

*Case No IV/M.656 -
Seagate / Conner*

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**REGULATION (EEC) No 4064/89
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 17/11/1995

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 17.11.1995

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sirs,

Subject : Case No IV/M.656 - Seagate/Conner

Notification of 13.10.1995 pursuant to Article 4 of Council Regulation No 4064/89

1. On 13.10.1995 the Commission received a notification of a proposed concentration pursuant to Article 4 of the Council Regulation (EC) No. 4064/89 by which Seagate Technology Inc ("Seagate") and Conner Peripherals Inc ("Conner") will merge within the meaning of Article 3 of the Regulation.
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation No. 4064/89 and does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

I. The Parties

3. Seagate is incorporated in Delaware, USA. The main operation of Seagate and its subsidiaries is the manufacture of hard disk drives (hard disk drives) which are used as data storage devices in computer and other electronic equipment. Seagate designs and manufactures certain disk drive components such as recording heads, disks, substrates, motors and custom integrated circuits. These components are mainly used within the group although a limited volume of tape and disk recording heads is supplied to the industry. Other products include computer management and access software.
4. Conner is also incorporated in Delaware, USA. The company manufactures information storage devices, mainly hard disk drives but also tape drives. Other products include software for data protection and storage management.

II. The Operation

5. The merger will be effected by the swapping of Conner shares for Seagate shares at the ratio set in the Agreement and Plan of Reorganisation ("Reorganisation Agreement"), dated 3 October 1995. Pursuant to the Reorganisation Agreement, Conner will be merged with a subsidiary of Seagate thus becoming a wholly owned subsidiary of Seagate. The merger is effectively an acquisition of sole control and therefore is considered to be a concentration within the meaning of Council Regulation No. 4064/89.
6. The merger is subject to a number of conditions including stockholder approval in the form of simple majorities from both sets of stockholders. The agreement allows for a consummation of the merger in the period before 3 April 1996 or, under certain exceptional circumstances before 3 June 1996.

III. Community Dimension

7. The undertakings concerned have a combined aggregate worldwide turnover in excess of 5,000 million ECU (Seagate 3,580 million ECU, Conner 1,988 million ECU). Each party has a Community-wide turnover in excess of 250 million ECU [...]⁽¹⁾, but they do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The notified operation therefore has a Community dimension.

IV. Compatibility with the Common Market

Product market

8. Both Seagate and Conner produce a variety of hard disk drives, components for data storage products and software. Conner also produce limited volumes of tape drives. All of these products are used in the computer and related industries for data storage. The applications for tape drives and hard disk drives are so different as to make substitution impractical.
9. Hard disk drives are compact high performance data storage devices used in personal computers, work stations, mainframes and multi-use computer networks to record, store and retrieve digital information. A rigid disk drive stores information on a magnetic film deposited on circular plates which rotate at high speed. The information is written and read by recording/reading heads positioned over the plates.
10. Hard disk drives constitute [$>90\%$]⁽²⁾ of Seagate's EU turnover. The figure for Conner is [$80-90\%$]⁽³⁾, however the other [$10-20\%$]⁽⁴⁾ is made up almost entirely of tape drives which do not compete directly with hard disk drives.
11. The market for hard disk drives is characterised by a high degree of product innovation, short product life-cycles and volatility of market shares. The hard disk drive market is split into three segments. The most important market segment, which accounts for at least 90% of the market, is the 3.5 inch format. This segment is the most competitive in the

(1) Figures for Seagate and Conner have been deleted as business secrets

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market and also the area where Seagate and Conner are the most active. The other sectors are the portable computer market where 1.8 inch and 2.5 inch drives are most commonly used and the server/mini/mainframe computer segment where higher performance disk drives are used.

12. The total world market is growing rapidly in volume terms, up from 44 million units in 1992 to 51 million units in 1993 and 69 million units in 1994. During this time worldwide revenue from hard disk drive sales has stayed relatively flat, around 15,000 million ECU per year, reflecting the decreasing average price per unit.
13. The world's largest manufacturer of hard disk drives by volume is IBM. However a substantial proportion of IBM disk drives are used in IBM brand machines and therefore are not sold on the open disk drive market. Given this fact and the difficulty of assessing the market value of disk drives that are used internally, the Commission has used worldwide aggregate revenue figures derived from shipped hard disk drives to ascertain market shares. On this basis, the world market leaders in hard disk drives are generally agreed to be Quantum Corporation, Seagate and Conner. Seagate is assessed to have a market share of [20-30%]⁽⁵⁾ and Conner of [10-20%]⁽⁶⁾ on the basis defined above.
14. The market for hard disk drives is characterised by rapid changes in market share and new entrants are common. For example, Conner itself started in business nine years ago and now has [10-20%]⁽⁷⁾ of the 15,000 million ECU market. Other examples are a company which increased market share from 10.0% to 12.8% between 1993 and 1994 and another whose market share fell from 9.8% to 6.9% in the same period.
15. The large majority of the parties' production of hard disk drives is of 3.5 inch hard disk drives (Seagate [>90%]⁽⁸⁾, Conner [>90%]⁽⁹⁾). Products are sold either to original equipment manufacturers or resellers. Original equipment manufacturers are usually large customers with considerable purchasing power.
16. The product market will be examined on the basis of the individual market segments as set out in paragraph 11. It is not necessary to define the relevant product market because if the transaction does not give rise to competition questions on these narrowly defined market segments there will be no problems at other levels

Geographic Market

17. The manufacture of hard disk drives appears to be concentrated in East Asia and the USA. Manufacturers supply globally to their customers who select suppliers regardless of their geographical proximity. Given the value to size ratio of hard disk drives, transport costs are insignificant and have no bearing on global trade flows.
18. Analysis of prices shows no significant variation between the average selling prices on the world market and those in Western Europe. Furthermore differences between average selling prices for the products in Member States were randomly distributed and can be explained by purchase quantity variations.

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19. The above facts indicate that the hard disk drive market is probably a global market. However, for the purposes of the EC merger Regulation, it is sufficient to verify that the transaction does not give rise to competition questions at the EU level.

Assessment

20. The combined entity will be the largest hard disk drive shipper in the world with [30-40%]⁽¹⁰⁾ revenue based market share. Quantum, the second largest shipper, currently has a world revenue based market share of [20-30%]⁽¹¹⁾ and there are two other producers with market shares in excess of 10%.
21. The transaction will give Seagate and Conner combined EU market shares of approximately [20-30%]⁽¹²⁾, [30-40%]⁽¹³⁾ and [30-40%]⁽¹⁴⁾ in hard disk drives for the portable, 3.5 inch desktop and server/mini/mainframe market sectors respectively.
22. Only one of the parties is active in the server/mini/mainframe market the operation will not therefore affect the competitive situation in this segment.
23. The hard disk drive market is experiencing rapid growth, approximately 25% per year since 1992. Competitors, such as Fujitsu, NEC and Hyundai have announced very large capacity expansion plans for the near future. The capital cost of hard disk drive manufacturing plants is low compared to the potential turnover of these plants. Industry sources indicate that a facility producing 10 million units per year could be built in one to one-and-a-half years for under 100 million ECU. At current average prices such a plant would, if operated at full capacity produce a turnover of over 2,000 million ECU.
24. Strong price competition has kept overall revenues flat indicating an equivalent level of price reductions. The market is also experiencing a rapid rate of innovation with product life-cycles of one to two years. Customer enquiries have indicated that price is the main purchase criteria and no evidence of exclusive purchase agreements have been found.
25. There are also no significant barriers in terms of licensing of patents. Patents are normally for components and processes rather than the drives themselves. There is extensive cross licensing in the industry and the combination of Seagate and Conner's patents is not considered a threat to this situation.

IV. Conclusion

26. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the common market and with the functioning of the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation No 4064/89.

For the Commission,

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