



Public Competition Assessment

28 September 2022

Opus Group Pty Ltd - proposed acquisition of Ovato Book Printing from Ovato Limited

The ACCC's decision

1. On 14 June 2022, the Australian Competition and Consumer Commission announced its decision not to oppose the proposed acquisition by Opus Group Pty Ltd (**Opus**) of the Ovato Book Printing business from Ovato Limited (**Ovato**). As a part of the proposed acquisition, Ovato would issue a convertible note to Opus, which Opus could convert to approximately 15% of Ovato's issued share capital (together, the **proposed acquisition**).
2. The ACCC considers that the proposed acquisition is unlikely to contravene section 50 of the *Competition and Consumer Act 2010* (the **Act**). Section 50 prohibits acquisitions that would have the effect, or be likely to have the effect, of substantially lessening competition in any market.
3. The ACCC considered the competitive effects of the proposed acquisition in the following markets:
 - the supply of book printing services for mono (black and white) read-for-pleasure books in Australia, and
 - the supply of commercial printing services in Australia.
4. The ACCC considers that the proposed acquisition is not likely to have the effect of substantially lessening competition in any relevant market because Ovato met the 'failing firm' criteria outlined in the ACCC's Merger Guidelines 2008 (updated 2017).
5. The ACCC is satisfied that, absent the proposed acquisition, Ovato would not continue operating in the relevant markets because it would become insolvent, and its book printing assets would be likely to cease to provide a competitive presence in the Australian market.
6. This Public Competition Assessment outlines the reasons for the decision by the ACCC not to oppose the proposed acquisition.

7. Please note that 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.
 - As assessments are relatively brief and do not refer to confidential information, assessments do not necessarily set out all of the issues and information considered by the ACCC.

The parties and the transaction

Opus Group Pty Ltd

8. Opus is a wholly owned subsidiary of Left Field Printing Group Ltd (HKEX: 1540). Left Field is in turn a subsidiary of Lion Rock Group Limited (HKEX: 1127), which operates printing facilities in China, Singapore, Malaysia and, via Opus, Australia. Lion Rock Group companies include 1010 Printing (colour book printing in China) and COS Printer (colour book and commercial printing in Singapore).
9. Opus' main book printing division in Australia is McPherson's, which specialises in book printing and commercial printing of journals and periodicals. McPherson's operates one printing facility in Victoria (Maryborough).
10. Opus also operates a commercial printing business, CanPrint, which is based in the ACT and primarily prints for government publications, and Ligare, which is a business focused on professional and educational textbook printing.

Ovato Limited

11. Ovato is a printing company listed on the ASX (ASX: OVT) with two business units in Australia, Ovato Book Printing and Print Australia.
12. Ovato Book Printing (formerly, Griffin Press) is a book printing business located in Adelaide, which prints most types of books with a focus on mono books.
13. Print Australia is Ovato's commercial printing business, headquartered in Warwick Farm, New South Wales. Print Australia provides a range of commercial printing services, including catalogue printing, mass market and special interest magazine and newspaper printing and packaging.

The transaction

14. Opus proposes to acquire Ovato Book Printing from Ovato.
15. As part of the proposed acquisition, Ovato would also issue a convertible note to Opus, which Opus could convert to approximately 15% of Ovato's issued share capital. Ovato's operations, after the sale of Ovato Book Printing, would solely consist of Ovato's commercial printing business, Print Australia. Conversion of the note would result in Opus acquiring a minority interest in Ovato's remaining commercial printing business.

Review timeline

16. The ACCC commenced its review on 25 May 2022 and announced its decision after a total of 12 review days.

Market inquiries

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

Future with and without the acquisition

18. Section 50 of the Act prohibits mergers or acquisitions that would have the effect or be likely to have the effect of substantially lessening competition in a market. In assessing a proposed acquisition pursuant to section 50, the ACCC considers the effects of the acquisition by comparing the likely future state of competition if the acquisition proceeds (the “with” position) to the likely future state of competition if the acquisition does not proceed (the “without” position) to determine whether the proposed acquisition is likely to substantially lessen competition in any relevant market.
19. The Merger Guidelines outline the ACCC’s approach to ‘failing firms’. As explained in the Merger Guidelines, the state of competition prevailing at the time of a merger will overstate the future state of competition without the merger in situations where one of the merger parties is likely to exit the market. In such situations, the merger party that is likely to exit is referred to as a ‘failing firm’. The bar for establishing a ‘failing firm’ is high. Mere speculation that a firm will exit in the near future or evidence of a recent decline in profitability is insufficient to establish that an absence of competition between the merger parties will arise without the merger.
20. In general, to demonstrate that a merger will not substantially lessen competition due to the prospective failure of one of the merger parties, it is necessary to show that:
 - the relevant firm is in imminent danger of failure and is unlikely to be successfully restructured without the merger
 - in the absence of the merger, the assets associated with the relevant firm, including its brands, will leave the industry
 - the likely state of competition with the merger would not be substantially less than the likely state of competition after the target has exited and the target’s customers have moved their business to alternative sources of supply.¹

¹ ACCC Merger Guidelines 2008, updated 2017, section 3.23, page 12.

Industry background

Book printing services in Australia

21. The main customers of book printing services are publishers. Publishers generally perform a range of roles, including collaborating with authors on proposed manuscripts and arranging for books to be printed and distributed for sale through retail outlets. Market feedback indicated that, as well as price, publishers consider that quality and timeliness are important factors when selecting a provider of printing services.
22. Book printing generally requires a sizeable investment in printing presses for large-scale print runs of acceptable quality. Offset printing presses have traditionally been seen as more suitable for large-scale print runs, although this may no longer be the case with recent advances in digital printing technology. Book printing also requires consumable inputs such as paper and ink, which can have an impact on the quality of the books printed.
23. Market feedback indicated that 'print-on-demand' services may be suitable for extremely small book print runs but are unlikely to be suitable for most of the print runs required by book publishers, which typically have far larger runs. Compared with large-scale printing operations, print-on-demand services usually have a much higher price per unit.
24. Books may also be printed overseas and imported into Australia, typically via freight shipping. However, market participants have noted that in recent years, particularly due to the COVID-19 pandemic, offshore printing has been impacted by supply chain issues and shipping delays. This has resulted in more publishers choosing to print mono books in Australia, despite higher prices compared with printing offshore. However, market participants noted that the vast majority of colour books are still printed offshore due to the significantly higher prices associated with printing them domestically.
25. For publishers, timely printing of books, particularly new books, is an important consideration when selecting a printing provider and deciding whether to print offshore or domestically. The *Copyright Act 1968* (Cth) contains 'parallel importation rules' for books, which can result in timing pressures for publishers in Australia. For example, if a new book is not supplied in Australia within 30 days of being released overseas, Australian booksellers may import copies of the book without the permission of the copyright holder and without infringing their copyright.
26. Market participants also noted that demand for books in Australia has increased in recent years, likely as a result of the COVID-19 pandemic. This has coincided with the supply chain issues regarding book importation and has further stretched the book printing capacity of domestic printing providers. Feedback from market participants, particularly publishers, indicated that Opus and Ovato have been the only two large suppliers of book printing services in Australia for several decades, with IVE Group (**IVE**) being a more recent entrant.

Commercial printing services in Australia

27. Commercial printing covers a wide range of printing services that a variety of entities may acquire for their businesses and operations. Examples of these services include brochure and catalogue printing for marketing purposes, printing of magazines, flyers and information booklets, larger printing for point-of-sale displays and in-store advertisements and product packaging prints for goods.
28. Commercial printing often involves specialty machinery and print techniques, finishes, glosses and coatings to achieve desired styles and visual effects on assorted materials, often at large scales and with particular quality assurance requirements.
29. Feedback from market participants indicated that there are many commercial printing providers, some of which specialise in certain products. Many of these providers also offer print-on-demand services for commercial printing and potentially book printing, although, as noted above, market participants generally view these services as being too small for typical book print runs.

Market definition

30. The ACCC's starting point for considering which markets will be affected by the proposed acquisition is to identify the areas of overlap between the products actually or potentially supplied by the merger parties. The ACCC then considers other actual or potential suppliers of those products, as well as what other products constitute sufficiently close substitutes to provide a significant source of constraint on the merged entity.
31. Opus, through its book printing division, McPherson's, and Ovato Book Printing overlap in the printing of books that are sold in Australia, including books printed using digital and offset printers. In addition, Opus, through its commercial printing business, CanPrint, overlaps with Ovato's Print Australia business in the supply of certain commercial printing services.
32. In this matter, the ACCC considers that there are separate markets for the supply of book printing services and commercial printing services. Book printing and commercial printing require different machinery, processes and inputs and produce different printing products. The primary customers of book printing services are book publishers, and there are only a small number of providers capable of meeting the needs of most book publishers. In contrast, a wide range of entities may acquire a variety of commercial printing services from many different commercial printing providers.

Market for the supply of book printing services

33. The ACCC considers that the relevant market for the supply of book printing services is likely to include paperback and hardback mono read-for-pleasure books of all formats, but is unlikely to include printing of colour books or print-on-demand services.
34. Market inquiries indicated that Opus and Ovato primarily print mono books, and that colour books require different printing processes and are generally not cost-effective to print in Australia. Colour is typically used only in certain book genres,

such as children's books and coffee-table books, and is generally not used in read-for-pleasure books.

35. Market feedback also suggested that print-on-demand services are generally unsuitable for large-scale book print runs, which is the main service that publishers acquire from Opus and Ovato Book Printing. Due to the higher price per unit associated with print-on-demand, publishers are likely to only use print-on-demand services in exceptional circumstances.

Market for the supply of commercial printing services

36. The ACCC does not consider it necessary to reach a concluded view on the relevant market definition for the supply of commercial printing services in Australia for the purpose of assessing the proposed acquisition. The ACCC notes that market participants did not raise any concerns regarding the impact of the proposed acquisition on the supply of commercial printing services.

Competition analysis

Supply of book printing services in Australia

Market concentration and closeness of competition

37. The ACCC considers that the market for the supply of mono read-for-pleasure book printing services in Australia is highly concentrated with only a few suppliers available to customers (who are predominantly book publishers), and that Opus and Ovato compete closely in this market.
38. The ACCC received feedback from some market participants that Opus and Ovato are the only two suppliers in Australia with the printing press assets, and therefore printing capacity, suitable for offering book printing services at the scale and quality required by publishers.
39. Some market participants identified IVE as a potential third supplier. However, many market participants generally considered IVE to primarily be a commercial printer and not a viable alternative for book printing, particularly as IVE only recently expanded from commercial printing into book printing. Feedback from market participants indicated that IVE does not provide a significant competitive constraint due to its limited book printing capacity, which has been taken up largely by one publisher since IVE entered.
40. Publishers generally viewed smaller suppliers of printing services, particularly print-on-demand services, such as Lightning Source (Ingram Content Group) and SOS Print + Media Group as unsuitable for the large-scale print runs that are required for mono read-for-pleasure book printing.
41. Market feedback strongly indicated that Opus and Ovato have traditionally competed closely on price, quality and turnaround times. Market participants noted that instances of publishers switching between the two suppliers are not uncommon.

42. Therefore, market participants, particularly publishers, raised concerns that the proposed acquisition would reduce competition by combining the two largest suppliers.

Import competition

43. The ACCC considers that offshore suppliers of book printing services are unlikely to provide a significant competitive constraint.
44. While books may be printed offshore (including at lower prices than if the books were printed domestically) and imported into Australia, shipping costs and delays and Australia's parallel importation copyright rules make this less of a competitive constraint. Market feedback indicated that publishers increasingly have a strong preference to print mono read-for-pleasure books domestically to avoid the costs and delays (3-4 months for new titles and 2 months for reprints) associated with freight shipping.
45. The ACCC understands from market inquiries that, in addition to meeting the requirements of the parallel importation rules, publishing cycles and scheduling of publication dates for authors and bookstores can also mean that there is insufficient time for publishers to print books offshore and import them via freight shipping. While air freight may take less time, it is becoming less popular due to higher costs and environmental impacts.
46. Market feedback indicated that, while prices for overseas book printing services overseas are lower than domestic printing services, the costs (and delays) associated with freight shipping are likely to outweigh any savings. In addition, market participants noted that sustainability goals of publishers and the book industry are driving reluctance to use freight services to import books.
47. Throughout the ACCC's market inquiries, publishers therefore emphasised the importance of domestic printing assets and capacity remaining in Australia to meet onshore printing requirements. Many publishers expressed significant concerns about the prospect of acquiring offshore book printing services if domestic book printing capacity left the market for the supply of book printing services in Australia.

Barriers to entry and expansion

48. The ACCC considers that barriers to entry and expansion into mono book printing in Australia are high and potential suppliers are unlikely to have strong incentives to enter the market.
49. Feedback from market participants indicated that printing presses used for large-scale print runs have a high upfront cost (several million dollars, even if purchased second-hand), particularly relative to the margins available on book printing. Presses are not manufactured in Australia and have to be imported from overseas and require regular maintenance from a workforce with technical expertise (which is currently aging with limited new employees becoming book printers). The site housing the presses also requires expensive modifications so that the floor does not vibrate or move while the press is in operation.
50. Aside from IVE, the ACCC understands that there have been no new entrants in mono book printing for the past several decades.

Conclusion

51. The ACCC considers that the proposed acquisition will combine the two largest suppliers of mono book printing services in Australia. Post-acquisition, Opus would be the dominant supplier with significant market power.

Supply of commercial printing services in Australia

52. Opus' commercial printing business, CanPrint, overlaps with Ovato's Print Australia business in the supply of certain commercial printing services. Following the proposed acquisition, the Print Australia business will continue to be operated by Ovato.
53. The ACCC notes that market participants did not raise competition concerns regarding Opus acquiring a minority interest in Ovato's commercial printing business. The ACCC also notes that post-acquisition, Ovato would face competition from a number of other suppliers, such as IVE.

Failing firm analysis

54. Given the ACCC's conclusion that the proposed acquisition raises competition concerns (specifically in relation to the supply of book printing services in Australia), the ACCC considered whether Ovato met the 'failing firm' criteria outlined in the Merger Guidelines.

Ovato is in imminent danger of failure and unlikely to be successfully restructured without the proposed acquisition

55. Ovato submitted that it had exhausted avenues for restructure and without the proposed acquisition it would enter voluntary administration within a matter of weeks.
56. The ACCC retained specialist insolvency advisers, carefully reviewed Ovato's internal business records, including recent financial results and forecasts and conducted compulsory examinations of Ovato's senior executives, to assess the likelihood of insolvency.
57. Based on available information, the ACCC concluded that Ovato was in imminent danger of failure. The ACCC's inquiries confirmed Ovato was likely to enter voluntary administration imminently, with limited prospect of further restructuring.

Absent the proposed acquisition, it is likely that the relevant book printing assets would leave the industry

58. Entering voluntary administration is insufficient in and of itself to satisfy the 'failing firm' criteria. The ACCC considered whether, following administration, Ovato's book printing operations and assets would be likely to remain in the market for the supply of book printing services in Australia.
59. As part of its inquiries, the ACCC considered the prospect of Ovato, or its business units, being sold to an alternative purchaser. The ACCC received information that indicated that Ovato's assets would either be liquidated and not used to compete in the relevant market, or would be sold overseas. The ACCC

concluded that it was unlikely that the assets would be sold to an alternative purchaser who would continue operating the assets in Australia.

Conclusion

60. Based on the above analysis, the ACCC concluded that the proposed acquisition is not likely to have the effect of substantially lessening competition in any relevant market, because Ovato met the 'failing firm' criteria outlined in the Merger Guidelines.
61. The ACCC is satisfied that, absent the proposed acquisition, Ovato would not continue operating in the relevant markets because it would become insolvent, and its book printing assets would be likely to cease to provide a competitive presence in the Australian market.
62. Therefore, the likely state of competition with the proposed acquisition would not be substantially less than the likely state of competition without the proposed acquisition.