COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA

Case No: 76/LM/Oct 02

In the large merger between:

Corvest (Pty) Ltd

and

Merchant Commercial Finance (Pty) Ltd

Reasons for Decision

Approval

On 16 October 2002 we unconditionally approved the merger between Corvest (Pty) Ltd ("Corvest") and Merchant Commercial Finance (Pty) Ltd ("M Factors"). Our reasons for this decision follow.

The transaction

The primary acquiring firm is Corvest, a private equity investor that is part of the First Rand Group of companies

The primary target firm is M Factors, a wholly owned subsidiary of Corpcapital.

The transaction is constituted by a sale of shares through which Corvest will acquire 65% of the issued share capital in M Factors from Corpcapital. The remaining 35% will continue to be held by the Alexsa Trust, which will be responsible for the management of the company.

The rationale for the transaction is to facilitate Corvest's horizontal expansion in the financial services sector, and more particularly in the factoring services market. The parties submit that the transaction is in anticipation of increased international consolidation and competition, capital demands of counterparties and regulators, efficiency requirements, costly technology and a shortage of financial services skill in South Africa.

Evaluating the merger

<u>The relevant market</u>

M Factors is primarily involved in the factoring business, while trade financing forms a marginal part of its business. Although Corvest is not directly involved in any of these businesses, another company within the First Rand Group, namely First Factors offers similar factoring services as M Factors does. The relevant product market is therefore the market for the provision of factoring services.

Factoring is a financing mechanism for transforming a company's debtor's book into liquidity. The factoring house buys a company's trading debts due/receivable and undertakes all the administrative burdens of debt collection. In return, the company gains an immediate cash injection and is relieved of the credit control burden. These services are offered throughout South Africa and the factoring houses do not concentrate or specialize in any specific industry.

The relevant market is loosely self-regulated by the Association of South African Factors and Discounters.

<u>Effect on competition</u>

The Commission's investigation revealed that the major competitors in the relevant market are Cutfin (ABSA); Nedliberate (Nedcor/BOE) and Standard Bank Factors. In the competitiveness report the parties submitted that M Factors enjoyed a market share of as they put it *"less than between 6 % and 12%"*. On the other hand, the Commission's report indicates that the parties' market shares are even lower than this. This apparent discrepancy was clarified by the parties at the hearing. It emerged that it is difficult to arrive at a more precise market share determination, since the market share information available is likely to include other similar financial services. Nonetheless, on both accounts, the parties' post merger market share is insignificant and unlikely to adversely impact on competition in the market.

Furthermore, there are no regulatory requirements for entry into the market and low sunk costs. The parties aver that their customers enjoy strong countervailing power, in that they may shift to another provider at a relatively low cost.

Public interest Issues

The transaction will not result in any job losses and there are no other adverse public interest concerns.

Accordingly, we agree with the Commission's recommendation that the transaction be unconditionally approved.

____________ 7 November 2002

N. Manoim **Date**

Concurring: D. Lewis, U. Bhoola

For the merging parties:	Edward Nathan Friedland Corporate Law Advisers
For the Commission:	J. Mokwana, Legal Services Division, Competition Commission