

Case No COMP/M.7457 - CVC/ PAROC

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 12/02/2015

*In electronic form on the EUR-Lex website under
document number 32015M7457*



Brussels, 12.2.2015
C(2015) 901 final

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

To the notifying party:

Dear Sirs,

Subject: Case M.7457 – CVC/ Paroc
Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004¹ and Article 57 of the Agreement on the European Economic Area²

(1) On 8 January 2015, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004³ by which the undertaking CVC Capital Partners SICAV-FIS S.A. ('CVC', Luxembourg), acquires within the meaning of Article 3(1)(b) of the Merger Regulation indirect sole control of the whole of Paroc Group ('Paroc', Finland), by way of purchase of shares in Safari Finco 1 Oy, the holding company of Paroc. CVC is hereinafter referred to as 'the Notifying Party' while CVC and Paroc together are referred to as 'the Parties'.

1. THE PARTIES

(2) Paroc is a Finnish-headquartered company active in the production and supply of mineral wool insulation materials for technical and building applications.

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 OJ L 1, 3.1.1994, p.3 ('the EEA Agreement').

³ OJ L 24, 29.1.2004, p. 1 (the 'Merger Regulation').

- (3) CVC is part of the CVC Group whose activities include the provision of investment advice to and/or managing of investments on behalf of certain investment funds ('CVC Funds'). Three of CVC Funds' portfolio companies are relevant for the assessment of the proposed transaction, namely Univar, Parex and Ahlsell. Univar (upstream of Paroc) is active in the distribution of commodity and specialty chemicals some of which are used in the production of mineral wool insulation products; Ahlsell (downstream of Paroc) is active in the distribution of installation products, including insulation products; and Parex (downstream of Paroc) is active in the manufacture and supply of insulated facade systems.

2. THE OPERATION AND THE CONCENTRATION

- (4) [...] entered into a share purchase agreement ('SPA') on 22 October 2014. According to the SPA, a special purpose vehicle (Parry 1 Holding AB) will acquire the entire issued share capital of Paroc's holding company Safari Finco 1 Oy. While some of the present owners of Paroc will ultimately acquire a minority shareholding of 14% in aggregate in Parry 1 Holding AB, 86% of the shares in it will ultimately be indirectly controlled by CVC through another special purpose vehicle (Luxco 1) that is wholly owned by CVC Funds.
- (5) The shareholders' agreement between [...] and the minority shareholders does not provide the latter any veto or other rights that would go further than those typically granted to protect minority shareholders. In particular, the minority shareholders will not be able to block decisions that concern Paroc's strategic commercial behaviour.
- (6) Consequently, CVC will acquire indirect sole control of Paroc and the operation constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

3. UNION DIMENSION

- (7) The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million⁴ (CVC: EUR [...], Paroc: 433 million). Each of them has a Union-wide turnover in excess of EUR 250 million (CVC: EUR [...], Paroc: [...]), but they do not achieve more than two-thirds of their aggregate Union-wide turnover within one and the same Member State. The notified operation therefore has a Union dimension pursuant to Article 1(2) of the Merger Regulation.

4. COMPETITIVE ASSESSMENT

4.1. Introduction

- (8) Paroc is active in the production and supply of mineral wool insulation materials for technical and building applications. Paroc has manufacturing facilities in Finland, Lithuania, Poland and Sweden, and it operates primarily in the Nordic and Eastern European countries.

⁴ Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Consolidated Jurisdictional Notice.

- (9) The transaction does not give rise to horizontal overlaps. However, there are vertical links between the activities of Paroc and three of CVC Funds' portfolio companies, namely Univar, Ahlsell and Parex. Of those entities, Univar is active upstream of Paroc while Ahlsell and Parex are active downstream.
- (10) Univar is active in the distribution of commodity and specialty chemicals, some of which could be used as inputs in the production of insulation materials. The Commission has in previous cases considered (i) commodity chemicals; and (ii) speciality chemicals to constitute distinct markets with at least a national geographic span, though leaving the exact market definition open.⁵ The link between Univar and Paroc gives rise to vertically affected markets in Finland, Sweden and Poland due to Paroc's market position in the downstream markets in the production of insulation products.⁶ Even on the narrowest plausible market definitions for commodity and specialty chemicals considered by the Commission in previous cases, Univar's market shares are modest, varying between [0–20]% in the affected markets.⁷ Only [0–5]% of Univar's total EEA sales are made to insulation manufacturers. During the market investigation, Univar's competitors indicated that they are not dependent on Paroc as a customer⁸, and Paroc's competitors indicated that they are not dependent on Univar for their supplies⁹.¹⁰ In light of the above and on the basis of the evidence available to the Commission, the vertical link between Univar and Paroc does not give rise to serious doubts as to its compatibility with the internal market. Therefore, it is not discussed further in this decision.
- (11) The vertical link between Paroc and Parex does not give rise to any affected markets. Parex is active in the production of external insulation and finishing systems, which is a market the Commission has previously considered to be national in scope.¹¹ Parex uses insulation materials as an input to that production. However, because of the geographic complementarity between Paroc's and Parex' activities, France is the only EEA country where both Parties are meaningfully present. Their market shares remain considerably below 30% on both upstream and downstream in France as well as at EEA-level. The vertical link between Paroc and Parex does not therefore give rise to any affected markets and is not discussed further in this decision.

⁵ See, e.g. M.4836 – *CVC / Univar*, paragraphs 14 and 18; M.3344 – *Bain Capital / Interfer / Brenntag*, paragraphs 11 and 13–6; M.2244 – *Royal Vopak / Ellis & Everard*, paragraphs 11 and 16–7. In M.2244, the Commission also found indications that the Nordic countries could constitute a single regional market.

⁶ For more details about Paroc's activities and detailed market definition, see paragraphs (14)–(22).

⁷ Univar's market shares in the distribution of commodity/specialty chemicals respectively: Finland [5–10]% / [10–20]%; Sweden [10–20]% / [10–20]%; and Poland [0–5]% / [0–5].

⁸ Replies to the Commission's questions to Univar's competitors on 16 January 2015.

⁹ Replies to Q2 – Questionnaire to insulation material manufacturers, question 27.

¹⁰ According to the Notifying Party, Univar is jointly controlled by CVC, Clayton, Dubilier and Rice LLC. Therefore, any attempt by CVC to implement a foreclosure strategy which might be harmful to Univar would be blocked by Univar's other parent.

¹¹ M.4898 – *Compagnie De Saint-Gobain / Maxit*, paragraphs 144 and 145.

- (12) The vertical link between Paroc and Ahlsell gives rise to vertically affected markets. Approximately [...] % of Paroc’s building insulation (‘BI’) product output and over [...] % of its technical insulation (‘TI’) product output is sold to distributors (wholesale/retail distributors such as Ahlsell, independent retailers and do-it-yourself stores), although the figures vary by country.¹² Ahlsell is active in the wholesale and retail distribution of installation products, including insulation products.
- (13) On the narrowest plausible geographic basis, which is national, vertically affected markets are found in Finland, Estonia and Sweden. In addition, the wider regional markets consisting of the Nordic or the Baltic countries would also be affected. Ahlsell has an existing commercial relationship with Paroc regarding the sale of technical insulation products in Finland and Estonia.

4.2. Relevant markets

4.2.1. Upstream market: Production and supply of insulation materials

4.2.1.1. Product market definition

- (14) Insulation products reduce the thermal and acoustic exchange through a wall, roof or duct on which they are placed. They are usually produced either from foams or mineral wools and may take many forms, such as rigid panels for walls or elastic mats for the insulation of pipes. The Commission has previously found that insulation products constitutes a separate market from other building products.¹³
- (15) The Commission has previously considered that insulation materials may be segmented by their application, between BI and TI products but has ultimately left the market definition open.¹⁴ The present case concerns both TI and BI products, and the Notifying Party has provided market information for them separately.
- (16) The Commission has previously considered the possible further sub-segmentation of insulation products by insulation material, between (i) foams and (ii) mineral wools but has left the market definition open.¹⁵ Although Paroc is only active in mineral wools, the Notifying Party submits that such sub-segmentation is not warranted because of demand-side substitutability.
- (17) The results of the market investigation support the view that BI and TI products belong to separate markets, as well as a further sub-segmentation between foams and mineral wools. On the demand side, market participants referred to different uses of the products and to differing technical characteristics between mineral wools and foams, mineral wools having better fire protection qualities while foams are better at handling moisture. On the supply side, market participants noted that

¹² For instance in Finland, [...] % of Paroc’s sales of TI products are made to distributors.

¹³ M.3407 – *Saint Gobain / Dahl*, paragraphs 8 and 9; M.1974 – *Compagnie de Saint-Gobain / Raab Karcher*, paragraph 9; and M.1873 – *Compagnie de Saint-Gobain / Meyer International*, paragraphs 9 and 10. See also M.6871 – *Mohawk Industries / Spano Invest*, paragraphs 28 and 29.

¹⁴ M.3943 – *Saint Gobain / BPB*, paragraph 29; and M.3407 – *Saint Gobain / Dahl*, paragraphs 9 and 10.

¹⁵ M.3943 – *Saint Gobain / BPB*, paragraph 28; M.3578 – *BP / Nova Chemicals / JV*, paragraphs 19 and 20; and M.1078 – *BP / Hüls*, paragraph 8.

the production processes of mineral wools and foams are totally different and that switching production between them was not feasible.¹⁶

- (18) Therefore, the Commission considers it is likely that mineral wool BI and mineral wool TI constitute distinct product markets. However, it is not necessary to conclude on the exact product market definition as the proposed transaction does not give rise to serious doubts as to its compatibility with the internal market under any alternative product market definition.

4.2.1.2. Geographic market definition

- (19) The Commission has previously considered that the production and supply of insulation materials is at least national in scope.¹⁷ In some decisions, the Commission has also indicated that the market could be wider, e.g. the Nordic region¹⁸ or European-wide¹⁹ but has ultimately left the exact market definition open.
- (20) The Notifying Party submits that the relevant geographic market for BI is at least national and for TI wider than national. The Notifying Party supports its submission by referring to, e.g. significant cross-border trade and the homogeneity of BI and TI products sold in the Nordic and Baltic countries. The Notifying Party further suggests that since TI products are more valuable than BI products, it is economically more viable to transport TI products over longer distances as the proportional transport costs are lower than for BI products. However, the Notifying Party acknowledges that [...].
- (21) The results of the market investigation include some indications that the BI and TI markets could be national. In particular, even if the market participants considered the products to be generally similar across the different Nordic and Baltic countries, price-setting is in many cases national and distributors' sourcing patterns tend to be national as well.²⁰
- (22) However, it is not necessary to conclude on the exact geographic market definition as the proposed transaction does not give rise to serious doubts as to its compatibility with the internal market under any alternative geographic market definition.

¹⁶ Replies to Q1 – Questionnaire to insulation material distributors, questions 5 and 6; Q2 – Questionnaire to insulation material suppliers, questions 7 and 8; and Q3 – Questionnaire to insulation material customers, questions 5 and 6.

¹⁷ M.3943 – *Saint Gobain / BPB*, paragraph 30; M.3407 – *Saint Gobain / Dahl*, paragraphs 17 and 18. See also M.1974 – *Saint Gobain / Raab Karcher*, paragraph 13, where the question whether building product markets, including insulation products, were national or European in scope was left open.

¹⁸ M.3407 – *Saint Gobain / Dahl*, paragraph 18. See also *Mohawk Industries / Spano Invest* where the Commission found indications that the market in the Benelux-countries could be at least cross-border regional, M.6871 – *Mohawk Industries / Spano Invest*, paragraph 52.

¹⁹ M.3142 – *CVC / Danske Traelast*, paragraphs 14–16.

²⁰ Replies to Q1 – Questionnaire to insulation material distributors, questions 11–4; Q2 – Questionnaire to insulation material suppliers, questions 13–18; and Q3 – Questionnaire to insulation material customers, questions 10–3.

4.2.2. Downstream market: Distribution of installation products

4.2.2.1. Product market definition

- (23) The Commission has previously considered that the distribution of installation materials could be segmented according to the type of customers into: (i) wholesale to retailers; (ii) retail sales to professional customers; and (iii) retail sales to non-professional customers, but has ultimately left the exact market definition open.²¹ The results of the market investigation support the above potential segmentation²², however, in the present case, only retail sales to professional customers are relevant as Ahlsell is only active in that segment²³.
- (24) The Notifying Party has provided Ahlsell's market share in relation to retail sales to professional customers of all installation products as well as for the narrower markets of TI and BI products, notwithstanding the fact that the Notifying Party does not consider the distribution of each of TI and BI products to professional customers to constitute distinct markets. Moreover, the Notifying Party has identified one possible further sub-category of installation products, namely specialist installation products for HVAC (heating, ventilating and air conditioning), and has provided Ahlsell's market shares separately for that potential sub-segment.
- (25) However, it is not necessary to conclude on the exact product market definition as the proposed transaction does not give rise to serious doubts as to its compatibility with the internal market under even the narrowest plausible product market definition.

4.2.2.2. Geographic market definition

- (26) The Commission has previously considered that the relevant distribution markets are national, although it has ultimately left the exact market definition open.²⁴
- (27) In the present case, the Commission notes that market participants' market shares and their relative market positions vary significantly between different Nordic and Baltic countries, suggesting that the markets are likely to be national. Replies to the market investigation also support this view in that, for instance, distributors generally set their prices on a national basis.²⁵
- (28) However, it is not necessary to conclude on the exact geographic market definition as the proposed transaction does not give rise to serious doubts as to its

²¹ M.4050 – *Goldman Sachs / Cinven / Ahlsell*, paragraph 9 (concerning installation materials). Similarly with respect to various building materials, e.g. M.3407 – *Saint Gobain / Dahl*, paragraphs 12 and 16; and M.3142 – *CVC / Danske Traelast*, paragraphs 11–13.

²² Replies to Q1 – Questionnaire to insulation material distributors, questions 8 and Q2 – Questionnaire to insulation material suppliers, questions 10.

²³ While Ahlsell makes sales to other retailers, the products sold do not include insulation products but mainly electrical, heating and plumbing products.

²⁴ M.4050 – *Goldman Sachs / Cinven / Ahlsell*, paragraph 9.

²⁵ Replies to Q1 – Questionnaire to insulation material distributors, question 15.

compatibility with the internal market under any alternative geographic market definition.

4.3. Vertical effects

4.3.1. Competition effects of a vertical merger

- (29) A vertical merger may potentially give rise, in particular, to two types of competition effects: input foreclosure and customer foreclosure.
- (30) Input foreclosure arises where, post-merger, the new entity would be likely to restrict access to the products or services that it would have otherwise supplied absent the merger, thereby raising its downstream rivals' costs by making it harder for them to obtain supplies of the input under similar prices and conditions as absent the merger.²⁶ Customer foreclosure may occur when a supplier integrates with an important customer in the downstream market. Because of this downstream presence, the merged entity may foreclose access to a sufficient customer base to its actual or potential rivals in the upstream market (the input market) and reduce their ability or incentive to compete. In turn, this may raise downstream rivals' costs by making it harder for them to obtain supplies of the input under similar prices and conditions as absent the merger.²⁷
- (31) In order for input or customer foreclosure to be a concern, three conditions need to be met post-merger: (i) the merged entity needs to have the ability to foreclose its rivals; (ii) the merged entity needs to have the incentive to foreclose its rivals; and (iii) the foreclosure strategy needs to have a significant detrimental effect on competition on the downstream market (input foreclosure) or on consumers (customer foreclosure). In practice, these factors are often examined together since they are closely intertwined.²⁸

4.3.2. Affected markets and the Parties' market shares

- (32) The proposed transaction gives rise to vertically affected markets with respect to the vertical link between: (i) Paroc's production and sale of BI products and Ahlsell's distribution activities in Sweden; and (ii) Paroc's production and sale of TI products and Ahlsell's distribution activities in Finland, Estonia, Sweden and Poland. The latter vertical link would give rise to affected markets even if wider regional markets consisting of either the four continental Nordic countries (Finland, Sweden, Denmark and Norway) or the Baltic countries (Estonia, Latvia and Lithuania) were considered.
- (33) The Parties' market shares in the vertically affected markets are given in the table below.

²⁶ See, for instance Guidelines on the assessment of non-horizontal mergers under the Council Regulation on the control of concentrations between undertakings, OJ C 265, 18.10.2008, p. 6 ('Non-Horizontal Guidelines'), paragraph 31.

²⁷ See, for instance Non-Horizontal Guidelines, paragraph 58.

²⁸ See, for instance Non-Horizontal Guidelines, paragraphs 32 and 59.

Table 1 - Vertically affected markets (Paroc – Ahlsell)

Geography	Upstream (Paroc)	Downstream (Ahlsell, plausible alternative market definitions)
Finland	Mineral wool TI products: [70–80]%	<ul style="list-style-type: none"> • Retail sales of all installation products to professional customers: [10–20]% • Retail sales of mineral wool TI products to professional customers: [20–30]%
Estonia	Mineral wool TI products: [40–50]%	<ul style="list-style-type: none"> • Retail sales of all installation products to professional customers: [10–20]% • Retail sales of mineral wool TI products to professional customers : [20–30]%
Sweden ²⁹	Mineral wool TI products: [50–60]%	<ul style="list-style-type: none"> • Retail sales of all installation products to professional customers: [30–40]% • Retail sales of mineral wool TI products to professional customers: [20–30]% • Retail sales of HVAC installation products to professional customers: [30–40]%
	Mineral wool BI products: [30–40]%	<ul style="list-style-type: none"> • Retail sales of all installation products to professional customers : [30–40]% • Retail sales of BI products to professional customers: [0–5]% • Retail sales of HVAC installation products to professional customers [30–40]%
Poland	Mineral wool TI products: [30–40]%	<ul style="list-style-type: none"> • Retail sales of all installation products to professional customers: [0–5]% • Retail sales of TI products to professional customers: [0–5]%
Nordics ³⁰	Mineral wool TI products: [40–50]%	<ul style="list-style-type: none"> • Retail sales of TI products to professional customers: [10–20]%
Baltics ³¹	Mineral wool TI products: [40–50]%	<ul style="list-style-type: none"> • Retail sales of TI products to professional customers: [10–20]%³²

²⁹ The data for Sweden concerning (i) all installation products and (ii) HVAC installation products exclude sales to professional customers by DIY stores and independent retailers and therefore might overstate Ahlsell’s market share.

³⁰ Denmark, Finland, Norway and Sweden. The Notifying Party has not been able to provide a figure for Iceland. However, [...], and the fact that Ahlsell does not sell into Iceland at all, the Parties’ shares of supply for the Nordics would either be the same as, or lower than current estimates for both Paroc and Ahlsell if data for Iceland were included.

³¹ Estonia, Lithuania and Latvia.

³² The figure given is that of Ahlsell’s share of supplies in Estonia. The Notifying Party has not been able to provide a figure for Latvia or Lithuania. However, given the fact that within the Baltics, Ahlsell only has sales into Estonia its share in the Baltics as a whole will be lower than its share in Estonia.

4.3.3. Input foreclosure

- (34) The Notifying Party submits that the proposed transaction does not give rise to input foreclosure concerns on the distribution market for installation products, given that the merged entity would neither have the ability nor the incentive to foreclose Ahlsell's rivals. The Notifying Party further submits that insulation material manufacturers are incentivised to use as many sales channels as possible and to have their products available in as many distribution outlets as possible.
- (35) According to the Notifying Party, Ahlsell's rivals will retain access to sufficient and credible alternative insulation manufacturers post-transaction on all of the affected markets. With regard to TI competitors, Paroc faced competition in 2013 (i) in Finland from Saint-Gobain Isover ([10–20]%) and Rockwool ([10–20]%); (ii) in Estonia from Saint-Gobain Isover ([20–30]%) and Rockwool ([20–30]%); and (iii) in Sweden from Saint-Gobain Isover ([20–30]%) and Rockwool ([20–30]%). As to BI in Sweden, Paroc's main competitors in 2013 were Saint-Gobain Isover ([30–40]%), Rockwool ([10–20]%) and Knauf ([5–10]%).
- (36) The Notifying Party explains that in all of the above mentioned markets, Saint-Gobain Isover and Rockwool offer comparable products to Paroc and have the capacity to supply all the customers, including Finnish customers, from production facilities in the Nordics and potentially further away. As regards specifically Finland, almost [...]%) of Ahlsell's sales of TI are generated by brands other than Paroc's.
- (37) According to the Notifying Party, the merged entity would not have the incentive to foreclose its downstream competitors because manufacturers are incentivised to spread their sales through as wide a range of sales channels as possible to maximise their sales to professional customers. In addition the Notifying Party submits that given Paroc's production capacity and Ahlsell's distribution coverage in each of the markets above, Paroc will not be able to rely solely on direct sales and distribution through Ahlsell for any of these markets if it is to continue to operate profitably.
- (38) In its assessment, the Commission has taken into account not only the possibility of of a total refusal to supply, but also the possibility that the merged entity could discriminate against Ahlsell's competitors by offering them Paroc's products at prices and conditions significantly worse than those offered to Ahlsell.
- (39) The Commission notes that the Parties' market shares on the upstream markets are high, particularly with respect to TI products in Finland where Paroc achieved a [70–80]% market share in 2013. Some respondents also mentioned during the market investigation that Paroc has a particularly strong brand in Finland and that Paroc's products are, or at least are thought by customers to be, of higher quality than some of their competitors. The comments appeared to be specific to TI products in Finland and may partly stem from the fact that Paroc is an old Finnish brand and company.³³ Nonetheless, the overall results of the market investigation support the Notifying Party's submission that alternative suppliers, such as

³³ Replies to Q1 – Questionnaire to insulation material distributors, questions 21–26. See also the response of a distributor to the Commission's request for information of 23.1.2015.

Rockwool and Saint-Gobain Isover are available and offer suitable products to meet the demands of the ultimate customers in all geographies and products discussed, including TI products in Finland.³⁴ Distributors that responded to the market investigation also suggested that their ultimate customers could switch to the products of alternative suppliers if the prices of Paroc's products increased in their outlets, which could also affect the distributors' choice of product portfolio available in their outlets.³⁵

- (40) The Commission therefore considers it unlikely that the merged entity would have the ability to foreclose its downstream rivals on any of the affected markets.
- (41) Moreover, even if the merged entity had the ability to foreclose its downstream rivals, it would be unlikely to have the incentive to do so. In order to benefit from any input foreclosure, the merged entity would have to shift volumes from other distributors to Ahlsell to offset lost upstream sales. The foreclosure would only be beneficial if the gains made on the downstream level would likely outweigh the possible losses suffered on the upstream level through customers switching to competitors' products.
- (42) For the following reasons, the Commission considers it unlikely that the merged entity could achieve adequate gains on the downstream level to outweigh the possible losses suffered on the upstream level.
- (43) First, the difference between the merged entity's upstream and downstream profit margins suggests that the merged entity would need to shift significant volumes to Ahlsell to cover any losses on the upstream level. According to the Notifying Party, in 2014, Paroc's average gross margin³⁶ in the sale of TI products to distributors in Finland was [...] % while Ahlsell's average gross margin³⁷ in the sale of Paroc's TI products to professional customers in Finland was [...] %.³⁸ Ahlsell's margin has [...]. The figures suggest that even modest customer leakage to products of alternative TI products supplied by other distributors would likely render a foreclosure strategy unprofitable for Paroc.
- (44) Second, significant volume shifts of either BI or TI products seem unlikely to take place in the present case. In particular, it appears that a single product group is not the driver for the vast majority of customers to choose the distributor they use, and smaller customers in particular see distributors as 'one-stop-shops' for all their needs. Moreover, customers may buy certain products – particularly TI products – as add-ons to other installation products, such as pipes, with the choice of the 'main' products being the decisive factor for customers.³⁹ Statements made during

³⁴ Replies to Q1 – Questionnaire to insulation material distributors, questions 21 and 22; and replies to Q3 – Questionnaire to insulation material customers, questions 21 and 22. See also the confirmed minutes of a call with a distributor, 28.1.2015, and the response of a distributor to the Commission's request for information, 23.1.2015.

³⁵ Replies to Q1 – Questionnaire to insulation material distributors, questions 23–26.

³⁶ Turnover generated by sale of goods, minus variable costs.

³⁷ Turnover generated by sale of goods, less [...].

³⁸ The Parties' response to the Commission's request for information of 23.1.2015.

³⁹ See, e.g. confirmed minutes of a call with a distributor, 25.1.2015.

the market investigation also support the view that significant customer switching would be unlikely and that it would be risky for Paroc to try to favour Ahlsell as a distribution channel.⁴⁰ One distributor also noted that other insulation material suppliers currently supplying suitable products were interested in increasing their market share.⁴¹

- (45) Third, Ahlsell's market presence on the downstream markets is relatively modest, which speaks against it being able to capture significant additional volumes as a result of a foreclosure strategy relating to one product it sells amongst others. For instance, Ahlsell only achieved an [10–20]% market share in the sale of installation products to professional customers in Finland in 2013. If only looking at TI products, Ahlsell had a [20–30]% market share in the sale of such products to professional customers in Finland in 2013 while, for instance Onninen and Dahl achieved market shares of [40–50]% and [20–30]% respectively.⁴² Ahlsell's market shares are generally somewhat higher in Sweden but lower in Estonia and Finland. As to Paroc's own sales of insulation products via distributors, Ahlsell is only one of Paroc's routes to the market, representing for instance [...] % of the distributor sales of TI products in Finland while Onninen [...] Kespel ([...]%) and Dahl ([...]%) also distributed Paroc's TI products in Finland.
- (46) Fourth, the results of the market investigation support the Notifying Party's submission that insulation manufacturers tend to distribute their products through as many distributors as possible.⁴³ The results of the market investigation indicate that even those manufacturers who offer a significant portfolio of other building and installation materials and could potentially benefit, given the customers' preference for 'one-stop-shop' service, from an input foreclosure, still choose to supply their products through multiple distributors including those outside their own group of companies. In this respect, the Commission notes that this appears to be the strategy also adopted by one major market participant, Saint-Gobain, that is already vertically integrated in the Nordic countries since it produces and sells mineral wool insulation materials under the brand Isover and also controls the distribution chain Dahl, known as LVI-Dahl in Finland.
- (47) In light of the above and on the basis of the evidence available to the Commission, the proposed transaction does not give rise to serious doubts as to its compatibility with the internal market as regards input foreclosure for TI or BI products.

4.3.4. *Customer foreclosure*

- (48) The Notifying Party submits that the proposed transaction does not give rise to customer foreclosure concerns on the distribution market for installation products given that the merged entity would have no ability or incentive to foreclose Paroc's rivals. According to the Notifying Party, Paroc's rivals will continue to have access

⁴⁰ Confirmed minutes of a call with a distributor, 25.1.2015.

⁴¹ A distributor's response to the Commission's request for information of 23.1.2015.

⁴² Market shares are the Notifying Party's best estimates.

⁴³ Replies to Q1 – Questionnaire to insulation material [distributors]* distributors, question 28; replies to Q2 – Questionnaire to insulation material manufacturers, question 26; and replies to Q3 – Questionnaire to insulation material customers, question 24.

to professional customers through a sufficient choice of alternative distributors, including Onninen, Dahl and Profisol, as reflected in Ahlsell's relatively modest or low shares for the supply of BI and TI products in the affected markets.

- (49) As explained in Table 1 above, Ahlsell achieved its highest relevant market shares in Sweden where it has a [30–40]% share of the retail sales to professional customers of all installation products (including both BI and TI products) in 2013. If one considers the possible sub-segments, Ahlsell's market shares amounted to [20–30]% in TI, [0–5]% in BI and [30–40]% in HVAC installation products in Sweden in 2013. In Estonia, Finland and Poland, Ahlsell's market shares were below [20–30]% in all cases.
- (50) Regarding TI products, Ahlsell faced competition in Sweden from Dahl/Bevego ([40–50]%), Profisol ([10–20]%) and Lindab ([5–10]%) while in Finland the competitors were Onninen ([40–50]%) and Dahl/Bevego ([20–30]%). Considering the possible HVAC subsegment, Ahlsell would face competition in Sweden from Dahl ([30–40]%), Onninen ([5–10]%), Solar ([5–10]%) and Lundagrossisten ([5–10]%).⁴⁴
- (51) Given Ahlsell's limited market presence on the downstream markets for the retail sales to professional customers of installation products (and any of their potential sub-segments), the Commission considers that it is unlikely that the merged entity would be able to engage into customer foreclosure.
- (52) As regards any incentive to foreclose upstream competitors, the Notifying Party argues that the main feature of Ahlsell's business is that it keeps a wide and diverse range of products in stock (approximately 125 000 items), only a fraction of which are insulation products. Ahlsell (and its competitors) stock multiple brands of insulation products to satisfy customer demands, and single-branding is rare. A customer foreclosure strategy risks making Ahlsell less attractive to its customers by reducing the range of products and brands it offers and would be self-defeating.
- (53) As explained in paragraph (44) above, customers indeed may prefer distributors that can offer a 'one-stop-shop' service for them. Excluding products from the portfolio could therefore potentially be risky for the distributor.
- (54) The vast majority of the producers that responded to the market investigation confirmed that they have a sufficient choice of alternative distributors in all of the relevant geographic markets considered in this decision should they not be able to distribute through Ahlsell following completion of the proposed transaction.⁴⁵
- (55) In light of the above and on the basis of the evidence available to the Commission, the proposed transaction does not give rise to serious doubts as to its compatibility with the internal market as regards customer foreclosure on the distribution market for installation products.

⁴⁴ The market shares are the Notifying Party's best estimates.

⁴⁵ Replies to Q2 – Questionnaire to insulation material manufacturers, question 24.

5. CONCLUSION

- (56) For the above reasons, the European 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 and Article 57 of the EEA Agreement.

*For the Commission
(Signed)
Margrethe VESTAGER
Member of the Commission*