



Public Competition Assessment

13 May 2019

Knauf - proposed acquisitions of USG and AWI

The ACCC's decision

1. On 28 March 2019, the ACCC announced its decision not to oppose the proposed acquisitions by Gebr. Knauf KG (**Knauf**) of USG Corporation (**USG**) and Armstrong World Industries Pty Ltd (**AWI**) (the **proposed acquisitions**), after accepting a section 87B undertaking.
2. The ACCC considered that the proposed acquisitions, taking into account the undertaking, would be unlikely to contravene section 50 of the *Competition and Consumer Act 2010* (the **Act**).
3. Section 50 prohibits acquisitions that would have the effect, or be likely to have the effect, of substantially lessening competition in any market.
4. The ACCC considered the competitive effects of the proposed acquisitions in relation to the supply of the following products in Australia:
 - plasterboard
 - fixed suspended ceilings
 - plaster compounds and treatments
 - metal profiles used in wall and fixed suspended ceiling applications, and
 - modular suspended ceilings.
5. In Australia, USG operates through a joint venture with Boral International Pty Limited and Boral Building Materials Pty Limited (**USG-Boral**). Knauf and USG-Boral both supply each of the products listed above in Australia. AWI supplies modular suspended ceilings in Australia.

6. The section 87B undertaking offered by Knauf and accepted by the ACCC requires Knauf to divest its interest in the Australasian business of USG-Boral to an ACCC approved purchaser.
7. This Public Competition Assessment outlines reasons for the ACCC's decision.
8. This and other public competition assessments are subject to the following qualifications:
 - The ACCC considers each transaction on a case-by-case basis and so the analysis and decision outlined in one assessment will not necessarily reflect the ACCC's view of another transaction, even where that other transaction may involve the same or a related market.
 - As assessments are brief and do not refer to confidential information provided by the parties or other market participants, assessments do not set out all of the issues and information considered by the ACCC, nor all of the analysis and reasons of the ACCC.

The parties and the transactions

The acquirer: Knauf

9. Knauf is headquartered in Germany and is an international manufacturer of plasterboards, plasters and accessories, ceilings, insulation, paints, floor screed and floor systems, construction equipment and related products.
10. In Australia, Knauf is a manufacturer of plasterboards, fixed suspended ceilings and related products such as plaster compounds and metal profiles, and an importer of modular suspended ceilings and insulation products.

The targets: USG and AWI

11. USG is headquartered in the United States and is an international manufacturer and supplier of plasterboard, acoustic ceiling tiles and related products.
12. In Australia, USG is active through its 50 per cent share in USG-Boral. USG does not have any other interests in Australia apart from its stake in USG-Boral.
13. In Australia, USG-Boral manufactures plasterboards, fixed suspended ceilings and related products, and imports modular suspended ceilings and insulation products.
14. AWI is a subsidiary of Armstrong World Industries, Inc., a manufacturer of ceilings and walls, headquartered in the United States. It supplies

modular suspended ceilings in Australia. Unlike Knauf and USG-Boral, it does not have any manufacturing facilities in Australia.

The transactions

15. On 11 June 2018, Knauf and USG announced that they had entered into an agreement pursuant to which Knauf would acquire all of the outstanding shares of USG in a transaction valued at approximately USD\$7 billion (**proposed USG acquisition**).
16. Separately, on 20 November 2017, Armstrong World Industries, Inc. announced that it had entered into an agreement with Knauf to sell its Europe, Middle East, Africa and Asia-Pacific businesses to Knauf for an estimated US \$330 million (**proposed AWI acquisition**).
17. The ACCC was notified of both acquisitions at the same time and reviewed the proposed acquisitions together.

Review timeline

18. The following table outlines the timeline of key events for the ACCC in this matter.

Date	Event
19/09/2018	ACCC commenced review under the Merger Process Guidelines.
13/11/2018	Former provisional date for announcement of findings delayed to allow merger parties more time to provide additional information.
27/03/2019	ACCC received further information from merger parties.
28/03/2019	ACCC decision not to oppose the proposed acquisitions, subject to a section 87B undertaking accepted by the ACCC.

19. The total elapsed time from start to finish was just over 6 months. However, the total period net of time taken by the parties to submit information or documents was 39 business days. This is because the ACCC's review was suspended for a long period to allow the parties to consider their position and provide additional information.

Market inquiries

20. The ACCC conducted market inquiries with a range of industry participants, including competitors, customers, input suppliers, industry bodies and other interested parties.

Areas of overlap

21. In Australia, Knauf and USG-Boral overlap in the supply of plasterboard, fixed suspended ceilings, modular suspended ceilings, plaster compounds and treatments, and metal profiles.

22. In addition, Knauf, USG-Boral and AWI overlap in the supply of modular suspended ceilings.
23. Plasterboards, or gypsum boards, are non-load-bearing boards used for dry construction. They are used for the internal cladding on buildings, including walls (such as gypsum wallboard and drywall) and ceilings (such as ceiling sheets).
24. Fixed suspended ceilings are constructed predominantly from plasterboard, and are used in both residential and commercial buildings. They differ from modular suspended ceilings in that they are screwed into the ceiling structure from below, rather than loosely fitted into a grid from above.
25. Plaster compounds and treatments, including products such as sealants and adhesives, are used, with paper or fibre joint tape, to seal joints between sheets of drywall and to create a base for paint on interior walls. They are often purchased as accessory products to plasterboard.
26. Metal profiles are underlying steel constructions (studs, frames and battens) used in wall and ceiling applications which are commonly seen in offices and large residential buildings. Ceiling tiles and plasterboards are usually screwed into metal profiles.
27. Modular suspended ceilings are ceilings comprised of a metal “grid” that is fixed to the building’s structural ceiling, with tiles or planks made from a range of materials (often mineral fibre) laid into this grid from above. They provide easy access to the technical equipment in the ceiling, and are generally used in commercial or office buildings.

Competition analysis

28. For the purpose of its competition analysis, the ACCC considered there to be separate markets for the supply of each of the overlapping products. This was consistent with feedback from market participants that each of these products was not substitutable with other products as they serve different purposes and customers would be unlikely to switch from one to the other in response to an increase in price or reduction in quality.
29. Within each of these product markets, the proposed acquisitions would result in consolidation of close competitors and provide the merged entity with a significant market share (after taking into consideration USG’s stake in USG-Boral).

Plasterboard and fixed suspended ceilings

30. In this section, we primarily discuss plasterboard. However, fixed suspended ceilings are made out of plasterboard material, and market feedback indicated that competitive conditions in the supply of fixed suspended ceilings are very similar to those in the supply of plasterboard more generally.

31. The ACCC considered that Knauf and USG-Boral compete closely in the supply of plasterboard in Australia. They are the only Australian manufacturers of plasterboard besides CSR Limited (**CSR**) and BGC Australia (**BGC**). BGC primarily sells to customers on the west coast of Australia. The combined market share of Knauf and USG-Boral would be around 50 per cent for each of plasterboard and fixed suspended ceilings.
32. The ACCC considered that imports would not impose sufficient constraint on Knauf and USG-Boral post-acquisition, including because plasterboard is fragile and expensive to transport. As plasterboard is a low margin product, these high transport costs significantly limit the viability of imports.
33. Market feedback indicated that distributors are typically aligned to one of the existing Australian plasterboard manufacturers, and that in addition to transport costs, they are unwilling to purchase imports because of warranty and quality issues, and existing suppliers' strong brand reputation.
34. The ACCC also noted the lack of entry or expansion in this market since Knauf's entry into Australia in 2011 and that this entry was via acquisition when it acquired Lafarge Plasterboard. There has been no organic new entry and therefore the ACCC was concerned that potential new suppliers would face substantial barriers to entry, including the significant costs of building a manufacturing plant, developing a distribution network and establishing credibility with customers as a viable alternative supplier.
35. On the east coast, BGC currently has no manufacturing facilities and limited or no distribution facilities, so supply is dominated by Knauf and USG-Boral with CSR as the only other major supplier. The proposed acquisition, therefore, would reduce the number of major suppliers on the east coast from three to two. BGC would face significant barriers to expansion, including the cost of building facilities, in the eastern states.
36. The ACCC considered that the proposed acquisition may enable Knauf to increase prices or decrease service levels. The ACCC also considered the proposed acquisitions may increase the likelihood of coordinated conduct given the fairly uniform nature of products, the similarity of market shares and market participants across related product markets, and the repeat interaction by suppliers across those markets.

Plaster compounds and treatments

37. The ACCC also considered that the proposed acquisition may enable Knauf to increase prices or decrease service levels in the supply of plaster compounds and treatments. It may also increase the risk of coordinated effects in the supply of these products.
38. The combined market share of Knauf and USG-Boral for plaster compounds and treatments would be around 50 per cent.

39. Market inquiries indicated that plaster compounds and treatments are cheaper and easier to import than plasterboard, with Knauf and USG-Boral facing competition from CSR and Proplaster Products Australia Pty Ltd (**Pro Plaster**) on at least the east coast of Australia.
40. However, customers indicated that they would be unlikely to purchase plaster compounds and treatments from a supplier other than the manufacturer that supplies their plasterboard, as this would prevent them from receiving the plasterboard manufacturers' offer of "full system" warranties and bundled discounts. The ACCC considered this affects the ability of competitors that do not supply plasterboard (e.g. Pro Plaster) to effectively compete against Knauf and USG-Boral for the supply of plaster compounds and treatments.

Metal profiles

41. While they are two of the four largest suppliers in Australia, Knauf and USG-Boral have a smaller combined market share for metal profiles than for the other overlapping products. However, USG-Boral also holds a 50 per cent interest in Rondo Building Services Pty Ltd (**Rondo**), the largest supplier of metal profiles in Australia.
42. Studco Building Systems, the only remaining significant supplier of metal profiles in Australia, holds a substantially smaller market share than Rondo, Knauf or USG-Boral.
43. Market feedback suggested that constraint from imports is likely stronger for metal profiles than for many of the other overlapping products, as metal profiles are primarily internally fitted and do not need to meet as many aesthetic or durability standards. However, the ACCC formed the view that the potential threat from imports would not be sufficient to constrain the market power of Knauf post-acquisition.

Modular suspended ceilings

44. The ACCC's review indicated that AWI and USG-Boral are the market leaders and close competitors in the supply of modular suspended ceilings in Australia, with Knauf a smaller but still significant competitor. The combined market share of Knauf, USG-Boral and AWI would be well over 50 per cent. The next largest competitor is CSR, which has a substantially smaller market share than either AWI or USG-Boral.
45. Unlike the other overlapping products, modular suspended ceilings are almost entirely imported into Australia, with a number of overseas-based importers entering the Australian market in the past five years. However, to date these new entrants have not obtained substantial sales volumes.
46. The ACCC considered that it is difficult for customers to switch away from the major suppliers, because potential new importers suffer from perceived issues regarding product quality and warranties, and because customers tend to require suppliers with local distribution channels.
47. The ACCC concluded that, due to Knauf's relatively small market share, its acquisition of AWI alone would not have been likely to substantially

lessen competition. However, the ACCC concluded that the combination of the proposed USG acquisition and the proposed AWI acquisition would have led to a highly concentrated market and increased likelihood of price increases.

Conclusion

48. The ACCC concluded that, without the undertaking, the proposed acquisitions would be likely to substantially lessen competition in the supply of each of plasterboard, fixed suspended ceilings, plaster compounds and treatments, metal profiles and modular suspended ceilings.

Undertaking

49. In order to address the ACCC's competition concerns, Knauf provided a divestiture undertaking to the ACCC. This undertaking requires Knauf to divest its interest in the Australasian business of USG-Boral (**divestiture interest**) to an ACCC approved purchaser.
50. At the time of accepting the undertaking, the ACCC approved Boral International Pty Limited and Boral Building Materials Pty Limited or its related bodies corporate as an approved purchaser of the divestiture interest.
51. The undertaking places obligations on Knauf to:
 - ensure the approved purchaser has all the necessary assets and rights to compete effectively with Knauf in the relevant product markets
 - maintain the economic viability, marketability, competitiveness and goodwill of the business to be divested prior to divestiture including by appointing and maintaining an ACCC approved independent manager to oversee the divestiture interest until it is sold to the approved purchaser, and
 - provide for the effective oversight of its compliance with the undertaking, including by appointing and maintaining an ACCC approved independent auditor to monitor its compliance with the undertaking.
52. The purpose of the undertaking is to create or strengthen a viable, effective, stand-alone, independent and long term competitor in the relevant product markets.
53. If Knauf does not sell the divestiture interest to an approved purchaser within the required timeframe, then Knauf must divest certain other assets.
54. The undertaking resolves the ACCC's competition concerns by removing the competitive overlap between Knauf and USG-Boral in Australia and

ensuring that the purchaser will remain as a competitor to Knauf in the future.

Conclusion

55. Based on the above analysis, the ACCC concluded that the proposed acquisitions of USG and AWI by Knauf, taking into account the undertaking, would not be likely to have the effect of substantially lessening competition in any market in Australia.