



## COMPETITION TRIBUNAL OF SOUTH AFRICA

**Case No: 019646**

In the matter between:

**KAP INDUSTRIAL HOLDINGS LIMITED**

Primary Acquiring Firm

And

**METZ INDUSTRIAL (PTY) LTD**

Primary Target Firms

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Panel	: Norman Manoim (Presiding Member)
	: Anton A. Roskam (Tribunal Member)
	: Yasmin Carrim (Tribunal Member)
Heard on	: 12 December 2014
Order Issued on	: 12 December 2014
Reasons Issued on	: 14 January 2015

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### Reasons for Decision

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#### Approval

- [1] On 12 December 2014, the Competition Tribunal ("Tribunal") unconditionally approved the merger between KAP Industrial Holdings Limited ("KAP") and Metz Industrial (Pty) Ltd ("Metz").
- [2] The reasons for approving the proposed transaction follow.

## **Parties to transaction**

### *Primary acquiring firm*

- [3] The primary acquiring firm is KAP, a public company listed on the Johannesburg Stock Exchange Limited. KAP is wholly owned by Steinhoff International Holdings Limited.
- [4] KAP is a manufacturing business with an industrial segment and a consumer segment and owns industrial companies in four operating divisions namely Manufacturing, Specialist Supply Chain, Passenger and Integrated Timber. The Manufacturing division of KAP specifically KAP Raw Materials (Pty) Ltd is relevant.
- [5] The divisions of KAP Raw Materials (Pty) Ltd which are relevant for the purposes of this transaction are the following; VitaFoam for the production of flexible polyurethane foam, BCM for its manufacture and distribution of bedding components such as inner mattress springs and other bedding accessories and DesleeMattex for its manufacture of woven and knitted fabrics for the bedding industry.
- [6] KAP is not subject to "control" as envisaged in the Competition Act.

### *Primary target firm*

- [7] The primary target firm is Metz which owns and controls Restonic Proprietary Limited ("Restonic").
- [8] Restonic is a manufacturing company which manufactures inner- spring mattresses for the purpose of sale to large national furniture retailers.
- [9] Metz Transport, an in-house logistics company whose sole purpose is the delivery of products manufactured by Restonic to its customers.

## **Proposed transaction and rationale**

- [10] The proposed transaction involves KAP acquiring 100 percent control of Metz by virtue of the acquisition of 100 percent of shares issued by Metz.

- [11] The acquiring firm submits that the rationale for the proposed transaction is to enable itself to enter the inner- spring mattress market with an established inner- spring mattress brand. The acquisition will further allow KAP to expand its existing bedding manufacturing business.
- [12] The target firms submitted that the proposed transaction presents an opportunity for significant growth opportunities. The merged entity would also allow for the facilitation of affordable bedding products and more efficient and cost- effective exporting of bedding products.

### **Impact on competition**

- [13] The Competition Commission's (the "Commission") findings identified a potential horizontal and vertical overlap arising as a result of the proposed transaction.
- [14] The horizontal overlap identified by the Commission is in respect to both parties involvement in the manufacture and supply of bedding. The Commission in their investigation consulted competitors and customers of the merging parties and concluded that the technologies involved in the manufacturing processes for inner-spring mattresses and foam mattresses are different. As a result the Commission concluded that inner-spring mattresses manufactured by Restonic do not compete with the foam mattresses manufactured by KAP's Vitafoam division.
- [15] In our view the fact that manufacturing processes differ is not a sufficient basis to conclude that functionally similar products are not substitutes. At the hearing we raised this issue with the Commission and merging parties. We were informed that if the mattresses were considered to be in the same market then post-merger the combined market share would be only 6%. Given the low market share on this alternative view of the market it is not necessary for us to decide which market definition is correct- on either version there are no horizontal competition concerns.
- [16] The vertical overlap identified by the Commission is in relation to the possibility of foreclosure in respect of the supply of polyurethane foam, inner- springs and woven and knitted fabric. The Commission indicated from its investigations that there were no customer concerns regarding the merger. As a precaution we sought specific confirmation on this from the Bravo Group Manufacturing (Pty) Ltd ("Bravo Group"), which is Restonic's most significant domestic competitor as well as a key customer

of KAP's BCM division<sup>1</sup> for its inner spring inputs. Bravo Group in correspondence with the Commission after the hearing confirmed that it has alternatives if the merged entity were to foreclose it and did not express concerns about the merger. The Commission concluded that there was a low risk of foreclosure, post-merger in respect of these three inputs.

- [17] We concur with the Commission's conclusion that the proposed transaction is unlikely to substantially prevent or lessen competition in any relevant market.

#### **Public interest**

- [18] The merging parties confirmed that the proposed transaction will not result in an adverse impact on employment.<sup>2</sup> The proposed transaction further raises no other public interest concerns.

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<sup>2</sup> *Inter alia* merger record page 10.

## **Conclusion**

[19] In light of the above, we conclude that the proposed transaction is unlikely to substantially prevent or lessen competition in any relevant market. In addition, no public interest issues arise from the proposed transactions. Accordingly we approve the proposed transaction unconditionally.

  

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**Norman Manoim**

14 January 2015  
**DATE**

**Anton A. Roskam and Yasmin Carrim concurring**

Tribunal Researcher: Aneesa Ravat

For the merging parties: Heather Irvine and Mmadika Moloi of Norton Rose  
Fulbright SA

For the Commission: Kholiswa Mnisi and Lindiwe Khumalo