Anticipated acquisition by Sika AG of MBCC Group

Summary of Final Report

Notified: 15 December 2022

Overview of our findings

1. The Competition and Markets Authority (**CMA**) has found that the anticipated acquisition by Sika AG (**Sika**) of LSF11 Skyscraper Holdco S.à.r.l., the ultimate parent company of MBCC Group (**MBCC**) (the **Merger**) may be expected to result in a substantial lessening of competition (**SLC**) in the supply of chemical admixtures for cement, concrete and wet mortar in the United Kingdom (**UK**).

2. Sika and MBCC (together referred to as the **Parties**, or for statements referring to the future, the **Merged Entity**) requested to concede the SLC identified in the CMA's phase 1 decision (**Phase 1 Decision**) for the purposes of the phase 2 investigation, accepting that the Merger may be expected to result in an SLC in the supply of chemical admixtures for cement, concrete and wet mortar in the UK. We accepted the Parties' request.

3. In our inquiry we used evidence and information gathered in phase 1. Having had regard to that evidence, we found that the Merger may not be expected to result in an SLC within any other market in the UK. In relation to the market in which the Parties conceded the SLC, we undertook targeted additional information gathering, including publishing an Issues Statement and making a limited number of requests for information.

4. We then considered what action should be taken to remedy, mitigate or prevent the SLC and the resulting adverse effects. This included an assessment of a partial divestiture remedy proposed by the Parties. In addition to evidence provided by the Parties, we have had regard to a range of third party evidence and have consulted closely with other interested competition authorities in other jurisdictions in our assessment.

5. We conclude that the remedy proposed by the Parties would be both effective and proportionate to address the SLC and resulting adverse effects. We published our notice of provisional findings, notice of possible remedies and

the Parties’ remedy proposal on the 25 October 2022. We have applied a ‘balance of probabilities’ standard when assessing the evidence before us.

Background to these findings

The Parties and the Merger

6. Sika is the Swiss-based parent-company of a global group that manufactures and supplies a broad range of products sold under the Sika brand and other group brands.

7. MBCC is a global group of companies headquartered in Germany that manufactures and supplies a broad range of products under brands including Master Builders Solutions.

8. Both Parties overlap in the supply of products used in the construction industry, including chemical admixtures.

9. On 10 November 2021, Sika agreed to acquire 100% of the shares in MBCC for approximately CHF 5.5 billion (approximately £4.5 billion).

The relevant merger situation

10. We have decided that the Merger constitutes a relevant merger situation as it would result in Sika and MBCC ceasing to be distinct enterprises and because the share of supply test is met.

Findings

Market outcome if the Merger did not take place

11. To determine the impact that the Merger may have on competition, we have considered what would have happened had the Merger not taken place. This is known as the counterfactual.

12. We conclude that the counterfactual is the prevailing conditions of competition in this case. This means that the impact of the Merger is compared against the current conditions of competition, and takes into account the recently completed acquisition by Compagnie de Saint-Gobain S.A. of GCP Applied Technologies Inc (the **Saint-Gobain/GCP Merger**), both of which also supply of chemical admixtures in the UK. We have considered the impact of this and other developments in the market in our competitive assessment.

The market

13. We have assessed the relevant market in which to examine the competitive effects of the Merger and conclude that the relevant market is the supply of chemical admixtures for cement, concrete and wet mortar in the UK.

Nature of competition in the supply of chemical admixtures

14. Chemical admixtures are specially formulated chemicals added to cementitious products (concrete, cement and mortar) to modify their properties in various ways, 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.

15. The specific chemical admixtures required by a customer depend on the desired properties of the ultimate cementitious product, the other raw materials used by the customer and their production technique. Suppliers typically offer a broad range of chemical admixtures and often customise existing formulations to meet a customer's specific requirements.

16. Suppliers of chemical admixtures compete over a range of parameters, including product performance, security of supply, price, technical expertise, product development and innovation. There is significant differentiation between chemical admixtures themselves, and between suppliers and their ability to compete across these parameters.

Competitive assessment

17. We have looked at whether the Merger would lead to a significant reduction in competition between the Parties by removing an important competitor and, in doing so, whether the Merged Entity would be likely to worsen its offering compared to the situation if the Merger did not take place. This is a horizontal, unilateral effects theory of harm.

18. Sika and MBCC are the two largest suppliers of chemical admixtures in the UK, together accounting for over half of the UK's supply.

19. We have found that the Parties compete closely across a range of parameters considered important by customers. The majority of market participants viewed the Parties 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 for both Parties. Some customers also identified the Parties as two of a small number of suppliers that have the scale and infrastructure to meet their requirements given the volumes of admixtures they require and the need for product to be delivered to their large network of production sites.

20. We considered the current competitive constraint exerted by other suppliers and found that other than the newly merged Saint-Gobain/GCP, all other existing suppliers would exert only a limited constraint on the merged Parties.

Barriers to entry and expansion

21. We conclude that entry or expansion will not be timely, likely and sufficient to prevent any SLC arising from the Merger in relation to the supply of chemical admixtures in the UK.

Conclusion

22. We have found that the anticipated acquisition by Sika of MBCC may be expected to result in a SLC as a result of horizontal unilateral effects in the supply of chemical admixtures for cement, concrete and wet mortar in the UK.

Remedies

23. Having decided that the Merger may be expected to result in an SLC, we considered what action should be taken to remedy, mitigate or prevent the SLC and the resulting adverse effects.

24. The Parties have proposed a partial divestiture remedy comprising the divestiture of the following MBCC businesses to a single purchaser:

(a) the ‘admixture systems’ business division (including chemical admixtures and associated products such as fibres and underground construction products, together referred to as the **EBA Business**) in the countries of the European Economic Area (**EEA**), Switzerland, UK, Canada, United States, Australia and New Zealand; and

(b) the ‘construction systems’ business division (including all remaining MBCC product lines other than EBA products such as industrial flooring, waterproofing etc, referred to as the **EBC business**) in Australia and New Zealand,

(together, the **Divestment Business**).

25. The Merged Entity will retain the MBCC businesses which are outside the scope of the Divestment Business, namely:

(a) The EBA business outside the EEA, Switzerland, UK Canada, United States, Australia and New Zealand (the **Retained EBA Business**); and

(b) The global EBC business except in Australia and New Zealand (the **Retained EBC Business**),

(together, the **Retained Business**)

26. The Parties have proposed to carve-out the Retained Business from MBCC, such that all assets, staff and resources of the Divestment Business would remain with MBCC (**reverse carve-out**). The Divestment Business will be sold by selling 100% of the shares in the MBCC entities that will hold the Divestment Business at closing to a purchaser (the **Parties' Remedy Proposal**). The eventual purchaser, final transaction documents and any transitional services and supply agreements would be subject to CMA approval.

27. In addition to evidence provided by the Parties, we have had regard to a range of third party evidence and have consulted closely with other interested competition authorities in other jurisdictions in our assessment of the Parties' Remedy Proposal.

28. We conclude that the Parties' Remedy Proposal would be effective. This is on the basis of our assessment that:

(a) the scope of the package addresses the SLC we have identified as it eliminates the Parties' overlap in the supply of chemical admixtures in the UK and includes all assets necessary to ensure the ongoing viability of the Divestment Business;

(b) any carve-out risks are limited, given the broadly standalone nature of the Divestment Business and will be further mitigated by the reverse-carve structure of the divestment;

(c) the links between the Divestment Business and the Merged Entity will be limited to transitional service and supply agreement that are strictly necessary to ensure the competitiveness of the Divestment Business immediately after the Merger and, after a short transitional period, the purchaser may be able to compete on a standalone basis

(d) it is likely that a suitable purchaser can be found; and

(e) the divestiture can be completed within an acceptable time period.

29. We conclude that the Parties’ Remedy Proposal would be proportionate as it would allow the Merger to proceed in relation to those aspects of the Parties’ operations where we have not found competition concerns and would be less onerous than the alternative possible remedy, which would be prohibition of the Merger.

30. We conclude that the Parties’ Remedy Proposal would be both effective and proportionate to address the SLC and resulting adverse effects we have found.