

Advantech Co., Ltd. & OMRON Nohgata Co., Ltd.

1419th Commissioners' Meeting (2019)

Case: Advantech filed a pre-merger notification regarding its intention to acquire over one half of the shares of OMRON Nohgata

Keyword(s): Industrial computer, embedded board

Reference: Fair Trade Commission Decision of January 16, 2019 (the 1419th Commissioners' Meeting); Letter Kung Zhi Tzu No.1071360690

Industry: Manufacture of Computers (2711)

Relevant Law(s): Article 10, 11 and 13 of the Fair Trade Law

Summary:

1. Advantech Co., Ltd. (hereinafter referred to as Advantech) and its wholly-owned subsidiary intended to acquire over one half of the shares of Japanese company OMRON Nohgata Co., Ltd. (hereinafter referred to as OMRON Nohgata) and obtain more than half of the seats of the board of directors of OMRON Nohgata. By doing this, Advantech will control the personnel appointment and dismissal of OMRON Nohgata, and control the management of OMRON Nohgata. The condition met the merger patterns described in Subparagraphs 2 and 5 of Paragraph 1 of Article 10 of the Fair Trade Law. At the same time, the sales of both Advantech and OMRON Nohgata (a wholly-owned subsidiary of OMRON Corporation; it had never sold any products in the domestic market) and their controlling companies and subsidiaries and the other companies affiliated to the same controlling company or companies in the previous fiscal year also achieved the merger-filing threshold specified in Subparagraph 3 of Paragraph 1 of Article 11 of the Fair Trade Law whereas the proviso in Article 12 of the same law was not applicable. As a result, the merger notification was filed.
2. Findings of the FTC after investigation:
 - (1) Advantech was mainly a producer of industrial computers, embedded boards and computer cases. By contrast, OMRON Nohgata specialized in the production of embedded boards and systems. Therefore, the case was a horizontal merger. The FTC's investigation revealed that some companies either manufactured industrial computers or boards (including modules and systems), but most industrial computer makers produced both industrial computers and boards (including modules and systems) at the same time. The annual reports of related businesses showed that it was not uncommon that the latter type listed the revenues from the two different products separately. In other words, there were different market demands for the two products. Consequently, the merger involved the industrial computer market and board (including module and system) market. However, the Bureau of Industrial Development and most industrial computer suppliers thought because the diverse uses of the Internet of Things could give rise to changes upon the management modes of suppliers and the types of products they offered, it was probably more appropriate to define industrial computers and boards (including modules and systems) as belonging to the same product market. Moreover, since domestic industrial computer suppliers set the global market as their main target and 80% of

domestically produced industrial computers were exported, the geographic market was defined as the global market. Nonetheless, the influence of related businesses within the domestic territory was still the primary consideration in defining the geographic market.

- (2) Domestic industrial computer makers exported most of their products. International trade barriers were low and suppliers and customers existed around the world. It was easy for trading counterparts on the market to choose or switch to different suppliers. The merging parties in this case faced competition from dozens of domestic enterprises. After the merger, the increase of market share of Advantech would be limited. The market would remain rather competitive and it was unlikely that Advantech could grow big enough to monopolize the market. In fact, the company's intention was simply to use the marketing experience of OMRON Nohgata to enhance the competitiveness of its products, to extend its reach to the Japanese market, and to strengthen its capacity to compete with large international suppliers. Furthermore, OMRON Nohgata never marketed its products in the domestic market before the merger and would not do so after the merger. This means the merger would not have any impact on the domestic market structure and the level of its market competition. Another finding showed there were no market entry barriers in the industrial computer industry as a result of laws and regulations, the amount of capital required or tariffs. After the merger, there would be no entry barriers in the relevant market either, because the trading counterparts or potential trading counterparts on the market would still retain their countervailing power to keep the merging parties from raising their product prices or service charges. In other words, the impact of the merger on the industrial computer product market would be slight.
- (3) With all the above-mentioned factors taken into account, the FTC assessed the merger in accordance with Points 9, 10 and 15 of the FTC Disposal Directions (Guidelines) on Handling of Merger Filings, and concluded the overall economic benefit would outweigh disadvantages from competition restraints. Citing Paragraph 1 of Article 13 of the Fair Trade Law, the FTC did not prohibit the merger.

Appendix:

Advantech Co., Ltd.'s Uniform Invoice Number: 05155853

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