

**In the large merger between:**

**Masstores (Pty) Limited**

**and**

**Hentiq 2869 (Pty) Ltd and Rivonia Produce & Hardware (Pty) Limited**

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### **Reasons for Decision**

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#### **Approval**

1. On 18 August 2004 the Competition Tribunal issued a Merger Clearance Certificate approving unconditionally the merger between Masstores (Pty) Ltd ("Masstores") and Hentiq 2869 (Pty) Ltd ("Hentiq") and Rivonia Produce & Hardware (Pty) Ltd ("Rivonia"). The reasons for this decision follow.

#### **The merging parties**

2. The primary acquiring firm is Masstores, a subsidiary of Massmart Holdings (Pty) Ltd ("Massmart"), a high volume, low margin retailer of food, liquor and general merchandise. Masstores incorporates the Massdiscounters and the Masswarehouse divisions of Massmart.<sup>1</sup>

**3. The primary target firms are Hentiq and Rivonia. Hentiq is jointly controlled as to 30% by the Norman Kretzmer Family Trust, 30% by the Newman Family Trust and by Corvest 4 (Pty) Ltd (as to 40%).<sup>2</sup> Rivonia is jointly controlled as to 25% by the Norman Kretzmer Family Trust, 35% by the Newman Family Trust and by RMB Corvest Ltd<sup>3</sup> (as to 40%).**

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1 Major subsidiaries in the Massmart group directly or indirectly controlled by Massmart holdings are: Masstores (Pty) Ltd; Shield Buying and Distribution (Pty) Ltd; CBW Holdings (Pty) Ltd; Jumbo Cash & Carry (Pty) Ltd; Massmart Management and Finance Company (Pty) Ltd; Massmart Services (Pty) Ltd; Massmart Trade (Pty) Ltd; Furnex Stores (Pty) Ltd; and Imagegate Ltd (a company registered in the UK).

2 Corvest 4 is a private equity investor company within the FirstRand Group specialising in equity investing on a joint venture basis. It provides leveraged finance for management buy-outs, or leveraged recapitalisation, management buy-ins or leveraged buy-ins.

3 Corvest Ltd is a private equity investor company within the FirstRand Group specialising in small to medium sized leverage buy-outs.

## The Merger Transaction

4. This is a proposed transaction in terms of which Masstores intends acquiring, as a going concern, the business of each of Hentiq and Rivonia respectively. The target firms are both in the business of selling building supplies and home improvement related products.<sup>4</sup> The transaction will result in Massmart acquiring control over the target businesses, via Masstores.

## Rationale for the transaction

5. Masstores seeks to expand its business operations in the sale and marketing of building supplies, hardware & related products (currently conducted within the Massmart Group by the Builders Warehouse stores comprising part of its Masswarehouse Division).

6. The current controllers of Hentiq and Rivonia view the proposed transaction as an attractive opportunity for them to realise their investments. RMB Corvest and Corvest 4 - as private equity investors - will be able to get a return on their investments.<sup>5</sup>

## The relevant market

### Product market

7. As alluded to above, Masstores is a subsidiary of Massmart, a high volume retailer of food, liquor and general merchandise. General merchandise encompasses a large variety of products including office supplies, DIY equipment, hi-tech products, household appliances & categories of clothing.

8. Masstores consists of the Massdiscounters and the Masswarehouse divisions of Massmart. Massdiscounters comprises a chain of retail discount stores trading under the “**Game**” and “**Dion**” retail brands. These retail stores offer a wide range of general merchandise and non-perishable groceries to the value-seeking end-consumer.

9. The Masswarehouse division comprises the following businesses: -

- ❖ **Makro** – a chain of large wholesale outlets that markets a range of food, liquor and general merchandise to commercially affiliated retailers and upper-income end-consumers;
- ❖ **Builders Warehouse** – a chain of warehouse outlets selling building supplies, hardware and related products. It operates in various localised regions within the Gauteng and North West provinces; and
- ❖ **Tile Warehouse** – a chain of warehouse outlets selling ceramic and other tiles and related products through various stores located in various geographic regions within Gauteng and North West provinces.

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<sup>4</sup> The target firms currently conduct their business under the Mica franchise. The parties have indicated that this franchise agreement between the target firms and Mica shall lapse upon conclusion of this transaction. (See Commission’s Recommendations, page 3).

<sup>5</sup> See the Record (page 36-37).

10. **Hentiq** conducts its business in Germiston under the “Mica Home Warehouse” trading name. It sells general building and home improvement-related materials to building contractors and homeowners.

11. **Rivonia** trades as “Rivonia Mica Hardware & Paint” in Rivonia, Gauteng. It too sells general building materials and home improvement related products to building contractors and homeowners.

12. It is clear from the above that an overlap exists in the merging parties’ products because both the target firms and Builders Warehouse, a division of the Masswarehouse division of the acquiring firm, conduct business as retailers of building supplies, hardware and related products.<sup>6</sup> These include products such as motor accessories; electrical and lighting; DIY (handtools and ladders); household (sanitary and plumbing); paint; power tools; yard products (generally referred to bulk building supplies such as timber, cement, door frames and floor accessories); garden and patio; and swimming pool accessories.

13. In its investigation, the Commission found that Builders Warehouse and the target firms are designed to provide a one-stop home improvement shops offering the specialised products listed above. These products are sold to the following customers: The DIY homeowner (i.e., undertaking small home improvement projects and constructing home extensions); independent small building contractors; and large building contractors (i.e., seeking materials from a convenient location).<sup>7</sup>

14. In light of the above, the Commission concluded that the relevant product market for purposes of this transaction is the market for the retail of building supplies, hardware and related products, this being the range of products where an overlap exists between the merging parties.

#### Geographic market

15. Masstores operate through national chains which follow a national pricing policy. Builders Warehouse and Tile Warehouse together constituting the majority of Masstores’ business operations in the relevant market operate in Gauteng and the North West provinces. The target firms’ business operations are limited to Gauteng only. Hentiq operates in Germiston whilst Rivonia Mica operates in Rivonia.

16. The Commission concluded that the geographic overlap is therefore Gauteng and that the relevant market would appear to be regional in extent, i.e., the province of Gauteng. The Commission further contended that because the Masstores chain of stores follow a national pricing policy it is possible that the market may be wider, i.e., national.

17. As a result, the Commission analysed the parties’ market share figures in the

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<sup>6</sup> The parties stated that building supplies, hardware and related products refers to the following basket of products: motor accessories; electrical and lighting; DIY (handtools and ladders); household (sanitary and plumbing); paint; power tools; yard products (generally referred to bulk building supplies such as timber, cement, door frames and floor accessories); garden and patio; and swimming pool accessories.

<sup>7</sup> See page 38 of the record.

relevant product market both nationally and within the Gauteng region only. The Commission found that *Masstores*' market shares do not exceed 10% in the regional and national level respectively. The combined market shares for *Hentiq* and *Rivonia* were found not exceeding 2% in the regional and national level respectively. The Commission ultimately found that the merged entity would enjoy a *combined market share not in excess of 11% either regionally or nationally*.

### **Impact on competition**

18. It appears that the merged entity's market shares are very small, regardless of whether the market is defined broadly as national or narrowly as regional. There are numerous other players retailing in the same range of products as the merging parties in addition to the big and popular players such as Cashbuild, Creditbuild and many Mica franchise chain of stores.

19. Thus the transaction is unlikely to result in the substantial lessening or prevention of competition in any relevant product market regardless of whether a national or regional market is adopted.

### **Public interest issues**

20. The merging parties advise that no job losses are anticipated as a result of the merger.<sup>8</sup>

21. We agree with the Commission's submission that this transaction is unlikely to result in the substantial lessening or prevention of competition. We accordingly approve this merger unconditionally.

<hr style="width: 100%;"/> <b><u>David Lewis</u></b>	<u>24 August 2004</u> <b>Date</b>
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**Concurring: Norman Manoim and Urmilla Bhoola**

For the merging parties:	Lee Mendelsohn & Mark Garden ( <i>Edward Nathan &amp; Friedland Corporate Law Advisers</i> )
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For the Commission:	Tsulani Kunene ( <i>Mergers &amp; Acquisitions</i> )
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<sup>8</sup> See page 10 of the record.