

Anticipated acquisition by Sika AG of MBCC Group

Summary of the CMA's findings

ME/6984/22

SUMMARY

The Parties and the Merger

1. Sika AG (**Sika**) has agreed to acquire the whole of the issued share capital of the ultimate parent company of the MBCC Group (**MBCC**) (the **Merger**). Sika and MBCC are together referred to as the **Parties** (each individually, as a **Party**) and, for statements referring to the future, as the **Merged Entity**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of Sika and MBCC is an enterprise; that these enterprises will cease to be distinct as a result of the Merger; and that the share of supply test is met. Accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. Both Parties supply products used in the construction industry, including chemical-based admixtures, waterproofing products, and grouts – among many others. The CMA focussed its investigation on the areas of overlap that it considered could give rise to plausible competition concerns based, in particular, on the evidence that the CMA received from the Parties and third parties during the course of its investigation.

Horizontal unilateral effects in the supply of chemical admixtures

4. Chemical admixtures are specially formulated chemicals added to cementitious products (concrete, cement, and mortar) to modify their properties, for example to slow their setting rate so they can be transported over longer distances. Chemical admixtures also enable concrete producers to reduce the amount of cement required to produce concrete, which not only cuts the overall cost of concrete production, but also reduces its environmental impact. Modern

construction methods rely on admixtures, which are therefore considered an essential input in the production of cementitious products.

Competitive dynamics

5. Customers consider a wide range of factors when choosing a chemical admixtures supplier. The most important factors are product performance and quality, security of supply, and price. Other important factors include technical expertise, reputation, capacity, product development and innovation, including developing sustainable solutions.
6. Large customers have additional requirements to other customers. In particular, their volume and logistics requirements and the need to have access to the latest admixture developments to maintain a competitive product offering means that their choice of potential suppliers is more limited.
7. The CMA found that there is significant differentiation between suppliers and their ability to meet customers' requirements.

Competitive assessment

8. The CMA found that the Parties are the two largest suppliers of admixtures in the UK with a combined share of supply of over 50%. Post-Merger the market would be highly concentrated, with the Merged Entity and its three largest rivals representing around 80% of supply.
9. Other evidence received by the CMA also demonstrated that the Parties are close competitors across the broad range of parameters considered important by customers. The large majority of third parties viewed Sika and MBCC as the strongest suppliers active in the UK. Customers identified the Parties' range of products, their size and scale, and their ability to support product development and innovation as important competitive strengths of both Parties. Large customers also identified the Parties two of a small number of suppliers that have the capacity and capabilities to meet their requirements. Sika's internal documents also suggest that the Parties compete closely.
10. The CMA considered the current competitive constraint exerted by other suppliers and how that might change. The CMA found that GCP and Saint Gobain (Chryso) would exert a moderate constraint on the Merged Entity and that other suppliers, such as Oscrete and Mapei, would exert a more limited constraint. The CMA found that the constraint from Mapei would likely grow over time, although the pace of its expansion is ultimately likely to be limited. In the

round, the CMA considered that these alternatives would not (either individually or collectively) exert sufficient competitive constraint to prevent the Merger giving rise to a substantial lessening of competition (**SLC**).

11. Third parties explained that it was difficult for suppliers to enter or expand in the UK because reputation and relationships are important – with customers expecting their suppliers to have a deep knowledge of their business. Other important barriers to entry and expansion identified by third parties include access to raw materials (polymers), local production facilities, and the need to possess sufficient technical expertise and R&D capabilities.
12. Customers cannot switch suppliers easily or quickly as extensive testing is required to ensure that any new products are suitable for their particular aggregates and requirements, with this process becoming more difficult the larger and more complex a customer's operations are. The process of switching supplier, in addition to the time taken for smaller suppliers to build their scale and capacity, means that entry or expansion takes time. The CMA therefore does not consider that the threat of entry or expansion is sufficient to prevent an SLC from arising or mitigate its effect.

Conclusion on the supply of chemical admixtures

13. The CMA therefore believes that the Merger gives rise to a realistic prospect of a SLC as a result of horizontal unilateral effects in relation to the supply of chemical admixtures in the UK.

Other overlaps investigated

14. The CMA also gave detailed consideration to two other areas in which the Parties' activities overlap:
 - (a) products approved for waterproofing moving joints and cracks in drinking water infrastructure in the UK; and
 - (b) structural cementitious grouts that are certified for use in offshore wind turbine installation.

The supply of waterproofing moving joints and cracks in drinking water infrastructure

15. The Parties are the only two suppliers of waterproofing jointing bandages that have been tested by the Drinking Water Inspectorate (**DWI**) and are approved for use in drinking water infrastructure in the UK. However, the CMA found that the

Merger has prompted a number of suppliers to contemplate entering the market (in light of concerns raised by customers about the impact of the Merger).

16. The CMA found that one supplier has already taken the commercial decision to enter the market and is already taking steps towards obtaining the required regulatory approvals. While there is some uncertainty inherent in the regulatory process, the supplier possesses generally strong capabilities that make it well-placed to enter this market and holds a high degree of confidence in its ability to obtain the required approvals (while exhibiting a good understanding of what that process entails). On this basis, the CMA believes (taking into account the cautious approach on entry and expansion that is appropriate within a Phase 1 investigation) that the entry of this supplier can be considered both timely and likely.
17. The CMA also considers that entry by the new supplier will be sufficient to prevent an SLC. The new supplier has the capabilities to effectively replicate the supply position of either of the Parties and is considered as a credible alternative by customers.

The supply of structural cementitious grouts that have been certified for use in the installation of offshore windfarms

18. Both Parties supply structural cementitious grouts that have been certified for use in the installation of offshore windfarms. While MBCC is a large and established supplier of these grouts, Sika currently has a single approved product and a negligible track record. The CMA considered whether Sika would be likely to compete more closely with MBCC in the future.
19. The CMA considered the competitive constraint exerted by other suppliers, including those that are currently in the process of entering or expanding. The CMA found that ITW, the other incumbent, is the strongest constraint on MBCC. The CMA also found that while entry or expansion is difficult for suppliers, including Sika, a range of other emerging suppliers are at least as well placed as Sika to compete with MBCC in the future. Given the extent of competitive constraint currently imposed on MBCC by ITW and the position of other new or growing suppliers, the CMA found that the loss of future competition from Sika would not be material.
20. The CMA therefore concluded that there is no realistic prospect of an SLC arising in relation to these other areas of overlap.

Conclusion

21. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (the **Act**). The Parties have until 3 August 2022 to offer an undertaking to the CMA that might be accepted by the CMA. If no such undertaking is offered, then the CMA will refer the Merger pursuant to sections 33(1) and 34ZA(2) of the Act.