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COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No.: 016899

In the matter between:

The Bidvest Group Limited	**Primary Acquiring Firm**
and	
Mvelaserve Limited	**Primary Target Firm**

Panel	:	Yasmin Carrim (Presiding Member) Andiswa Ndoni (Tribunal Member) Medi Mokuena (Tribunal Member)
Heard on	:	23 October 2013
Order issued on	:	23 October 2013
Reasons issued	:	27 November 2013

DECISION

Approval

[1] On 23 October 2013, the Competition Tribunal ("Tribunal") unconditionally approved the proposed acquisition by The Bidvest Group Limited of Mvelaserve Limited.

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

Parties to transaction

Acquiring firm

[3] The primary acquiring firm is Bidvest Group Limited ("Bidvest"). Bidvest is a JSE-listed company which offers a variety of goods and services such as office products, industrial and commercial products, printing, packaging, freight management and corporate travel.

[4] Of relevance to this transaction are its activities in security services, facilities management services, food product distribution, contract cleaning services, hygiene services, packaging services and laundry services.

Target firm

[5] The primary target firm is Mvelaserve Limited ("Mvelaserve"), a diversified business support service company which offers a range of integrated services by means of its various operational subsidiaries.

[6] Of relevance to this transaction is its involvement in the provision of contract cleaning, hygiene services, security services, laundry services, facility management and the distribution of food and packaging solutions.

Proposed transaction and rationale

[7] In terms of the proposed transaction, Bidvest will acquire the remaining 65.25% of the entire issued share capital of Mvelaserve which it does not already own.[1] Post-implementation of the proposed transaction, Bidvest will have sole control over Mvelaserve.

[8] Bidvest believes that the proposed transaction will enable Mvelaserve to service its customers more efficiently post-merger and the offering to both Bidvest's and Mvelaserve's customers will be enhanced.[2]

Competition assessment

Horizontal assessment

[9] The proposed transaction results in a horizontal overlap between the activities of the merging parties. The product overlaps occur in the markets for the provision of (technical and guarding) security services, facilities management services, contract cleaning services, hygiene services, bulk laundry services and in the market for the distribution of food product and packing solutions.

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[1] For a full description of the proposed transaction, see *inter alia* pages 51 and 52 of the merger record.

[2] See the joint SENS announcement relating to the firm intention by Bidvest of 13 May 2013.

[10] Save for the market for the provision of bulk laundry services which only has a regional dimension, the markets all have regional and national dimensions as the merging parties have a national footprint in general, whilst they do have customers on a specific regional level as well.

[11] Regarding the national market for the provision of security services, the Commission delineated the market into technical and guarding security services. According to the Commission, the merged entity will have an estimated post-merger market share of 14% relating to technical security services after an accretion of 4% and an estimated post-merger market share of 6% relating to the guarding security services after an accretion of 3%. There are over 6000 registered guarding companies and over 2000 security installers who are potential viable alternatives to the merged entity.

[12] In the national market for the provision of facilities management services, the merged entity will have an estimated post-merger market share of 18%. We note that Bidvest only entered this market in February 2013. Various other companies are active in this market, such as Servest Multi Service Group, Broll and JCL.

[13] The Commission found that the merged entity will hold an estimated 25% of the market, following a minimal market accretion of 1%, in the national market for the distribution of food products. There are numerous other competitors in this market such as Digistics, Taste Holdings and Vector Logistics.

[14] In the national market for the provision of contract cleaning services, the Commission found that the merged entity will hold an estimated 27% of the relevant market given the markets share accretion of 9%.

[15] There are over 700 registered contract cleaning companies who are viable competitors, such as Tsebo Outsourcing Group, Supercare Service and Servest Multi Service Group.

[16] The national market for the provision of hygiene services includes the provision of pest control, kitchen hygiene and washroom hygiene services. It was submitted that most of the cleaning companies usually provide hygiene services as well and some customers bundle their procured cleaning and hygiene services together,

whilst other customers procure such services independently. There are, however, also specialist service providers who are suitable alternatives to the merged entity. In this market, the merged entity will hold an estimated 27% of the relevant market, following a minimal market share accretion.

[17] In our view the transaction does not give rise to any competition concerns in the abovementioned markets.

[18] The merging parties and the Commission disagreed on the post-merger shares in two markets. In the national market for the provision of packaging services, the Commission estimated the post-merger market share to be 50% while the merging parties estimated this to be 18% following a market share accretion of 8%. The difference lies in the exclusion of small market players by the Commission and the inclusion of small market players by the merging parties.[3] The Commission is of the view that the retail sector makes up the majority of the purchases in the market and therefore the Commission calculated the market shares by considering those competitors who supply to large retail stores and not the smaller players.

[19] In the regional market (Gauteng province) for the provision of bulk laundry services, the Commission estimated the post-merger market share to be 38% following a minimal accretion, whilst the merging parties submitted that the estimated post-merger market share ought to be 6% following an accretion of 1%. Here, the difference arises because the Commission and the merging parties based their calculations on two different sizes of the total market. The Commission used the average market size estimated by various market participants whilst the merging parties had calculated a larger market based on the inclusion of smaller outsourced laundry businesses and exclusion of in-house laundry services. Furthermore, the merging parties included product amortisation in their bulk laundry services revenue.[4] Customers, however, have indicated that there are numerous other providers of bulk laundry services in this geographic market and they have no concerns with the merger as they will be able to switch to a different provider in the event of price increases by the merged entity.

[3] See page 42 of the transcript.
[4] See page 51 of the transcript.

[20] In our view there is no need for us to conclude on the post-merger market shares in the above two markets because the analysis on either of the parties' calculations reveals that there are low barriers to entry, and numerous alternative players and competitors in the relevant markets.

Third party engagement

[21] During its investigation, the Commission engaged with various customers and competitors. Tsebo Outsourcing Group ("Tsebo") made voluntary submissions to the Commission indicating that in their view, the merger would substantially lessen competition in the markets for the provision of contract cleaning services, facilities management services and food product distribution services.

[22] In respect of the market for the provision of contract cleaning, Tsebo believed that this transaction would lead to the removal of an effective competitor in the market and that customers would not have other options available to them post-merger. However, the customers themselves provided information to the Commission regarding the various other viable alternative players available to the merged entity. Furthermore, the customers in this market did not raise any concerns.

[23] In respect of the market for the provision of facilities management services, Bidvest has concluded only one contract with a retailer since entering the market in February 2013. Although Bidvest currently is not significant enough a player in this market, Mvelaserve is considered an established player in that market. There are numerous competitors in this market, one of which indicated that the contracts for facilities management services go out on tender enabling anyone to bid for it.

[24] In respect of the market for the distribution of food products, Tsebo was concerned that the proposed transaction would result in the removal of an effective competitor given that Bidvest Food Services, a division of Bidvest, was acquiring its competitor, namely Stamford Food Sales in such market. During its investigation, the Commission found that there are various other players, such as Digistix, Vector Logistics and Lusitania who Tsebo can engage with to supply Tsebo's catering company with food products. Regarding the vertical assessment of the submission, it seemed as though Tsebo was concerned that RoyalMnandi, a catering company within the target firm's portfolio, would receive preferential treatment as a result of

the proposed transaction. Again, the Commission found that there are various suitable alternative players for the customer to choose from and it also deemed it unlikely that the target firm's subsidiary catering company could absorb all the food services which Bidvest supplies to them.

[25] Although the Commission differs from the merging parties regarding the market shares in two markets, we are of the view that the merger would not lead to a substantial lessening of competition in all of the relevant markets identified above.

Vertical assessment

[26] The proposed transaction results in a number of vertical relationships across the markets as Mvelaserve has provided security services to Bidvest and Bidvest has provided facilities management services, distributed food products and provided packaging products to Mvelaserve who in turn would distribute such products.

[27] After investigating the markets in which these vertical relationships exist, the Commission concluded that the proposed merger is unlikely to enable the merged entity to engage in either input or customer foreclosure, given the presence of other suppliers and downstream players. We are in agreement with this conclusion.

Conclusion

[28] We conclude that the proposed transaction is unlikely to substantially prevent or lessen competition in any relevant market.

Public interest

[29] The merging parties confirmed that the proposed transaction will not have any adverse impact on employment and that no retrenchments will result from the proposed transaction.[5] No other public interest issues arise as a result of this transaction.

[5] See page 107 of the merger record.

CONCLUSION

[30] Having regard to the facts above, we find that the proposed transaction is unlikely to substantially prevent or lessen competition in any relevant market. Furthermore, no public interest concerns arise as a result of the proposed transaction. Accordingly, we approve the proposed merger unconditionally.

YASMIN CARRIM	**27 November 2013** **DATE**

Andiswa Ndoni and Medi Mokuena concurring

Tribunal Researcher:	Nicola Ilgner
For the Commission:	Tshegofatso Radinku
For the merging parties:	Lee Mendelsohn and Richardt van Rensburg of Edward Nathan Sonnenbergs Inc.