

ALLEGION RESPONSE TO NZCC SOPI

About Allegion

- 1 Allegion is a global door hardware manufacturer specialising in residential and commercial locks, door closers and exit devices and electronic access control solutions.
- 2 Allegion sells its Australasian-developed door hardware brands (Legge, Brio, FSH, Austral and Gainsborough) and global brands (Schlage, LCN, Briton and Von Duprin) across New Zealand, Australia and the Pacific Islands.¹
- 3 Approximately [%] of Allegion New Zealand’s commercial hardware revenues are earned from products engineered, manufactured and assembled by Allegion’s team in Auckland.² Allegion New Zealand’s remaining revenues come from imported hardware products (mostly from China, USA and Australia).
- 4 Allegion’s Auckland-based manufacturing capabilities give it a competitive advantage over its two main rivals, Assa Abloy and Dormakaba, which import all of their commercial hardware products. Allegion’s local presence enables it to engineer customised products for non-standard requirements, more consistently meet promised delivery times (especially in a Covid-19 world) and offer low-carbon emission hardware.
- 5 Allegion has significant concerns that Assa Abloy’s proposed acquisition of NZFD (in addition to its December 2018 purchase of Pacific Door Systems) will foreclose it from such a significant chunk of the market []. That loss of competitive tension from Allegion’s locally-produced, high quality, commercial door hardware and fire safety products will significantly harm consumers, on top of the unilateral price increases (and drop in quality) that Assa Abloy could implement if it is allowed to control two of New Zealand’s three large-scale commercial door manufacturers.

Allegion has significant concerns about the proposed transaction

- 6 Allegion opposes Assa Abloy’s proposed acquisition of NZFD.
- 7 Post-transaction, Assa Abloy would own New Zealand’s two largest commercial door manufacturers (Pacific Door Systems and NZFD) that – by Allegion’s estimates – would have a combined market share of [%].³ Additionally, Assa Abloy would have

¹ The clearance application ([5.16]) incorrectly suggests that Allegion, Gainsborough and Schlage are separate door hardware suppliers. Rather, Gainsborough and Schlage are Allegion-owned brands.

² It follows that the clearance application ([5.19]) incorrectly states that “all door hardware is imported into New Zealand”. Rather, Allegion manufactures commercial door furniture, commercial locks and sliding & folding hardware in New Zealand.

³ Allegion notes that these figures are likely to underestimate Pacific Door Systems and NZFD’s market position, given that the companies are two of only three (the other being Hallmark) capable of manufacturing doors at scale for large commercial buildings.

a significant degree of control over Best Doors (~[]% market share) which acquires Assa Abloy's *Pyropanel* door cores. And, Doors 'n' More (~[]%) which resells NZFD's 60-minute fire doors to complete its product range.

8 Allegion is concerned that Assa Abloy's control over the majority of New Zealand's commercial door market will:

8.1 enable Assa Abloy to implement significant price increases and/or lower quality of commercial doors, including fire doors, without losing offsetting market share to new or existing competitors; and

8.2 foreclose Allegion and others from accessing the country's main commercial door manufacturers, reducing their ability to compete with Assa Abloy in the national commercial hardware market and leaving MergeCo free to raise hardware prices and/or reduce quality (including hardware installation services) over time.

9 We expand on these unilateral and vertical/conglomerate concerns below. But first Allegion outlines key industry detail and provides its view on the relevant markets.

Industry detail

Commercial doors

10 Allegion estimates that approximately []% of all commercial doors are fire doors.

11 Fire doors are given a 30, 45, 60, 90, 120, 180 or 240 minute fire resistance rating. With those ratings measuring the amount of time that a fire door will keep smoke and fire out of certain building areas.

12 Low-rated fire doors are the easiest to manufacture and are made from solid wood, typically particleboard. Whereas higher-rated fire doors have a special "fire core" that is made from mineral fibre board.

13 There are only three manufacturers of fire cores in Australasia: Assa Abloy (*Pyropanel*); Dormakaba's E-Plus (*E-Core*); and Firecore (*TVC-Core*).⁴

⁴ To illustrate how concentrated that fire core market is, the ACCC signalled that it would have opposed Assa Abloy's floated acquisition of E Plus. Of particular note, the ACCC said: "There are high barriers for a company to start supplying fire door cores in Australia due to the stringent testing and certification regime. Developing a range of certified products to compete with Pyropanel and E Plus is likely to be costly and time consuming, delaying new entrants".
<https://www.accc.gov.au/media-release/concerns-about-assa-abloy-fire-doors-deal>

Commercial door hardware

- 14 Commercial door hardware is specially designed for use in commercial doors, including fire doors. The three main commercial door hardware companies in New Zealand are Assa Abloy, Allegion and Dormakaba.
- 15 To effectively compete in the commercial door hardware market, manufacturers' products must be Building Code-approved for use in tested fire door "systems", comprising a door, frame, hardware and wall.
- 16 As a consequence, commercial hardware companies need door manufacturers to allow their fire doors to be tested as part of a "system" with third-party hardware. And, on the flip side, that system-testing requirement gives vertically-integrated door manufacturers the ability to exclusively tie their hardware to their commercial doors.
- 17 By way of example, Assa Abloy does not allow competing roller catches to be used or tested on Pacific Doors' fire doors. And, given Pacific Doors' strong market position, that tying sees Assa Abloy price its exclusive roller catch nearly ten times higher than Allegion's equivalent product (\$306 versus \$34, respectively).⁵
- 18 Moreover, from around July 2019 (following Assa Abloy's December 2018 acquisition of Pacific Doors), Assa Abloy begun bundling doors and hardware together in response to significant commercial tenders, including the Christchurch convention centre, Christchurch Hospital acute services building and Christchurch Hospital outpatients building. [].
- 19 [].
- 20 Further, Allegion wishes to flag for the Commission that there is an approximately two-year lag from the time commercial building consents are issued (which are closely followed by the successful tenderers' product specifications) to when door hardware is supplied and recorded in financial accounts. For instance, Allegion door hardware specifications generated in 2019 would typically translate to revenues in 2021. It follows that Assa Abloy's bundling which begun in July 2019 will not yet be reflected in Allegion's historical financial accounts.

⁵ Assa Abloy roller catch in question: <https://www.sopersmac.co.nz/View-A-Product/Latches-and-Catches/UDM-Roller-Catch-DbI-Action-SS/ID/109251>. Allegion equivalent roller catch: <https://www.sopersmac.co.nz/View-A-Product/Latches-and-Catches/Legge-15211-Heavy-Duty-Roller-Catch/id/112123>.

Market definition

- 21 Assa Abloy submits that there is a national market for the supply of fire-rated door and window sets.
- 22 Allegion disagrees. Allegion considers that, at its broadest, there are separate national markets for commercial doors and commercial door hardware. And, within those markets, fire doors and fire door-rated hardware, are critical products.
- 23 Allegion takes that market view because:
- 23.1 Typically speaking, commercial doors – including fire doors – are sold together as a package to construction companies. With that reality reflecting that commercial buildings, apartments, hotels and hospitals require a range of doors from standard doors, speciality doors, low-rated fire-doors to high-rated fire doors.
- 23.2 That package of commercial doors is not substitutable with:
- (a) residential doors because they are typically lower-spec; and
 - (b) fire-rated window sets because doors and windows have different functional uses.
- 23.3 And, similarly, commercial door hardware is not typically substitutable with residential hardware or window hardware.

Unilateral concerns

- 24 Pacific Doors and NZFD are the two main players in the national commercial door market, earning approximately ~[]% of market revenues.⁶ (Consistently, Pacific Doors claims to have made half of New Zealand's commercial doors).⁷
- 25 While there is a tail of smaller commercial door manufacturers,⁸ only Pacific Doors, NZFD and Hallmark have the manufacturing capacity to supply larger commercial projects like hospitals, hotels and large office buildings.
- 26 Moreover, although Pacific Doors and NZFD might target different market segments, they also compete across the market as a whole. Any product differentiation

⁶ Based on Allegion estimates. And, as we note above, these figures are likely to underestimate Pacific Door Systems and NZFD's market position, given that the companies are two of only three (the other being Hallmark) capable of manufacturing doors at scale for large commercial buildings.

⁷ <http://www.stuff.co.nz/business/industries/9781315/Pacific-gets-its-foot-in-the-door>.

⁸ Like, for instance, Best Doors, Mattson Joinery and Doors 'n' More.

between the pair seems to result from dynamic competition, rather than Pacific Doors and NZFD having materially different skillsets or manufacturing capabilities.

27 Given that market context, Allegion considers that Assa Abloy's proposed acquisition of NZFD would put the company in a dominant position to increase commercial door prices with impunity. And that market power is unlikely to be constrained by new market entry or expansion by existing players because:

27.1 Assa Abloy would have a significant degree of control over Best Doors and Doors 'n' More through those companies' reliance on Pacific Doors and NZFD;

27.2 Assa Abloy's ownership of *Pyropanel* – one of just three Australasian fire core manufacturers – would make it difficult for potential competitors to acquire that key input in high volumes and at a reasonable price; and

27.3 New Zealand's stringent fire door certification requirements are costly and time-consuming to meet, making it very difficult for potential competitors to quickly, easily and affordably enter or expand in the New Zealand commercial door market.

Vertical/conglomerate concerns

28 Allegion is concerned too that Assa Abloy will use its market power in New Zealand's commercial door market to significantly hinder Allegion's and others' ability to effectively compete in the commercial door hardware market.

29 Specifically, Allegion considers it very likely that post-merger:

29.1 Assa Abloy's significant size and scale across the supply chain would see it offer commercial door and hardware bundles that could not be consistently or reliably matched by Allegion working with much smaller third-party door manufacturers.

29.2 Assa Abloy's control over Pacific Doors and NZFD would give it the incentive and ability to refuse to test Allegion's hardware products with its door systems. And, in doing so, significantly hinder or exclude Allegion from selling its hardware products to *at least* ~[]% of the commercial door market.

30 Those likely foreclosure strategies would significantly affect Allegion's scale, as the commercial door hardware market accounts for []% of Allegion's New Zealand revenues. [].

31 By way of example, Allegion's hardware is currently used in []. But, post-merger, Allegion anticipates that Assa Abloy would use its ownership of NZFD to offer an

exclusive, unmatched, door/hardware package to [] to secure that business and push Allegion from the market.

- 32 Allegion respectfully submits that the risk of losing its locally-based competition because of Assa Abloy's vertically integrated merger plainly substantially lessens competition and will harm New Zealand consumers. In addition to the increased commercial door prices (and drop in quality) that consumers are likely to face from the unilateral effects we highlight above.