



Clearance of acquisition of Sanitec by Geberit

Sector: Sanitary ceramics and sanitary technology

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In the first phase of merger control the Bundeskartellamt has cleared plans by the internationally active supplier of sanitary systems, Geberit International AG, based in Switzerland ("Geberit") to gain control of the bathroom fittings supplier Sanitec Oyj based in Finland ("Sanitec") in a public takeover offer. The authority's examination focused on whether the takeover would create conglomerate effects in Germany, in particular whether it could make bundling strategies in the production of WC flushing systems and sanitary ceramics possible and to what extent it could create economic incentives for such competitive behaviour. Concerns in this area could be dispelled however. The acquisition project is also under examination by the competition authorities in France, the Netherlands, Austria and Poland.

In addition to producing WC flushing systems, Geberit also manufactures and markets piping systems, apparatus connections for sinks and bathtubs as well as fittings. The target company, Sanitec, produces sanitary ceramics for WCs, wash basins and sinks, bidets and urinals and in Germany markets these under the brand name KERAMAG. It also sells bathtubs and shower trays made from composite material, bathroom furniture and shower enclosures.

The merger affects several markets for the supply of sanitary systems and sanitary ceramics. Ultimately the definition of the product market and geographic market could be left open. The geographic market is most probably limited to Germany. As is clear from earlier proceedings concerning mergers between wholesalers, the demand side of the three-level distribution channel for sanitary installations (manufacturer, wholesaler and retailer) in Germany has a national focus. This applies notwithstanding the fact that the manufacturers also sell their products in other EU member states.

"Built-in" and "pre-wall" WC flushing systems is one of the product markets concerned. This market includes installation systems, cisterns made of plastic and push-buttons for water control. The shower toilet market is a separate market which differs greatly in terms of function,

cleaning processes and sales price from that for the WC systems without body flushing normally in use in Germany. The sanitary ceramics market includes toilets (including seats), wash basins and sinks, bidets and urinals which are manufactured according to identical processes and standards and are offered as part of a complete design range.

Geberit and Sanitec are not close competitors on the German market. There are also no significant supply relationships between the two companies. As the connections linking Geberit's WC flushing systems and Sanitec's WC ceramic ware are designed according to technical standards, the latter two products can be regarded as complementary products. The examination under merger control focused on whether the merger would offer Geberit the possibility and economic incentive to leverage its powerful if not dominant position from the German market for WC flushing systems to the sanitary ceramics market by way of bundled offers (anti-competitive conglomerate effects). According to investigations and surveys of competitors and buyers carried out by the authority, this was found not to be the case.

Both the possibility of technical tying or mixed bundling and economic incentives for such competitive behaviour can be ruled out for the following reasons: Technical tying would mean that Geberit's flushing systems could only be used exclusively with Sanitec's ceramic products. The argument against this, however, is that WC flushing systems and sanitary ceramics are subject to extensive technical standardisation and are therefore interoperable. Changing product lines by abandoning these standards would harm the brand names of Geberit and KERAMAG and such a measure is therefore unlikely. Moreover, in such a case customers could still switch to the products of Geberit's competitors. Other competitors such as e.g. Grohe/Lixil, Toto and Kohler Co., are already active in both product areas and could also make a combined offer. Possible reactions to bundling strategies could also take the form of cooperations between companies which so far only cover one product area, such as Viega and TECE (WC flushing systems) and Duravit, Villeroy & Boch and Roca (sanitary ceramics). Finally, the powerful market position of wholesalers makes it unlikely that bundling strategies would be successful. When investigating procurement markets for sanitary installations in previous merger control proceedings the Bundeskartellamt found that wholesalers in this sector have buyer power.

A strategy of mixed bundling of the products by offering discounts for the combined purchase of WC flushing systems and sanitary ceramics is also unlikely. Ultimately the choice of ceramic products is made by the final customer. WC flushing systems, on the other hand, are usually chosen by the installer/plumber himself. Furthermore, these products are usually selected at

different points in time. Any strategy to steer customer purchasing behaviour by offering discounts is therefore practically impossible. In addition, in bathroom renovations, which account for the largest volume of sales in the sanitary systems sector, WC flushing systems are not necessarily replaced along with the WC ceramics because of the additional outlay.

Another argument against the creation by the merger of a possible economic incentive to resort to bundling strategies is that the merged unit would have to reckon with a certain decline in sales in the highly profitable market for relatively low-value WC flushing systems in order to achieve shares in the less profitable sanitary ceramics market for toilets, wash basins and sinks. Furthermore, the counter strategies of competitors already mentioned and the buyer power of wholesalers would make the success of economic bundling strategies very unlikely. Finally, non-integrated suppliers, in particular, can react to any bundling strategies of the merged company by offering their products via alternative sales channels such as building supply stores and the internet which as yet do not have the same degree of market penetration in Germany as the existing three-level distribution channel.

Geberit, with its Aqua Clean brand, is currently by far the leading supplier on the market for shower toilets with flushing and shower technology and WC ceramics. Geberit is expected to purchase WC ceramics from Sanitec in future. There are no competition concerns in this regard because this is a growing market which several newcomers have recently entered (including Grohe/Lixil and the Japanese company Toto with the brand Neorest). Other companies have announced that they will be entering the market soon. In recent years Geberit has had to surrender market shares to newcomers on the market. Significant foreclosure effects are therefore also unlikely in this sector.