

DETERMINATION OF MERGER NOTIFICATION M/14/005 -

Accellent / Lake Region

Section 21 of the Competition Act 2002

Proposed acquisition by Accellent Inc. of Lake Region Manufacturing Inc.

Dated 26 February 2014

Introduction

1. On 4 February 2014, in accordance with Section 18(1)(a) of the Competition Act, 2002 ("the Act"), the Competition Authority (the "Authority") received a notification of a proposed acquisition of Lake Region Manufacturing, Inc. ("Lake Region") by Accellent Inc. ("Accellent"), which is indirectly controlled by funds managed by affiliates of KKR & Co., L.P. ("KKR").

The Undertakings Involved

KKR

2. KKR, a US-based global investment firm, currently holds a 73.9 percent beneficial interest in Accellent through indirect fund subsidiaries managed by affiliates of KKR and it is in sole control of Accellent.¹ KKR currently has a global private equity portfolio of over 80 companies in a wide range of sectors, including energy and infrastructure, real estate, growth equity investments, and a range of debt and public equity investing. Other than Accellent, none of KKR's portfolio companies active in Ireland are active in the outsourced manufacturing of medical devices.²
3. For the financial year ending 31 December 2012, KKR had a worldwide turnover of approximately €[...] billion and a turnover in the State of approximately €[...] million.

Accellent

4. Accellent is a US-incorporated provider of fully integrated outsourced manufacturing and engineering services to the medical device industry primarily in the cardiology, endoscopy and orthopaedic markets. Accellent engages in precision component fabrications, finished device assembly, supply chain management capabilities and engineering services. Accellent produces various medical device components which it sells to Original Equipment Manufacturers ("OEMs") in Ireland and

¹ Bain Capital Integral Investors, LLC owns 24.6 percent of the beneficial ownership of Accellent further to a Stockholders Agreement entered into between it and Accellent Holding Corporation dated 22 November 2005.

² KKR's portfolio companies active in Ireland are Accellent, [...], Alliance Boots GmbH, [...], [...], [...], [...], First Data Corporation, [...], Go Daddy Group, [...], [...], [...], Northgate Information Solutions Limited, [...], [...], [...], [...], [...], [...], and [...].

worldwide, which in turn sell final medical device products to customers such as hospitals, clinics etc.

5. Accellent currently has 12 facilities in the US, one in Ireland and in three other locations (Mexico, Germany, and Malaysia). At its facility in Oranmore, Galway, Accellent is involved in the manufacture of ground metal wire used in medical applications.
6. For the financial year ending 31 December 2012, Accellent had a worldwide turnover of approximately €388.1 million and a turnover in the State of approximately €27.6 million.

Lake Region

7. Lake Region is a privately owned, US-incorporated manufacturer of minimally invasive medical devices. It specialises in stimulation therapy, cardiovascular, neurovascular, and peripheral vascular applications. It is headquartered in Minnesota, has a distribution facility in Shanghai, China and manufacturing facilities in Wexford and Galway. Like Accellent, Lake Region sells to OEMs and does not make any sales directly to hospitals etc. in the State. Lake Region also carries out certain research and development of medical devices in Ireland.
8. For the financial year ending 31 December 2012, Lake Region had a worldwide turnover of approximately €[...] million and a turnover in the State of approximately €[...] million.

Rationale for Transaction

9. The parties submit that *"the strategic rationale for the Proposed Transaction is to grow Accellent's portfolio of products, to add manufacturing and design expertise and complementarity, and to achieve cost savings and other synergies. Accellent and Lake Region are both engaged in precision manufacturing for target markets in the medical device industry; they both produce component parts for medical devices manufactured on specification for customers. Together, Accellent and Lake Region manufacture a diverse range of products, most of which are complements, rather than substitutes for each other."*

Third Party Submissions

9. No third party submission was received.

Competitive Analysis

10. Both parties are involved in the manufacture and sale of precision engineered medical devices, in particular, certain cardiac rhythm management components. There is some horizontal and vertical overlap between the parties.

Horizontal Overlap

11. With respect to the State, Accellent and Lake Region overlap in the manufacture of guidewire core wires³ and guidewire coils⁴ (together the "Relevant Products").
12. The value of the parties' combined sales of the Relevant Products in the State is approximately [10 - 20] percent of their combined turnover in the State, with the value of those sales in 2012 being approximately €[...] for Lake Region and over €[...] for Accellent.
13. The parties submit that their estimated combined worldwide market share is no more than approximately [20 - 30] percent for the supply of guidewire core wires and no more than approximately [0 - 10] percent for the supply of guidewire coils.
14. As shown in Table 1 below, for guidewire core wires the parties estimate that Lake Region has a [10 - 20] percent share of the worldwide market, making it the largest supplier of guidewire core wires worldwide. Two companies are estimated to have [10 - 20] percent market shares and two, including Accellent, are estimated to have [10 - 20] percent market shares.

Company	% Share by Value
Lake Region	[10 - 20]
Precision Wire Components	[10 - 20]
Acme Monaco	[10 - 20]
Accellent	[10 - 20]
Wytech	[10 - 20]
Caribou Technologies	[0 - 10]
Modern Grinding	[0 - 10]
Guidewire Technologies	[0 - 10]
NeoMetrix	[0 - 10]
Tech Device	[0 - 10]
Tegra Medical	[0 - 10]
Others	[0 - 10]

Source: The parties' estimates.

15. While post-acquisition the combined Accellent-Lake Region will be the largest producer in the world of guidewire core wires with approximately [20 - 30] percent of the worldwide market, the

³ Guidewire core wires are precision ground stainless steel or nitinol wire approximately 180 cm or 300 cm in length, with diameters ranging from .010" to .038". They serve as the backbone for the finished guidewire core, and primary stiffening element in interventional guidewires used for coronary, peripheral, and neurovascular intervention. These guidewires are used in diagnostic and therapeutic interventional vascular procedures to guide a catheter or other device to the desired location within the vascular system of the human body.

⁴ A guidewire coil is a small diameter stainless steel or nitinol wire, with diameters ranging from .010" to .038", which is formed on a spring coiling machine into a shape resembling an extension spring. It is either placed over a section of the ground distal portion of the guidewire core wire or run the full-length of the guidewire core wire, and bonded to the wire. This component provides a compliant flexural feature to the guidewire assembly to provide increased flexibility. This makes the guidewire more atraumatic (i.e. cause less tissue injury), and allows the guidewire to navigate around tortuous curves in the vasculature and yet provide longitudinal stiffness (push capability) to the distal portion of the wire.

Authority understands that OEMs in the State, i.e. the customers of the parties, use and can switch to using a substantial number of suppliers other than Accellent and Lake Region for guidewire core wires. The Authority also notes the very modest size of Lake Region's turnover in the State. The Authority's enquiries with third parties in this sector, including customers of the parties, did not reveal any competition concerns relating to the proposed transaction.

16. The parties submit that the geographic market for the supply of the Relevant Products is worldwide, citing the global nature of their list of customers and submitting that low transportation costs and ease of packaging allow the parties to sell the Relevant Products worldwide.
17. The European Commission has previously considered that certain elements of the medical device supply chain are national in scope due to factors such as reimbursement regimes, the scale of purchasing patterns by hospitals, sales organisations and price level differences in different countries.⁵ However, those decisions did not concern medical device manufacturers active at the "input" level of the medical device supply chain.
18. The Authority understands that while there are advantages for OEMs in dealing with locally-based suppliers, Irish-based OEMs can and do use suppliers based outside the State.
19. The Authority has not come to a definite view on scope of the relevant geographic market because the Authority's conclusions will be unaffected by whether the geographic market is defined more narrowly than it being worldwide.

Vertical Overlap

20. As noted above, there is some vertical overlap between the parties because Accellent can supply upstream products to Lake Region, and indeed Accellent currently does supply [...] such products.⁶ Given the presence of several other suppliers of the upstream products in this sector and their respective positions in comparison with Accellent, the Authority does not have concerns that post acquisition the parties could foreclose any relevant market in the State.

Conclusion

21. In light of the above, the proposed transaction will not raise any competition concerns in the State.

Ancillary Restraints

22. Three owners and officers of Lake Region have entered into a Restrictive Covenant Agreement, which is limited to the products and geographic operation of the transferring business, meaning that they would be precluded for a period of [...] years from the date of sale from competing in Ireland, among other territories.

⁵ For example, see: M.1286, *Johnson & Johnson / De Puy* dated 28 October 1998, M.3146, *Smith & Nephew / Centrepulse* dated 27 May 2003, and M.6266, *J&J / Synthes* dated 18 April 2012.

⁶ The products currently supplied by Accellent to Lake Region are [...], [...], [...] and [...].

23. Under all the circumstances of this transaction, the Authority considers that these restrictions are directly related to and necessary for the implementation of the proposed transaction.⁷

⁷ See the Commission Notice on restrictions directly related and necessary to concentrations (2005/C 56/03).

Determination

The Competition Authority, in accordance with Section 21(2)(a) of the Competition Act, 2002, has determined that, in its opinion, the result of the proposed acquisition by Accellent Inc. of Lake Region Manufacturing Inc. will not be to substantially lessen competition in markets for goods and services in the State and, accordingly, that the acquisition may be put into effect.

For the Competition Authority

Stephen Calkins
Member of the Competition Authority
Director, Mergers Division