# COMPETITION TRIBUNAL

# REPUBLIC OF SOUTH AFRICA

**Case No.:** LM163Feb25

In the matter between:

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| Hudaco Trading (Pty) Ltd | **Primary Acquiring Firm** |
| And | |
| The entire businesses of Insulation Advanced Technology Proprietary Limited, Isomec Proprietary Limited, Isotec Balancing Proprietary Limited and Moholi Supplies Proprietary Limited as a going concern | **Primary Target Firm** |

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| Panel: | T Vilakazi (Presiding Member)<br>A Ndoni (Tribunal Member)<br>G Budlender (Tribunal Member) |
| Heard on: | 16 April 2025 |
| Last submission on: | 24 April 2025 |
| Decided on: | 29 April 2025 |
| Reasons issued on: | 28 May 2025 |

## REASONS FOR DECISION

### Introduction

[1] On 29 April 2025, the Competition Tribunal ("Tribunal") conditionally approved a large merger in which Hudaco Trading Proprietary Limited ("Hudaco Trading") intends to acquire, as a going concern, the entire businesses of Insulation Advanced Technology Proprietary Limited (the "IAT Business"), Isomec Proprietary Limited (the "Isomec Business"), Isotec Balancing Proprietary Limited (the "Isotec Balancing Business") and Moholi Supplies Proprietary Limited (the "Moholi Supplies Business") (collectively referred to as the "Target

Businesses"). Post-merger Hudaco Trading will exercise sole control over the Target Businesses.

**Parties to the transaction and their activities**

*Primary acquiring firm*

[2] The primary acquiring firm is Hudaco Trading, a private company incorporated in South Africa. Hudaco Trading is controlled as to 85% shareholding by Hudaco Industries Limited ("Hudaco"), a public company listed on the Johannesburg Stock Exchange. The remaining 15% shareholding in Hudaco Trading is held by two empowerment trusts: Hudaco Trading Empowerment Trust Number 1 and the Hudaco Broad-Based Black Economic Trading Empowerment Trust Number 2. Hudaco Trading, together with all firms directly or indirectly controlled by it and Hudaco, are collectively referred to as the "Hudaco Group".

[3] The Hudaco Group has a significant presence in the importation and distribution of branded industrial, automotive, and electronic consumable products. These activities are conducted through various operating divisions, some of which are also involved in manufacturing the products they distribute.

[4] Of relevance to this transaction are Hudaco Trading's divisions, Bearings International and Hudaco Power Transmissions ("HPT"). Bearings International distributes bearings, chains, seals, electric motors, transmissions, and allied products. HPT distributes and repairs geared and electric motors, industrial bevel helical transmissions, and drive solutions; it imports and assembles various motors and gearboxes and provides repair and servicing of gearboxes.

*Primary target firms*

[5] The Target Businesses are [redacted] owned by Anthony Schimper ("Schimper" / "the Seller").

[6] The Target Businesses specialise in the manufacturing and distribution of specialised thermal and electrical insulation materials. These products serve various industries, including manufacturing, mining, railway, energy generation, and switchgear.

[7] Each of the Target Businesses performs distinct but related functions:

7.1. The IAT Business sources and distributes a wide variety of thermal and electrical insulation materials;
7.2. The Isomec Business manufactures and distributes electrical insulation materials and offers aluminium casting, machining, and manufacture of transformer accessory components;
7.3. The Isotec Balancing Business provides insulation balancing services and supplies balancing rotating machinery components to reduce vibrations and imbalances; and
7.4. The Moholi Supplies Business supplies mining and industrial products, including electrical insulation materials, pumps, valves, pipes, seals, tools, expansion joints, and lifting equipment.

**Proposed transaction and rationale**

Transaction

[8] Hudaco Trading intends to acquire, as a going concern, the entire businesses of the Target Businesses from Schimper. The acquisition is structured as an indivisible transaction.

Rationale

[9] From the acquiring group’s perspective, Hudaco’s mandate as a listed company is to grow both organically and through acquisitions to diversify its portfolio and avoid dependency on any single market sector. The Target Businesses are seen as a strategic fit to enhance Hudaco’s product offering and diversify its business activities within the industrial sector.

[10] From the target firms' perspective, the Seller, Mr Schimper, the founder, managing director, and [redacted] shareholder of the Target Businesses, [redacted].

**Competition assessment**

[11] The Competition Commission ("Commission") considered the activities of the merger parties and found that the proposed transaction does not result in horizontal overlaps between the merging parties as Hudaco Trading does not supply products or services that compete with the Target Businesses' activities in South Africa or elsewhere.

[12] However, a vertical relationship exists between the parties in that –

12.1. HPT procures enamel copper glass (a thin insulated copper wire), silicone sleeving, silicone cable, spool plastic, and Xylene from IAT, amounting to a negligible share of IAT's total sales; and

12.2. IAT procured deep groove ball bearings from Bearings International on an ad hoc basis, comprising a negligible share of Bearings International's total sales in FY22.

*Input foreclosure*

[13] The Commission concluded that there was no commercial incentive for either party to withhold supply to others post-merger due to the *de minimis* value of the transactions between the merging parties. The IAT Business, with a [redacted]% market share in the manufacture and distribution of specialized thermal and electrical insulation materials, faces competition from other suppliers such as Makarenge Electrical Industries (Wilec), Overseas Development Corporation Limited, Consolidated Component Insulation (Pty) Ltd, and DC Wort Composites CC.

[14] Similarly, Bearings International's [redacted]% market share in the supply of bearings is a comparatively limited share of the market, and the firm is subject to competition

from Bearing Man Group, Bearing Corporation CC, B2K, Bearing Specialist Association, Zhous Enterprise, and ACE Bearings.

[15] Based on the above, we conclude that the merged entity is unlikely to have the ability or incentive to implement an input foreclosure strategy.

*Customer foreclosure*

[16] The Commission found that pre-merger, HPT procured products from other suppliers and that they would continue to do so post-merger. Wilec and other suppliers expressed no concerns regarding the merger. IAT also procured products from [redacted] on an ad hoc basis and will continue to do so post-merger.

[17] Based on the above, we conclude that the proposed transaction is unlikely to result in customer foreclosure.

*Restraint of trade*

[18] The Sale of Business Agreement between the merging parties contains a restraint of trade clause preventing the sellers, including Schimper and operational management, from competing with the Target Businesses for 5 years after their employment ends. This restraint covers South Africa and neighbouring countries where the Target Businesses operate.

[19] The Commission proposed a reduction of the restraint period from 5 years to 3 years. The merging parties argued the 5-year restraint was necessary due to [redacted]. They contended that barriers to entry are low but that a longer restraint period is justified to protect Hudaco's investment.

[20] The Commission, however, distinguished this case from precedents involving longer restraints, which were justified by the long-term nature of projects or new entrant status of the acquirer. The Commission submitted that Hudaco is a well-established group and not a new entrant. The Commission further submitted that the restraint should only commence after the earnout period ends, not during, and that commercial considerations should not unduly override competition concerns.

[21] The Commission recommended imposing a 3-year restraint instead of 5 years and attached this as a condition for approval. The merging parties accepted the proposal subject to certain amendments.

[22] Having considered the correspondence and arguments advanced by the merging parties and the Commission, we were satisfied that the conditions agreed to by the merger parties balanced the stated commercial considerations with the need to enable future competition in the market. Specifically, a 3-year restraint of trade provision as well as a further 2-year non-solicitation provision (relating to solicitation of customers and/or employees) applies following the termination of the initial restraint, as set out in the conditions at Annexure A attached to our order dated 29 April 2025.

**Public interest assessment**

*Effect on employment*

[23] The merging parties provided an unequivocal undertaking that the Proposed Transaction will not have any negative impact on employment and will not result in any retrenchments.

[24] The Commission contacted the employee representatives of the merging parties and obtained confirmation that no employment concerns were raised in relation to the proposed transaction.

[25] In light of the above, we conclude that the proposed merger is unlikely to raise any employment concerns.

*Promotion of a greater spread of ownership*

[26] The merging parties submitted that the proposed merger would result in a promotion of a greater spread of ownership by historically disadvantaged persons ("HDPs"). Currently, the Hudaco Group has 30.45% HDP ownership, while the Target Businesses have [redacted] HDP ownership. Post-merger, the level of HDP ownership in the Target Businesses will increase from [redacted]% to 30.45%.

[27] Additionally, qualifying HDP employees of the Target Businesses will participate in Hudaco Trading's Empowerment Trusts, which hold 15% of Hudaco Trading's issued share capital. These trusts are exclusively for the benefit of Hudaco Trading's black South African employees, who will be eligible for dividends declared annually.

[28] In light of the above, we are of the view that the proposed transaction promotes ownership by HDPs and workers in the economy.

*Other public interest considerations*

[29] The proposed transaction does not raise any other public interest issues.

**Third parties' views**

[30] No third parties raised any concerns regarding the proposed transaction.

**Conclusion**

[31] For the reasons set out above, we are satisfied that the proposed transaction is unlikely to substantially prevent or lessen competition in any relevant market. Furthermore, the proposed merger does not raise any public interest concerns.

[32] Accordingly, we approved the proposed transaction subject to the conditions contained in **Annexure A** attached to our order dated 29 April 2025.

Signed by:Prof. Thando Vilakazi
Signed at:2025-05-28 12:26:54 +02:00
Reason:Witnessing Prof. Thando Vilakazi

Thando Vilakazi

**28 May 2025**

**Presiding Member** **Date**

**Prof. Thando Vilakazi**

**Concurring: Ms Andiswa Ndoni and Adv. Geoff Budlender SC**