COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 020396

In the matter between:

EDCON LIMITED	Acquiring Firm
And	
CELROSE (PROPRIETARY) LIMITED **EDDELS SHOES (PROPRIETARY) LIMITED**	Target Firms

Panel	: Norman Manoim (Presiding Member)
	: Andreas Wessels (Tribunal Member)
	: Fiona Tregenna (Tribunal Member)
Heard on	: 25 March 2015
Order Issued on	: 25 March 2015
Reasons Issued on	: 15 April 2015

Reasons for Decision

Approval

[1] On 25 March 2015, the Competition Tribunal ("Tribunal") unconditionally approved the merger between Edcon Limited ("Edcon") and Celrose (Proprietary) Limited ("Celrose") and Eddels Shoes (Proprietary) Limited ("Eddels").

[2] The reasons for approving the proposed transaction follow.

Parties to transaction and their Activities

Primary acquiring firm

[3] The primary acquiring firm is Edcon, a private company incorporated in terms of the company laws of the Republic of South Africa. It is controlled by Edcon (BC) S.a.r.l ("Edcon BC") which is in turn controlled by Bain Capital Investors LLC ("Bain Capital"). Bain Capital controls a number of international firms.[1] Edcon owns and controls a number of foreign subsidiary firms as well as a number of South African firms.

[4] Edcon is a national retailer operating in clothing, footwear, accessories, household, textiles and cosmetic markets. It operates through several chains amongst whom are Edgars and Jet. Relevant to this transaction are its sales of clothing and shoes.

Primary target firm

[5] The primary target firms include Celrose and Eddels, private companies incorporated in terms of the laws of the Republic of South Africa. Neither Celrose nor Eddels control any firm.

[6] Celrose manufactures and supplies clothing for men and women whilst Eddels manufactures footwear for men, women and children. Both Celrose and Eddels supply their products to the Edcon Group and to other retailers operating in South Africa and Zimbabwe. The firms have a common chief executive officer and can be regarded as being run together pre-merger. It is for this reason that they are being sold together.

Proposed transaction and rationale:

[7] The proposed transaction comprises of two purchases which, upon completion, will result in Edcon controlling the primary target firms.

[1] The following six international firms controlled by Bain Capital conduct business in South Africa: FCI Electronics, MEI, Sensata Technologies Holdings N.V, D&M Holdings LLC, IMCD Group B.V and Quintiles, Inc.

[8] Edcon submits that the transaction will enable it to establish a vertically integrated, onshore supply chain of footwear and clothing. The target firms submit that incorporation into the Edcon Group will strengthen business continuity and provide them with a platform for further expansion.

Relevant Market and Impact on Competition:

[9] Since Edcon operates as a retailer and the target firms are manufacturers the Commission concluded that there is no horizontal overlap between their activities.

[10] However, the Commission noted that there is a vertical relationship because Edcon is a customer of both of the target firms. Given this vertical relationship, the Commission considered whether the proposed transaction raised any input and/or customer foreclosure concerns in the following national markets:

(i) The upstream markets for the manufacture and distribution of clothing for men and women;

(ii) The upstream markets for the manufacture and distribution of civilian footwear for men, women and children;

(iii) The downstream markets for the retail sale of clothing for men and women;

(iv) The downstream markets for the retail sale of civilian footwear for men, women and children;

[11] In the upstream markets for the manufacture and distribution of clothing for men and women, the Commission found that the merged entity's market shares would be less than 20% post-merger. Further, that there are a number of other market players capable of constraining the merged entity such as Trade Call Investments Apparel (Pty) Ltd, Alley Cat Clothing CC, Traffic Clothing Limited and Kingsgate Clothing Group.

[12] In the upstream markets for the manufacture and distribution of footwear for men, women and children, the Commission found that the merged entity's post-merger market shares would be less than 10%, with the remainder of the market being held by other suppliers such as Bolton Footwear (Pty) Ltd, Corrida Shoes, Chic Shoes, Dick Whittington and Futura Footwear. Moreover, the Commission found that post-merger the merged entity would be constrained by imports.

[13] On such basis, the Commission concluded that it was unlikely that the merged entity would have market power in any of these markets post-merger.

[14] In relation to the downstream markets for the retail sale of clothing for men and women and for the retail sale of civilian footwear for men, women and children, the Commission found that the merged entity's market shares would not translate into market power post-merger. The Commission based its conclusion on the fact that the merged entity would continue to face competition from a number of large established retailers such as Truworths, Milady's, Woolworths, Queenspark and the Foschini Group as well as a myriad of other local and international clothing and footwear retailers. Imports would also serve as a competitive constraint on the merged entity. The merged entity would thus not have market power in any of the retail markets in footwear or clothing.

[15] The Commission concluded that input and customer foreclosure is unlikely in light of the fact that the merged entity would not have market power in any of the upstream or downstream markets. It is therefore unlikely that the proposed transaction would substantially prevent or lessen competition in any of the affected markets.[2]

Public interest:

[16] The Commission found that the proposed transaction did not give rise to any public interest concerns.

Conclusion:

[17] In light of the above, we agree with the Commission's analysis and conclude that the proposed transaction is unlikely to substantially prevent or lessen competition in the relevant market. In addition, no public interest issues arise from the proposed transaction.

Norman Manoim

15 April 2015
DATE

[2] The relationships between the merging parties are such that Celrose supplies 60% of its manufactured clothing to Edcon whilst only 2.8% of Edcon's total footwear purchases are supplied by Eddels.

Andreas Wessels and Fiona Tregenna concurring

Tribunal Researcher:	Ammara Cachalia
For the merging parties:	Mark Gardener, ENS Africa.
For the Commission:	Daniela Bove