFICATION M/19/037- CONNOLLY MOTORS/VOLKSWAGEN LETTERKENNY

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## Section 21 of the Competition Act 2002

**Proposed acquisition by Kevin Connolly Motor Group Limited, through Connolly Bros. Car Sales (Letterkenny) Limited of certain assets of Letterkenny Motor Group Limited.**

**Dated 18 December 2019**

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### Introduction

1. On 20 November 2019, in accordance with section 18(1)(a) of the Competition Act 2002, as amended (the “Act”), the Competition and Consumer Protection Commission (the “Commission”) received a notification of a proposed acquisition whereby Kevin Connolly Motor Group Limited (“Connolly Motors”), through its wholly-owned subsidiary Connolly Bros. Car Sales (Letterkenny) Limited (“Connolly Motors Letterkenny”), would acquire sole control of certain assets, constituting the business of a motor dealership and repair centre trading as *J.J Reid Motors* (the “Target Assets”) from Letterkenny Motor Company Limited (the “Seller”) (the “Proposed Transaction”).

### The Proposed Transaction

2. The Target Assets comprise Volkswagen Letterkenny plant<sup>1</sup>, the stock at *Volkswagen Letterkenny*, the business information and the records, and the Seller’s rights against third parties. The Target Assets do not comprise the existing legal agreements between the Seller and Volkswagen Group Ireland Limited (being an authorised dealer agreement and an authorised repairer agreement) or the existing finance arrangement between the Seller and Volkswagen Bank GmbH. The parties state in the notification that Connolly Motors will enter equivalent agreements with Volkswagen Ireland and Volkswagen Bank.

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<sup>1</sup> All plant, equipment, and machinery situated at Canal Road, Letterkenny, Co. Donegal, at which the car dealership and repair centre business has been conducted by the Seller (“*Volkswagen Letterkenny*”).



3. The Proposed Transaction is to be implemented pursuant to an asset purchase agreement dated [...] between the Seller, and Connolly Motors Letterkenny (the “APA”). Pursuant to the APA, Connolly Motors will acquire ownership and, thus, sole control of the Target Assets, through Connolly Motors Letterkenny.

### The Undertakings Involved

#### *The Acquirer*

4. Connolly Motors, a private company limited by shares and incorporated in the State, is involved in the retail sale of new and pre-owned passenger cars and light commercial vehicles, repair and servicing of motor vehicles and the arrangement of finance for motor vehicle customers in the State.
5. Connolly Motors operates nine motor dealerships and repair centres at each of its locations in counties Galway, Mayo and Sligo. As shown in Table 1 below, each of the motor dealerships and repair centres are operated as authorised dealerships and repair centres in respect of five motor vehicle brands, being *Audi*, *Mercedes-Benz*, *Volkswagen*, *SEAT* and *Hyundai*.

<b>Company Name</b>	<b>Dealership Location</b>	<b>Activity</b>
Kevin Connolly Car Sales Limited	Ballina, County Mayo	<i>Volkswagen</i> Main Dealer
Kevin Connolly Car Sales (Sligo) Limited	Carraroe, County Sligo	<i>Volkswagen</i> Main Dealer
Connolly Bros. Car Sales Limited	Ballina, County Mayo	<i>Audi</i> Main Dealer
Connolly Bros. Car Sales (Sligo) Limited	Collooney, County Sligo	<i>Audi</i> Main Dealer
Connolly Bros. Car Sales (Galway) Limited	Ballybrit, County Galway	<i>Audi</i> Main Dealer
Connolly Bros. Car Sales (North West) Limited	Collooney, County Sligo	<i>Mercedes-Benz</i> Main Dealer
Connolly Bros Car Sales (Mid West) Limited	Ballybrit, County Galway	<i>Mercedes-Benz</i> Main Dealer
Connolly Bros Car Sales (Ballybrit) Limited	Ballybrit, County Galway	<i>Hyundai</i> Main Dealer
Connolly Bros Car Sales (Colloney) Ltd	Collooney, Sligo, County Sligo	<i>Seat</i> Main Dealer



6. Connolly Motors also owns a used car supermarket at Ballina, Co. Mayo and operates two insurance authorised crash repair centres.
7. For the financial year ending 31 December 2018, Connolly Motors' worldwide turnover was approximately €[...] million, all of which was generated in the State.

#### *The Target Assets*

8. The Target Assets are owned by the Seller which was owned by [...]. The Seller does not operate any other business other than the Target Assets. The Seller offers motor vehicle finance options to consumers and the finance is arranged predominately through *Volkswagen* Bank. The parties state in the notification that following implementation of the Proposed Transaction, the Seller will cease to trade.
9. The Target Assets comprise the assets necessary to operate the business of *Volkswagen Letterkenny*, which is one of the two *Volkswagen* dealers in County Donegal, the other being S&R Motors (Donegal) Limited, Drumlonagher, County Donegal.
10. For the financial year ending 31 December 2018, the Target Assets' worldwide turnover was approximately €[...] million, all of which was generated in the State.

#### **Rationale for the Proposed Transaction**

11. The parties state in the notification that:

*“It is an integral part of the Purchaser's strategy to grow its business, and the Proposed Transaction has presented an opportunity for the Purchaser to grow its business.*

*The Seller's commercial objective is to dispose of the Target Assets and ensure that the Target Assets and business of J.J. Reid Motors continues as a going concern.”*

#### **Third Party Submissions**

12. No submission was received.



## Competitive Analysis

### *Horizontal Overlap*

13. There are two areas of horizontal overlap between the activities of the parties within the State:
  - a. the sale of new passenger cars and light commercial vehicles including the supply of intermediary financial services, aftersales services, repair services and the sale of parts and accessories for new passenger cars and light vehicles; and
  - b. the sale of pre-owned passenger cars and pre-owned light commercial vehicles.

### *The sale of new passenger cars and light commercial vehicles*

## Market Definition

### *Product Market Definition*

14. The Commission defines markets to the extent necessary depending on the particular circumstances of a given case. In this instance, it is not necessary for the Commission to define the precise product markets as, regardless of whether the potential product market is narrow (i.e., the sale of new *Volkswagen* passenger cars and light commercial vehicles) or broad (i.e., the sale of all new passenger cars and light commercial vehicles), the Proposed Transaction is unlikely to raise any competition concerns.
15. For the purpose of assessing whether the Proposed Transaction might result in a substantial lessening of competition, the Commission has analysed its impact by reference to the following potential product markets, namely: (i) the sale of new *Volkswagen* passenger cars and light commercial vehicles (including the supply of intermediary financial services, aftersales services, repair services and the sale of parts and accessories for *Volkswagen* passenger cars and light vehicles); and (ii) the sale of all new passenger cars and light commercial vehicles (including the supply of intermediary financial services, aftersales services, repair services and the sale of parts and accessories for all passenger cars and light vehicles).



### *Geographic Market Definition*

16. Similarly, it is not necessary for the Commission to define the precise relevant geographic markets as, regardless of whether the potential geographic market is narrow (i.e. County Donegal) or broad (i.e. the State), the Proposed Transaction is unlikely to raise any competition concerns. However, for the purpose of its assessment, the Commission assessed the likely impact of the Proposed Transaction with respect to both the State and the narrower geographic market<sup>2</sup> of County Donegal.

### *Competitive Assessment*

17. The Commission assesses below the likely effect of the Proposed Transaction in each of the identified potential markets outlined in paragraph 15 above in turn for both the State and County Donegal.

### *The sale of new passenger cars and light commercial vehicles*

18. If the relevant geographic market for the sale of new passenger cars and light commercial vehicles is County Donegal, there is no horizontal overlap between the parties activities, regardless of whether the potential product market is defined as either the sale of new *Volkswagen* passenger cars and light commercial vehicles or the sale of all new passenger cars and light commercial vehicles. This is because Connolly Motors does not operate or own any new passenger cars and light commercial vehicle dealership in County Donegal.
19. If the relevant geographic market for the sale of new *Volkswagen* passenger cars and light commercial vehicles is the State, the parties' combined estimated market share for the sale of new *Volkswagen* passenger cars and light commercial vehicles, is approximately [0-10]% in the State in 2018.
20. In respect of the potential market for new *Volkswagen* passenger cars and light commercial vehicles in the State, recent figures published by the Society of the Irish

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<sup>2</sup> See previous Commission decisions in cases M/15/071 JDM Automotive/Karman Auto (available at: [https://www.ccpc.ie/business/wp-content/uploads/sites/3/2017/04/M-15-071-Determination-JDM-Automotive\\_Karman-Auto.pdf](https://www.ccpc.ie/business/wp-content/uploads/sites/3/2017/04/M-15-071-Determination-JDM-Automotive_Karman-Auto.pdf)), M/14/041 JDM Automotive Limited/Commons Road Cars (available at: <https://www.ccpc.ie/business/wp-content/uploads/sites/3/2017/05/M-14-041-JDM-Automotive-Commons-Road-Cars-Determination.pdf>) and M/18/020 Armalou-Spirit Ford/Lillis O'Donnell (available at: <https://www.ccpc.ie/business/wp-content/uploads/sites/3/2018/02/M.18.020-Public-Determination.pdf>) for a similar approach.



Motor Industry (“SIMI”) indicate that there were 39 authorised Volkswagen motor dealerships, owned by over 20 companies, operating in the State in 2018. Following implementation of the Proposed Transaction, Connolly Motors will own and operate 3 out of the 39 dealerships in the State.

21. In addition, the Commission notes that there are a number of competitors located throughout the State, which will continue to exert a competitive constraint on Connolly Motors in respect of the sale of new *Volkswagen* passenger cars and light commercial vehicles following implementation of Proposed Transaction.
22. In the light of the above, the Commission considers that the Proposed Transaction is unlikely to raise any horizontal competition concerns in relation to the sale of new *Volkswagen* passenger cars and light commercial vehicles in the State.
23. If the relevant geographic market for the sale of all new passenger cars and light commercial vehicles is the State, the parties’ combined estimated market share for the sale of all new passenger cars and light commercial vehicles is approximately [0-5]% in the State in 2018.
24. Figures published by SIMI indicate that there are over 400 dealers of new passenger cars and light commercial vehicles operating in the State in 2018. The Commission considers that these other dealers will continue to exert a competitive constraint on Connolly Motors following implementation of the Proposed Transaction in the State.
25. In the light of the above, the Commission considers that the Proposed Transaction is unlikely to raise any horizontal competition concerns in relation to the sale of all new passenger cars and light commercial vehicles in the State.



*The sale of pre-owned passenger cars and pre-owned light commercial vehicles*

**Market Definition**

*Product Market Definition*

26. The Commission has previously examined the market for “*the sale of pre-owned passenger cars and pre-owned light commercial vehicles*”.<sup>3</sup> In this instance, the Commission has found no reason to depart from its previous approach and therefore, the Commission assessed the competitive effects of the Proposed Transaction with respect to the sale of pre-owned passenger cars and pre-owned light commercial vehicles.

*Geographic Market Definition*

27. It is not necessary for the Commission to define the precise relevant geographic markets as, regardless of whether the potential geographic market is narrow (i.e. County Donegal) or broad (i.e. the State), the Proposed Transaction is unlikely to raise any competition concerns. However, for the purpose of its assessment, the Commission assessed the likely impact of the Proposed Transaction with respect to both the State and the narrower geographic market of County Donegal.

*Competitive Assessment*

28. There is a horizontal overlap between the activities of the parties in the sale of pre-owned passenger cars and pre-owned light commercial vehicles in the State. The Commission notes, however, that most, if not all, motor dealerships in the State sell pre-owned passenger cars and light commercial vehicles. Based on information provided by SIMI, there were 719 SIMI-registered dealers<sup>4</sup> selling pre-owned passenger cars and light commercial vehicles in the State in 2018. These dealers, along with other

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<sup>3</sup> For example, please see Commission decision in M/18/019: JDM Automotive/Motorpark which is accessible in <https://www.ccpic.ie/business/wp-content/uploads/sites/3/2018/02/M.18.019-JDM-Automotive-Motorpark-public-version.pdf>; the Commission’s decision in M/18/073 – Alavina Investments (MMM Limited)/Assets of J. Donohoe (Motors) Limited which is accessible at <https://www.ccpic.ie/business/wp-content/uploads/sites/3/2018/09/M-18-073-Determination-Alavina-J-Donohoe-Motors-1.pdf>; and the Commission’s decision in M/18/020: Armalou-Spirit Ford/Lillis O’Donnell which is accessible at: <https://www.ccpic.ie/business/wp-content/uploads/sites/3/2018/02/M.18.020-Public-Determination.pdf>

<sup>4</sup> The Commission notes that dealers and/or franchises which operate in the State are not legally obliged to register with SIMI.



dealers and importers, will exert a strong competitive constraint on Connolly Motors in respect of the sale of pre-owned passenger cars and pre-owned light commercial vehicles, following implementation of the Proposed Transaction in the State.

29. If the potential relevant geographic market were to be defined as County Donegal, SIMI figures indicate that there are currently 22 dealers located in County Donegal offering pre-owned passenger cars and pre-owned light commercial vehicles for sale. These dealers, along with other non-SIMI registered dealers and importers, will exert a strong competitive constraint on Connolly Motors in respect of the sale of pre-owned passenger cars and pre-owned light commercial vehicles, following implementation of the Proposed Transaction, in County Donegal.
30. In the light of the above, the Commission considers that the Proposed Transaction does not raise any horizontal competition concerns in respect of the sale of pre-owned passenger cars and pre-owned light commercial vehicles in County Donegal and in the State.

#### *Vertical Relationship*

31. The parties state in the notification that there is no vertical relationship between Connolly Motors and the Seller. The Commission has not identified any existing vertical relationship between the parties. On this basis, the Commission considers that the Proposed Transaction does not raise any vertical competition concerns in the State.

#### *Conclusion*

32. In light of the above, the Commission considers that the Proposed Transaction will not substantially lessen competition in any market for goods or services in the State.

#### **Ancillary Restraints**

33. Clause 18 of the APA contains non-compete obligations on the Seller. The duration of these non-compete obligations does not exceed the maximum duration acceptable to





the Commission.<sup>5</sup> The Commission considers these restrictions to be directly related to and necessary for the implementation of the Proposed Transaction.

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<sup>5</sup> In this respect, the CCPC follows the approach adopted by the European Commission in paragraphs 20 and 26 of its *Notice on restrictions directly related and necessary to concentrations* [2005] OJ C56/03 (<https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52005XC0305%2802%29>).



## **Determination**

The Competition and Consumer Protection Commission, in accordance with section 21(2)(a) of the Competition Act 2002, as amended, has determined that, in its opinion, the result of the proposed acquisition, whereby Kevin Connolly Motor Group Limited, through its wholly-owned subsidiary Connolly Bros. Car Sales (Letterkenny) Limited, would acquire sole control of certain assets, constituting the business of a motor dealership and repair centre trading as *J.J Reid Motors* from Letterkenny Motor Company Limited, will not be to substantially lessen competition in any market for goods or services in the State, and, accordingly, that the acquisition may be put into effect.

For the Competition and Consumer Protection Commission

**Brian McHugh**  
**Member**  
**Competition and Consumer Protection Commission**