



competition commission
south africa

Media Statement

For Immediate Release

28 May 2021

COMMISSION PROHIBITS ACQUISITION BETWEEN CASHBUILD MANAGEMENT SERVICES AND THE BUILDING COMPANY

The Commission has recommended to the Competition Tribunal (Tribunal) that the proposed transaction whereby Cashbuild Management Services (Pty) Ltd (Cashbuild Management) intends to acquire The Building Company (Pty) Ltd (The Building Company) from Pepkor Holdings Limited (Pepkor), be prohibited.

The Cashbuild Group is a Southern African-based retailer of building materials and products. The Cashbuild Group operates Cashbuild- branded stores as well as P&L Hardware- branded stores. The Cashbuild Group operates 318 stores in Africa (256 Cashbuild stores, 61 P&L Hardware stores, and 1 DIY store). In South Africa, the Cashbuild Group has 228 stores. The Cashbuild Group's product range consists of building materials such as cement, timber, bricks and associated products such as tools, hardware, ceilings, electrical products, decorative products, and plumbing products amongst others.

The Building Company is wholly owned and controlled by Pepkor. The Building Company owns and controls about 48 trading firms in South Africa. The entities controlled by The Building Company include, amongst others, (i) Campwell Hardware (Pty) Ltd t/a BUCO Western Cape; (ii) Building Supply Group (Pty) Ltd; (iii) MacNeil (Pty) Ltd; (iii) Timbercity Lowveld (Pty) Ltd and (iv) Tiletoria Cape (Pty) Ltd. The Building Company and all the firms it controls are collectively referred to as The Building Company Group. The Building Company Group operates 160 stores in Africa, and comprises of three divisions, namely retail, wholesale and specialised divisions.

The retail division operates through BUCO, Timbercity, and Chipbase. BUCO offers a full range of building and hardware products that are primarily sourced locally and supplied to its partners,

which include major development groups, contractors and DIY enthusiasts. Timbercity specialises in board, timber and hardware-related products. Chipbase specialises in the cutting and edging of all board products within the kitchen and cupboard industry.

The wholesale division operates through MacNeil, Cachet, Brands 4 Africa, and Citiwood. The wholesale division supplies building products, specialising in sanitaryware, brassware, plumbing fittings and timber products i.e., flooring, board products and doors as well as plumbing, hardware, and ironmongery products.

The Commission considered the activities of the merging parties and found that the proposed merger raises a horizontal as well as a vertical overlap. The horizontal overlap arises in relation to the market for the retailing of building materials, hardware and related products. This is because both the Cashbuild Group and The Building Company Group are active in the retail supply of building materials, hardware, and related products. The vertical overlap arises in that The Building Company Group, through MacNeil and Cachet, is active in the wholesale supply of building material and hardware products to retailers including Cashbuild.

The Commission found that the proposed merger will result in the creation of the single largest retailer of building material, hardware and related products in South Africa. This market is highly concentrated with only four retailers that have a national footprint. Of the four national retailers, three are corporate retailers while the fourth is a buying group comprised of independent franchisees. Cashbuild, the Acquiring Firm, is the largest corporate retailer by number of stores at the national level. The Building Company, the Target Firm, is the second largest corporate retailer by number of stores at the national level (including BUCO stores and other specialist/single specialty stores).

At a local level, the Commission found that the merging parties' stores overlap in over 80 townships. In some of the affected townships, the merging parties compete mainly with independent retailers who do not exert a significant competitive constraint on the merging parties. The Commission's view is also in line with concerns received from several competitors of the merging parties.

In this regard, the Commission was concerned that:

- The proposed merger will result in the removal of BUCO as an effective competitor in the national market with the potential to expand and compete effectively in the market.
- With respect to the local markets (i.e., the overlap between the merging parties in certain townships or local areas), the proposed merger will result in the merging parties being the dominant supplier of building material and related hardware products. This is because in these areas, independent retailers do not exert a significant competitive constraint to the merging parties. These include areas such as Alice, Sterkspruit, Acornhoek, Giyani, Lethlabile and Thabazimbi. Thus, the proposed merger will give the merging parties the ability to unilaterally increase prices or change trading terms in several geographic areas.
- The proposed merger is likely to strengthen the buyer/bargaining power of the merged entity. Most of the competitors who made submissions to the Commission have also complained about the buyer power that the merged entity will achieve as a direct result of the proposed merger. The Commission is concerned that the merging parties will use the enhanced buyer power in two ways:
 - i. Firstly, the merging parties can use the buyer power to squeeze the margins of their suppliers, particularly smaller suppliers who will now have to negotiate with the single largest retailer and may be forced to accept unfavourable trading terms dictated by the merged entity. This is in line with the concerns received from market participants.
 - ii. Secondly, the merging parties can use their buyer power to exclude their rivals from competing effectively or growing and expanding in their respective geographic market (townships or rural areas). In this regard, the merging parties need only pass on a small portion of the lower purchase price to consumers on a limited number of 'key value items' such as cement, which the Commission understands to be a footfall driver in this market. Unlike independents, large retailers have the ability to recoup these margins on other products and across a range of stores. This is in line with the concerns received from independent retailers.

- With respect to the vertical overlap, the Commission did not find any evidence suggesting that the proposed merger will result in significant input or customer foreclosure concerns.

The Commission also received concerns from the Department of Trade Industry and Competition (“DTIC”) who filed a Notice of Intention to Participate. In its letter, the DTIC submitted that the proposed merger will result in the largest single retailer of building hardware in the country. The DTIC is of the view that any approval to the merger should thus be accompanied with substantial public interest commitments from the merged entity. Areas to be covered by public interest commitments should include: (i) Localisation and supplier development; (ii) Employment; (iii) Transformation; and (iv) Franchisee opportunities.

The Commission reviewed the commitments made by the merging parties to allay the competition concerns and found that they do not outweigh the competition concerns resulting from the proposed merger.

In light of the above, the Commission recommends that the proposed merger be prohibited.

[ENDS]

Issued by:

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