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COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 23/LM/Mar11

In the matter between:

JD Group Limited	Acquiring Firm
And	
Steinhoff Doors and Building Materials (Pty) Limited	Target Firm
And	
Unitrans Motor Enterprises (Pty) Limited	Target Firm

Panel	:	Norman Manoim (Presiding Member) Yasmin Carrim (Tribunal Member) Andreas Wessels (Tribunal Member)
Heard on	:	06 July 2011
Order issued on	:	06 July 2011
Reasons issued on	:	02 August 2011

Reasons for Decision

Approval

1] On 6 July 2011 the Competition Tribunal ("Tribunal") approved the proposed large merger between JD Group Limited and Steinhoff Doors and Building Materials (Pty) Limited and Unitrans Motor Enterprises (Pty) Limited. The Tribunal's reasons for approving the transaction are set out below.

Parties to the transaction

2] The primary acquiring firm is JD Group Limited ("JD Group"), a public company listed on the Johannesburg Stock Exchange ("JSE"). The JD Group is not controlled by a single entity and its major shareholders and their shareholding are as follows: the Government Employees Pension Fund (17.6%); Investec Asset Management (Pty) Ltd (17.3%) and the Public Investment Corporation (11.3%).[1]

3] The primary target firms are Steinhoff Doors and Building Materials (Pty) Limited ("SDBM") and Unitrans Motor Enterprises (Pty) Limited ("Unitrans") both of which are subsidiaries of Steinhoff International Holdings Ltd ("SIH"). SIH is a public company listed on the JSE[2] and is as such not controlled by a single entity. SIH is a multi-national company with presence in the United Kingdom, Asia, India, Europe, Africa, Australia and New Zealand. Steinhoff Europe and Steinhoff Africa are managed as two separate divisions and the target firms, together with other entities, form part of Steinhoff Africa.

Proposed Transaction

4] In terms of the proposed large merger, the JD Group seeks to acquire 100% shareholding in SDBM and in Unitrans. In terms of this proposed large merger, the JD Group seeks to acquire 100% shareholding in SDBM and in Unitrans. In consideration for the above shareholding, SIH will acquire all of the JD Group's shares in Abra[3] as well as 28% shareholding in the JD Group.

In response to questions from the Tribunal at the hearing of this matter, the merging parties unequivocally confirmed that the 28% shareholding referred to above, does not give SIH control over the JD Group nor does it confer upon it the power to appoint a director to the board of the JD Group. The parties further confirmed that should such control be obtained by SIH through any means, that a notification of such a transaction would again be necessary to the Commission.

Rationale for the proposed transaction

5] JD Group submits that the proposed acquisition will enable it to enhance its position as a diversified retail and consumer finance service provider as well as

1 http://jdgroup.co.za/2011/analysis_shareholders.htm

2 SIH is listed on the JSE Top 40 index.

3 Abra is a furniture retailer in Poland operating 74 stores. JD Group acquired its stake in ABra in 1999.

provide it with a large new customer base to which it can cross-sell new financial services products.

SDBM and Unitrans submit that their acquisition will facilitate their combination with JD Group's South African retail and consumer finance operations and ensure their continued growth.

3] At the hearing, the representatives of the merging parties further mentioned the acquiring firm's intentions to change the format of its stores in order to diversify its product offering away from pure furniture retail. This will be done using a business model which has worked well for SIH in other jurisdictions and this exchange in know-how also forms part of this transaction.

Activities of the merging parties

4] The JD Group is a diversified retailer in furniture, appliance, electronics and technology good, home entertainment, office automation and financial services. The JD Group trades throughout South Africa through entities such as Barnetts, Bradlows, Electric Express, Joshua Doore, Price 'n Pride, Morkels, Russels, Hi-Fi Corporation, Incredible Connection and JD Micro Life Limited. The JD Group also owns "Supreme Stores" in Botswana, and shares in Abra, a furniture retailer in Poland.[4]

Some of the acquiring firm's brands[5]

5] SDBM, the first primary target firm sells and supplies building materials, hardware and related products throughout South Africa through: Pennypinchers Stores

4 The Abra shareholding is being acquired by Steinhoff in terms of the proposed transaction.

5 http://jdgroup.co.za/2011/brands.htm

which sells and distributes timber and board products, building materials and paint; Truss Plant which supplies trusses and roofing solutions to the SDBM stores; Timbercity which is involved in retail manufacturing of Formica, wood and wood based products, joining materials to small tradesmen and the DIY market, Tilehouse stores which sell tiles to architects and developers; Sand & Stone which supplies bulk load sand and stone and Unitraco which is the import division of SDBM for Sanware tools and accessories.

Unitrans, the second primary target firm, sells new and used Toyota, Volkswagen, Audi, Fuso, Mercedes Benz, Mitsubishi, Opel, Nissan, Renault, Hino, Dodge, Chrysler, Jeep, Mini, MAN, BMW, Lexus, Isuzu, Cadillac, Chevrolet and Freightliner vehicles through its franchised dealerships located throughout South Africa. Unitrans also provides motor body shop services and driveway services, parts and accessories. Unitrans Automotive offers finance to individuals and corporate clients for new and used vehicles through all major financial institutions and Unitrans Insurance offers short term insurance services to Unitrans customers.

Some of the target firms' brands[6]

Competition Analysis

6] The proposed transaction presents a horizontal dimension in that the merging parties provide insurance and financial services to South African consumers. The proposed transaction further present's vertical dimensions in that firstly, the JD Group could have incentive to procure

6 http://www.steinhoff.co.za/group-operations/by-brand/

products related to furniture through the Steinhoff Group and that further, the JD Group purchases new and used vehicles from Unitrans.

Horizontal Relationship

7] The parties submit that the JD Group offers long-term insurance (credit life insurance) and the target firms do not hold long-term insurance licences and there for do not offer long-term life assurance. The JD Group further offers short term insurance covering risks such as fire and theft in relation to furniture, household goods and products sold by JD Group stores, whereas Unitrans offers mechanical breakdown warranty, credit protection and extra cover insurance to customers purchasing vehicles. The Tribunal has previously accepted an approach whereby a separate market exists for each type of short term insurance product.[7]

Furthermore, with regards to financial services, JD Group provides credit to customers for goods sold in JD Group stores and SDBM do not offer finance but merely facilitate finance for their customers through third party financiers such as banks.[8] The parties therefore submit that there is no horizontal overlap between their activities in insurance and finance.

8] The Commission is satisfied that the parties operate in different submarkets with respect to insurance and financial services and therefore accepts that there is no horizontal overlap.

Vertical Relationship

9] Three vertical relationships are raised in this merger.

In the first place the purchase of vehicles by JD Group from Unitrans is too insignificant to lead to foreclosure concerns.
The second is the supply of imported furniture by Steinhoff International Sourcing ("SIS") to JD Group. Here too, the level of supply to JD Group is not significant nor is it likely that SIS, which supplies

7 See Tribunal Decision in Santam Ltd and Guardian National Insurance Company Ltd Case No: 14/LMFeb000.

8 The parties referred to Tribunal Decision Standard Bank and Sasfika Case Number: 30/LM/May05 where the provision of vehicle finance, a secured form of credit, was differentiated from the provision of finance for consumer goods which is a form of unsecured credit and classified as constituting separate product markets.

rivals of JD Group with imported furniture, would have an incentive to foreclose any of them.

The final vertical issue is that Steinhoff Africa, a subsidiary of SIH, supplies important inputs to furniture manufacturers in South Africa who in turn supply *inter alia* JD Group and its rivals. Whilst Steinhoff was a dominant manufacturer of furniture domestically it has since sold these interests to the Bravo Group[9] in 2007 and therefore no longer has any activities in furniture manufacturing in South Africa.

There is thus a break in the vertical supply chain between Steinhoff, as an input supplier to the furniture manufacturers, and JD Group, as a purchaser of manufactured furniture. Given its present non-controlling shareholding in JD Group, and its lack of ability to influence manufacturers' pricing decisions to their customers, it is unlikely that Steinhoff could use its position as an input supplier, to discriminate between manufacturers who supply JD Group and those who supply its rivals.

10] Furthermore, third parties, which included competitors and customers, contacted by the Commission did not raise any objections to the proposed transaction and SIH's acquisition of JD Group shares post-merger.

Public interest

11] The merging parties and the Commission are in agreement that no foreseeable negative effects on employment are envisaged as a direct result of the proposed transaction.

The merging parties further submit that they envisage that the proposed transaction will have a positive effect on employment as it will result in investment opportunities leading to stability and job creation.

Conclusion

12] The parties confirmed that the proposed transaction does not confer control of the JD Group to SIH and that such acquisition of control would have to be notified.

13] In light of the above factors and the Commission's analysis, the Tribunal concludes that the proposed transaction is unlikely to substantially prevent or lessen competition as there is no horizontal product overlap and no foreclosure and coordinated effect concerns.

9 This was through a transaction which was approved by the Tribunal. It sold Bravo its South African bedding and lounge unit manufacturing unit and its dining room furniture import sub-division

14] The Tribunal therefore approves the proposed transaction without conditions.

______________________ 02 August 2011

N Manoim **DATE**

Y Carrim and A Wessels concurring

Tribunal Researcher: Songezo Ralarala

For the merging parties: Heather Irvine of Norton Rose

For the Commission: Werner Rysbergen