

**Public Copy**

COMMERCE ACT 1986: BUSINESS ACQUISITION SECTION 66: NOTICE  
SEEKING CLEARANCE

DATE: 20<sup>TH</sup> NOV 02

The Registrar  
Business Acquisition and Authorisations  
Commerce Commission  
PO Box 2351  
WELLINGTON

**Part I: Transaction Details**

1. What is the business acquisition for which clearance is sought?

Business and Business Assets of Alpha Scientific Ltd are to be acquired by Gribbles Group Ltd.

2. Who is the person giving notice?

Notice is being given by:

Wallace Cameron  
Managing Director  
Gribbles Group Ltd.  
1868 Dandendong Road  
Clayton  
Victoria 3168  
Australia

Phone: 061 3 9538 6766  
Mobile: 0412 511 806  
Fax: 061 3 9538 6765

Stephen Diver of SDR Ltd is working as the acquirer's agent and should be contacted in the first instance.

Stephen Diver  
Level 4, 385 Queen St.  
PO Box 26132  
Epsom  
Auckland  
Phone: 09 373 9710  
Fax: 09 373 9701

3. Do you wish to request a confidentiality order for:

3.1 The fact of the proposed acquisition.

No

3.2 Specific information contained in or attached to the notice.

Yes

4. Who are the participants?

Acquirer: Gribbles Group Ltd

Target company: Alpha Scientific Ltd. Alpha Scientific Ltd has four directors. These are:

Gavin Hoggard  
Bronwyn Smits  
Beth Woodgate  
Roger Ellison

Alpha Scientific Ltd and the four directors are located at:

57 Sunshine Avenue  
PO Box 195  
Hamilton  
New Zealand  
Phone: 07 850 0777  
Free phone: 0800 367 257  
Fax: 07 850 0770

5. Who is interconnected to or associated with each participant?

5.1 Acquirer group/associates

Gribbles Group Ltd has the following companies in New Zealand:

Amdel NZ Holdings Ltd, which owns (100%) Amdel NZ Ltd  
Gribbles Veterinary Pathology Ltd which owns (100%) Labnet Invermay Ltd.  
There are no other shareholders

5.2 Target company group/associates

Food Scientific Ltd is a subsidiary of Alpha Scientific Ltd  
Alpha Scientific Auckland Ltd is a nontrading shelf company owned by Alpha Scientific Ltd

No company owns shares in Alpha Scientific Ltd

6. Beneficial interest by any participant or interconnected body corporate

No

7. Links between any participant

There are no links

8. Do any directors of the acquirer also hold directorships in any other companies which are involved in the markets in which the target company operates?

No directors of Gribbles Group Ltd have interests in other NZ companies operating in the diagnostic pathology market.

9. What are the business activities of each participant?

Gribbles Group Ltd activities in New Zealand are:

Analytic laboratory analysis  
Diagnostic pathology  
Food microbiology  
Chemical analysis

Alpha Scientific Ltd activities are:

Veterinary diagnostic pathology  
Food microbiology  
Plant analysis

10. What are the reasons for the proposal and the intentions in respect of the acquired or merged business?

To build substantive diagnostic pathology business in New Zealand, which replicates the structure of the business in Australia, viz an integrated human and veterinary pathology testing operation.

**Part II: Identification of Markets Affected**

11. Are there any markets in which there would be an aggregation of business activities as a result of the proposed acquisition?

11.1 Both the acquirer and target company are involved in:

Veterinary diagnostic pathology  
Food microbiology

11.2 **a. Veterinary diagnostic pathology:**

Alpha Scientific's clients include veterinary practices, agricultural research scientists, agricultural based companies, and the Ministry of Agriculture and

Forestry (MAF). The veterinary practices agricultural research scientists and agricultural based companies are spread throughout New Zealand. Samples are sent to Alpha Scientific on a continuous basis.

The parties where there would be aggregation of this business as a result of the proposed acquisition are Alpha Scientific Ltd and Gribbles Veterinary Pathology Ltd.

**b. Food microbiology:**

The clients for the food microbiology section of Alpha Scientific Ltd are meat processing companies, food manufacturing and processing companies and schools. This section does microbiological tests on food and water to confirm that the products meet regulatory requirements and are fit for human consumption. The clients are based in Waikato and Bay of Plenty and the samples are sent on a continuous basis.

The parties where there would be aggregation of this business as a result of the proposed acquisition are Alpha Scientific Ltd and Amdel NZ Holdings Ltd.

12/13. Standardised/Differentiated Product Markets

**a. Veterinary diagnostic pathology:**

Most of the products offered at Alpha Scientific Ltd are close substitutes for those offered at Gribbles Veterinary Pathology. The area of differentiation is mainly at the service level that includes speed of results, access to staff for case discussion and quality of interpretive comments.

One product that is differentiated is Vetmaster. This is a branded product offered by Alpha Scientific and Gribbles Veterinary Pathology do not offer a similar product. This is a computer based product that assists veterinarians manage herd and flock nutritional and disease problems.

Alpha Scientific Ltd has recently achieved “Good Laboratory Practice (GLP)” accreditation which means it can do laboratory work for research clients performing studies requiring GLP facilities. Gribbles Veterinary Pathology has not achieved this level of accreditation.

Both Alpha Scientific Ltd and Gribbles Veterinary Pathology market their products and services to the same client base. Clients choose whether to send their samples to Alpha Scientific Ltd or Gribbles Veterinary Pathology Ltd based on a combination of service level, products available (eg Vetmaster and GLP facilities for Alpha Scientific Ltd) and price.

For most clients, the first two points are more important than price.

The merged entity will be well constrained in its actions by the presence of suppliers already in the market who could expand readily and, at least as important, the presence of large near entrants (medical diagnostic pathology

laboratories). These could enter the market within a few weeks and service a large number of veterinarians and research clients plus MAF.

#### **b. Food Scientific**

The product offered by food microbiology is very similar to that offered by a number of other laboratories. Price is more significant a factor than it is for veterinary diagnostic pathology clients.

Food Scientific client base is therefore very similar to the other food microbiology laboratories. The major differentiating factor is location. For food microbiology, samples need to get to a laboratory within a short time of collection which is often stipulated by regulations. Therefore the client base for Food Scientific is restricted to the Waikato and Bay of Plenty areas. The Gribbles company performing food microbiology testing is Amdel NZ Holdings Ltd and it is an Auckland laboratory. Therefore the products offered by Food Scientific and Amdel should not be considered substitutes because of the geographic differences.

There are at least two significant food microbiology laboratories in Hamilton servicing the same client base as Food Scientific. If Gribbles acquired Food Scientific, the merged entity would be very constrained by these other competitors.

#### 14 Vertical Integration

The merger will not result in any vertical integration for either the veterinary diagnostic pathology or food microbiology sectors.

#### 15.1 Any acquisitions of assets of a business or shares notified to the Commission in the last three years?

No

#### 15.2 Any acquisition of assets of a business or shares which either participant has undertaken in the last three years

Gribbles Group Ltd have acquired the following NZ companies in the previous three years

Amdel NZ Ltd situated at Auckland and East Coast of South Island, near Palmerston

AgriQuality Animal Health Laboratories situated at Auckland, Ruakura, Palmerston North and Christchurch

LabWorks Ltd situated at Lincoln

LabNet Invermay Ltd situated at Dunedin

Alpha Biologicals Ltd situated at Auckland.

**PART III: CONSTRAINTS ON MARKET BY EXISTING COMPETITION**

## Existing Competitors

16 Suppliers of competing products, including imports

<b>Company</b>		<b><i>Vet</i></b>	<b><i>Human</i></b>	<b><i>Total</i></b>
<b>Diagnostic Laboratories</b>		<b><i>\$ Million</i></b>	<b><i>\$ Million</i></b>	<b><i>\$ Million</i></b>
Hospitals	Government	-----	120.0	120
Sonic Group	Public Company (AUS)	0.10	109.9	110
Southern Communities	Dr. Norman Fitzgerald	0.10	29.9	30.0
Bay of Plenty Medlab		0.05	22.0	22.05
Hamilton Med Lab Waikato Vetlab	Dr. Brian Linehan /Southern Community	0.05	13.0	13.05
Elders		0.15	10.75	10.9
Gribbles	Public Company (AUS)	8.0	-	8.0
Alpha	See above	4.8	-	4.8
Taranaki		0.02	4.98	5.0
Northland Medlab		0.02	4.98	5.0
Northland Vet Lab	Mel Clark /Wayne	0.30	-	0.30
Veterinarians in practice		0.05		
<b>Total</b>		<b>13.64</b>	<b>315.51</b>	<b>329.1</b>
<b>Agricultural Laboratories</b>				
LIC	Dairy Industry	0.30	-	
Agresearch	CRI	Unknown	-	
Hortresearch	CRI	Unknown	-	
Dexcel	Dairy Industry	Unknown	-	
<b>Food Microbiology Laboratories (Central North Island)</b>				
Envirohealth	Dr. Brian Linehan	0.5	-	
Biotest Laboratories	Luke Rajan/John Fam	0.3	-	
Alpha Scientific	See above	0.3	-	
<b>Total</b>		<b>1.1</b>		

**Notes:**

- Many veterinarians carry out “Point of Care Testing” (POCT) in their clinics using a variety of techniques such as dipstick technology, microscopy and biochemistry analysers.
- The agricultural research companies are both clients and competitors. In some cases they refer samples for testing to private laboratories such as Alpha Scientific and Gribbles Group, but they also have laboratories of their own.

### 16.3 Source of data

Hospitals	Personal Communication (Sonic)
Sonic	Pers Com (Sonic)
Southern Community Lab	Estimate
BOP Medlab	Estimate
Hamilton Medlab	Pers Com (Hamilton Medlab)
Elders	Estimate
Gribbles	Applicant
Alpha Scientific	Target company
All others are estimates.	

### 16.5 Near Entrants

Food microbiology has not been considered further as this is a very competitive market with many companies competing throughout New Zealand.

16.5.1 All of the above diagnostic laboratories currently perform varying amounts of veterinary diagnostic service.

In the comparable arenas of Australia and North America integrated human and veterinary pathology laboratories have become normal practice. New Zealand's development to this standard appears to have been delayed by Government provision of pathology services. In Australia GG, Mayne Nicholas, the Sonic Group and Iddex have successfully merged the 2 fields to rationalise costs, supply superior turnaround time and enable veterinary diagnostics to benefit from the comparably technologically advanced human pathology field. Without the backing of the human technology and funding to support it, veterinary pathology may lag, as the critical mass to finance new technology may not be achieved for animal only laboratories.

16.5.2 The services offered by human/veterinary laboratories to the medical and veterinary practitioners are essentially the same. Whether human or animal, pathology services can be broken down into the following categories:

- **Haematology** -the quantification and in some cases morphological assessment of blood cells and clotting factors from the live animal
- **Clinical biochemistry** -the quantification of enzymes, other proteins and biological chemical components of the fluid fraction of the blood
- **Trace element and nutritional chemistry** -quantification of chemicals and minerals in the blood or body tissues related to performance and production
- **Endocrinology** -quantification of hormone agents in the blood or body secretions
- **Microbiology** -the culture and identification of bacteria and fungi from samples of biological or inert material
- **Histopathology** -the study of and diagnosis of disease processes by examination of microscopic sections of body parts
- **Necropsy** -dissection and examination of the dead body or body parts at a gross visual level with aim to make diagnosis of disease processes
- **Serology** -using body fluids, mostly blood, to quantify and identify immune responses indicative of the state of disease or immunity of the animal.

- **Parasitology** -study of the identity and presence of parasites-mostly multicellular ones in the body
- **Toxicology** -chemical analysis of body parts or gastrointestinal content for toxic compounds or assessment of gastrointestinal content for known poisonous plants
- **Cytology** -assessment of body fluids and secretions as well as small samples of cells from the live animal for disease indications. This includes a microscopic assessment visually as well as a quantification by machinery for cell numbers, protein levels etc.

16.5.3 Human pathology laboratories can and do supply testing services to the veterinary market across the broad range of these testing parameters, with the exception of necropsy which constitutes less than 1% of total veterinary market revenue. In addition Cawthron, Massey University IVABS Laboratory, Agriquality, AgResearch, and ESR provide trace element testing and nutritional analysis, microbiology and toxicology testing services.

16.5.4 In-clinic veterinary analysers have captured a proportion of the veterinary haematology and biochemistry testing work. Clinics own or rent the machines to analyse their own samples and then either do their own interpretation to reach diagnosis or send the results to veterinary pathologists for interpretation, which can be done electronically to internationally based veterinary pathologists. Labworks supplied an interpretative service to vets by emailing quantified data and the clinical examination notes to veterinary pathologists based in California. Alpha Scientific also supplies such an “off-shore” pathology service to clients in Australia as required. Serology testing can also be covered by test kits available from companies such as AGEN and IDEXX.

16.5.5 Histopathology is the only field where it is essential that a veterinary pathologist be used for interpretative assessment. Sample preparation can be undertaken at any human pathology lab. This part of the market would represent no more than 5% of the total veterinary pathology market revenue.

#### 16.6 Estimate of service capacity of near entrants

As demonstrated above, all of the diagnostic laboratories in New Zealand have the equipment and infrastructure to provide a comprehensive service to the veterinary market. The service capacity of these combined groups would be greater than the existing veterinary diagnostic market.

#### 16.7 Constraints by Imports

Imports do not impose any constraint on this market at this time. Some sectors of the diagnostic and research markets could be serviced from overseas, but this is not currently occurring.

#### 16.8 Current Exports

Currently there is negligible export of these services.



## 16.9 Target Company Characteristics

Alpha Scientific provides a similar service to other diagnostic laboratories. Pricing is not significantly different from other providers. As a start up company beginning with no market, growth rate was significantly higher than the market initially. In recent years growth rate has been in the order of 15 – 20% per annum which would be similar to other service providers. Alpha Scientific does have a policy of pursuing innovation and providing added value services.

## 17 Market Conditions that may effect the ability of existing firms to expand

None of the conditions identified would be likely to act as a barrier to the expansion of existing competitors or near entrants.

Over the past ten years there have been a number of successful start-up laboratories in the veterinary diagnostic sector.

MAF operated a no-charge Veterinary Pathology Service until 1986, after which charges were introduced and raised to full cost recovery. Even when the service was free, some private medical laboratories were performing veterinary tests for a fee because of a superior speed of service. The most notable of these was MedLab in Hamilton, also known as WaikatoVetLab. In 1990 Auckland Veterinary Diagnostic (AVD) was established and grew to capture 50% of the Auckland market until sold to AgriQuality (one of the SOEs to evolve from MAF) in 1998. Also in 1990, the MAF Veterinary Lab in Whangarei closed and two laboratory technicians from this laboratory set up Northland Vet Lab. This laboratory still provides veterinary pathology services today without a veterinary pathologist on the staff.

In 1995, four employees of the MAF Laboratory at Ruakura, Hamilton began Alpha Scientific. This laboratory grew in 8 years from a regional Waikato laboratory to one that services vets from Kaitaia to Invercargill. In 1998, a similar group of ex MAF laboratory employees at Lincoln began their own veterinary laboratory (LabWorks) and at the same time there was a 60% staff buy-out of the now AgriQuality laboratory at Invermay, Dunedin. Throughout this time local medical laboratories have continued to provide some veterinary pathology services to vets near these laboratories.

In summary, the veterinary diagnostic pathology industry has changed from a single Government provided activity to a market where service providers have entered and exited with increasing ease. This illustrates the relative ease of starting up a successful veterinary pathology service in this country.

## 18 Other businesses that could increase supply of services

Covered in 16 (above), there are a number of businesses that could increase the utilisation of their existing capacity.

## 20 How long would it take to increase supply

In the case of near entrants, 6-12 months depending on which ones we are talking about and what parts of the service they will provide.

21-22 To what extent would the possible competitive response of existing suppliers constrain the merged entity

I would consider the possible competitive response to be a serious constraint on the merged entity. Price increases or decreased quality of service would almost certainly result in a strong competitive response in terms of increased marketing to the agricultural and veterinary diagnostic sectors.

23 – 26 Coordinated market power

I do not believe this applies to this market.

**PART IV CONSTRAINTS ON MARKET POWER BY POTENTIAL COMPETITION**

Please note that there is a slim difference between new entrants and near entrants with respect to this market. There have been several previous mentions made of near entrants and some of these are really only very peripherally associated with the market at present, but do still have the infrastructure in place to “tool up” pretty quickly and in that way they are both entrant type.

27-Entry of new suppliers

Barriers to new entrants are mostly in the category of business conditions:

- a) acquiring technical knowledge through hiring of staff (technicians and veterinary pathologists)
- b) acquiring assets and sunk capital
- c) overcoming market resistance to new entrants due to the remarkably successful job the vendor has done in branding itself as the top of the line diagnostic laboratory.

The technological knowledge comes at a price. There is no de novo training school for veterinary technologists as the work is fundamentally the same as that in the human diagnostic field, so the human medical laboratory technology graduates are used and experience is learnt on the job. However there are a lot of trained veterinary technicians in NZ scattered amongst the vendor’s laboratory and purchaser’s laboratories and these are not restricted by restraint of trade clause.

The acquisition of veterinary pathologists is similar, but there are fewer available in NZ and may have to be sourced from overseas. This is how the vendor’s lab has expanded in recent years. NZ is seen as an attractive location for North American applicants for this type of job, but considering the relativity in salaries, they have to be paid well.

The biggest single asset cost is likely to be establishment of a computer system (which is the same as that used by hospitals and human diagnostic markets). New entrants can set up with second hand and leased laboratory and computer equipment for a cost of about \$200 000. This is what the vendor did when it first started up 8 years ago. The equipment used is the same as that used in hospitals and other laboratories. The second hand value of this is low and there are ways of sourcing second hand supplies.

Any new entrant to the market will have to overcome the successful branding that the vendor has done with being a leader in diagnostic services and filling the niche veterinary diagnostic sector. A lot of the market has been gained by the vendor on the basis of developed relationships with clients. This would be difficult to establish as a new entrant.

#### 28 near/new entrant requirements

- IDEXX-VPS (Australia) – is currently a complete match in producing same service and has trained technical and veterinary staff, but is based in Australia and would need to set up shopfront in NZ
- Hill Laboratories- domestic company that would need to invest in new production facilities to produce the complete service and would need to hire new staff.
- Franchised clinics- may set up lab services for themselves and then offer the services in the marketplace eg Animalz, Care Vets. This may be as “niche” as running POC analyser (IDEXX or Vetscan) or be a larger scale eg Zoo having staff/equipment for their own lab work and extending this to capture some of the wider market.
- MedLab, Pathlab, Southern Community Laboratories, Sonic Healthcare- domestic companies needing to change utilisation of some capacity to produce relevant service-mostly hiring of experienced staff. Most of the equipment they have in place and they have a suitable computer system in place.
- Waikato Vetlab and Northland Vetlab -domestic companies needing to hire experienced veterinary pathology staff and to upgrade some of their equipment capacity.

#### 29 Conditions of entrant affecting the above to enter market

IDEXX-VPS the most significant factors in setting up in NZ would probably be the competition currently here and the ability to gain technical knowledge skills based on NZ. These are mostly in the manpower, which would have to be bought. We expect that if there was a sustained price raise then this firm would be quite interested in getting in and would do so quickly.

Hill Laboratories would see the lack of technical knowledge in the form of trained veterinary technicians and pathologists as its biggest deterrent. It would have to buy these people. It would also have to invest in extra equipment, although with leases available this is a small cost.

The human medical laboratories are well suited to enter the market quickly. They have the infrastructure the technicians and the financial power to tweak areas that need upgrading and to buy veterinary pathologists. Many of them are already dabbling in the market, or in the case of Waikato VetLab (run from a human medical laboratory) are known in the marketplace as a small player. They would have only minimal “sunk” costs to have to deal with.

Waikato Vetlab and Northland Veterinary Laboratory are already capable of walking into the market but, like Medical Labs, would need to market more widely and acquire veterinary pathologists.

30-35 Likelihood, Sufficiency and Timeliness of Entry

IDEXX-VPS: 6-12 months Market supply would increase immediately This brand is known in the market sector and would require less advertising. They have experienced and trained staff based in Australia and only a few tests would be affected by delay in turnaround time between countries. Import-export requirements are not stringent.

Hill Laboratories: 18-24months. Market supply would only increase after some marketing effort and capability of delivery of service has been proven.

The human medical laboratories would move quickly. Six-12months to get in. They would need to do some marketing to persuade the more resistant part of the market that they are capable of producing the service required.

Waikato Vetlab and Northland Vet lab would be able to enter quickly (<6months) once they gained more technical and pathology staff. In their local areas where they are well known, their market share would increase quickly once they convinced the market they had the skills on board to deliver.

31 Profitability for potential entrant

The laboratories already here and geared up (ie human medical laboratories and Northland and Waikato VetLabs would consider it profitable. They mostly dabble in the market segment now but are held back by lack of technical skill employed (Veterinary pathologists mostly).

IDEXX-VPS should see it as profitable, but their strategy in Australia has been slightly different targetting more the sick animal and domestic pet market, whereas in NZ the profit comes in the livestock and dairy markets.

32. Would threat of entry cause market participants to react in a significant manner.

Yes. Costs would have to be held in check as the vendor and purchaser are aware that some of the near entrants could enter the market quickly and significantly once they had the technical skills and staff.

33. Conditions of entry that would influence *de novo* entry to the market

Ability to employ skilled staff. The capital/sunk costs are not insurmountable as is evidenced by the fact that several *de novo* companies have started in this field and done well in the last 10 years.

34. Estimated time required for *de novo* entry

6-12 months

35. To what extent would the possibility of *de novo* entry constrain the merged entity

Considerably. The industry has a history of this happening. There are high profile staff employed by both the vendor, purchaser and in near entry laboratories that could take business with them if they were to set up and gel the right team together.



Veterinarians in practice for instance would look at doing a lot more on site testing using their own in clinic analysers

Non- use of services has been noted as a response to previous price increases, particularly during down-turns in the rural sector and in the pet market.

Agricultural consultants can find other sources of service by setting up their own laboratories or by upskilling the labs they currently have to do their work.

Research groups could band together to upskill existing laboratories or source overseas suppliers of services.

DOC have the services of a well known laboratory and specialists at Massey and Auckland Zoo.

MAF Biosecurity are buying passive surveillance information from veterinary practitioners VIA the current entities of purchaser and vendor. Possible alternative suppliers to MAF Biosecurity include veterinarians supplying direct to MAF, increased use of active surveillance, provision of animal health data through alternative companies such as the Livestock Improvement Corporation .

MAF Biosecurity have often talked of doing this and cutting out "the middle man" of the laboratory.