Statement of the Federal Trade Commission
Concerning the Proposed Acquisition of Luxottica Group S.p.A. by Essilor International (Compagnie Generale d'Optique) S.A.
FTC File No. 171-0060
March 1, 2018

The Commission has unanimously voted to close its investigation into Essilor International (Compagnie Generale d'Optique) S.A.'s ("Essilor") acquisition of Luxottica Group S.p.A. ("Luxottica"). It does so after an extensive investigation by Commission staff over the past year that involved reviewing more than one million documents produced by the merging parties, interviewing more than 100 market participants—including lens casters, wholesale laboratories, frame manufacturers, optical retailers, independent eye care professionals ("iECPs"), iECP alliances and buying groups, and managed vision care providers—and reviewing additional documents and data produced by more than 20 third parties. Competition enforcement agencies around the world reviewed this transaction. During the investigation, Commission staff cooperated closely with the European Commission and the Canadian Competition Bureau, both of which have closed their investigations, and coordinated with the competition authorities of Australia, Brazil, Chile, China, Israel, Mexico, Singapore, and South Africa.

The FTC is committed to preventing mergers and acquisitions that threaten to reduce competition and lead to higher prices, lower quality goods or services, or less innovation. The Commission reviews mergers pursuant to Section 7 of the Clayton Act, which prohibits mergers and acquisition where the effect "may be substantially to lessen competition, or to tend to create a monopoly." The key question the agency asks is whether the proposed merger may create or enhance market power or facilitate its exercise in markets in ways that would negatively impact consumers. The Commission appreciates that the price, quality, and availability of eye-care products have a significant impact on American consumers' healthcare costs nationwide. We therefore looked closely at every aspect of this transaction that could possibly result in competitive harm. After an extensive, year-long investigation by FTC staff, the evidence does not support a conclusion that the transaction violates the Clayton Act.

Overview

Essilor and Luxottica are two of the largest companies in the optical industry providing primarily complementary products and services. Essilor is a leading designer and manufacturer of ophthalmic lenses and is the largest provider of wholesale laboratory services in the United States. Luxottica is a leading designer, manufacturer, and distributor of optical frames and sunglasses. Luxottica is the largest optical retailer in the United States, with LensCrafters and Pearle Vision stores and optical retail operations in Target and Sears stores. It currently competes to varying degrees against iECPs, other optical retail stores, and "big box" retailers, among others. It is also the second-largest managed vision care provider in the United States. In its investigation, Commission staff examined the impact of the acquisition in each market in which the companies currently compete or could potentially compete in the near future. In particular, staff considered three principal theories of harm: (1) vertical foreclosure, (2) potential competition in wholesale laboratory services, and (3) horizontal competition in retail.

Vertical Foreclosure

A primary focus of the investigation was the possibility of vertical harm, including vertical foreclosure and raising rivals' costs. In particular, staff assessed whether the merged firm would have the ability and incentive to foreclose or raise the costs of iECPs. This would be possible if Essilor/Luxottica would (1) have the ability to increase the price of an upstream input, or cut off an input, to iECPs and (2) be able to recapture enough of the sales lost by its iECP customers through the merged firm's downstream operations to make the net effect profitable. In this matter, staff found that neither condition was satisfied.

First, although Essilor is a substantial provider of upstream inputs in the U.S. eyewear industry, including progressive lenses and photochromic lens treatments, its iECP customers reported that they currently have alternatives from which to choose. The evidence therefore did not support the hypothesis that Essilor would be able to raise prices for (or completely deny access to) these upstream products without losing substantial sales to competitors.

Second, although Luxottica is one of the largest optical retailers in the United States, its national share of the optical retail business is less than 10 percent. Luxottica's share of the local markets that likely constitute relevant geographic markets for the retail sale of eyewear is below the level necessary for Essilor to recapture enough downstream sales for diversion to Luxottica's retail stores to offset lost lens sales.

In its investigation, FTC staff gathered and analyzed evidence from numerous sources that in the end were wholly consistent with staff's own empirical economic analysis. FTC staff used a variety of quantitative models to analyze the potential vertical competitive effects, and tested the robustness of its findings using a range of reasonable assumptions. None of these economic models support a finding that the merging parties would be able to impose higher prices or reduce output on their downstream rivals or ultimately consumers.

Thus, the vertical theories that formed a primary focus of the investigation ultimately did not support challenging the merger.

Potential Competition in Wholesale Laboratory Services

Essilor is the leading provider of "free-to-choose" wholesale laboratory services, primarily serving iECPs. "Free-to choose" wholesale lab services includes private pay jobs (which iECPs can send to any lab) and those managed vision care jobs that the managed vision care providers allow iECPs to send to any lab. Historically, Luxottica has had a large lab network that primarily serves its own retail stores. Luxottica, however, recently built and opened one of the largest optical laboratories in the world in Atlanta, Georgia. Staff investigated whether the transaction would eliminate potential competition between Essilor and Luxottica in the provision of "free-to-choose" wholesale lab services. Ultimately, the evidence developed in the investigation indicated that Luxottica was unlikely to compete meaningfully for "free-to-choose" wholesale lab services. Thus, Luxottica's potential entry into "free-to-choose" wholesale lab services was not a viable theory on which to predicate an enforcement action because the merger would not substantially reduce competition in this market.

Horizontal Retail Competition

Staff also examined whether the combination of Essilor's retail presence through its Vision Source alliance and Luxottica's retail stores (LensCrafters, Pearle Vision, optical sales operations at Target and Sears) would harm competition in retail optical stores markets. Essilor's Vision Source is the largest alliance of iECPs in the United Sates, but still comprises only a small portion of iECPs. And, again, although Luxottica is the largest optical retailer in the United States, its national share of the optical retail business is less than 10 percent. Even treating Vision Source members as if Essilor owned them outright (which it does not, and would require ignoring the fact that iECP members retain substantial control of their competitive decision making and profits), staff found that competitive harm would be unlikely. As such, the evidence would not support a finding that the merging parties would be able to impose higher prices or reduce output on consumers in optical retail markets.

Conclusion

FTC staff extensively investigated every plausible theory and used aggressive assumptions to assess the likelihood of competitive harm. The investigation exhaustively examined information provided by a wide and deep swath of market participants, as well as the parties' own documents and data. Assessing the likely competitive effects of a proposed transaction is a fact-specific exercise that takes into account the current market dynamics, which may be different in the future. Here, however, the evidence did not support a conclusion that Essilor's proposed acquisition of Luxottica may be substantially to lessen competition in violation of Section 7 of the Clayton Act.

In reaching this conclusion, we are mindful that the Commission has a long history of enforcing competition and consumer protection law in the optical industry and keeps a careful watch on this important area of the economy. *See, e.g.*, *In the Matter of 1-800 Contacts, Inc.*, Docket No. 9732, *Complaint* (Aug. 8, 2016); *In the Matter of Transitions Optical, Inc.*, Docket No. C-4289, *Final Decision and Order* (Apr. 23, 2010); *see also* "FTC Contact Lens Workshop Scheduled for March 7, 2018" *(available at* https://www.ftc.gov/news-events/press-releases/2017/12/ftc-hold-public-workshop-washington-dc-march-7-2018-examine). In the event that anticompetitive conduct occurs subsequent to the transaction, the Commission has the ability to investigate further and would not hesitate to take appropriate enforcement action.