NOTICE 247 OF 2012

COMPETITION COMMISSION

NOTIFICATION TO PROHIBIT THE TRANSACTION INVOLVING:

PAARL MEDIA (PROPRIETARY) LIMITED

AND

PRIMEDIA (PROPRIETARY) LIMITED

CASE NUMBER: 2010NOV5443

The Competition Commission hereby gives notice, in terms of Rule 38 (3)(c) of the 'Rules for the Conduct of Proceedings' in the Competition Commission, that it has prohibited the transaction involving the above-mentioned firms:

The primary acquiring firm is Paarl Media (Proprietary) Limited ("Paarl"). Paarl is directly controlled by Paarl Media Holdings which in turn is controlled by Paarl Media Group. The Paarl Media Group is jointly controlled by Media 24 Limited ("Media 24") and Lambert Phillips Retief ("Retief") in terms of a Management Agreement. Media 24 is ultimately controlled by Naspers Limited, which is a multinational media group that is listed on the JSE Limited.

Paarl is predominantly a commercial printing operation with several specialised printing plants in South Africa that provide a comprehensive range of printing services. These services include printing solutions for newspapers, magazines, retail inserts and commercial material. In addition to this, Paarl also distributes advertising materials directly to consumers at individual residences and businesses.

The primary target firm is Primedia (Proprietary) Limited ("Primedia"). The transferred firm is however Primedia@Home, which is the printed advertisements distribution business of Primedia. Primedia is involved in four broad categories spanning broadcasting, advertising, marketing and promotion, entertainment, sports advertising, sponsorships and promotions, digital and publishing. Of particular relevance to this transaction are the advertising, marketing and promotion of third party (clients) business activities.

In terms of the transaction, Paarl acquired the printed advertisements distribution business of the Primedia@Home. Upon completion of the transaction, Paarl wholly controlled the printed advertisements distribution business of Primedia@Home and was integrated into Shopper's Friend, the advertising jacket business of Paarl.

The transaction was initially notified to the Competition Commission ("Commission") as a small merger in November 2010 and was subsequently unconditionally approved by the Commission in January 2011. However Caxton and CTP Publishers and Printers Limited ("Caxton"), a competitor to Paarl particularly in printing, brought an application before the Competition Tribunal ("Tribunal") to review and set aside the Commission's decision to unconditionally approve the merger. The transaction has since been implemented and Primedia@Home was integrated into an advertising distribution business of Paarl called Shopper's Friend. On 25 July 2011, the Tribunal set aside the Commission's decision to unconditionally approve the merger and the matter was remitted back to the Commission for reconsideration. The reason for the judgement was primarily that the Commission had not properly considered the information before it and could possibly have arrived at different conclusions.

The Commission has conducted a new investigation into the transaction. This current investigation has revealed several material facts that are different from the Commission's original analysis. These differences mainly relate to the relevant product market and consequently, the analysis that flows from the defined relevant product market. Firstly, in relation to the relevant product market, the original investigation concluded that the product market was markedly wider than the current investigation. The reason for the different outcome primarily relates to supply-substitutability between different modes of distributing advertising leaflets. In particular, the original investigation concluded that distribution of leaflets through community newspapers was directly substitutable for distribution via knock and drop, hence, comprised the same product market. The current investigation has concluded that the two are different product markets, and that the relevant market is that of knock and drop distribution only. Of particular importance is that distribution of advertising leaflets through community newspapers does not effectively constrain distribution via knock and drop. This conclusion was arrived at using both the information that was available at the time of the original investigation as well as newly sourced information. The Tribunal's reasons for decision also appear to suggest this demarcation between these markets.

Secondly, the original investigation also suggested entry into this narrower market of knock and drop is relatively easy, timely, and sufficient to constrain any potential exercise of market power by the merged entity. However, the current findings arising from the investigation suggest otherwise, that entry is not easy, not likely to be timely, and insufficient to constrain the parties in exercising market power in the national market for knock and drop distribution.

The merger creates a direct overlap between Primedia@Home and On-the-Dot (a Media24 subsidiary). The two are the largest players in knock and drop distribution in the country. The parties combined markets shares in this narrower knock and drop distribution market is approximately 79% instead of the 31% in a wider market arrived at in the initial investigation. The two remaining national knock and drop competitors namely P le Grange and Vibrant Direct have market shares of approximately 13% and 2% respectively. In essence, the merger resulted in the removal of an effective competitor as Primedia@Home was On-the-Dot's closest and most effective competitor. It is the Commission's view that the merged entity has the ability to exercise market power in the knock and drop distribution market by virtue of this merger and is able to unilaterally increase prices. There have been some concerns to this effect from several customers such as Shoprite and Lewis as well as competitors such as P le Grange, Vibrant Direct, Caxton (a competitor in printing), and smaller regional operators such as Quickfeet.

According to the Tribunal, the initial investigation also did not properly consider the historical and vertical aspects relevant to this transaction. More specifically, there are historical issues in the market relating to a price war between the merging parties. Over a period of time, Primedia@Home had been involved in a price war with On-the-Dot. Various strategy documents suggested On-the-Dot was undercutting its rivals, particularly Primedia@Home in order to weaken its closest and most effective competitor. Some third parties have suggested that the transaction could have been implemented to remove an effective competitor, Primedia@Home. It is the Commission's view that this fierce competition between the merging parties suggests that the merger results in the removal of an effective competitor.

Further, the parties' counterfactual that Primedia@Home would have exited the market had it not been acquired by Paarl is not supported by evidence. In fact, there is a litany of evidence which suggest there were several viable options that Primedia@Home was considering before it eventually settled for Paarl, which had offered a significant competition premium. Therefore, the counterfactual by the parties that Primedia@Home would exit the market if it was not acquired by Paarl cannot stand.

In relation to vertical effects, there are several concerns that have been raised in the current investigation pertaining to foreclosure of rivals through bundling of printing of leaflets together with the distribution thereof. Paarl has a leading position in printing, particularly heatset printing with a market share of approximately 52%, and 38% in coldset printing. By virtue of the transaction, the merged entity is in a position to leverage its position (monopoly position) in distribution of leaflets into the printing of leaflets market, where the margins are higher than in distribution. This could be achieved by either offering a bundle at discounted prices or inducing distribution customers to use the merging parties printing facilities. Essentially, none of the merging parties' rivals in either printing or distribution are able to mimic this bundle, hence, a bundling strategy could effectively be employed to weaken competition in both printing and distribution. Several firms involved in both distribution and printing have raised concerns in this regard. It is the Commission's view that such a bundling strategy could effectively foreclose parties' printing and distribution rivals, to the detriment of competition in these markets.

Taken as a whole, the merger results in a significant lessening of competition in the market for the distribution of knock and drop leaflets. The parties submitted some efficiency arguments, which efficiencies were not merger specific as they could still have been achieved absent the merger. In any event, with benefit of hindsight, the claimed efficiencies have not come to pass since Shopper's Friend fortunes have not improved over the time in which the Shopper's Friend business was integrated with Primedia@Home. Therefore, the efficiencies forwarded by the parties are insufficient to outweigh the anticompetitive effects of the transaction.

The parties were invited to propose remedies to alleviate the anti-competitive effect of the transaction. It was the parties' position that there were no remedies required since it is their position that there are no anti-competitive effects arising from the transaction.

On the basis of the investigation findings, the Commission prohibited the transaction.

Enquiries in this regard may be addressed to Manager: Mergers and Acquisitions Division at Private Bag X23, Lynnwood Ridge, 0040. Telephone: (012) 394 3298, or Facsimile: (012) 394 4298.