



EUROPEAN COMMISSION - PRESS RELEASE

Mergers: Commission opens in-depth investigations into two proposed acquisitions in the hard disk drive sector

Brussels, 30 May 2011 - The European Commission has opened two separate in-depth investigations under the EU Merger Regulation into two proposed concentrations in the hard disk drive ("HDD") sector. The first transaction concerns the planned acquisition of the HDD business of Korean firm Samsung by Seagate Technology of the US. The second transaction concerns the planned acquisition of the storage business of Japan's Hitachi by Western Digital Corporation of the US. HDDs systems are used in a variety of professional and consumer electronic goods to store and access digital data, including computers, digital video recorders and camcorders. Commission Vice President in charge of competition policy Joaquín Almunia said: *"Hard drives are the backbone of the digital economy. The sector has already experienced significant consolidation and the proposed acquisitions will further reduce competition. The Commission will carefully examine if effective competition is preserved and innovation encouraged."*

The Commission's initial market investigation indicated that both transactions raise potential competition concerns. There are currently five HDD manufacturers worldwide: Seagate, Western Digital, Hitachi (recently renamed Viviti Technologies) Toshiba and Samsung.

A merger between Seagate/Samsung, the first deal to be notified on 19 April, would consolidate Seagate's leading position in the overall market for HDDs, particularly in the manufacture of 3.5" desktop HDDs where it would only face two competitors (Western Digital and Hitachi). The Western Digital/Hitachi transaction, which was examined in the light of the previous deal, would create the world's market leader in the overall HDD market. For 3.5" desktop HDDs in particular, the only competitor would be Seagate/Samsung. For 2.5" mobile HDDs, it would only face Seagate/Samsung and Toshiba.

The opening of in-depth inquiries does not prejudge the final result of the investigations. The Commission now has 90 working days, i.e. until 10 October, to reach final decisions on whether the transactions would significantly impede effective competition to an extent that would be detrimental to customers and consumers in the European Economic Area (EEA)¹.

¹ The EU plus Norway, Iceland and Lichtenstein

Seagate/ Samsung

The assessment of the Seagate/Samsung transaction is made without regard to the Western Digital/Hitachi transaction, which was notified a day after the Seagate/Samsung transaction, on 20 April.

The investigation showed that the merged entity would have a significant market share in the overall market for HDDs, particularly in 3.5" desktop HDDs where it would only face two competitors (Western Digital and Hitachi). This could impact negatively on customers' ability to obtain competitive prices for the product. The merger could also reduce the manufacturers' incentives to innovate in the market. Respondents to the market investigation have raised concerns with respect to a risk of coordination between HDD manufacturers.

In addition, the proposed transaction would lead to the integration of Samsung, which currently sources heads for HDDs from the only independent heads supplier, TDK of Japan, into a company that is vertically-integrated into head manufacturing. This might lead to a significant reduction in the demand for heads – a crucial component of HDDs. This could in turn result in uncompetitive prices for heads and a weakening of TDK's ability to keep innovating. This would also negatively affect Toshiba's competitiveness in the HDD market, as Toshiba depends on TDK heads.

Lastly, the Commission's market investigation revealed that Samsung is an important supplier of HDDs to non-integrated external storage devices (ESD) manufacturers because of its competitive prices and innovative product offers. The initial investigation suggested the combined entity might have the ability and incentive to strengthen the market presence of its own branded ESDs by increasing HDD prices or restricting supply for non-integrated ESD providers. This could negatively affect competition and innovation in the ESD market.

Western Digital/Hitachi

The assessment of the Western Digital/Hitachi transaction is made taking into account the Seagate/Samsung transaction, which was notified first.

The Western Digital/Hitachi transaction would create the world's market leader in the HDD market. For 3.5" desktop HDDs, the only remaining competitor would be the combined Seagate/Samsung entity. For 2.5" mobile HDDs, used in notebooks and other portable electronic devices, it would only face Seagate/Samsung and Toshiba. This could also have a negative impact on customers' capability to obtain better prices and on suppliers' incentives to keep competing through innovative products. Concerns were also raised with respect to an increased risk of coordination between HDD manufacturers.

The market investigation also revealed concerns that the combined entity would source fewer heads from the merchant market. In combination with the Seagate/Samsung transaction, this may impact TDK's ability to invest in the development of more innovative heads and Toshiba's ability to compete in the HDD market, given its dependence on TDK heads. This could ultimately allow the merged entity to raise HDD prices.

Lastly, the market investigation revealed concerns that the proposed transaction would reduce the available sources of HDDs to the detriment of ESD manufacturers so as to strengthen the combined entity's leading role in the ESD market. This could negatively affect competition and innovation in the ESD market.

The companies and products

Seagate is active worldwide in the manufacture and sale of HDDs, Solid State Drives (SSDs), branded External Storage Devices (ESDs) and media players. Its operations are vertically integrated upstream in the manufacturing of key components, such as read/write heads and media. The **Samsung** HDD business being acquired is active in the manufacture and sale of HDDs and branded ESDs. Samsung's HDD Business is not vertically integrated upstream in the manufacturing of components, but downstream in the manufacturing of computers and consumer electronics. Although Samsung is also active in SSDs, this business will not be transferred to Seagate.

Western Digital and Viviti Technologies Ltd (formerly known as **Hitachi** Global Storage Technologies Holdings Ltd., a wholly-owned subsidiary of Hitachi Ltd) are both active worldwide in the manufacturing and sale of HDDs, SSDs and branded ESDs. Their operations are vertically-integrated upstream in the manufacturing of key components, such as read/write heads and media.

A HDD is a device which uses one or more rotating magnetic disks to store and allow access to digital data. HDDs are employed in a variety of applications such as desktop and laptop computers and a range of consumer electronics applications such as digital video recorders or camcorders. HDDs are customarily categorized by reference to their end use, in particular: (i) Enterprise or Server HDDs (used in servers and enterprise storage systems), (ii) Desktop HDDs (used for example in PCs and home electronics devices), (iii) Mobile HDDs (used in notebooks and other portable electronic devices) and (iv) Consumer Electronics ("CE").

SSDs are also data storage devices but using a different technology (flash memory). They have improved technical characteristics such as faster access and higher reliability. However, they still come at much higher prices.

ESDs allow consumers to supplement the storage space of their computers, home and small office networks or CE devices. Contrary to HDDs which are mainly sold to original equipment manufacturers ("OEMs") and distributors as components, ESDs are finished products directly sold to consumers.

There are currently five HDD manufacturers worldwide: Seagate, Western Digital, Hitachi, Toshiba and Samsung. They are also active on the downstream market for ESDs. In addition, there are several non-integrated ESD suppliers such as LaCie, Freecom, Buffalo and Iomega, which depend on the HDD producers to supply them with HDDs.

The Commission's investigation pointed to the existence of separate markets for HDDs, SSDs and ESDs due to their different product characteristics, different prices and presence of different suppliers. In addition, the market investigation suggested that there may be separate sub-markets within HDDs based on end-use and form factor, given the limited demand-side substitutability.

The Commission will now investigate the proposed mergers in-depth to determine whether the initial concerns are confirmed or not.

More information on the cases will be available at:

http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=2_M_6203

http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=2_M_6214

Merger control rules and procedures

The Commission, in 1989, was given the power to assess mergers and acquisitions involving companies with a turnover above certain thresholds (see Article 1 of the Merger Regulation). The Commission clears the vast majority of mergers after a one-month review, but if it has competition concerns it must open an in-depth investigation (Phase II review). The opening of a full probe does not prejudice its outcome.

There are currently two other Phase II investigations. They concern the proposed acquisition of MWM Holding GmbH by Caterpillar Inc. which are both active in the commercialization of reciprocating engine generator sets used for power generation (see [IP/11/543](#); deadline is 16 September 2011) and the proposed acquisition of Myllykoski and Rhein Papier by UPM, both active in the paper production sector (see IP/11/258 of 4 March 2011; deadline is 19 July 2011).

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