

***Case No COMP/M.4986 -  
EQT V / SECURITAS  
DIRECT***

Only the English text is available and authentic.

**REGULATION (EC) No 139/2004  
MERGER PROCEDURE**

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Article 6(1)(b) NON-OPPOSITION  
Date: 31/01/2008

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 31/01/2008  
SG-Greffe (2008) D/200316

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE  
ARTICLE 6(1)(b) DECISION

**To the notifying party**

Dear Sir/Madam,

**Subject: Case No COMP/M.4986 – EQT V/ Securitas Direct  
Notification of 17 December 2007 pursuant to Article 4 of Council  
Regulation No 139/2004<sup>1</sup>**

1. On 17 December 2007, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004, by which the undertaking EQT V Ltd. ('EQT', Channel Islands) acquires within the meaning of Article 3(1)(b) of Council Regulation No 139/2004 ('Merger Regulation') control of the whole of the undertaking Securitas Direct AB ('Securitas Direct', Sweden) by way of public bid announced on 13 November 2007.
2. The Commission has concluded that the notified operation falls within the scope of the Merger Regulation and does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

**I. THE PARTIES**

3. **EQT**, the acquiring party, is a private equity fund investing in Northern Europe, which is part of the EQT-group of private equity funds and their respective portfolios of acquired companies. One of EQT's portfolio companies is **ISS**, a Danish facility management company which is jointly controlled by EQT and Goldman Sachs Capital Partners, offering services such as cleaning, office support, property services, catering services and, since 2006, security services such as access control, reception clerks, car

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<sup>1</sup> OJ L 24, 29.1.2004 p. 1.

park attendants, store detectives, other manned guarding and alarms with remote monitoring and response to mainly corporate customers in Finland.<sup>2</sup>

4. **Securitas Direct**, the target, is a Swedish-based company which is active in security services through the provision of alarms with remote monitoring and response to household and corporate customers (typically small companies with [...] employees) in Sweden, Finland, Norway, Denmark, Belgium, France, the Netherlands, Spain and Portugal. It was previously a division within the Securitas group of companies. In September 2006, the shares in Securitas Direct were distributed to shareholders and it was listed as a separate company on the Stockholm Stock Exchange.
5. Since the separation from Securitas, Securitas Direct has been jointly controlled by Mr. Gustaf Douglas and Mr. Melker Schörling, who together control [...] % of the votes in Securitas Direct. Mr. Douglas and Mr. Schörling are also the largest and jointly controlling shareholders in Securitas, controlling together, [...] % of the votes in Securitas. Securitas and Securitas Direct have entered into a licence agreement pursuant to which Securitas Direct is entitled to use the Securitas tradename and logotype until 2010.

## **II. THE CONCENTRATION**

6. The operation concerns EQT's acquisition, through a series of newly-established acquisition vehicle companies, of sole control over Securitas Direct through a public tender offer for the purchase of the majority of the shares in Securitas Direct. It therefore constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

## **III. COMMUNITY DIMENSION**

7. The thresholds of Article 1(2) of the Merger Regulation are met, as the parties' combined worldwide turnover exceeds EUR 5 billion (EUR [...] million for EQT and EUR [...] million for Securitas Direct) and each of the parties achieves more than EUR 250 million of Community-wide turnover (EUR [...] million for EQT and EUR [...] for Securitas Direct).<sup>3</sup>

## **IV. RELEVANT MARKETS**

8. ISS and Securitas Direct are both active in security services through the provision of alarms with remote monitoring and response services. Finland is the only country where these activities are exercised by both of them, as it is the only country in the EEA where ISS provides alarms.

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<sup>2</sup> ISS acquired Engel-Yhtymä Oy in 2004 and Estera Oy and in 2005, both providers of security services. The acquisition of Estera Oy was not notified to the Finnish Competition Authority as Estera Oy's turnover was below € 20 million. The acquisition of Engel-Yhtymä Oy was notified to the Finnish Competition Authority on 2 July 2004 and was approved on 23 July 2004.

<sup>3</sup> Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Notice on the calculation of turnover (OJ C66, 2.3.1998, p25)

### *Relevant product markets*

9. In line with previous Commission practice,<sup>4</sup> the notifying party takes the view that the relevant product markets for the purpose of the notified concentration are the markets for *alarm installation and maintenance* and *alarm monitoring and response*.
10. In particular, the Commission has previously found that a distinction can be made between manned guarding services and electronic guarding equipment (i.e. alarm installation and maintenance). Whereas manned guarding services are typically used to deter and prevent security problems, thanks to physical on-site presence and the possibility of an immediate response, electronic guarding equipment allows only detection of security problems (eventually leading to an *ex post* reaction). In addition, manned guarding is particularly necessary for a number of specific services such as access control or reception services.
11. A further distinction has been made between manned guarding services and alarm monitoring and response. Whereas manned guarding is provided on-site, alarm monitoring and response is provided from a distance via monitoring centres and human intervention is made *ex post*, therefore excluding the typical deterrent or preventive effect of manned guarding.
12. Both the alarm installation and maintenance and the alarm monitoring and response markets could be further divided into two sub-segments depending on the type of customers, i.e. households and corporate customers.
13. The market investigation has confirmed that in Finland (i) alarm installation and maintenance and (ii) alarm monitoring and response represent separate relevant product markets. According to respondents, it is quite common that private customers purchase alarm devices and have them installed from a technical company and conclude a monitoring contract with another company. A respondent noted however that there is today no strict separation between alarm installation/maintenance and alarm monitoring/response as all significant players are active in both either directly or by having recourse to sub-contractors.
14. The market investigation was not conclusive as to the relevance of the segmentation between household and corporate customers. Most respondents believe that such a distinction is unnecessary, in view of the basic similarities in the type of services provided and the technology used for both types of customers. However, these respondents still pointed out that a more intense and integrated type of service is usually required for corporate customers. Other respondents took the view that there are separate markets for household customers (to which small corporate customers should be added according to some) and (medium/large) corporate customers due to differences in the product and services provided, the sales and marketing strategies (with the household markets requiring more marketing/sales work and personnel), buying habits, needs and uses and contractual conditions (notably as regards the duration of contracts) due to consumer protection legislation in Finland. One respondent further expressed the view that while it is relatively easy for a company that focuses on corporate customers to start supplying households, the reverse is rather difficult due to the more intense and integrated type of service required for corporations.

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<sup>4</sup> Case No COMP/M.3396 – Group 4 Falck/Securicor

15. In any case, for the purposes of the present decision, the final definition of the relevant product market can be left open since the proposed transaction does not give rise to any competition concerns, regardless of whether the relevant product markets are the overall market for alarm installation and maintenance and the overall market for alarm monitoring and response or whether they are each subdivided into separate household and corporate customer sub-markets.

*Relevant geographic market*

16. In accordance with previous Commission practice,<sup>5</sup> the notifying party submits that the markets for both alarm installation and maintenance and alarm monitoring and response are national, primarily due to the existence of specific national regulations and standards, language differences and national preferences derived from the reputation of each of the players at the national level. Furthermore, in the notifying party's view, the conditions for operating such services are broadly similar across one and the same country, and although many competitors are local and small-scale, competitors include larger national operators offering their services across the country.
17. The market investigation has also overwhelmingly confirmed that both the alarm installation and maintenance market and the alarm monitoring and response market have a national scope. Most of the respondents to the market investigation have indicated as the main reasons for this delineation the existence of national regulations (e.g., licence requirements), particularly in relation to the alarm monitoring and response market, the 'local' and labour-intensive character of security services in relation to the services provided and the staff needed, price variations across countries and the fact that all competitors are located and operate nationally, even if they are also active in other countries.
18. For the purposes of this transaction, the market for alarm installation and maintenance and the market for alarm monitoring and response are both considered to be national in scope.

**V. COMPETITIVE ASSESSMENT**

19. There are no horizontal overlaps or vertical relationships between EQT's portfolio companies and Securitas Direct, with the exception of the Finnish markets for alarm installation and maintenance and alarm monitoring and response. Finland is the only country where both ISS and Securitas Direct are active in the provision of alarm systems and remote monitoring and response services. Their estimated combined market shares in volume (number of connected customers)<sup>6</sup> in the Finnish markets for both alarm

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<sup>5</sup> *Ibid.*

<sup>6</sup> It is common industry practice to estimate market size and market shares in terms of the number of customers, as customers only install one alarm system at a time and alarms are not repeated purchases. Volume market shares are therefore an appropriate proxy of market power. In the absence of publicly available data on the total size of the Finnish alarm markets, the parties' estimates of the total market size in volume are based on the number of connected customers and penetration rates. There is no publicly available data on the total value of the Finnish alarm markets and the sales of the parties' competitors. On an overall market for both corporate and household customers, market share estimates in value would probably lead to slightly higher market shares for companies focusing on corporate customers and lower market shares for companies focusing on household customers, as alarm systems for corporate customers are more expensive. Moreover, market share estimates in value would not lead to significantly different

installation and maintenance and alarm monitoring and response ("the overall markets") exceed 15%, amounting to [25-35]% in each of them (ISS: [0-10]%; Securitas Direct: [20-30]%), thus giving rise to horizontally affected markets.

20. This horizontal effect is also present under a narrower market definition based on the type of customers, with the parties' estimated combined market shares amounting to [15-25]% (ISS: 10-20%; Securitas Direct: 0-10%) in the *corporate customer segments* and [45-55]% (ISS: [0-10]%; Securitas Direct: [40-50]%) in the *household segments* of both the alarm installation and maintenance and alarm monitoring and response markets.
21. According to the notifying party, ISS and Securitas Direct are not each other's closest competitors in Finland and they do not compete on the same market segments.<sup>7</sup> Securitas Direct is a security services company which has as its core business the provision of alarms with monitoring and response, while ISS is a facility management company for which this activity is rather small and ancillary. Furthermore, since 2002, Securitas Direct in Finland markets its alarms only to households, with a small number of corporate customers ([...] in total) that are all "old stock", whereas ISS markets its security services only to corporate customers as part of its facility management offering. ISS has only [...] household customers that are all employed by companies that are corporate customers of ISS. This is part of a corporate "secured home" policy applied by ISS corporate customers with a view to enabling employees to work with sensitive company information from their homes under secure conditions. Similarly, whereas Securitas Direct's offering is limited to standardised alarm packages with few components (typically including a central unit, a control panel, a motion detector, a siren, a battery back-up and labels to be placed on windows or front doors), ISS's offering is more tailor-made in order to meet the needs and size of its corporate customers, with [a majority] of them opting for the tailor-made solution as opposed to the standardised one.
22. The different customer focus of ISS and Securitas has been broadly confirmed by the market investigation. Respondents have, *inter alia*, indicated that the "ISS Private" solution offered by ISS to households constitutes part of its service to its corporate customers, whereas Securitas Direct's recently developed "Aroundio" package – through which a company representative acts as seller, installation engineer and technical service patrol operator – targets exclusively household customers.
23. Consequently, regardless of the actual market definition (overall markets for household customers and corporate customers or separate segments for the two types of customers), the proposed transaction will not give rise to competition concerns. On the one hand, in the overall Finnish markets for alarm installation and maintenance and for alarm monitoring and response, each party's target group substantially differs in that they are focusing on different segments and, consequently, are not the closest competitors. On the other hand, under a narrower market definition based on the type of customers, the proposed transaction will only lead to overlaps of minor importance ([0-10]% in the corporate segments and [0-10]% in the household segments).

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competitors' market shares within each market. Market share estimates provided by respondents to the market investigation were broadly in line with the parties' estimates.

<sup>7</sup> The notifying party also notes that, given that ISS is jointly controlled by EQT and Goldman Sachs, any attempted integration of Securitas Direct and ISS would constitute a separate notifiable concentration.

24. The market investigation has further confirmed that the relevant security markets are very competitive. There are several important competitors on both the overall markets and their household/corporate customer segments, including Group4Securicor ([5-15]% in the overall markets, [10-20]% in the corporate segments and [0-10]% in the household segments), Turvatiimi ([5-15]% in the overall markets, [5-15]% in the corporate segments and [0-10]% in the household segments) and Securitas ([20-30]% in the overall markets, [35-45]% in the corporate segments and [0-10]% in the household segments). There are also numerous smaller (local) competitors with market shares of [0-10]% each, such as POKO Oy which is active in Oulu, Palmia which is active within Helsinki, or FPS Security Oy. Respondents have also provided market share estimates in line with the estimates of the parties.
25. With regards to Securitas, it should be pointed out that the entry of EQT as a controlling shareholder in Securitas Direct will remove the present situation whereby Securitas and Securitas Direct are controlled by the same persons, enhancing thereby the potential for increased direct competition between the two companies across Europe. All respondents indicated that Securitas and Securitas Direct are closer competitors than are Securitas Direct and ISS, both as regards alarm installation and maintenance and alarm monitoring and response.
26. Most of the respondents to the market investigation have expressed the opinion that Securitas Direct is a closer competitor to Securitas than to ISS. Consequently, the proposed transaction should in fact lead to more competition in the relevant markets by removing the current link between Securitas Direct and Securitas (currently sister companies as they are controlled by the same persons).
27. Similarly, the parties' combined market shares in the overall markets and the corporate customer segments amount to less than 40% ([25-35]% and [15-25]% respectively). In relation to the household segments, where the parties' combined market shares amount to [45-55]%, the increment is marginal ([0-10]%), representing annual sales of less than € [...].
28. Lastly, the notifying party submits that the significant recent growth of the market which is expected to continue (estimated to be around [0-10]% annually) and low entry barriers represent an attractive opportunity for new entry not only by traditional security services companies but also by companies active within sectors such as energy and telecoms.<sup>8</sup>
29. The market investigation has overwhelmingly confirmed that there are no substantial barriers to entry to the market for alarm installation and maintenance, with demand continuously growing in the household segment which is in an early phase. Respondents pointed to the constant new entry by mainly small companies, which often act as sub-contractors to larger monitoring companies, as an indication of the market's competitiveness.
30. In relation to the market for alarm monitoring and response, respondents have expressed different opinions. Some respondents expressed the view that barriers to entry have

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<sup>8</sup> Such entry has recently occurred, for instance, in Sweden, where the Finnish-based energy company Fortum has entered into an arrangement with Sector Alarm through the offering of alarms in conjunction with Fortum's current replacement of electricity meters at its' customers. Similarly, in Norway, the energy company Hafslund has been offering alarms for several years.

recently become higher, given the introduction of new stricter regulatory requirements with which monitoring centres must comply by 2009 in order to secure approval by the Federation of Finnish Financial Services. The new requirements pertain to issues such as the centres' physical infrastructure, the technology employed for monitoring and communication forwarding, the continuity of service (e.g. back-up provisions for equipment and operating without power supply for 24 hours), auditing and staff training and certification by the police and the relevant competent authorities. Certain of those respondents put the cost of setting up a monitoring centre and complying with the required standards between EUR 150,000 and EUR 500,000. These new regulations are expected to lead to a reduction in the number of monitoring centres across Finland (from about 30 to less than 10), although companies have until 2009 to adapt to the new regulatory requirements. On the other hand, other respondents took the view that the new regulations do not substantially alter the standards with which monitoring centres have to conform, expressing the belief that the market is rather easy to penetrate, citing in support the recent entry in the monitoring business by several building companies. One of those respondents expressed the opinion that as long as a company runs a monitoring centre, either at the nationwide or local level, it is possible to expand given that the technology required is technically the same independently of whether a company operates nationwide or locally. A respondent estimated that the cost of entering the market is around EUR 100,000.

31. All respondents have nevertheless indicated that the relevant licenses to operate in the monitoring field are easy and not costly to acquire. In any event, in view of the current tendency of monitoring firms to sub-contract installation and maintenance to other (installation) companies, as this was confirmed by most of the respondents, it is considered that access to the market for alarm monitoring and response by installation companies will not be substantially affected by the changes in the regulatory framework governing the operation of monitoring centres in Finland.
32. In addition, the market investigation has confirmed that switching costs are low. The majority of the respondents indicated that it is relatively easy for consumers to switch to other providers for the maintenance and/or monitoring of their alarm system. Household customers are usually bound by contracts that last no more than one or two years whereas corporate customers can usually terminate their contract by giving some months' notice. According to a respondent, the market for alarm monitoring and response is fast-growing in Finland, and technical devices are based on open software systems so that every monitoring centre can easily be connected with alarm devices installed by another company. Some of respondents nevertheless made reference to the strategy employed by certain companies, including Securitas Direct, to 'lease' the alarm hardware to private customers and proceeding to its removal when the latter wishes to switch to another maintenance or monitoring provider.
33. On the basis of the above, the Commission considers that the proposed transaction will not give rise to serious competition concerns in the markets for alarm installation and maintenance and alarm monitoring and response in Finland under any alternative market definition.



## **VI. CONCLUSION**

34. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the common market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation (EC) No 139/2004.

For the Commission  
signed  
Neelie KROES  
Member of the Commission