

EN

Case No COMP/M.6754 - KM HOLDINGS/ KM GROUP

Only the English text is available and authentic.

**REGULATION (EC) No 139/2004
MERCER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 19/12/2012

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EUROPEAN COMMISSION

Brussels, 19.12.2012
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In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sir/Madam,

**Subject: Case No COMP/M.6754 – KM Holdings/ KM Group
Commission decision pursuant to Article 6(1)(b) of Council Regulation
No 139/2004¹**

1. On 14 November 2012, the European Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 (the "Merger Regulation") by which KM Germany Holdings GmbH ("KM Holdings", Germany), ultimately controlled by Onex Corporation ("Onex", Canada) acquires within the meaning of Article 3(1)(b) of the Merger Regulation control of Krauss Maffei AG (Germany), MPM III LLC (United States) and MPM Equity LLC (United States) (together, the "KM Group"), by way of acquisition of shares.² KM Holdings and/or Onex, and the KM Group are designated hereinafter as the "Parties".

(1) THE PARTIES AND THE OPERATION

2. **Onex** is a Canadian-based corporation listed on the Toronto Stock Exchange that invests in companies through a number of private equity funds. Onex invests in a wide range of operating companies active in a number of industry sectors, including electronics manufacturing services, aero-structures, financial services, customer care services (call centres), metal services, healthcare, gaming, building products, commercial vehicles, cabinetry products and industrial products. In addition, Onex

¹ OJ L 24, 29.1.2004, p. 1 ("the Merger Regulation"). With effect from 1 December 2009, the Treaty on the Functioning of the European Union ("TFEU") has introduced certain changes, such as the replacement of "Community" by "Union" and "common market" by "internal market". The terminology of the TFEU will be used throughout this decision.

² Publication in the Official Journal of the European Union No C 358, 21.11.2012, p. 9.

has investments in real estate, credit strategies and mid-market private equity opportunities. One fund ultimately controlled by Onex controls Davis Standard Holdings Inc. ("DS"), a company active in the manufacture and sale of rubber and plastics extrusion processing machines. In addition, Onex controls Jeld-Wen, a global manufacturer and distributor of doors and windows, and Tomkins/Gates, which manufactures automotive and industrial applications including belts, hoses and couplings. Both Jeld-Wen and Tomkins/Gates purchase plastics and rubber processing machines.

3. The **KM Group** offers technology and services across various sub-segments of the plastics and rubber processing machines sector, including injection moulding, extrusion and reaction processing machines to customers worldwide.
4. The notified operation consists in the acquisition by KM Holdings, ultimately controlled by Onex, of sole control over the KM Group.
5. The notified operation therefore constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

(2) EU DIMENSION

6. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million³ (Onex: [...]; KM Group: [...]). Each of them has an EU-wide turnover in excess of EUR 250 million (Onex: [...]; KM Group: [...]), but they do not achieve more than two-thirds of their aggregate EU-wide turnover within one and the same Member State. The notified operation therefore has an EU dimension.

(3) COMPETITIVE ASSESSMENT

7. The Parties are both active in the manufacture and sale of rubber and plastics processing machines. However, their activities only overlap in relation to the manufacture and sale of rubber and plastic extrusion machines.⁴
8. A potential vertical relationship also exists between KM Group's activities and the activities of two of Onex's portfolio companies, Jeld-Wen and Tomkins/Gates.

3.1 Product Market Definition

9. The Parties submit that the relevant product market in this case is the market for plastics and rubber processing machines.
10. The Parties submit that all plastics and rubber processing machines are used to convert rubber and plastic materials into semi-finished or finished rubber or plastic parts. Although there are various processing technologies that are used for converting the input material, namely injection moulding, extrusion and reaction processing, all plastics and rubber processing machines serve to convert plastics or rubber input into final products for various industries. According to the Parties, suppliers of rubber and plastics processing machines that possess the necessary engineering, know-how, as

³ Turnover calculated in accordance with Article 5 of the Merger Regulation.

⁴ KM group provides spare parts and services mostly for its own customers and [...]. As such, there is no overlap in the Parties' activities in relation to non-captive aftersales services.

well as financial and personnel capabilities are able to produce any kind of plastics and rubber processing machines.

3.1.1 Injection moulding, extrusion and reaction processing technologies

11. Despite the Parties' submissions, a large majority of customers and competitors explain that injection moulding, extrusion and reaction processing technologies require different machines, that the prices of the machines used for each technology vary, and that it would take significant time and investments to switch from one type of machine to the other.⁵ The majority of competitors consider that producers of injection moulding machines, extrusion machines, and reaction processing machines tend to be different although some market participants do produce more than one type of machine.⁶
12. On the basis of the results of the market investigation and the Parties' internal documents the Commission considers that the definition of the injection moulding, extrusion and reaction processing machines as separate product markets can be left open as the notified operation does not raise competitive concerns under any possible approach.

3.1.2 Rubber and plastic extrusion machines

13. Extrusion machines could be further segmented according to different end-use applications such as rubber, film/sheet, foam, pipe, profile, compounding, wire, fibres, yarns and fabrics.
14. The Parties submit that even if segments (such as compounding extrusion; film, sheet and foam extrusion; rubber (or elastomer) extrusion; pipe and profile extrusion) are sometimes used to further categorize extrusion machines, which may be used differently by various users in the industry, all extrusion machines are ultimately based on the same basic extrusion technology. The precise machine required will depend on the specific requirements and end-use of the customers.
15. The Commission, on the basis of the results of the market investigation, notes that the machines used for extrusion in the different segments are optimized for each end-use (in particular the screw design, the dimensions etc.) and would require modifications to be used for other end-applications.⁷ Some respondents consider that although the extruders for the different end-use applications may be quite similar, other machines in the production line would also need to be adapted in case of a change of the extrusion machine. Furthermore, a large majority of competitors consider that it is not possible to switch easily from manufacturing extrusion machines for one type of application to manufacturing extrusion machines to another application.⁸
16. Therefore, it cannot be excluded that a market for extrusion machines may be further segmented according to end-use applications such as rubber, film/sheet, foam, pipe, profile, compounding, wire, fibres, yarns and fabrics.

⁵ Q1 – replies to questions 9, 10 and 12; Q2 – Replies to questions 9, 10 and 12.

⁶ Q1 – replies to question 11; Q2 – Replies to question 11.

⁷ Q1 – replies to question 13; Q2 – Replies to question 13.

⁸ Q1 – Replies to questions 14 and 14.1.

17. Further to delineation by end-use application, extrusion machines could be further segmented between high-end extrusion processing machines and low-end extrusion processing machines.
18. The Parties submit that, there are no objective, empirical criteria that would separate one supplier from the other in terms of high end or low end machines. Individual customers have their own preferences regarding price, product output, extrusion speed, material feeding, gearing, throughput, and reliability and all players in the market strive to meet customers' requirements. According to the Parties, differences in the complexity of machines, manufacturing quality, service levels and other soft factors are gradual and it is very difficult to distinguish clearly between one group of suppliers and another group of suppliers. In addition, customers are sophisticated buyers sourcing their requirements worldwide through worldwide procurement processes. Thus, on every occasion, a different set of suppliers may be considered credible by the customer.
19. However, the Parties' internal documents and responses to the market investigation suggest that segmentation between high-end and low-end extrusion machines may be appropriate. A large majority of the respondents consider that such a distinction is relevant as there are significant differences between high-end and low-end extrusion machines in performance, output technical standards and runtime.⁹
20. Therefore, it cannot be excluded that the extrusion market may be further segmented between high-end and low-end extrusion machines.
21. However, for the purposes of the assessment of the notified operation, the exact delineation of the relevant product market(s) can be left open since the notified operation does not raise competitive concerns under any possible approach.

3.2 Geographic Market Definition

22. The Parties submit that the geographic scope of the plastics and rubber processing machines market is worldwide, namely because (i) customers are sophisticated buyers and source their requirements worldwide through competitive bidding processes; (ii) there are generally no significant differences in the price of machines around the world; and (iii) pre-sale services are available globally, either through worldwide service networks of manufacturers or through independent local service firms.
23. The Commission considers that, on the basis of the results of the market investigation, the geographic scope of the market(s) for extrusion machines is at least EEA-wide, if not worldwide. Even if competitors consider that a local presence may be important, they supply customers on a worldwide basis regardless of the location of their factories.¹⁰ Customers similarly indicated that they generally source extrusion machines from countries or regions that differ from the country or region where their factory is located.¹¹
24. Although a small majority of competitors consider that there are price differences between the different regions, a small majority of the responding customers take the

⁹ Q1 – replies to question 15; Q2 – Replies to question 14.

¹⁰ Q1 – replies to questions 18 and 23.

¹¹ Q2 – replies to question 18.

opposite view.¹² Moreover, a majority of respondents indicated that the transport costs represent only a small percentage of the overall price of an extrusion machine (generally below 5% at an EEA-wide level and below 10% at a worldwide level).¹³

25. Finally, although a majority of respondents indicate that there are different safety regulations and standards in different regions, such as the European Union, the United States, and China, a number of respondents point out that these do not constitute significant entry barriers.¹⁴
26. In light of the above, there are strong indications that the market is at least EEA-wide, if not worldwide. For the purposes of the assessment of the notified operation, the exact delineation of the relevant geographic market(s) can be left open since the notified operation does not raise competitive concerns under either approach.

3.3 Horizontally affected markets

27. The activities of the Parties overlap only in relation to rubber and plastic extrusion processing machines. No overlap exists in relation to injection moulding or reaction processing machines.
28. As regards the different extrusion machines segments according to end-use applications, the Parties' activities only overlap in rubber extrusion machines, film/sheet extrusion machines and pipe and profile extrusion machines.¹⁵
29. The Commission will, in the rest of this decision, examine the effects of the notified operation under all plausible market definitions where the Parties' overlapping activities would lead to affected markets¹⁶, at worldwide-level namely: (i) rubber extrusion machines worldwide; (ii) film and sheet extrusion machines worldwide; (iii) high-end extrusion machines worldwide; (iv) high-end rubber extrusion machines worldwide; (v) high-end film and sheet extrusion machines worldwide; (vi) high-end pipe and profile extrusion machines worldwide, and at EEA-wide level namely: (i) rubber extrusion machines in the EEA; (ii) high-end extrusion machines in the EEA; (iii) high-end rubber extrusion machines in the EEA.

3.3.1 Introduction on all affected markets

30. As regards the competitive conditions on all the above-mentioned affected markets, it should first be noted that, in response to the market investigation, a majority of competitors and some customers have answered that Asian producers of extrusion

¹² Q1 – replies to question 19; Q2 – Replies to question 19.

¹³ Q1 – replies to question 20; Q2 – Replies to question 20.

¹⁴ Q1 – replies to question 22; Q2 – Replies to question 22.

¹⁵ Reply to the RFI of 29 November 2012.

¹⁶ The Parties' estimated combined market share on an overall market for plastic and rubber processing machines, as well as on a potential market for all rubber and plastic extrusion machines would remain under [10-20]% on both the EEA and worldwide level, thus leading to no affected markets in these wider segments. As regards segments by end-use where the Parties' activities overlap, no affected markets arise in the segment for plastic pipe and profile extrusion.

machines have started to exercise competitive pressure on manufacturers located in the EEA or North America.¹⁷

31. Second, the Parties also argue that their customers are sophisticated buyers who source their machines through competitive bidding processes. This is confirmed by a large majority of respondents who also indicate that extrusion machines are generally sourced through a competitive bidding process and that the customers are able to exercise bargaining power.¹⁸
32. These two elements constitute competitive constraints on the merged entity and will therefore be taken into account in the competitive analysis below.

3.3.2 Rubber extrusion machines

33. The Parties estimate their market shares on a segment for rubber extrusion machines to be the following:

	KM Group	DS	Combined
Worldwide	[20-30]%	Below [0-5]%	Below [20-30]%
EEA-wide	Below [20-30]%	Below [0-5]%	Below [20-30]%

Excluding spare parts and services

34. As regards the rubber extrusion machines segment, the Parties' combined market share will be just above [20-30]% on a worldwide and just above [20-30]% on an EEA-wide level with a minimal increment of below [0-5]% regardless of the geographic market definition.
35. According to the Parties, other global suppliers of rubber extrusion machines will remain including Troester (estimated market share of [20-30]% worldwide), five other competitors with estimated market share of [0-5]% worldwide, namely NFM, American Kuhne, Rubicon, Colmec, Jinhu, as well as many other smaller suppliers primarily in Asia and in Europe.
36. The Commission notes, from the results of the market investigation, that respondents with knowledge of the rubber extrusion machines segment consider that there are alternative suppliers to the Parties.¹⁹ In particular, Troester, Coperion, Battenfeld-Cincinnati, and JSW Japan are listed as close competitors to the Parties on the rubber extrusion machines segment both in the EEA and worldwide.²⁰
37. In light of the above, the Commission considers that the notified operation does not give rise to serious doubts as to its compatibility with the internal market on a segment for rubber extrusion machines, regardless of whether this segment is considered EEA-wide or worldwide.

¹⁷ Q1 – replies to question 28; Q2 – Replies to question 26.

¹⁸ Q1 – replies to questions 29 and 30; Q2 – Replies to questions 27 and 28.

¹⁹ Q1 – replies to question 35; Q2 – replies to question 32 and 34.

²⁰ Q1 – replies to question 26.

3.3.3 Film and sheet extrusion machines

38. The Parties estimate that their market shares on a segment for film and sheet extrusion machines to be the following:

	KM Group	DS	Combined
Worldwide	[10-20]%	[5-10]%	[20-30]%

Excluding spare parts and services

39. Regarding the film and sheet extrusion machines segment, the Parties' combined market share will be above [10-20]% at worldwide level.
40. According to the Parties, other global suppliers of film, sheet and foam extrusion machines will remain, including eight companies with estimated worldwide market shares of [5-10]%, namely SML, Battenfeld-Cincinnati, Bandera, Union, Welex, Kuhne, PTI and Reifenhäuser, five companies with estimated worldwide market shares of [0-5]%, namely Breyer, Amut, Alpha Marathon Film Extrusion Tech, BG Plast and Chi Chang, and other competitors such as Commodore, Coperion, Erema, Gloucester, Jinhu, Macro, Mega, Milacron, Sunwell, Toshiba, Troester.
41. The Commission considers, from the results of the market investigation, that respondents with knowledge of the film and sheet extrusion machines segment consider that there are alternative suppliers to the Parties.²¹ In particular, Battenfeld-Cincinnati, Kuhne, Leistritz, Reifenhäuser, Amut, Breyer, SML are listed as close competitors to the Parties on the film and sheet extrusion segment.²² One competitor even explained that, due to the Parties increased size in the western world, the combined entity will be able to concentrate its innovation activities and, if necessary, underbid the prices of competitors, due to its size.²³
42. In light of the above, the Commission considers that the notified operation does not give rise to serious doubts as to its compatibility with the internal market on a segment for film and sheet extrusion machines, regardless of whether the market is considered EEA-wide or worldwide.

3.3.4 High-end extrusion machines

43. The Parties submit that if a distinction between high-end and low-end extrusion machines were to be considered, both KM Group and DS will place themselves in the high-end category. As such, a potential market for low-end extrusion machines will not be affected by the notified operation.
44. The Parties estimate that their market shares on a segment for high-end extrusion machines to be the following:²⁴

²¹ Q1 – replies to question 35; Q2 – replies to question 32 and 34.

²² Q1 – replies to question 26.

²³ Q1 – reply to question 36.

²⁴ Market share estimates are based on the assumption that high-end demand accounts for 70% of worldwide demand and for 90% of EEA demand of the overall extrusion segment.

	KM Group	DS	Combined
Worldwide	[5-10]%	[5-10]%	[10-20]%
EEA-wide	[10-20]%	[0-5]%	[10-20]%

45. Thus, as regards the high-end extrusion machines segment, the Parties' combined market share will be just above [10-20]% at both worldwide and EEA-wide level.
46. However, other suppliers of high-end extrusion machines will remain, including three competitors with estimated market shares of [5-10]% worldwide, namely Coperion, BC Extrusion and Reifenhäuser, seventeen other competitors with estimated market shares of [0-5]% worldwide, namely Troester, Leistritz, Breyer, Harburg-Freudenberger, HTI, Hans Weber, Rubicon Kuhne, Bandera, Omipa, AMUT, Buss, Maillefer, Milacron, Welex, Japan Steel Works, Nakata and Toshiba, and four other competitors with estimated market shares of below [0-5]% worldwide, namely Kuhne, Rollepaal, Technomatic and Kobe Steel.
47. In light of the above, the Commission considers that the notified operation does not give rise to serious doubts as to its compatibility with the internal market on a segment for high-end extrusion machines regardless of whether the market is considered EEA-wide or worldwide.

3.3.5 High-end extrusion machines segments

3.3.5.1 High-end rubber extrusion machines

48. On a segment for high-end rubber extrusion machines, the Parties estimate their market shares to be the following:²⁵

	KM Group	DS	Combined
Worldwide	[30-40]%	Below [0-5]%	[30-40]%
EEA-wide	[20-30]%	Below [0-5]%	[20-30]%

49. Although the Parties' combined market share will be as high as [30-40]% at worldwide level and [20-30]% at EEA-wide level, the increment will be minimal, at below [0-5]% at both worldwide and EEA-wide level.
50. In addition, other suppliers of high-end rubber extrusion machines will remain, including Troester (estimated market share of approximately [30-40]% at worldwide level and approximately [30-40]% at EEA-wide level), Harburg-Freudenberger Maschinenbau GmbH (estimated market share of approximately [10-20]-[20-30]% at worldwide level and approximately [10-20]% at EEA-wide level), Rubicon (estimated market share of approximately [10-20]% at worldwide level and EEA-wide level), as well as other suppliers.

²⁵ Market share estimates are based on the assumption that high end demand accounts for 70% of worldwide demand and for 90% of EEA demand of the overall extrusion segment.

51. In light of the above, the Commission considers that the notified operation does not give rise to serious doubts as to its compatibility with the internal market on a segment for high-end rubber extrusion machines regardless of whether the market is considered EEA-wide or worldwide.

3.3.5.2 High-end film and sheet extrusion machines

52. On a segment for high-end film and sheet extrusion machines, the Parties estimate their market shares to be the following:²⁶

	KM Group	DS	Combined
Worldwide	[10-20]%	[5-10]%	[20-30]%

53. As regards the high-end film/sheet extrusion machines segment, an affected market will arise at worldwide level, with the Parties' combined market share being [20-30]%.

54. However, other suppliers of high-end film/sheet extrusion machines will remain, such as BC Extrusion, with a market position similar to that of the merged entity (estimated market share of approximately [20-30]% at worldwide level and approximately [10-20]% at EEA-wide level), Breyer (estimated market share of approximately [10-20]% at worldwide level and EEA-wide level), Reifenhäuser (estimated market share of approximately [10-20]% at worldwide level and approximately [20-30]% at EEA-wide level), Bandera (estimated market share of approximately [10-20]% at worldwide level and approximately [10-20]% at EEA-wide level), Amut (estimated market share of approximately [10-20]% at worldwide level and EEA-wide level), Kuhne (estimated market share of approximately [5-10]% at worldwide level and approximately [10-20]% at EEA-wide level), and Omipa (estimated market share of approximately [5-10]% at EEA-wide level).

55. In light of the above, the Commission considers that the notified operation does not give rise to serious doubts as to its compatibility with the internal market on a segment for high-end film and sheet extrusion machines regardless of whether the market is considered EEA-wide or worldwide.

3.3.5.3 High-end pipe and profile extrusion machines

56. On a segment for high-end pipe and profile extrusion machines, the Parties estimate their market shares to be the following:²⁷

	KM Group	DS	Combined
Worldwide	[10-20]%	[0-5]%	[10-20]%

²⁶ Market share estimates are based on the assumption that high end demand accounts for 70% of worldwide demand and for 90% of EEA demand of the overall extrusion segment.

²⁷ Market share estimates are based on the assumption that high end demand accounts for 70% of worldwide demand and for 90% of EEA demand of the overall extrusion segment.

57. As regards the high-end pipe and profile extrusion machines, an affected market will arise at worldwide level, with the Parties' combined market share being at [10-20]%.
58. However, other suppliers of high-end pipe and profile extrusion machines will remain including a larger competitor, namely BC Extrusion (estimated market share of approximately [20-30]% at worldwide level and approximately [30-40]% at EEA-wide level), HTI (estimated market share of approximately [10-20]% at worldwide and EEA-wide level), Hans Weber Maschinenfabrik GmbH (estimated market share of approximately [5-10]% at worldwide level and approximately [10-20]% at EEA-wide level), Maillefer (estimated market share of approximately [5-10]-[10-20]% at worldwide and EEA-wide level), Rollepaal (estimated market share of approximately [5-10]% at worldwide level and approximately [0-5]-[5-10]% at EEA-wide level) and Technomatik (estimated market share of approximately [0-5]-[5-10]% at worldwide and EEA-wide level), as well as other competitors.
59. In light of the above, the Commission considers that the notified operation does not give rise to serious doubts as to its compatibility with the internal market on a segment for high-end pipe and profile extrusion machines regardless of whether the market is considered EEA-wide or worldwide.

3.4 Vertically affected markets

60. Onex controls Jeld-Wen and Tomkins/Gates, both of which use plastics and rubber processing machines.
61. As regards Jeld-Wen, it has in the past purchased reaction processing machines related to its window production. A potentially vertically affected market could therefore arise in relation to reaction processing machines where KM Group's market share is estimated at [10-20]% on an EEA-wide level.²⁸ [...] ²⁹ In any event, there are a number of alternative suppliers for reaction processing machines both in the EEA and worldwide (Frimo Gruppe GmbH, Hennecke GmbH Polyurethane Technology, Cannon SpA, Industrie Pu.ma.S.r.l, Impianti OMS SpA).
62. As regards Tomkins/Gates, it purchases plastics and rubber processing machines, in particular rubber extrusion equipment for belts and hoses for automotive and industrial applications.³⁰ A potentially vertically affected market could arise given that Tomkins/Gates' market share on a worldwide level is estimated at approximately [20-30]% and the Parties' combined share for high-end rubber extrusion machines is estimated at [30-40]% on a worldwide basis.
63. However, as mentioned in paragraph 50, even on a narrow segment for high-end rubber extrusion machines, the Parties would still face a number of important competitors. Similarly, Tomkins/Gates competes with a number of suppliers of hoses and belts for automotive and industrial applications such as ContiTech AG, Band USA, Veyance Technologies, Dayco Products, Hutchinson SA, Parker Hannifin Corp, Eaton Corporation, Manu Rubber Industries S.p.A and Carlisle Power Transmission products.

²⁸ The KM Group's market share in reaction processing machines is estimated at [10-20]% on a worldwide level.

²⁹ [...].

³⁰ Tomkins/Gates has not purchased any KM Group equipment since 1998.

64. In light of the above, the Commission considers that the potential vertical links between the Parties will not result in any foreclosure effect. The transaction, therefore will not give rise to serious doubts as to its compatibility with the internal market.

(4) CONCLUSION

65. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the internal market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of the Merger Regulation.

*For the Commission
(signed)
Joaquín ALMUNIA
Vice-President*