

COFECE blocked *Rheem* and Grupo Industrial Saltillo's concentration in the market for water heaters

- *The transaction would result in Rheem as the main industry competitor, with significant market share in the market for water heaters and related products.*
- *Barriers that limit competitors' entry and expansion to the relevant markets were identified.*
- *Conversely, no participants able to counteract price increases resulting from the concentration were identified.*
- *Rheem and GIS proposed commitments to solve competition problems raised by the transaction. Nevertheless, the Board of Commissioners deemed them insufficient to address the negative effects to the market's structural conditions and competition dynamics.*

Mexico City, May 28, 2018.- The Federal Economic Competition Commission's (COFECE or Commission) Board of Commissioners blocked the concentration between *Rheem Manufacturing Company* and *Rheem U.S. Holding Inc.* (*Rheem as a whole*) and Grupo Industrial Saltillo, S.A.B. de C.V. (GIS) which consisted in *Rheem's* acquisition of GIS's water heating assets, such as facilities, brands and property licenses. The proposed transaction would have strengthened the market position of the acquiring economic agent, allowing for the increase of prices and risk competition and free market access.

Rheem is a U.S. company that produces and sells water heaters, air conditioners, heaters, pool heaters, boilers and heat transfer equipment for refrigeration. The firm has international presence in 14 countries and distributes its products to 75.

GIS is a Mexican company that designs, produces and distributes automotive, building materials and home products. The firm commercializes *Calorex* water heaters, among other products in the industry.

Both companies overlap in the production, distribution and/or wholesale commercialization of electric and gas tank-type water heaters, both residential and commercial; tankless electric water heaters; tankless gas water heaters for commercial and residential use; tankless high efficiency gas water heaters; as well as residential and commercial tank water heaters, in Mexico.



COFECE's review, under file CNT-072-2017, found *Rheem* would become the main competitor in Mexico with significant market share in the identified relevant markets. Furthermore, *Rheem* and GIS competitors have a limited portfolio of products, low market shares and low brand recognition. Thus, in case of concentration approval, no participant was identified with the ability to effectively counteract price hikes resulting from the concentration.

Barriers to market entry that limit the presence of new participants as well as the growth of existent participants were identified. Said barriers are related to: i) access to distribution channels and ii) investment necessary to successfully position a brand in the market.

The Federal Economic Competition Law (FECL) allows agents to present commitments to address risks to competition raised by a concentration. In this case, the commitments proposed by *Rheem* and GIS were insufficient as they did not avoid negative effects to the structural conditions and competition dynamics of the market.

Therefore, COFECE's Board of Commissioners decided to block the concentration as it would hinder, diminish, harm or obstruct competition and free market access.

Once the parties have been notified, the Law grants them the right to bring the case before the Federal Judiciary Branch for the review of the legality of COFECE's actions.

Things you need to know about competition (infographics in Spanish): [Merger Notification Thresholds](#) and [Requirements to Notify a Concentration](#)

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The Federal Economic Competition Commission is entrusted with safeguarding competition and free market access. Through this, it contributes to consumer welfare and the efficient functioning of the markets. Through its work, it seeks better conditions for consumers, greater output and better services and a "level playing field" for companies.

