Section 57 of the Competition Act (Cap. 50 B)

Grounds of Decision issued by the Competition and Consumer Commission of Singapore

In relation to the application for a decision on the proposed merger between Essilor International (Campagnie Generale d'Optique) S.A. and Luxottica Group S.p.A pursuant to Section 57 of the Competition Act (Cap. 50B)

12 April 2018

Case number: 400/006/17

Confidential information in the original version of this Decision has been redacted from the published version on the public register. Redacted confidential information in the text of the published version of the Decision is denoted by [✂]

Contents

I. THE NOTIFICATION

1. On 13 September 2017, Essilor International (Compagnie Generale d'Optique) S.A ("**Essilor**") and Luxottica Group, S.p.A. ("**Luxottica**") (collectively the "**Parties**" and each a "**Party**") filed a joint notification pursuant to section 57 of the Competition Act (Cap. 50B) (the "**Act**") for a decision by the Competition and Consumer Commission of Singapore ("**CCCS**")[1] as to whether the proposed merger of the Parties (the "**Transaction**"), if carried into effect, will infringe the section 54 of the Act.

2. At the end of the Phase 1 review, CCCS was unable to conclude that the Transaction would not raise competition concerns. Therefore, CCCS proceeded with a Phase 2 review on 5 December 2017.

3. In reviewing the Transaction, CCCS conducted two rounds of public consultations. CCCS contacted a hundred and twenty-five (125) third-parties, comprising: five (5) competitors engaged in the wholesale distribution of ophthalmic lenses[2]; six (6) competitors engaged in the wholesale distribution of eyewear[3] (*i.e.,* prescription frames and sunglasses); and a hundred and fourteen (114) retailers[4] of optical products. Optical products refer to all types of eyewear for both eye protection (*e.g.,* sunglasses) and eye correction (*e.g.,* lenses and frames, contact lenses) as well as other optical related products (*e.g.*, cleansing liquids) and services.

4. Of the third-parties contacted, twenty-two (22) of them replied comprising: four (4) competitors engaged in the wholesale distribution of ophthalmic lenses[5]; five (5) competitors engaged in the wholesale distribution of eyewear[6]; and thirteen (13) retailers of optical products[7]. CCCS also met with the [✂].

5. One area of concern raised by third-parties was whether the merged entity would engage in anti-competitive tying or bundling in order to leverage its market position in one market to foreclose competition in the other.

6. At the end of the consultation process and after evaluating all the evidence, CCCS concludes that the Transaction, if carried into effect, will not infringe section 54 of the Act.

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[1] CCCS was known as the Competition Commission of Singapore before 1 April 2018.
[2] [✂]; [✂]; [✂]; [✂]; and [✂].
[3] [✂]; [✂]; [✂]; [✂]; [✂]; and [✂].
[4] Refer to Annex A.
[5] All except [✂].
[6] All except [✂].
[7] Refer to Annex A.

II. THE PARTIES

Essilor International (Compagnie Generale d'Optique) S.A

7. Essilor is a publicly listed company headquartered in Charenton-le-Pont, France. Essilor, its subsidiaries and related entities are active in every phase of ophthalmic lens development, from design to manufacture to wholesale, with a particular focus on Research and Development ("**R&D**"). Its flagship brands are Varilux, Crizal, Transitions, Eyezen, and Xperio. Essilor also manufactures and markets machines, instruments and services for eye-care professionals. While it is also active in the manufacture and sale of sunglasses and in online retail sales, these activities are focused outside Southeast Asia.[8]

8. In Singapore, Essilor is primarily engaged in the wholesale distribution of ophthalmic lenses under its own brands (*e.g.*, Crizal, Varilux, Xperio) as well as brands owned by third-parties under their own trademark (*e.g.*, Kodak and Nikon) and non-branded lenses.[9] Non-branded lenses refer to lenses which are sold to retailers under Essilor's trade brands, rather than under Essilor's consumer brands. Retailers may thereafter sell these lenses under their own name or brands if they choose to do so.[10]

9. Essilor is involved to a limited extent in the wholesale distribution of eyewear in Singapore, which makes up [✂]% of its total Singapore turnover in the Financial Year 2016 ("**FY2016**").[11]

10. Essilor has minimal retail sales in optical products, which makes up [✂]% of its total Singapore turnover in FY2016.[12]

11. Essilor sells ophthalmic machines (*i.e.*, machines used in the prescription lens manufacturing process) and optometric instruments (*i.e.*, edgers and measuring devices primarily) at the wholesale level to its customers in Singapore [✂]. In addition, Essilor sells consumables which are used to operate the machines and instruments.[13]

12. Essilor operates a prescription laboratory in Singapore, which produces finished ophthalmic lenses. The laboratory also provides edging, mounting,

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[8] Paragraphs 7.1 and 10.7 of Form M1.

[9] Paragraphs 10.9 and 14.1 of Form M1; and paragraph 11.1 of Parties' Response dated 7 October 2017 to CCCS's Request for Information dated 25 September 2017 ("**CCCS 1st RFI**").

[10] Paragraph 11.2 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.

[11] Paragraphs 10.9, 13.3, 14.1, and Table 6 of Form M1.

[12] Paragraph 14.1 and Table 6 of Form M1.

[13] Paragraphs 10.9, 10.12 and 14.2 of Form M1.

and fitting services (*i.e.*, to cut and mount the lenses to fit the end-consumer's frame), although such fitting services can also be provided by the eyewear retailers themselves.[14]

13. Global turnover for Essilor was approximately €7.1 billion (S$10.8 billion) in FY2016.[15] Its turnover in Singapore for the same period was approximately S$[✂].[16]

Luxottica Group, S.p.A.

14. Luxottica is owned by Delfin, S.a.r.l. ("**Delfin**"), (a Luxembourg-based holding company of the Del Vecchio family) Deutsche Bank Trust Company Americas (through the New York Stock Exchange), Giorgio Armani, and other stockholders with smaller shareholdings.[17] Luxottica designs, manufactures, and distributes eyewear. Its portfolio includes proprietary brands (*e.g.*, Ray-Ban, Oakley, Vogue Eyewear, Persol, Oliver Peoples, and Alain Mikli), as well as licensed brands (*e.g.*, Giorgio Armani, Burberry, Bulgari, Chanel, Coach, Dolce&Gabbana, Michael Kors, Prada, Ralph Lauren, Tiffany & Co., Valentino, and Versace).[18]

15. In Singapore, Luxottica is involved in wholesale trading activities in respect of spectacle frames and sunglasses which are owned or licensed to it.[19] Luxottica imports such eyewear products into Singapore for distribution to its local customers.[20]

16. Through Sunglass Hut, Luxottica also retails sunglasses and, to a very limited extent, spectacle frames, which are owned by, or licensed to Luxottica, as well as those under third-party brands.[21] Luxottica does not manufacture or sell these third-party brands at the wholesale level, but only acts as a retailer for these third-party brands.[22]

17. Luxottica is not active in any phase of ophthalmic lens development in Singapore.[23]

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[14] Paragraph 10.10 of Form M1.
[15] Paragraph 13.1 of Form M1.
[16] Paragraph 13.3 of Form M1.
[17] Paragraph 7.2 of Form M1.
[18] Paragraph 10.8 of Form M1.
[19] Paragraph 10.14 of Form M1.
[20] Paragraphs 10.14 and 14.3 of Form M1.
[21] Paragraph 10.15 of Form M1.
[22] Paragraph 5.1 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[23] Paragraph 10.8 of Form M1.

18. Global turnover for Luxottica was approximately €9.1 billion (S$13.9 billion) in FY2016.[24] Its total turnover in Singapore for the same period was approximately S$[✂].[25]

III. THE TRANSACTION

19. On 15 January 2017, Delfin, Luxottica's controlling shareholder, and Essilor concluded the Combination Agreement,[26] pursuant to which the Parties desire to [✂].[27] The ultimate outcome envisaged by the Combination Agreement is the full economic merger of Essilor's and Luxottica's businesses, with Delfin acquiring a minority non-controlling shareholding in the combined entity. The Transaction will establish a "*permanent, single economic management*" of the businesses currently operated by Essilor and Luxottica.[28]

20. The Transaction is structured as follows:[29]

    a. Delfin will contribute its entire stake in Luxottica (approximately 62%) to Essilor in return for newly-issued Essilor shares at a fixed exchange ratio of 0.461 Essilor shares for one Luxottica share;

    b. Essilor will launch a mandatory public exchange offer to acquire all of Luxottica's remaining issued and outstanding shares; and

    c. Essilor will become a pure holding company with the new name "EssilorLuxottica" ("**HoldCo**") via a hive-down of its operating activities into a wholly-owned company, New Essilor.

21. With the implementation of the Transaction, HoldCo will control two subsidiaries: (i) Luxottica; and (ii) New Essilor.[30] Following the closing of the Transaction, and depending on the acceptance rate of the mandatory public exchange offer launched by HoldCo over Luxottica's outstanding shares, Delfin will own between 31% and 38% of HoldCo's shares and would be its largest – although not controlling – shareholder.[31] The Combination

[24] Paragraph 13.2 of Form M1.
[25] Paragraph 13.4 of Form M1.
[26] Appendix 2 to Form M1.
[27] Paragraph (B) of the Preamble to the Combination Agreement, Appendix 2 to Form M1.
[28] Paragraphs 8.5 and 11.3 of Form M1.
[29] Paragraph 8.8 of Form M1.
[30] Paragraph 8.8 of Form M1.
[31] Paragraph 8.9 of Form M1.

Agreement provides for a cap applicable to voting rights of all shareholders with a share beyond 31%; a mechanism which, as intended by the Parties, should prevent any shareholder (including Delfin) from exercising control over HoldCo.[32]

22. Post-Transaction, HoldCo will solely control the businesses of Essilor and Luxottica. The establishment of HoldCo, which will be listed in Paris, will ensure a common economic management, as it will combine Essilor's and Luxottica's current board members and will consolidate their accounts. Therefore, post-Transaction, revenues, profits, losses, liability, and other risks will ultimately be managed at central level by HoldCo. In addition to the permanent single economic management, the Parties will generally share revenues, profits, losses, and liability and other risks post-Transaction.[33]

23. Based on the foregoing, CCCS has assessed that the Transaction constitutes a merger pursuant to section 54(2)(a) of the Act, as the ownership of Essilor and Luxottica, previously independent of each other, will both be transferred to a common holding company with a new shareholding structure, and a common economic management of their respective businesses post-Transaction.[34]

Parties' submission on commercial rationale for the Transaction

24. The Parties submitted that the Transaction will allow them to combine their complementary areas of expertise, products and brands in ophthalmic lenses and eyewear; and develop comprehensive product and service offerings to address the growing needs in visual health and the appetite for high-quality eyewear products, particularly in underserved markets. The resulting integrated company would be present in almost every sector of the vision care and vision protection value chain, and would be able to provide comprehensive solutions for eye care professionals and consumers.[35]

25. Specifically, Essilor will benefit from the expertise that Luxottica has built in the design, manufacture and distribution of premium eyewear and in the retail market, while Luxottica will benefit from Essilor's worldwide innovation network, expertise in manufacturing of lenses and long history of working hand in hand with the trade networks around the world. This will allow for

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[32] Paragraphs 8.7 and 11.4 of Form M1.
[33] Paragraphs 8.6 and 11.3 of Form M1.
[34] Paragraph 11.2 of Form M1. Section 54(2)(a) of the Act provides that a merger occurs if two or more undertakings, previously independent of one another, merge.
[35] Paragraph 12.1 of Form M1.

cross-pollination of products from their respective sectors.[36] As a result of this complementarity, the combined entity will be less exposed to risks affecting a specific line of business.[37]

26. With respect to prescription lenses and frames at a global level, the Parties currently serve many of the same customers using their respective sales and logistics facilities. Consequently, the Transaction will generate significant distribution synergies with an optimisation of the supply chain, due to considerable savings in shipping, inventory and stock management and a streamlining of the combined entity's laboratory network.[38]

27. In addition, even more important synergies will be accrued as a result of the acceleration in market growth brought by the Transaction, due to: (i) the increasing need for vision correction and protection throughout the world; (ii) the combination of the Parties' activities in prescription lenses and frames favoring the conception and development of new business models aimed at tackling the current inefficiencies in the supply chain; and (iii) the Parties having an enhanced ability to further invest in their R&D activities.[39]

IV. INDUSTRY BACKGROUND

28. The industries affected by the Transaction are the ophthalmic lenses industry, the eyewear industry (*i.e.,* prescription frames and sunglasses), and the retail sales of optical products.[40]

Supply Chain in Singapore

29. Figure 1 illustrates the ophthalmic lenses and eyewear supply chain in Singapore.

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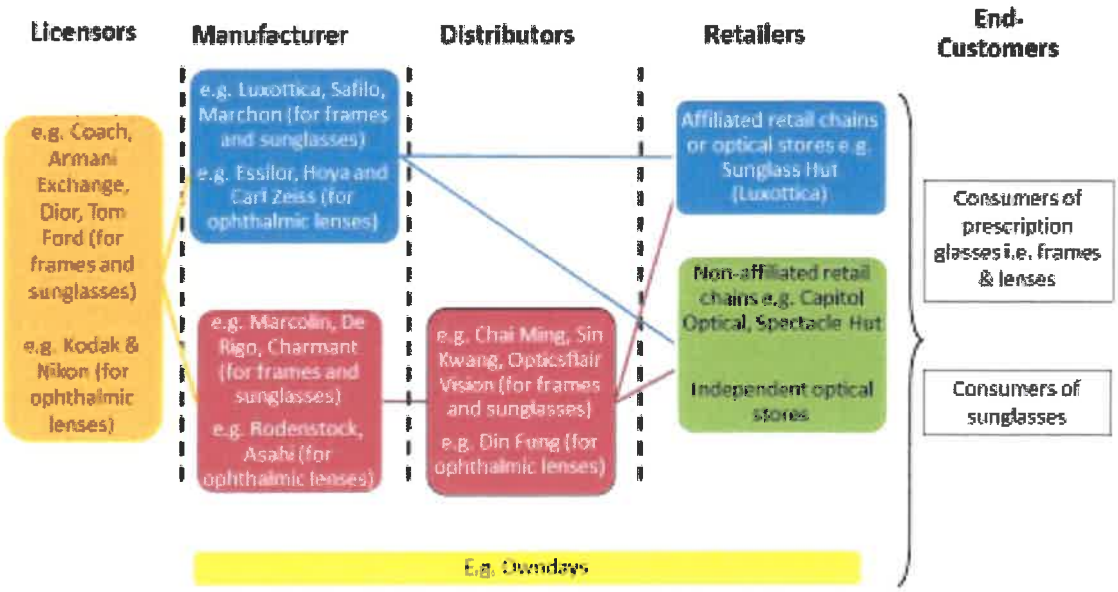
[36] Paragraphs 12.2 and 12.3 of Form M1.
[37] Paragraph 12.4 of Form M1.
[38] Paragraph 12.5 of Form M1.
[39] Paragraphs 12.6 and 12.7 of Form M1.
[40] Paragraphs 18.1 and 18.2 of Form M1.

Figure 1: Ophthalmic Lenses and Eyewear Supply Chains in Singapore



Source: CCCS based on feedback from third-parties and information provided by Parties
Note: The diagram is for illustration purpose, and is not meant to describe all possible supply chain relationships.

30. Most major manufacturers of ophthalmic lenses and eyewear are active in Singapore by selling their products to local retailers through local subsidiaries or related entities. Other manufacturers do so through third-party distributors.[41]

Ophthalmic Lenses

31. Ophthalmic lenses are medical devices that enable people to correct visual impairments (*e.g.*, astigmatism, hyperopia/hypermetropia *i.e.*, long-sightedness, myopia *i.e.*, short-sightedness, and presbyopia) that have been diagnosed by a specialised health care professional (*i.e.*, an optometrist or ophthalmologist). Ophthalmic lenses typically require a prescription by an optometrist or ophthalmologist.[42]

[41] Paragraphs 24.1 and 24.2 of Form M1 and Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[42] Paragraphs 19.1 and 19.2 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.

Eyewear

32. In general, manufacturers of frames for eyewear (*i.e.*, prescription frames and sunglasses) may offer proprietary "house" brands or brands licensed from third-parties (*e.g.,* luxury brands, fashion designers, and sporting and accessory brands) who have entered this industry to promote their own image.[43]

33. Sunglasses are generally composed of the frame, and shaded plano lenses, which provide vision protection from sun rays. Shaded plano lenses are not ophthalmic lenses as no visual correction is involved. The manufacturing process for sunglasses involves frame manufacturing, sun plano lens manufacturing, and integration of both components. Sunglass manufacturers edge and mount sun plano lenses into the frames, typically in frame plants. Luxottica, like all main manufacturers in this market, manufactures sunglasses in their entirety (*i.e.*, both the frame and the shaded plano lenses), and procures only certain components from specialised suppliers (*e.g.*, glass lenses for specific models of sunglasses).[44]

Retail of Optical Products

34. Retailers generally purchase prescription frames and ophthalmic lenses separately from manufacturers and distributors, and sell them as assembled pairs of prescription glasses to end-customers.[45] Some retailers are owned by eyewear manufacturers (*e.g.,* Sunglass Hut which is [✂] owned by Luxottica).[46]

35. Some vertically integrated players, (*e.g.*, [✂]) design, manufacture and retail their own brands of frames and sunglasses directly to final customers. While [✂] produces its own frames and sunglasses, it does not produce its own ophthalmic lenses but instead sources from lens manufacturers or distributors such as [✂].

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[43] Paragraphs 18.3.1 and 18.3.3 of Form M1.
[44] Paragraphs 18.4.1, 18.4.2, 18.4.3 and 18.4.4 of Form M1.
[45] Paragraph 18.4.1 of Form M1.
[46] Paragraph 10.15 of Form M1.

V. COMPETITION ISSUES

Parties' submission

36. The Parties submitted that they overlap to a minimal extent in relation to the following activities:
    (a) the wholesale distribution of sunglasses;
    (b) the wholesale distribution of prescription frames; and
    (c) the retail sales of optical products.[47]

37. Given the minuscule overlap of the Parties' activities in Singapore, no non-coordinated or coordinated effects will arise from the Transaction in Singapore.[48] In addition, the same competitive constraints on each of the Parties that existed before the merger will continue to apply to the merged entity in the various markets identified.[49]

38. Furthermore, the merger would not give rise to vertical concerns as the Parties will not have the ability nor the incentive to engage in market foreclosure, in particular because the Parties' combined share downstream for retail of optical products is *de minimis*.[50]

39. The Parties do not overlap in relation to the wholesale supply of ophthalmic lenses, as Luxottica and its related entities are not involved in that activity in Singapore.[51]

CCCS's assessment

40. Although the Parties have minimal horizontal overlaps between them, they have significant presence in their respective markets in Singapore. Essilor is a leading player in the wholesale distribution of ophthalmic lenses. Luxottica has a strong portfolio of premium brands in the wholesale distribution of eyewear.

41. As such, CCCS considered if the Transaction will confer on the merged entity the ability to foreclose competition in Singapore in the (i) market for the wholesale distribution of ophthalmic lenses by leveraging Luxottica's position in the markets for the wholesale distribution of eyewear through foreclosure

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[47] Paragraph 18.2 of Form M1.
[48] Paragraphs 33.1 and 35.1 of Form M1.
[49] Paragraph 34.1 of Form M1.
[50] Paragraph 36.2 of Form M1.
[51] Paragraph 10.1 of Parties' Response dated 7 October 2017 to CCCS 1st RFI and paragraph 10.8 of Form M1.

strategies such as tying and/or bundling Luxottica's eyewear to Essilor's lenses; and (ii) markets for the wholesale distribution of eyewear by leveraging Essilor's position in the market for the wholesale distribution of ophthalmic lenses through foreclosure strategies such as tying and/or bundling Essilor's lenses to Luxottica's eyewear.

42. There are indications of some level of existing competition between the Parties, and that they intend to expand into each other's markets, both globally and in Singapore. Therefore, absent the Transaction, the Parties may continue to expand and compete in each other's markets in Singapore. In this regard, CCCS considered if the Transaction will eliminate the potential competition that would have taken place.

43. In evaluating the potential impact of the Transaction, CCCS focused its assessment on whether the Transaction would lead to non-coordinated or coordinated effects (due to the elimination of potential competition), or conglomerate effects (due to foreclosure strategies by the merged entity) that will lead to a Substantial Lessening of Competition ("**SLC**") in Singapore.

VI. COUNTERFACTUAL

44. CCCS will, in assessing mergers and applying the SLC test, evaluate the prospects for competition in the future with and without the merger. The competitive situation without the merger is referred to as the "counterfactual".[52]

45. In most cases, the best guide to the appropriate counterfactual will be the prevailing conditions of competition, as this may provide a reliable indicator of future competition without the merger. However, CCCS may need to take into account likely and imminent changes in the structure of competition in order to reflect as accurately as possible the nature of rivalry without the merger.[53]

Parties' submission

46. The Parties submitted that, in the absence of the Transaction, Luxottica and Essilor would continue to operate independently of each other.[54]

[52] Paragraph 4.14 of the *CCCS Guidelines on the Substantive Assessment of Mergers 2016.*
[53] Paragraph 4.16 of the *CCCS Guidelines on the Substantive Assessment of Mergers 2016.*
[54] Paragraph 23.1 of Form M1.

47. Specifically, [✂]. [✂].[55] Luxottica's documents do not [✂].[56]

48. Essilor is [✂]. [✂].[57]

CCCS's assessment

49. Though [✂], on balance, the evidence overall does not support a finding that, absent the Transaction, the Parties will enter and expand into each other's respective markets in Singapore credibly and significantly.

50. In particular, information obtained from Essilor showed that globally, Essilor has a material presence in the wholesale distribution of eyewear [58], has increased its presence through acquisitions since 2015,[59] and [✂].[60] Similarly, information obtained from Luxottica showed that globally, Luxottica has a presence in the wholesale distribution of ophthalmic lenses,[61] and [✂].[62] Information obtained from both Luxottica and Essilor also suggests that they see each other's entry and expansion as a competition risk.[63]

51. However, feedback from third-parties indicated that with respect to the Singapore market specifically, the Parties' entry into each other's respective

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[55] Paragraphs 9.1 and 9.2 of Parties' Response dated 17 October 2017 to CCCS's Request for Information dated 9 October 2017 ("**CCCS 2nd RFI**").
[56] Paragraph 115 of Parties' Response dated 4 December 2017 to CCCS's Issues Letter dated 13 November 2017 ("**CCCS's Issues Letter**").
[57] Paragraph 110 of Parties' Response dated 4 December 2017 to CCCS's Issues Letter.
[58] Pages 5, 11 and 29 of Appendix 5 – "*ESSILOR Annual Report 2016-2017*" of Form M1; Page 22 of Appendix 22A – "[✂]" of the Parties' Response dated 3 November 2017 to CCCS's s61A notice dated 24 October 2017.
[59] Pages 34 to 36 of Appendix 5 – "*ESSILOR Annual Report 2016-2017*" of Form M1.
[60] Pages 14, 23, 30 and 36 of Appendix 5 – "*ESSILOR Annual Report 2016-2017*" of Form M1; Page 17 of Appendix 22B – "[✂]" of the Parties' Response dated 3 November 2017 to CCCS's s61A notice dated 24 October 2017; and Page 6 of Essilor's First-Half 2016 Results, Retrieved from https://www.essilor.com/essilor-content/uploads/2016/07/First-Half_2016_Results_Essilor.pdf; Appendix 22C – "[✂]" of the Parties' Response dated 3 November 2017 to CCCS's s61A notice dated 24 October 2017; Pages 61, 65 and 66 of Appendix 22D – "[✂]" of the Parties' Response dated 3 November 2017 to CCCS's s61A notice dated 24 October 2017; Page 13 of Appendix 19D – "[✂]" of the Parties' Response dated 17 October 2017 to CCCS 2nd RFI; Page 16 of Appendix 19J – "[✂]" of the Parties' Response dated 17 October 2017 to CCCS 2nd RFI; Page 33 of Appendix 22E – "[✂]" of the Parties' Response dated 3 November 2017 to CCCS's s61A notice dated 24 October 2017; Page 74 of Appendix 22A – "[✂]" of the Parties' Response dated 3 November 2017 to CCCS' s61A notice dated 24 October 2017; Pages 2, 5, and 14 of Appendix 19L – "[✂]" of the Parties' Response dated 17 October 2017 to CCCS 2nd RFI.
[61] Page 31 of Appendix 6 – "*Luxottica Group Annual Report 2016*" of Form M1.
[62] Slides 14, 16 and 29 of Appendix 10 – "[✂]" of Form M1; Slides 9 and 30 of Appendix 11 – "[✂]" of Form M1.
[63] Slide 39 of Appendix 10 – "[✂]" of Form M1; Appendix 22I – "[✂]" of the Parties' Response dated 3 November 2017 to CCCS's s61A notice dated 24 October 2017.

market(s) is "*minor and insignificant*",[64] and that Essilor's eyewear was "*not comparable*" to that of existing players,[65]. In addition, Luxottica's lens offerings globally are mainly restricted to their own eyewear only, CCCS has assessed that the Parties' entry into each other's respective markets are mainly confined to the European markets. The minimal amount of wholesale sales by Essilor in its supply of frames and/or sunglasses in Singapore suggests that it neither has the ambition nor the ability to become a significant competitor in the wholesale supply of frames and sunglasses in Singapore.[66] For Luxottica, CCCS has likewise assessed that it is not in the position [✂] to compete with Essilor in the market for ophthalmic lenses in Singapore, since [✂].[67]

52. Therefore, CCCS considers that the appropriate counterfactual should be the prevailing conditions of competition pre-Transaction.

VII. RELEVANT MARKETS

53. The Parties submitted that the relevant product markets are:
    a. the manufacture and wholesale supply of ophthalmic lenses;
    b. the manufacture and wholesale supply of sunglasses;
    c. the manufacture and wholesale supply of prescription frames; and
    d. the retail of optical products.[68]

(a) <u>Product market</u>

(i) Wholesale distribution of ophthalmic lenses

Parties' submission

54. Ophthalmic lenses are made according to two main correction designs: unifocal (which corrects vision in a particular vision range), and multifocal (which corrects vision at different vision ranges). There are also different types of multi-focal lenses, *i.e.*, "lined" multifocals, and "progressives" varifocals, which have different variation of focals at various parts of the lenses.[69]

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[64] Paragraph 26 of the Notes of Meeting with the [✂] dated 25 January 2018.
[65] Responses by [✂], [✂], and [✂] to Question 52 of CCCS's RFI dated 9 February 2018; [✂]'s Response to Question 26 of CCCS's RFI dated 9 February 2018.
[66] Paragraph 110 of Parties' Response dated 4 December 2017 to CCCS's Issues Letter.
[67] Paragraphs 116 to 117 of Parties' Response dated 4 December 2017 to CCCS's Issues Letter.
[68] Paragraph 20.1 of Form M1. Paragraph 20.2 of Appendix 14 of the Parties' Response dated 30 September 2017 to CCCS 1st RFI.
[69] Paragraph 19.5 of Appendix 14 of the Parties' Response dated 30 September 2017 to CCCS 1st RFI.

55. Additional specifications, such as anti-scratch, anti-reflective, anti-smudge, antibreakage, and tinting, are implemented when the product is processed in a prescription laboratory and turned into a finished lens, ready to be mounted on a spectacle frame. As a result, lenses can be completely customised to correspond to the specific needs of each individual customer.[70]

CCCS's assessment

56. CCCS will focus its assessment on the market for the wholesale distribution of ophthalmic lenses. Major manufacturers do not have manufacturing activities in Singapore. They distribute ophthalmic lenses to local retailers in Singapore mainly through local subsidiaries, related entities, or distributors.[71]

57. CCCS notes the possibility that the market for wholesale distribution of ophthalmic lenses could be further sub-segmented into narrower relevant product markets based on designs or brands. However, CCCS considers that there is no need to further sub-segment the relevant market according to brands or designs, due to feedback from competitors suggesting that there is sufficient demand-side substitution across designs and brands. Most of the major manufacturers and distributors of ophthalmic lenses in Singapore are able to and do in fact distribute various designs and brands of ophthalmic lenses that are in close competition with Essilor's.[72] Retailers typically buy a range of ophthalmic lenses from each of their suppliers and are generally able to switch between them.[73] Furthermore, a narrower product market definition will not materially affect the outcome of CCCS' assessment. Therefore, CCCS will carry out its assessment based on the market for the wholesale distribution of ophthalmic lenses.

(ii) Wholesale distribution of sunglasses

Parties' submission

58. The manufacturing process for sunglasses involves frame manufacturing, sun plano lens manufacturing, and integration of both components. Sunglasses manufacturers can either purchase sun plano lenses and semi-finished frames from different manufacturers, which are typically located in Asia (especially

[70] Paragraph 19.8 of Appendix 14 of the Parties' Response dated 30 September 2017 to CCCS 1st RFI.
[71] Paragraph 24.2 of Appendix 14 of the Parties' Response dated 30 September 2017 to CCCS 1st RFI.
[72] Responses by [✂], [✂], [✂] and [✂] to Question 4 of CCCS's RFI dated 21 September 2017.
[73] Responses by [✂], [✂], [✂], [✂], and [✂] to Question 9 of CCCS's RFI dated 21 September 2017; and response by [✂] to Question 9 of CCCS's RFI dated 27 September 2017.

China), or manufacture them in-house.[74] All main manufacturers in this market, manufacture sunglasses in their entirety (*i.e.,* both the frame and the shaded plano lenses), and procure only certain components from specialised suppliers (*e.g.,* glass lenses for specific models of sunglasses).[75]

59. From the supply standpoint, manufacturers generally cover all or most of the spectrum of styles and prices in order to meet as many consumer preferences as possible. Most manufacturers supply both third-party and own brands, without needing to undergo specific investments to do so. Manufacturers can also supply unbranded products to wholesale customers (*e.g.,* opticians, or other retailers), which then sell them under their own brands (or private labels) in the retail market.[76]

CCCS's assessment

60. CCCS will focus its assessment on the market for the wholesale distribution of sunglasses. Major manufacturers of sunglasses do not have manufacturing activities in Singapore. They distribute sunglasses to local retailers in Singapore mainly through local subsidiaries, related entities, or distributors.[77]

61. CCCS considers the market for the wholesale distribution of sunglasses as a separate relevant market from that of prescription frames. Feedback from retailers confirms that the wholesale distribution of sunglasses faces different demand conditions from that of prescription frames. In particular, consumers are cognisant that sunglasses serve the function of vision protection which is different from vision correction for prescription glasses.[78] Consumers are also more brand-conscious with respect to sunglasses compared to prescription frames.[79]

62. CCCS notes the possibility that the market for the wholesale distribution of sunglasses could be further sub-segmented into narrower relevant product markets based on price and/or brands. In terms of pricing, a report [✂] analysed brands of sunglasses and prescription frames according to [✂] different retail price bands.[80] In terms of brands, some competitors gave feedback that they distinguish sunglasses and prescription frames based on branding, and are able to list their brands that compete with Luxottica's

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[74] Paragraph 18.4.2 of Form M1.
[75] Paragraph 18.4.3 of Form M1.
[76] Paragraph 18.4.4 of Form M1.
[77] Paragraph 24.1 of Form M1.
[78] Response by [✂] to Question 1 of CCCS's RFI dated 21 September 2017.
[79] Response by [✂] to Question 50 of CCCS's RFI dated 9 February 2018.
[80] Appendix 12 of Form M1. [✂].

brands.[81] Responses from retailers also indicate the importance of some of Luxottica's brands to the extent that they considered these as "must-have" brands.[82] CCCS's assessment on "must-have" brands is set out in paragraph 191 below. While there is some extent of product and branding differentiation within the market for the wholesale distribution of sunglasses, CCCS will however, carry out its assessment on the market for the wholesale distribution of sunglasses (including all brands and designs) as a whole, given that a narrower product market definition will not materially affect the outcome of CCCS' assessment.

(iii) Wholesale distribution of prescription frames

Parties' Submission

63. The Parties submitted that, while the manufacturing process is the same and the role of design is equally important for both prescription frames and sunglasses,[83] prescription frames are less of a fashion item than sunglasses. Retailers (and end-consumers) are therefore more sensitive to technical aspects of the product (*e.g.*, use of lighter materials, frameless) and a bit more conservative on the design, essentially due to: (i) the need to combine them with ophthalmic lenses, which presents more constraints for the frame than sun plano lenses and makes ophthalmic glasses as a whole a more expensive item, with a longer life-cycle; and (ii) their usage, which is more continued than sunglasses.[84]

64. As a result, prescription frames are less brand oriented and the structure of supply is characterised by a higher share of manufacturers that are renowned for their quality and technical reputation rather than brand awareness (*e.g.*, German manufacturers Lindberg, Mykita, Rodenstock, or Austrian manufacturer Silhouette). In light of the opticians' ability to direct or influence the choice of consumers, private labels are more present in this market. The positioning of such private labels may thus vary greatly depending on the opticians' reputation and target customers.[85]

65. Frames manufacturers may offer proprietary "house" brands or brands licensed from third-parties. Luxury brands, fashion designers, and sporting and

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[81] Responses by [✂], [✂] and [✂] to Question 5 of CCCS's RFI dated 21 September 2017.
[82] Responses by [✂], [✂] and [✂] and [✂] to Question 12 of CCCS's RFI dated 21 September 2017; and [✂]'s Response to Question 12 of CCCS's RFI dated 26 September 2017.
[83] Paragraph 18.5.2 of Form M1.
[84] Paragraph 18.5.3 of Form M1.
[85] Paragraph 18.5.4 of Form M1.

accessory brands have entered this industry to promote their own image. Instead of setting up their own manufacturing and logistic facilities, brand owners typically rely on frame manufacturers to produce and distribute their branded frames and sunglasses via licence agreements. As a result, the major frame manufacturers generally produce and supply both third-party brands and their own branded frames.[86]

66. Licensed brands represent a part of the market over which manufacturers maintain limited control, as licensors set precise standards and procedures for the design, quality (including the manufacturing location), marketing, and distribution.[87]

CCCS's assessment

67. The same considerations for sunglasses above apply to prescription frames. While there is some extent of product and branding differentiation within the market for the wholesale distribution of prescription frames, CCCS will however, carry out its assessment on the market for the wholesale distribution of prescription frames (including all brands and designs) as a whole, given that a narrower product market definition will not materially affect the outcome of CCCS' assessment.

(iv) Retail of optical products

Parties' submission

68. Retail sales of optical products and services involve the sale of a product or service, in relatively small quantities, to an individual consumer, for the consumer's own use. The transaction can take place through a variety of different sales channels, including brick and mortar stores and websites.[88]

69. Prescription frames and lenses are generally sold through eye care professionals due to the need for mounting the lenses in the frame. Consumers usually purchase the prescription lenses and frames from the same retailer. In Singapore, optical retailers may either be independent opticians, part of an optical retail chain or an online retailer. [89]

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[86] Paragraph 18.3.3 of Form M1.
[87] Paragraph 18.3.4 of Form M1.
[88] Paragraphs 18.6.1 and 19.5 of Form M1.
[89] Paragraph 18.6.2 of Form M1.

70. Sunglasses, mostly sold without prescription, can be distributed through several channels, including opticians, pharmacies, department stores, specialty stores, brand stores, sports stores, boutiques, and the Internet.[90]

71. Other ophthalmic products, such as contact lenses and related consumables are also sold through optical retailers and are increasingly sold online.[91]

72. The Parties submitted that supply-side substitution between optical products is sufficiently strong to justify a wider optical retail product market. The majority of optical products are sold by retailers which supply a wide range of eyewear products and could easily shift their capacity or shelf space from one product offered in store towards another.[92]

CCCS's assessment

73. Feedback from retailers is consistent with the Parties' submission regarding supply-substitution that retailers generally sell a range of optical products in their store, including prescription glasses and sunglasses in their retail stores. They may also sell other optical products such as contact lenses.[93]

74. Therefore, CCCS considers that the relevant product market is the retail market for optical products.

(b) Geographic Market

(i) Wholesale distribution of ophthalmic lenses

Parties' submission

75. The Parties submitted that the relevant geographic market is at least regional, if not global.[94] Ophthalmic lenses sold in Singapore are primarily produced in Asia, including but not limited to Singapore, Thailand, Malaysia, Philippines and China.[95]

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[90] Paragraph 18.6.3 of Form M1.
[91] Paragraph 18.6.4 of Form M1.
[92] Paragraph 19.14 of Form M1.
[93] Responses by [✂], [✂], [✂], [✂], and [✂] to Questions 2 and 3 of CCCS's RFI dated 21 September 2017; and [✂]'s Response to Questions 2 and 3 of CCCS's RFI dated 26 September 2017.
[94] Paragraph 20.3 of Appendix 14 of the Parties' Response dated 30 September 2017 to CCCS 1st RFI.
[95] Paragraph 19.9 of Appendix 14 of the Parties' Response dated 30 September 2017 to CCCS 1st RFI.

CCCS's assessment

76. CCCS considers that the relevant geographic market includes global suppliers selling ophthalmic lenses in Singapore. The main overseas manufacturers/distributors such as Carl Zeiss, Essilor and Hoya supply to Singapore through their subsidiaries and other operating entities, or by engaging local distributors.

77. Feedback from third-parties is mixed as to whether the relevant geographic market should include overseas suppliers. Though retailers feedback that they are able to procure ophthalmic lenses from online platforms or overseas distributors (who do not have a local presence), some retailers cited significant concerns in doing so, such as authenticity issues, quality control issues, timeliness of delivery, and shipping costs.[96] Feedback from most distributors also indicates that parallel imports of ophthalmic lenses are not common in Singapore.[97]

78. On balance, CCCS considers that the relevant geographic market is limited to Singapore, which includes global suppliers selling in Singapore.

(ii) Wholesale distribution of sunglasses and prescription frames

Parties' submission

79. The Parties submitted that the relevant geographic markets for wholesale supply of eyewear are at least regional, if not global.[98]

CCCS's assessment

80. CCCS considers that the relevant geographic markets for the wholesale distribution of eyewear include global suppliers selling eyewear in Singapore. The main overseas manufacturers/distributors such as Luxottica, Safilo, and Kering supply to Singapore through their subsidiaries and other operating entities, or by engaging local distributors.

81. Feedback from third-parties is mixed as to whether the relevant geographic market should include overseas suppliers. Though retailers feedback that they are able to procure eyewear from online platforms or overseas distributors

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[96] Responses by [✂], [✂], and [✂] to Question 5 of CCCS's RFI dated 21 September 2017.
[97] Responses by [✂] and [✂] to Question 6 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Question 6 of CCCS's RFI dated 26 September 2017.
[98] Paragraph 20.2 of Form M1.

(who do not have a local presence), some retailers stated their preference to procure from local distributors due to after-sales support, authenticity and convenience (as it takes longer to import).[99] Feedback from distributors indicates that while there are some parallel imports of eyewear into Singapore, especially for popular brands, it is only done to a limited extent, due to low profit margins.[100]

82. On balance, CCCS considers that the relevant geographic market is limited to Singapore, which includes global suppliers selling in Singapore. This applies to the product markets for the wholesale distribution of ophthalmic lenses, prescription frames and sunglasses.

(iii) Retail of optical products

Parties' submission

83. The Parties submitted that the relevant geographic market should be limited to Singapore.[101]

CCCS's assessment

84. In this regard, CCCS notes from market feedback that sales of optical products through online platforms appear to be growing:

a. One distributor mentioned that "*Online sales (Mega transnational players) are growing very fast and huge. End consumers can purchase their eye wears with prescription lenses at a much lower price without needing to follow local health or legal requirements.*"[102]

b. A retailer shared that there is an "*Influx of online retailers affecting brick and mortar stores sales*".[103]

c. Another retailer explained the prevalence of online platforms: "*Increase in online stores. Consumers going on line stores to check the products. Then come to brick and mortar shops to try the product. Then go to on line store to make purchase.*"[104]

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[99] Responses by [✂] and [✂] to Question 6 of CCCS's RFI dated 21 September 2017; and [✂]'s Response to Question 6 of CCCS's RFI dated 26 September 2017.
[100] Responses by [✂], [✂], and [✂] to Question 6 of CCCS's RFI dated 21 September 2017.
[101] Paragraph 20.3 of Form M1.
[102] Response by [✂] to Question 1 of CCCS's RFI dated 26 September 2017.
[103] Response by [✂] to Question 1 of CCCS's RFI dated 26 September 2017.
[104] Response by [✂] to Question 1 of CCCS's RFI dated 26 September 2017.

85. However, in the absence of evidence on end-customers switching their purchase of optical products from physical optical retailers to online platforms, CCCS considers that the relevant market should not include online platforms given the need for end-consumers to be physically present to undergo eye-checks and to test the fit of their eyewear. This is supported by other market feedback:

a. One distributor mentioned that "*due to high myopia incidence and the need for optometrist licensing requirements, eyewear and contact lenses sales are predominantly still in offline modes*".[105]

b. Another distributor mentioned "*Online distribution is starting to evolve although they more often appear as e-retailers (Lazada) rather than e-distributors. The optical trade in this sense still values the personal pre and post sales services. This may eventually change albeit less quickly*".[106]

c. One retailer was of the view that online retailing was unlikely to grow significantly as checks for prescription glasses still needed to be done in the shops, unlike other commodities which could be sold easily online.[107]

86. Therefore, CCCS agrees that the relevant geographic market for the retail of optical products should be limited to Singapore.

OVERALL ASSESSMENT ON RELEVANT MARKET

87. Given the considerations set out above, CCCS assessed that the relevant markets for the competition assessment of the Transaction are:
   a. the market for the wholesale distribution of ophthalmic lenses in Singapore;
   b. the market for the wholesale distribution of sunglasses in Singapore;
   c. the market for the wholesale distribution of prescription frames in Singapore; and
   d. the market for the retail of optical products in Singapore.

88. CCCS will assess the impact of the Transaction on competition within these relevant markets, in connection with the competition issues identified in paragraphs 40 to 43 above.

[105] Response by [✂] to Question 1 of CCCS's RFI dated 21 September 2017.
[106] Response by [✂] to Question 1 of CCCS's RFI dated 21 September 2017.
[107] Paragraph 15 of Notes of Meeting with [✂] on 12 October 2017.

VIII. MARKET STRUCTURE

(a) Market shares and market concentration

i. <u>Wholesale Distribution of Ophthalmic Lenses in Singapore</u>

The Parties' submission

89. Figure 2 shows the Parties' estimates of the total market size for the wholesale distribution of ophthalmic lenses in Singapore and Essilor's market shares from 2014 to 2016.

Figure 2: Essilor's Market Shares for the Wholesale Distribution of Ophthalmic Lenses in Singapore[108]

	2014	**2015**	**2016**
Total market size (by **value**, S$)	[✂]	[✂]	N.A.
Total market size (by **volume**, pcs)	[✂]	[✂]	N.A.
Essilor's market share (by **value**, %)	[30 – 40]%	[40 – 50]%	[40 – 50]%
Essilor's market share (by **volume**, %)	[40 – 50]%	[40 – 50]%	[40 – 50]%

Source: Parties' estimates.

90. The estimates in Figure 2 are based on Essilor's sales in Singapore as collected by Essilor internally, and estimates from a private independent firm named [✂]. [✂] data on lenses reflects the net selling prices to opticians and are therefore measured at 'sell-in' value (*i.e.,* wholesale price).[109]

91. The Parties did not submit information on total market size for 2016 as it is not available, though the Parties are of the view that it should be within the same range as that for 2014 and 2015.[110]

92. The Parties did not submit information on market share estimates of Essilor's competitors as it is not available.[111]

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[108] Table 7-1 and 8-1 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[109] Paragraph 1.3 of Parties' Response dated 17 October 2017 to CCCS 2nd RFI.
[110] Paragraph 21.1 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[111] Paragraph 21.3 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.

93. In addition, the Parties submitted that Luxottica and its related entities are not involved in the wholesale supply of ophthalmic lenses in Singapore.[112]

CCCS's assessment

94. CCCS did not receive any feedback to suggest that Luxottica or its related entities are involved in the wholesale distribution of ophthalmic lenses in Singapore.

95. Figure 3 shows CCCS's market share estimates based on information from market players on their own revenue and estimates of their own market share. Notably, Essilor's market share is the highest and Figure 3 shows CCCS's market share estimates based on information from market players on their own revenue and estimates of their own market share. Notably, Essilor's market share is the highest and exceeds 50%. This is consistent with feedback from [✂] that Essilor's market share is more than 50%.[113] This is also close to CCCS's estimate based on Euromonitor's data of [50-60]%.[114]

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[112] Paragraph 10.1 of Parties' Response dated 7 October 2017 to CCCS 1st RFI and Paragraph 10.8 of Form M1.
[113] [✂]'s Response to Question 7 of CCCS's RFI dated 21 September 2017.
[114] Based on Euromonitor, in 2016, Essilor's market share is 42.2%. [✂] market share is [10-20]%. As [✂] sources most of its lens from Essilor, CCCS excluded [✂] share to arrive at the more accurate estimate of Essilor's market share at [50-60]%.

Figure 3: Estimated Market Shares for the Wholesale Distribution of Ophthalmic Lenses in Singapore in 2016 (by value)[115]

Company	Estimated Own Market Share [(a)]	Revenue from Ophthalmic Lenses [(b)]	Estimated Market Size [(c)=(b)/(a)]	Market Shares based on Average Estimated Market Size [(b)/Average (c)]
Essilor	[40 – 50]%	S$[✂]	S$[✂]	[50 – 60]%
[✂]	[10 – 20]%	S$[✂]	S$[✂]	[10 – 20]%
[✂]	[10 – 20]%	S$[✂]	S$[✂]	[10 – 20]%
[✂]	[0 – 10]%	N.A.	-	-
[✂]	[40 – 50]%	N.A.	-	-
			Average = S$[✂]	

Source: CCCS estimates based on information provided by market players
Note: CCCS calculates each market player's estimate of the total market size (c) by dividing its revenue (b) with its own market share estimate (a). Each market player's market share estimate is then calculated by dividing its revenue (b) over the average of the total market size.

96. Figure 4 shows the feedback from retailers on their top five suppliers of ophthalmic lenses in Singapore. Notably, Essilor or its related entities are consistently listed as the top supplier, though Carl Zeiss and Hoya are also listed amongst the top five suppliers.

[115] Table 8.1 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI; Paragraph 14.1 of Parties' Response dated 7 October 2017 to CCCS 1st RFI; Responses by [✂] to Question 7 of CCCS's RFI dated 21 September 2017; Responses by [✂] to Question 6 of CCCS's s61A Notice dated 8 May 2017; Responses by [✂] to Question 7 of CCCS's RFI dated 26 September 2017.

Figure 4: Top five Suppliers of Ophthalmic Lenses in Singapore

Rank	[✂]	[✂]	[✂]	[✂]	[✂]
1	Essilor	Shamir *(related to Essilor)*	Essilor	Essilor	Essilor
2	Hoya	Essilor	Carl Zeiss	Optical Supply Singapore *(related to Essilor)*	Optical Supply Singapore *(related to Essilor)*
3	Zeiss *(related to Carl Zeiss)*	Zeiss *(related to Carl Zeiss)*	Hoya	Carl Zeiss	Carl Zeiss
4	MVision	Hoya	Kwang Meng	Din Fung	Hoya
5	OSA *(related to Essilor)*	Kwang Meng	Shamir *(related to Essilor)*	Hoya	MVision

Source: Feedback from retailers[116]

97. Based on the above, CCCS' assessment is that Essilor is the largest player in the market for wholesale distribution of ophthalmic lenses in Singapore, with a market share that is much higher than that of [✂] and [✂], its next largest competitors in 2016.

ii. Wholesale Distribution of Sunglasses in Singapore

The Parties' submission

98. Figure 5 shows the Parties' estimates of the total market size for the wholesale distribution of sunglasses in Singapore, and the Parties' market shares from 2014 to 2016.

[116] Responses by [✂], [✂] and [✂] to Question 13 of CCCS's RFI dated 21 September 2017; and [✂]'s Response to Question 13 of CCCS's RFI dated 26 September 2017.

Figure 5: Parties' Market Shares for the Wholesale Distribution of Sunglasses in Singapore[117]

	2014	2015	2016
Total market size (by **value**, S$)	[✂]	[✂]	[✂]
Total market size (by **volume**, pcs)	[✂]	[✂]	[✂]
Essilor's market share (by **value**, %)	[0 – 10]%	[0 – 10]%	[0 – 10]%
Essilor's market share (by **volume**, %)	[0 – 10]%	[0 – 10]%	[0 – 10]%
Luxottica's market share (by **value**, %)	N.A	N.A	[20 – 30]%
Luxottica's market share (by **volume**, %)	N.A	N.A	[10 – 20]%

Source: Parties' submission. The information on total market size is from Euromonitor.

99. Given Essilor's low market share, the Parties have submitted that they overlap to a minimal extent in this market.[118]

100. To estimate Luxottica's market shares in sunglasses, the Parties engaged [✂] to conduct a "bottom-up" approach to estimate the market size, in terms of value and volume of sunglasses in Singapore, at "sell-out" value (*i.e.*, retail price). For retail chains, the total revenue is estimated using ACRA data (where available) or through the number of stores, before taking the assumed 30% of the revenue as the proportion taken up by sunglasses. For optical stores (*i.e.*, non-chain) and other channels (*e.g.*, boutiques, duty-free stores, e-commerce, supermarkets, large sports stores and mono brand stores), the total number of the stores for each shopping mall and department store is estimated before applying assumptions about the average sales per day for each store. The estimates of total sales or total revenue in each channel are then summed up to obtain estimates of the total market size in terms of revenue. The total market size in terms of volume is then obtained by dividing the total market size by an estimated average price per pair of sunglasses of S$120.[119]

[117] Table 7 and Table 8 of Form M1, and paragraph 25.3 and appendix 17A of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[118] Paragraph 18.2 of Form M1.
[119] Refer to Appendix 17A of Parties' Response dated 7 October 2017 to CCCS 1st RFI for details on the methodology. According to the Parties, mono-brand stores selling sunglasses in Singapore include Zara, Pedro, Mango, Bershka, H&M, and Charles and Keith.

101. The Parties did not submit information on Luxottica's market shares in 2014 and 2015.

CCCS's assessment

102. CCCS notes that the Parties' market share estimates are based on numerous assumptions, including the average sales per day for each non-chain optical store and the proportion of such sales taken up by sunglasses, which are not easily verifiable.

103. Figure 6 shows CCCS's market share estimates based on information from Luxottica and the local subsidiaries or distributors of Luxottica's main competitors[120] on their revenue, except for [✂] and [✂].[121]

Figure 6: Market Shares for Wholesale Distribution of Sunglasses in Singapore in 2016[122]

Company	Revenue from Sunglasses (S$)	Market Shares (%)
Luxottica	[✂]	[60 – 70]
Essilor	[✂]	[0 – 10]
[✂]	[✂]	[10 – 20]
[✂]	[✂]	[0 – 10]
[✂]	[✂]	[0 – 10]
[✂]	[✂]	[0 – 10]
Others	[✂]	[10 – 20]
Market Size (Est.)	**[✂]**	**100**

Source: CCCS estimates based on information from market players
Note: Luxottica's market share does not include sales in Sunglass Hut.

104. The Parties submitted that there could be sales of sunglasses from other sources such as mono brand stores. However, CCCS is of the view that sales from such sources are not likely to be as large as that from major distributors.

[120] This is based on the Parties' submission in paragraph 24.1 of Form M1 regarding their main competitors in the manufacture and wholesale supply of sunglasses and spectacle frames in Singapore.
[121] CCCS estimates that [✂] and [✂]'s combined revenue is at most around the level of [✂]. The most well-known of [✂]'s portfolio of eyewear brands is [✂], with some other less well-known proprietary brands, while that for [✂] is [✂].
[122] Table 6 of Form M1 and Appendix 15 of Parties' Response dated 7 October 2017 to CCCS 1st RFI. This does not include sales to Sunglass Hut, a subsidiary of Luxottica, based on Appendix 17A of Parties' Response dated 7 October 2017 to CCCS 1st RFI; Responses by [✂], [✂], [✂] and [✂] to Question 6 of CCCS's s61A dated 8 May 2017.

Nonetheless, given that CCCS had obtained information from most, but not all sunglasses distributors, CCCS accounted for the remaining players by conservatively estimating that their combined revenue equals approximately 15% of the combined revenue of the six market players as shown in **Figure 6** above. Notably, CCCS's estimate of Luxottica's market share ([60 – 70]%) is close to Euromonitor's estimate ([60-70]%).[123]

105. CCCS notes that [✂].[124]

106. Figure 7 shows Euromonitor's estimates of the market shares by brands. Notably, Luxottica manufactures four of the seven most popular sunglasses brands in Singapore. In particular, Ray-Ban (31%) and Oakley (11%) are clearly the most popular brands, with the highest market shares compared to that of the top non-Luxottica brands, *i.e.,* Owndays (3%) and Police (3%) in 2016.

Figure 7: Market Shares for Wholesale Distribution of Sunglasses in Singapore, by brands (% by value)

Brand Name	Company Name	2012	2013	2014	2015	2016
Ray-Ban	Luxottica Group SpA	29.4	29.8	30.1	30.7	30.9
Oakley	Luxottica Group SpA	9.3	9.5	11.0	10.5	10.7
Prada	Luxottica Group SpA	5.2	5.0	5.5	5.5	5.5
Owndays	Owndays Co Ltd	-	-	0.6	1.8	3.4
Police	De Rigo SpA	2.9	3.0	3.0	3.1	3.1
Gucci	Safilo Group SpA	2.2	2.2	2.1	2.2	2.1
Coach	Luxottica Group SpA*	1.5	1.6	1.6	1.6	1.7
Others	Others	49.4	48.8	45.9	44.6	42.7
Total	Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor.
**Listed as Coach Inc. on Euromonitor but CCCS understands that Coach is a licensed brand of Luxottica.*

107. Figure 8 shows the feedback from retailers on their top five brands of sunglasses sold by them in Singapore. Notably, Ray-Ban (5 times) and Oakley

[123] Based on Euromonitor, in 2016, Luxottica's market share is 64.4%, including the market share of Coach Inc which is its licensed brand. [✂] market share is [0-10]%. As [✂] does not supply sunglasses to third-party retailers, CCCS excluded [✂] share to arrive at the more accurate estimate of Luxottica's market share at [60-70]%.
[124] [✂].

(4 times), both Luxottica's brands, are commonly the reported top brands. Kering's brand, Gucci (4 times), is also a commonly reported top brand.

Figure 8: Top Brands of Sunglasses sold by Retailers in Singapore

Rank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
1	Ray-Ban (Luxottica)	Moscot	Ray-Ban (Luxottica)	Ray-Ban (Luxottica)	Ray-Ban (Luxottica)	Ray-Ban (Luxottica)
2	Oakley (Luxottica)	Gareth Leight	Oakley (Luxottica)	Oakley (Luxottica)	Prada (Luxottica)	Oakley (Luxottica)
3	Prada (Luxottica)	Christian Dior (Safilo)	Prada (Luxottica)	Police (De Rigo / Sin Kwang or Opticsflair Vision)	Tom Ford (Marcolin/ Chai Ming)	Polaroid (Safilo)
4	Coach (Luxottica)	Tom Ford (Marcolin/ Chai Ming)	Gucci (Kering)	Gucci (Kering)	Dior (Safilo)	Hugo Boss (Safilo)
5	Christian Dior (Safilo)	Gucci (Kering)	Loewe (De Rigo)	Adidas (Opeal / Sin Kwang)	Coach (Luxottica)	Gucci (Kering)

Source: Feedback from retailers[125]

108. Based on the above, CCCS assessment is that Luxottica is the largest player in the market for wholesale distribution of sunglasses in Singapore, with a market share that is estimated by CCCS to be much higher ([60-70]%) compared to its closest competitor, [✂] ([10-20]%). Further, Luxottica has a number of strong brands of sunglasses, such as Ray-Ban and Oakley.

iii. Wholesale Distribution of Prescription Frames in Singapore

Parties' submission

109. Figure 9 shows the Parties' estimates of the total market size for the wholesale distribution of prescription frames in Singapore, and the Parties' market shares from 2014 to 2016.

[125] Responses by [✂], [✂], [✂], [✂] and [✂] to Question 3 of CCCS's RFI dated 21 September 2017; and [✂]'s response to Question 3 of CCCS's RFI dated 26 September 2017.

Figure 9: Parties' Market Shares for the Wholesale Distribution of Prescription Frames in Singapore[126]

	2014	2015	2016
Total market size (by **value**, S$)	[✂]	[✂]	[✂]
Total market size (by **volume**, pcs)	[✂]	[✂]	[✂]
Essilor's market share (by **value**, %)	[0-10]%	[0-10]%	[0-10]%
Essilor's market share (by **volume**, %)	[0-10]%	[0-10]%	[0-10]%
Luxottica's market share (by **value**, %)	N.A	N.A	[0-10]%
Luxottica's market share (by **volume**, %)	N.A	N.A	[0-10]%.

Source: Parties' submission. The information on total market size is from Euromonitor.

110. Given Essilor's low market share, the Parties have submitted that they overlap to a minimal extent in this market.[127]

111. Similar to sunglasses, the Parties have taken a different approach towards calculating Luxottica's market shares. Prescription frames were assumed to be sold in only retail chains and independent optical stores in shopping malls. The total market size for prescription frames was then obtained from the estimated revenue for sunglasses (as described in paragraph 100) and assuming that the revenue for prescription frames is 2.33 times that for sunglasses. The estimated market size by volume is then calculated by assuming an average price of $80 per pair of prescription frames.[128]

112. The Parties did not submit information on Luxottica's market shares in 2014 and 2015.

[126] Table 7 and Table 8 of Form M1.
[127] Paragraph 18.2 of Form M1.
[128] Refer to Appendix 17A of Parties' Response dated 7 October 2017 to CCCS 1st RFI for details on the methodology. According to the Parties, mono-brand stores selling sunglasses in Singapore include Zara, Pedro, Mango, Bershka, H&M, and Charles and Keith.

CCCS's assessment

113. CCCS notes that the Parties' estimates are based on numerous assumptions, including the proportion of revenue by retailers that is attributable to prescription frames relative to sunglasses, which are not easily verifiable.

114. Figure 10 shows CCCS's market share estimates based on revenue information from Luxottica and the local subsidiaries or distributors of Luxottica's main competitors.[129]

Figure 10: Market Shares for the Wholesale Distribution of Prescription Frames in Singapore in 2016 (by value)[130]

Company	Revenue from Prescription Frames in 2016 (S$)	Market Shares (%)
Luxottica	[✂]	[40 – 50]
Essilor	[✂]	[0 – 10]
[✂]	[✂]	[10 – 20]
[✂]	[✂]	[10 – 20]
[✂]	[✂]	[0 – 10]
[✂]	[✂]	[0 – 10]
Others	[✂]	[10 – 20]
Market Size (Est.)	**[✂]**	100

Source: CCCS's estimates based on information from market players

115. As per the approach taken for estimating market shares for wholesale distribution of sunglasses, CCCS accounted for the remaining players by conservatively estimating that their combined revenue equals approximately 15% of the combined revenue of the six market players.

116. CCCS notes that [✂].[131]

[129] This is based on the Parties' submission in paragraph 24.1 of Form M1 regarding their main competitors in the manufacture and wholesale supply of sunglasses and spectacle frames in Singapore.
[130] Table 6 of Form M1 and Appendix 15 of Parties' Response dated 7 October 2017 to CCCS 1st RFI. Based on information in Appendix 17A of Parties' Response dated 7 October 2017 to CCCS 1st RFI, this does not include sales to Sunglass Hut, a subsidiary of Luxottica; and Responses by [✂], [✂], [✂] and [✂] to Question 6 of CCCS's s61A Notice dated 8 May 2017.
[131] [✂].

117. Figure 11 shows Euromonitor's estimates of the market shares by brands. Notably, Ray-Ban (4%) and Oakley (2%) are popular brands of prescription frames other than Owndays' frames (11%).

Figure 11: Brand Shares for the Wholesale Distribution of Prescription Frames in Singapore (by value)

Brand Name	Company Name	2012	2013	2014	2015	2016
Owndays	Owndays Co Ltd	-	0.8	3.4	7.8	11.3
Ray-Ban	Luxottica Group SpA	2.9	3.3	3.7	3.7	3.7
Oakley	Luxottica Group SpA	1.6	1.8	2.0	2.0	2.0
Armani	Luxottica Group SpA	0.6	0.7	0.7	0.7	0.7
Gucci	Safilo Group SpA	0.5	0.4	0.3	0.3	0.3
Others	Others	94.4	93.1	89.9	85.4	82.0
Total	Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor.

118. Figure 12 shows the feedback from retailers on their top five brands of prescription frames sold by them in Singapore.

Figure 12: Retailers' Top Brands of Prescription Frames in Singapore

Rank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
1	Oakley (Luxottica)	Lindberg	Ray-Ban (Luxottica)	Oakley (Luxottica)	Ray-Ban (Luxottica)	Oakley (Luxottica)
2	Ray-Ban (Luxottica)	Christian Dior (Safilo)	Oakley (Luxottica)	Silhouette (Opticsflair Vision)	Prada (Luxottica)	Ray-Ban (Luxottica)
3	Philip Starck (Luxottica)	Tom Ford (Marcolin/ Chai Ming)	Vogue (Luxottica)	Ray-Ban (Luxottica)	Emporio Armani (Luxottica)	Charmant (Sin Kwang)
4	Prada (Luxottica)	Gucci (Kering)	Prada (Luxottica)	Adidas (Opticsflair Vision)	Tom Ford (Marcolin/ Chai Ming)	Agnes B (Ning Kwong)
5	Itoi (House Brand)	Oliver Peoples (Luxottica)	Generic Brands	Police (De Rigo / Sin Kwang or Opticsflair Vision)	Nike (Marchon)	Porsche (Sin Kwang)

Source: Feedback from retailers.[132]

[132] Responses by [✂], [✂], [✂], [✂], and [✂] to Question 3 of CCCS's RFI dated 21 September 2017; and [✂]'s response to Question 3 of CCCS's RFI dated 26 September 2017.

119. Notably, Euromonitor's data generally matches the reported top five brands of prescription frames sold by each retailer in Singapore: Ray-Ban (5 times), and Oakley (4 times) are commonly reported top brands, followed by Prada (3 times) and Tom Ford (2 times).

120. Based on the above, CCCS's assessment is that Luxottica is the largest player in the wholesale distribution of prescription frames in Singapore, with market share that is estimated by CCCS to be higher ([40 – 50]%) compared to its closest direct competitor, [✂] ([10 – 20]%). Further, Luxottica has a number of strong brands of prescription frames, such as Ray-Ban and Oakley.

iv. Retail of Optical Products

Parties' submission

121. Figure 13 shows the Parties' estimates of the total market size for the retail of optical products in Singapore, and the Parties' market shares from 2014 to 2016.

Figure 13: Parties' Market Shares for the Retail Market for Optical Products in Singapore[133]

	2014	**2015**	**2016**
Total market size (by value, S$)	[✂]	[✂]	[✂]
Total market size (by volume, pcs)	[✂]	[✂]	[✂]
Essilor's market share (by value, %)	[0 – 10]%	[0 – 10]%	[0 – 10]%
Essilor's market share (by volume, %)	N.A.	N.A.	N.A.
Luxottica's market share (by value, %)	N.A.	N.A.	[0 – 10]%
Luxottica's market share (by volume, %)	N.A.	N.A.	N.A.

Source: Parties' estimates

122. Given Essilor's low market share, the Parties have submitted that the Parties overlap to a minimal extent in this market.[134] Essilor's market share in volume

[133] Table 7 and Table 8 of Form M1.
[134] Paragraph 18.2 of Form M1.

is not available but Essilor estimates that such market shares are extremely marginal, in line with its market shares in value.

123. While the Parties did not provide Luxottica's market shares, the Parties stated that Luxottica's revenue from retail of optical products is S$[✂] in 2016, which would make up [0 – 10]% of total market size in 2016.[135]

CCCS's assessment

124. Figure 14 shows the market shares estimates by Euromonitor, which is close to the Parties' estimate of Luxottica's market share of [0 – 10]%. CCCS notes that while Luxottica (through Sunglass Hut) is one of the six major retail chains in Singapore, the retail market appears to be fragmented without any clear market leader.

Figure 14: Market Shares for the Retail Market for Optical Products in Singapore (% by value)

Company Name	2012	2013	2014	2015	2016
Owndays Co Ltd	-	-	3.7	5.3	8.3
Spectacle Hut Pte. Ltd.	6.6	6.8	7.0	7.0	7.2
Luxottica Group SpA	6.0	6.2	5.6	5.2	4.9
Stelux Holdings International Ltd (Optical 88)	7.2	7.0	5.8	4.9	4.7
Capitol Optical Co Pte. Ltd.	6.0	6.0	5.4	4.9	4.4
Nanyang Optical Co Pte. Ltd.	3.7	3.7	3.7	3.9	4.1
Others	70.5	70.3	68.7	68.8	66.4

Source: Euromonitor.

(b) Actual and Potential Competition

i. <u>Wholesale Distribution of Ophthalmic Lenses in Singapore</u>

Parties' Submission

125. The Parties submitted that the prescription lens industry is characterised by a number of well-established global and regional players, as well as local suppliers. These include global integrated lens manufacturers, independent lens manufacturers, wholesalers and integrated optical retail chains.[136] Some

[135] Table 6 of Form M1.
[136] Paragraph 24.2 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.

of Essilor's key competitors are Hoya, Carl Zeiss, Rodenstock, and Thai Optical.[137]

126. Some large Chinese lens manufacturers also import ophthalmic substrate and finished single vision stock lenses into Singapore. For example, Shanghai Conant Optics manufactures ophthalmic substrate and finished lenses, and offers services such as edging and glazing.[138]

127. Competitors in Singapore include local wholesalers such as Kwang Meng Company Pte. Ltd. ("**Kwang Meng**") (which also distributes its own brand lenses HiTop), Ding Fung, HD Lens Pte. Ltd. and recent new entrants such as Uni Vision LLP or Tip Top Lens Pte. Ltd.[139]

128. At the wholesale level, the nature of competition between Essilor and its competitors for the supply of ophthalmic lenses in Singapore largely depends on the types of lenses which the retailer is interested in purchasing as all the key players have similar product categories.[140]

129. For generic unbranded lenses, the competition is primarily based on price, supply chain standards (including service standards), and business relationships.[141]

130. For branded lenses, competition tends to be more influenced by the perceived quality of the lenses, the supply chain services, level of brand-awareness, and business relationships. Generally, the end customer will select and purchase the frame first, and adopt the recommendation of the optician with respect to the lenses required. End-consumers are typically unaware of the brand of the ophthalmic lenses in their eyewear products, and they usually base their purchase according to the recommendations of the eyewear retailer.[142]

CCCS's assessment

131. Feedback from third-parties confirms that the following competitors are active in Singapore, *i.e.,* Hoya, Carl Zeiss, Rodenstock, Thai Optical and Kwang

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[137] Paragraphs 24.2.1, 24.2.2, 24.2.3, 24.2.4 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[138] Paragraph 24.2.5 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[139] Paragraph 24.2.6 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[140] Paragraphs 24.3 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[141] Paragraphs 24.4 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[142] Paragraphs 24.5 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.

Meng. In particular, Hoya[143] and Carl Zeiss[144] are active through their subsidiaries. Ding Fung, Rodenstock's distributor, is active and also distributes other lenses, *e.g.*, Asahi.[145] MVision, which is related to Thai Optical, is active in Singapore.[146] Kwang Meng owns and markets its in-house brand HiTop.[147]

132. On balance, the evidence overall does not support a finding that overseas lens manufacturers pose significant actual or potential competition to Essilor. As mentioned in paragraph 77 above, retailers indicated that they generally preferred not to source ophthalmic lenses from overseas manufacturers without a local presence.

ii. Wholesale Distribution of Sunglasses and Prescription Frames in Singapore

Parties' Submission

133. The Parties submitted that their main competitors in the wholesale supply of eyewear in Singapore are primarily the same competitors which Luxottica competes against globally, *i.e.*, Safilo Group S.p.A. ("**Safilo**"), Kering Eyewear S.p.A. ("**Kering**"), Marcolin S.p.A. ("**Marcolin**"), Marchon Eyewear, Inc. ("**Marchon**"), De Rigo S.p.A. ("**De Rigo**"), and Charmant, Inc. ("**Charmant**"). These competitors supply eyewear under proprietary and/or licensed brands in Singapore through a subsidiary or distributor.[148]

134. Other key competitors in Singapore are private labels and parallel importers, *e.g.*, Owndays and Decathlon.[149]

135. At the wholesale level, retailers' preferences may be influenced by the quality of the products or of aftersales support (especially for prescription frames), as well as the price and diversity of the offer. Moreover, retailers buy the products based, amongst other factors, on the positioning of their point of sale. Customers tend to have a broad number of suppliers since each supplier is not able to cover the whole products portfolio needed to address the targeted consumers. The Parties have supported this by the fact that even Luxottica-owned retailers adopt a multi-sourcing approach.[150]

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[143] [✂]'s response to Question 2 of CCCS's RFI dated 21 September 2017.
[144] [✂]'s response to Question 2 of CCCS's RFI dated 21 September 2017.
[145] [✂]'s response to Question 2 of CCCS's RFI dated 26 September 2017.
[146] Responses by [✂] and [✂] to Question 13 of CCCS's RFI dated 21 September 2017.
[147] [✂]'s response to Question 3 of CCCS's RFI dated 26 September 2017.
[148] Paragraph 24.1 of Form M1.
[149] Paragraph 24.1 of Form M1.
[150] Paragraph 24.4 of Form M1.

CCCS's assessment

136. Feedback from third-parties confirms that the following competitors for wholesale distribution of sunglasses and prescription frames are active in Singapore, *i.e.,* Safilo, Kering, Marcolin, Marchon, De Rigo, and Charmant. Safilo[151] and Marchon[152] are active through their subsidiaries in Singapore. Sin Kwang, Chai Ming and Opticsflair Vision are distributors for Charmant, De Rigo, and Marcolin.[153] Feedback from retailers also suggests that Lindberg and Silhouette are active in supplying prescription frames in Singapore.[154]

137. On balance, the evidence overall does not support a finding that private labels and parallel importers pose significant actual or potential competition to Luxottica. In terms of private labels, Owndays operates a vertically integrated model from design to manufacture and retail, and does not supply sunglasses and prescription frames to other retail chains and independent optical stores in Singapore.[155] Retailers also did not provide any feedback to suggest that Decathlon is a key supplier of sunglasses or prescription frames. As mentioned in paragraph 81 above, while it is possible for local retailers to purchase eyewear from overseas manufacturers or distributors by travelling overseas directly or through optical fairs[156], feedback from retailers indicates that this channel is not a significant supply source.

iii. Retail of Optical Products

Parties' Submission

138. The Parties submit that their competitors in Singapore at the retail level include both chains and independent opticians. Luxottica's main competitors at the retail level include [✂].[157]

139. At the retail level, competition has significantly evolved over the last few years, notably with new concept stores entering Singapore (*e.g.,* Owndays and Better Vision) and the growth of online retail. Competition amongst retailers is based on multiple factors including price and quality of services.[158]

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151 [✂]'s Response to Question 2 of CCCS's s61A Notice dated 8 May 2017.
152 [✂]'s Response to Question 2 of CCCS's RFI dated 21 September 2017.
153 Responses by [✂], [✂], and [✂] to Question 2 of CCCS's RFI dated 21 September 2017.
154 Responses by [✂] and [✂] to Question 3 of CCCS's RFI dated 21 September 2017.
155 Paragraph 13 of Notes of Meeting with [✂] on 12 October 2017.
156 Responses by [✂] and [✂] to Question 6 of CCCS's RFI dated 21 September 2017.
157 Paragraph 24.3 of Form M1.
158 Paragraph 24.5 of Form M1.

CCCS's assessment

140. Third-party feedback indicates that the market in Singapore is fragmented with many optical retail chains and independent optical stores. Some retailers have also highlighted that online retail is posing a challenge to their physical retail business.[159] As such, CCCS is of the view that the Parties are likely to face significant competition at the retail level.

(c) Barriers to entry and expansion

141. In assessing barriers to entry and expansion, CCCS considered whether entry by new competitors or expansion by existing competitors, especially through replicating the portfolio of products offered by the merged entity, may be sufficient in likelihood, scope and time to deter or defeat any attempt by the merger parties or their competitors to exploit the reduction in rivalry flowing from the Transaction (whether through conglomerate effects or coordinated or non-coordinated strategies).[160]

142. CCCS assessed that the barriers to entry for the markets for wholesale distribution of ophthalmic lenses and eyewear are moderate to high, while the barriers to expansion are low to moderate. Therefore, competition in these markets will mainly be from existing, rather than potential competitors. The assessment for each of the relevant markets is set out below.

<u>Wholesale Distribution of Ophthalmic Lenses</u>

Parties' submission

143. The Parties submitted that there are no entry barriers to the wholesale supply of ophthalmic lenses in Singapore.

144. First, intellectual property does not represent a significant barrier to entry. In recent years, there have been no breakthrough discoveries in this industry and, to the extent lens manufacturers own the rights to patents, these generally only provide a temporary advantage in respect of a particular aspect of lens manufacture or design. Although technological know-how and production capabilities are an important requirement for successful entry, they are readily available and achievable, and they are not specific to one geographic market.

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[159] Responses by [✂] and [✂] to Question 1 of CCCS's RFI dated 21 September 2017; and [✂]'s Response dated 4 October 2017 to Question 1 of CCCS's RFI dated 26 September 2017.

[160] Paragraphs 5.46 to 5.59 and 6.28 of the *CCCS Merger Guidelines 2016*.

Therefore, for a lens supplier seeking to enter the Singapore market, know-how acquired in another geographic market, such as the US or Europe would easily be applied to the Asian market and existing laboratories outside Asia could be used to supply the Asian market including Singapore.[161]

145. Second, with respect to regulatory matters, ophthalmic lenses and contact lenses are regulated products under the Health Products Act (Cap. 122D). To import, distribute or sell these products, wholesalers, importers and retailers must establish a legal presence in Singapore and apply for the relevant licenses with the Health Sciences Authority. In addition, under the regulatory requirements at the retail level, a new entrant must notify the Optometrists & Opticians Board and have an appropriate facility and qualified registered optometrists and opticians to provide the necessary after-sales services and primary eye care to consumers.[162] Notwithstanding the foregoing, licensing requirements do not amount to a significant barrier to entry as the application submitted is simple with a fee payable ranging from S$100 to S$500.[163]

146. To set up a full-service prescription lab in Singapore, the new entrant will need to have more financial resources for its capital set-up, including the lease or purchase of suitable premises, and the purchase of requisite equipment and instruments. The capital cost to set up a full-service prescription laboratory in Singapore is estimated at between S$[✂] to S$[✂], depending on the condition of the equipment or machines, the size and range of the products or inventory to be carried. The set-up and capital costs will most likely be much lower in neighbouring countries like Malaysia, and a new entrant can export the finished products into Singapore for sale. The time involved to set up a full-service prescription laboratory can range from three to six months.[164] The cost of setting-up a fitting laboratory or glazing facility (just for edging and mounting services) in Singapore should cost less than S$[✂] and the time involved should also be shorter and take about two months or less.[165]

147. In terms of marketing expenses, it is not uncommon to apportion [✂]% to [✂]% of annual sales towards annual expenditure on advertising/promotion.[166]

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[161] Paragraphs 18.7 and 28.1 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[162] Paragraph 18.11 and 28.1 of Form M1.
[163] Paragraph 19.17 and 28.2 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[164] Paragraph 19.18 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[165] Paragraph 19.19 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[166] Paragraph 27.1 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.

148. The Parties cited new entrants over the last five years, *i.e.*, Uni Vision LLP or Tip Top Lens Pte. Ltd., HD Lens Pte. Ltd., and Ding Feng Lens Supply Pte. Ltd. Any company willing to make the relevant investments is able to enter the market anytime and expand quickly.[167] Major Chinese manufacturers, such as Shanghai Conant Optics, and Weixing also have their products available in Singapore through 'direct to retail' and online sales channels.[168] Exclusivity contracts that prevent retailers from selling competing brands are generally not present in the market for ophthalmic lenses.[169]

CCCS's assessment

149. CCCS's assessment is that barriers to entry are moderate to high. Based on feedback from third-parties, new entrants have to face high upfront set-up costs, significant investments into instruments and technical know-how (particularly for manufacturing instead of pure distribution), as well as high inventory requirements to enter the market.[170] Besides overseas manufacturers of ophthalmic lenses that did not appear to face high barriers (in terms of upfront set-up costs and regulatory barriers) in establishing a local presence in Singapore to distribute their lenses, feedback from third-parties did not indicate other market entries at the wholesale level in the last three years.[171]

150. CCCS assessed that barriers to expansion are low based on feedback that existing ophthalmic lens suppliers currently face no capacity constraints.[172]

Wholesale Distribution of Eyewear in Singapore

Parties' submission

151. The Parties submitted that there are no entry barriers to the wholesale markets for eyewear.[173]

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[167] Paragraph 29.1 to 30.1 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI; and paragraph 5.1 of Form M2.

[168] Paragraph 62 of Parties' Response dated 4 December 2017 to CCCS's Issues Letter dated 13 November 2017 ("**CCCS's Issues Letter**").

[169] Paragraph 6.13 of Form M2.

[170] Responses by [✂], [✂], [✂], [✂], [✂] to Question 15 of CCCS's RFI dated 21 September 2017; and responses by [✂] and [✂] to Question 15 of CCCS's RFI dated 26 September 2017.

[171] Responses by [✂] and [✂] to Question 17 of CCCS's RFI dated 21 September 2017; and responses by [✂] and [✂] to Question 17 of CCCS's RFI dated 26 September 2017.

[172] Responses by [✂] and [✂] to Question 16 of CCCS's RFI dated 21 September 2017; and responses by [✂] and [✂] to Question 16 of CCCS's RFI dated 26 September 2017.

[173] Paragraph 28.1 of Form M1.

152. For a new entrant, the Parties estimated that an operation could be set up within three to six months given the availability in Singapore of numerous professionals and/or business people being acquainted with the technicalities of setting-up a business from scratch, although it would be difficult to estimate the costs involved as it would vary depending on the business model adopted.[174] Assuming the brands distributed are already established, a rough estimate of S$[✂]million to S$[✂] million will be required[175] for the first year of sales in order to achieve a market share of five per cent. A re-investment of [✂]% (estimated S$[✂] million) may be required in the second year of sales and a breakeven is expected in the third year of sales.[176]

153. There are no regulatory barriers to the wholesale market for sunglasses and prescription frames in Singapore.[177]

154. The Parties cited new entrants over the last five years, *i.e.,* Visual Mass, Oblique Eyewear, Craftman Optical, Mimeo the Optical Shop, Vision Lab, Four Nines, Glimpse, as well as international players such as Owndays (Japan), Zoff (Japan), and online retailers which have also expanded including local online retailers such as SeeChic. Any company willing to make the relevant investments is able to enter the market anytime and expand quickly.[178] In particular, the mono brand store concept has taken root and is growing in Singapore. Recent mono brand stores which opened in Singapore include Four Nines and Gentle Monster. Online retailers, *e.g.,* Lazada, Zalora, SmartBuyGlasses, Qoo10, SINGSALE and Amazon are very aggressive in Singapore's e-commerce landscape and have been enjoying high traffic numbers and sales volumes.[179]

155. The fact that [✂].[180]

CCCS's assessment

156. CCCS's assessment is that the barriers to entry are potentially high. Based on feedback from third-parties, the amount of time needed for a new credible player to enter can be significant, given the need for high upfront capital

[174] Paragraph 26.1 of Form M1.
[175] The expenditure covers sales force / support set up, creating and paying for new space, in-store merchandising, sales and marketing events, PR and digital marketing activities, consumer research, training and development, sponsorship and events and basic trade marketing tools.
[176] Paragraph 27.1 of Form M1.
[177] Paragraph 28.1 of Form M1.
[178] Paragraphs 29.1 to 30.1 of Form M1.
[179] Paragraph 2.11 of Form M2.
[180] Paragraph 84 of Parties' Response dated 4 December 2017 to CCCS's Issues Letter.

expenditure (particularly for manufacturing instead of pure distribution) and time to establish an efficient distribution network and gain traction for its branding.[181] To distribute branded eyewear, the new entrant also has to secure distribution rights for such branded products, which may be a significant barrier to entry, as licensors generally prefer long-term relationships with licensees (given that a licensee switch may cause some commercial disruption and negatively impact the brand's image). Licensors typically license to an eyewear manufacturer/distributor exclusively for an average length of seven years.[182]

157. CCCS also notes that the new entrants over the last five years cited by the Parties mostly operate at the retail level. Feedback from third-parties confirmed only a few new market entrants in the last three years.[183]

158. CCCS's assessment is that barriers to expansion are low to moderate. Market feedback indicates that existing distributors currently face no capacity constraints[184], though they may face some difficulty in securing distribution rights for brands of eyewear as they are often licensed exclusively.[185]

Market for retail of optical products

159. The Parties submitted that there are no entry barriers to the market for retail of optical products in Singapore.[186]

160. At the retail level, the Parties estimated that setting up an optical retail store would take approximately six months and would start off with a manpower of three or four, with the cost of entry being approximately S$[✂].[187]

CCCS's assessment

161. The small retail market shares of the Parties and the fragmented state of the retail market in Singapore suggests that the Parties are subjected to strong

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[181] Responses by [✂], [✂] and [✂] to Question 15 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Question 25 of CCCS's RFI dated 26 September 2017; Responses by [✂] and [✂] to Question 25 of CCCS's RFI dated 21 September 2017; and [✂]'s Response to Question 28 of CCCS's RFI dated 21 September 2017.

[182] Paragraph 18.10 of Form M1. Paragraphs 8.1 and 18.1 of Parties' Response dated 7 October 2017 to CCCS 1st RFI; [✂]'s Response to Question 15 of CCCS's RFI dated 21 September 2017.

[183] Responses by [✂], [✂], [✂], and [✂] to Question 17 of CCCS's RFI dated 21 September 2017; and [✂]'s response to Question 27 of CCCS's RFI dated 21 September 2017.

[184] Responses by [✂], [✂], [✂] and [✂] to Question 16 of CCCS's RFI dated 21 September 2017.

[185] [✂]'s response to Question 15 of CCCS's RFI dated 21 September 2017.

[186] Paragraph 24.8 of Form M1.

[187] Paragraph 26.2 of Form M1.

competition even from existing players. Therefore, there is no need for CCCS to consider the level of barriers to entry or expansion in this market.

(d) Countervailing buyer power

162. The ability of a merged entity to raise prices may be constrained by the countervailing power of customers which in the context of a conglomerate merger, also depends on the incentives of customers to buy the portfolio from a single supplier.[188]

163. In the situation where the merged entity's immediate customers are resellers (*e.g.,* retailers), their ability to exercise buyer power may be limited by the willingness of their customers (*i.e.,* end-consumers) to buy products of alternative suppliers. Even if retailers are able to buy from alternative suppliers, this may not be credible if the products of the alternative suppliers are not considered by their end-consumers as a suitable replacement.[189]

<u>Wholesale Distribution of Ophthalmic Lenses in Singapore</u>

Parties' submission

164. The Parties submitted that the top five customers of Essilor are retailers of optical products,[190] and that these customers typically multi-source and are able to switch suppliers at any point in time. Furthermore, customers are also able to self-supply by entering into agreements with manufacturers of ophthalmic lenses to manufacture and supply ophthalmic lenses under their own brand name. In any case, there is no need for retailers to sponsor new entry of suppliers or sustain self-supply because of the existence of rivals with no capacity constraints – to which optical retailers can easily switch to. To show the existence of significant countervailing buyer power, [✂] – Essilor's largest customer which purchases lenses from Essilor [✂] – is able to easily switch to other suppliers. [✂] sources lenses [✂] directly from a generic lens manufacturer [✂].[191]

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[188] Paragraphs 5.60 and 6.28 of the *CCCS Merger Guidelines 2016.*
[189] Paragraph 5.64 of the *CCCS Merger Guidelines 2016.*
[190] Paragraph 31.1 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.
[191] Paragraphs 32.1 and 32.2 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI; and paragraphs 50 to 52 of Parties' Response dated 4 December 2017 to CCCS's Issues Letter.

CCCS's assessment

165. CCCS's assessment is that the countervailing buyer power of retailers are unlikely to be strong enough to offset any market power that Essilor may have.

166. Though feedback from retailers confirmed that retailers typically multi-source[192] and are able to switch lens suppliers without much difficulty (even to overseas manufacturers/distributors),[193] the fragmented nature of the market for retail of optical products suggests that retailers are unlikely to have the scale to sponsor new entry of suppliers or sustain self-supply.

167. CCCS found that major retail chains do not necessarily account for a larger proportion of Essilor's supply of ophthalmic lenses in Singapore as compared to the proportion of Essilor's ophthalmic lenses in their retail portfolios. For example, [✂].[194] This suggests that Essilor is not as reliant on the business of major chain retailers as they are reliant on Essilor, and consequently, even major chain retailers are unlikely to exert strong countervailing buyer power on Essilor.

168. CCCS notes that the countervailing buyer power of retailers may be circumscribed by certain "must-have" brands that Essilor may have. In this regard, initial market feedback suggests that some of Essilor's brands, *i.e.,* Crizal, Varilux and Transitions, are strong brands. [195] So are Essilor's progressive lenses, and to a lesser extent transition lenses[196], due to the need by retailers to minimise adaptation issues for end-consumers.[197] However, as will be discussed in paragraph 201 below, further feedback did not confirm that these are "must have" brands, to the extent that the other brands are not considered substitutes.

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[192] Responses by [✂] and [✂] to Question 4 of CCCS's RFI dated 21 September 2017; and [✂]'s Response to Question 4 of CCCS's RFI dated 26 September 2017; Responses by [✂], [✂] and [✂] to Question 5 of CCCS's RFI dated 9 February 2018.

[193] [✂]'s Response to Questions 5, 7, 9, 28 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Questions 5, 7, 9, 28, 29 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Questions 5, 7, 9 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Questions 5, 7, 9, 28, 29 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Questions 7, 9, 28, 29 of CCCS's RFI dated 26 September 2017; [✂]'s Response to Questions 5, 9 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Questions 5, 9 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Questions 15, 16 of CCCS's RFI dated 9 February 2018; [✂]'s Response to Questions 15, 16 of CCCS's RFI dated 9 February 2018.

[194] [✂]'s Response to Question 4 of CCS's RFI dated 21 September 2017; and Paragraph 31.2 of Appendix 14 of Parties' Response dated 7 October 2017 to CCCS 1st RFI.

[195] Responses by [✂] and [✂] to Question 11 of CCCS's RFI dated 21 September 2017; and responses by [✂], [✂] and [✂] to Question 13 of CCCS's RFI dated 9 February 2018.

[196] [✂]'s Response to Question 11 of CCCS's RFI dated 21 September 2017.

[197] [✂]'s Response to Question 11 of CCCS's RFI dated 21 September 2017; and responses by [✂] and [✂] to Question 18 of CCCS's RFI dated 21 September 2017.

Wholesale Distribution of Eyewear in Singapore

Parties' submission

169. The Parties submitted that its top five customers' main business activity is the retail of optical products,[198] and that these customers typically multi-source and are able to switch suppliers at any point in time. Furthermore, customers are also able to self-supply by entering into agreements with manufacturers of frames and sunglasses to design and supply the products under their own brand name.[199] Notably, customers are able to purchase eyewear from outside Singapore, and in particular, from Asian manufacturers based in China, and several retailers (*e.g.,* Frames & Lenses, Universal Optical and Nanyang Optical) do in fact purchase high volumes of unbranded spectacle frames from overseas manufacturer on a regular basis for the purposes of selling their own private brand spectacle frames.[200] The strong bargaining power of retailers is evidenced by the fact that [✂].[201]

CCCS's assessment

170. CCCS's assessment is that the countervailing buyer power of retailers are unlikely to be strong enough to offset any market power that Luxottica may have.

171. Though market feedback confirmed that retailers typically multi-source[202] and are able to switch suppliers without much difficulty (even to overseas manufacturers/distributors),[203] the fragmented nature of the market for retail of optical products suggests that retailers are unlikely to have the scale to sponsor new entry of suppliers or sustain self-supply.

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[198] Paragraph 31.1 of Form M1.

[199] Paragraph 32.1 of Form M1.

[200] Paragraph 3.1 of Parties' Response dated 17 October 2017 to CCCS 2nd RFI; and paragraph 5.3 of Form M2.

[201] Paragraph 73 of the Parties' Response dated 4 December 2017 to CCCS's Issues Letter.

[202] Responses by [✂] and [✂] to Question 4 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Question 4 of CCCS's RFI dated 26 September 2017; and responses by [✂] and [✂] to Question 20 of CCCS's RFI dated 9 February 2018.

[203] Responses by [✂] and [✂] to Questions 6, 8, 10 of CCCS's RFI dated 21 September 2017; responses by [✂], [✂] and [✂] to Question 6 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Questions 8 and 10 of CCCS's RFI dated 26 September 2017; [✂]'s Response to Questions 8 and 10 of CCCS's RFI dated 21 September 2017; and responses by [✂], and [✂] to Questions 30 and 31 of CCCS's RFI dated 9 February 2018.

172. Even for major chain retailers, CCCS found that they do not necessarily account for a larger proportion of Luxottica's supply of eyewear in Singapore, compared to the proportion of Luxottica's products in their retail portfolios. For example, [✂].[204] This suggests that Luxottica is not more reliant on the business of major chain retailers as they are on Luxottica, and consequently, even major chain retailers are unlikely to exert strong countervailing buyer power on Luxottica.

173. CCCS notes that the countervailing buyer power of retailers may be circumscribed by certain "must-have" brands that Luxottica may have. In this regard, initial market feedback suggests that some of Luxottica's brands, *i.e.*, Ray-Ban and Oakley, are strong brands due to customers' strong brand awareness and loyalty.[205] However, as will be discussed in paragraph 191 below, further feedback from third-parties did not confirm that these are "must have" brands, to the extent that other brands are not considered substitutes.

IX. COMPETITION ASSESSMENT

(a) Non-coordinated and coordinated effects

174. As stated in paragraph 49 above, the evidence overall does not support a finding that, absent the Transaction, the Parties will enter and expand into each other's respective markets credibly and significantly, such that the Transaction will result in non-coordinated or coordinated effects in Singapore.

(b) Conglomerate effects

175. CCCS notes that the Transaction is a merger between firms that produce different but related products (*i.e.*, ophthalmic lenses, and sunglasses/frames). Therefore, this section sets out CCCS's assessment of the conglomerate effects that would arise from the Transaction.

176. In general, conglomerate mergers involve firms that operate in different product markets. They may be product extension mergers (*i.e.*, between firms that produce different but related products) or pure conglomerate mergers (*i.e.*,

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[204] [✂]'s Response to Questions 6, 8, 10 of CCCS's RFI dated 21 September 2017; Paragraph 31.1 of Form M1.

[205] Responses by [✂] and [✂] to Questions 8, 10, 12, 28, 29 of CCCS's RFI dated 21 September 2017; response by [✂] and [✂] to Question 12 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Question 12 of CCCS's RFI dated 26 September 2017; responses by [✂], [✂] and [✂] to Question 18 of CCCS's RFI dated 21 September 2017; responses by [✂] and [✂] to Questions 30 and 31 of CCCS's RFI dated 9 February 2018.

between firms operating in entirely different markets). Conglomerate mergers are neither horizontal nor vertical, *i.e.,* there is no vertical relationship and no overlap in the products or services supplied by the merging parties.[206]

177. Conglomerate mergers may lead to a SLC in certain circumstances, such as where the products acquired are complementary to the acquirer's own products, thus giving rise to so-called "portfolio power".[207]

178. When the market power deriving from a portfolio of brands exceeds the sum of its parts, a firm may be said to have "portfolio power". Suppose, for example, that a merger creates a firm with many brands under its control. Where the brands relate to products that share sufficient characteristics to be considered a discrete group, customers may have an incentive to purchase the portfolio from one supplier to reduce their transaction costs. This circumstance may lead to a SLC if non-portfolio competitors, or those competitors that control only one or a few brands, do not impose an effective competitive constraint on the firm(s) with "portfolio power".[208]

179. Conglomerate effects may arise where, as a result of the Transaction, the merged entity finds it profitable to require or encourage customers to purchase a range of their products, whether through tying or bundling of products or through significant discounts targeted at non-portfolio rivals' customers. A merger may give rise to a significant prospect that tying or bundling may occur, if the merged entity controls complementary goods.[209]

180. In assessing whether a conglomerate merger could have anti-competitive effects, CCCS will consider the ability of customers to exercise countervailing buyer power, and in particular the incentives of customers to buy the portfolio from a single supplier. In a situation where customers can and do source the portfolio products from multiple suppliers and are likely to continue to do so post-merger, it is unlikely that the merger would substantially lessen competition.[210]

Parties Submission

181. The Parties submitted that the Transaction will not give rise to conglomerate concerns as the purpose of the Transaction is to combine the Parties' complementary businesses in order to provide new and improved products and

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[206] Paragraph 6.21 of the *CCCS Merger Guidelines 2016.*
[207] Paragraph 6.22 of the *CCCS Merger Guidelines 2016.*
[208] Paragraph 6.23 of the *CCCS Merger Guidelines 2016.*
[209] Paragraph 6.24 of the *CCCS Merger Guidelines 2016.*
[210] Paragraph 6.29 of the *CCCS Merger Guidelines 2016.*

services, at more competitive prices, to end-consumers. The characteristics of the eyewear market also preclude such pro-competitive conglomerate effects from drifting towards anti-competitive restrictions. According to the Parties, drivers for demand and business models for lenses and frames / sunglasses are different, which would preclude the Parties from implementing foreclosing prices or commercial policies even if they intended to. Moreover, any change in their commercial and pricing policy that they could implement would be replicable by competitors, whether integrated or through partnerships.[211]

CCCS assessment

(c) Leveraging position in eyewear to foreclose competition for ophthalmic lenses

182. CCCS considered if the Transaction will confer on the merged entity the ability to foreclose competition in the market for the wholesale distribution of ophthalmic lenses in Singapore, by leveraging Luxottica's position in the markets for the wholesale distribution of eyewear through foreclosure strategies such as tying/bundling Luxottica's eyewear to Essilor's ophthalmic lenses.

Parties' submission

183. The Parties submitted that the merged entity will not have the ability to foreclose its competitors by leveraging Luxottica's position in eyewear as, *inter alia*:

a. it will not have market power given the highly competitive nature of the market;

b. Luxottica has no "must-have" brands, and the combined entity will not have "must-have" brands;

c. for licensed brands, licensors would oppose any tying/bundling strategy;

d. clients have strong countervailing power; and

e. sunglasses account for a minority of optical retailers' sales estimated at [10-20]% for Singapore retailers.[212]

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[211] Paragraph 36.6 of Form M1.
[212] Paragraphs 36.8 and 36.9 of Form M1.

184. Specifically, the merged entity will not have substantial market power for the wholesale supply of eyewear,[213] given that:

a. the portfolio of the merged entity will be easily matched by the merged entity's rivals;[214]

b. there are strong competitors including Safilo, Kering, Marchon and De Rigo who have competing suites of products across brands and price points;[215]

c. customers can, do and will continue to source products from multiple suppliers;[216]

d. all optical retailers can easily switch to alternative suppliers due to the number of manufacturers on the market and the availability of capacity;[217]

e. the expansion of brands which do not include Luxottica products clearly demonstrate that the suite of products owned by Luxottica is not necessary for the entry of expansion into markets in Singapore,[218] with examples of successful retailers who do not carry Luxottica's products;[219] and

f. there are low barriers to entry as evident by the recent successful entry and expansion by Owndays, Zoff, Four Nines, Gentle Monster and Kering.[220]

185. Ray-Ban and Oakley cannot be considered as "must have" on the basis that:

a. Retailers heavily discount Ray-Ban and Oakley to incentivise sales;

b. There are a range of other substitutes available in the market that customers can and do purchase; and

[213] Paragraph 4 of the Parties' Response dated 4 December 2017 to CCCS's Issues Letter.
[214] Paragraph 69 of the Parties' Response dated 4 December 2017 to CCCS's Issues Letter.
[215] Paragraph 71 of the Parties' Response dated 4 December 2017 to CCCS's Issues Letter.
[216] Paragraph 71 of the Parties' Response dated 4 December 2017 to CCCS's Issues Letter.
[217] Paragraph 83 of the Parties' Response dated 4 December 2017 to CCCS's Issues Letter.
[218] Paragraph 71 of the Parties' Response dated 4 December 2017 to CCCS's Issues Letter.
[219] Paragraph 80 of the Parties' Response dated 4 December 2017 to CCCS's Issues Letter.
[220] Paragraph 82 of the Parties' Response dated 4 December 2017 to CCCS's Issues Letter.

c. There are highly successful optical retailers that carry neither Ray-Ban nor Oakley.[221]

186. The merged entity would not risk adopting foreclosing strategies because any potential gains from doing so would be more than offset by the losses, leading to a reduction in total sales.[222] As Luxottica is required to pay royalties based on a certain percentage of its net turnover to licensors,[223] licensors would expect a reduction in royalties and are likely to respond to a tying/bundling strategy by requesting compensation or terminating the license.[224] Even if licensors did not receive a reduction in royalties, they may nonetheless object to such strategies due to concerns arising from the impact on their brand image and marketing policies.[225] In this regard, two of Luxottica's licensors have voiced their objections to tying/bundling strategies. [✂] has stated that it would oppose any anti-competitive practice while [✂] had highlighted that "*the respect of* [✂] *image is an essential element of our licence agreement with Luxottica*".[226]

CCCS's assessment

187. CCCS's market share assessment and feedback from third-parties suggest that Luxottica currently has, and hence the merged entity will have, some degree of market power in the markets for the wholesale distribution of eyewear in Singapore.

a. Based on CCCS's market share estimates, Luxottica is the market leader with [60-70]% market share in the market for the wholesale distribution of sunglasses and [40-50]% for the wholesale distribution of prescription frames in Singapore, ahead of its closest direct competitors for sunglasses, *i.e.*, [✂] ([10-20]%), and prescription frames, *i.e.*, [✂] ([10-20]%).

b. Feedback from retailers indicates that Luxottica is able to set prices and impose strict terms and conditions in the sale of its products to retailers. For example, retailers mentioned that "*there is hardly any prices negotiations…it is mainly supplier driven*",[227] that Luxottica sets "*very high and unrealistic sales targets…if we do not agree to the targets they*

[221] Paragraph 76 of the Parties' Response dated 4 December 2017 to CCCS's Issues Letter.
[222] Paragraph 94 of the Parties' Response dated 4 December 2017 to CCCS's Issues Letter.
[223] Paragraph 20.1 of the Parties' Response dated 16 January 2018 to CCCS' Request for Information dated 18 December 2017 ("**CCCS 3rd RFI**").
[224] Paragraph 20.1 of the Parties' Response dated 16 January 2018 to CCCS' 3rd RFI.
[225] Paragraph 20.2 of the Parties' Response dated 16 January 2018 to CCCS' 3rd RFI.
[226] Paragraph 20.2 of the Parties' Response dated 16 January 2018 to CCCS' 3rd RFI.
[227] Response by [✂] to Question 55 of CCCS's RFI dated 9 February 2018.

would not sell",[228] and that the quality of Luxottica's products is already *"very low for a high price"*.[229]

c. Feedback from distributors and retailers suggests that some of the market power may be due to Luxottica's extensive range of brands, particularly its two strongest brands, *i.e.*, Ray-Ban and Oakley. This is supported by the comment made by one distributor that *"Luxottica's portfolio of brands genre spans widely, comprehensively and extensively – in terms of price (entry to luxury), brand equity (Ray Ban, Oakley to fashion / luxury brands) and functional needs (prescription frames, sunglasses, men, ladies, etc)* and that *"it invariably overlaps and compete with any eyewear players' product portfolio"*.[230]

188. However, the evidence overall does not support a finding at this pre-merger-stage that Luxottica's market power in the wholesale distribution of eyewear is sufficient to confer on the merged entity the ability to foreclose competition in the market for ophthalmic lenses, for the reasons set out below.

189. First, feedback from third-parties suggests that retailers are able to switch eyewear suppliers in response to any anti-competitive tying/bundling strategy by the merged entity.

a. Despite the absence of strong countervailing buyer power, most retailers had indicated that they currently source from multiple suppliers for sunglasses (up to 15 suppliers) and prescription frames (up to 50 suppliers),[231] and are able and willing to switch suppliers, should the merged entity raise prices and/or engage in anti-competitive tying/bundling, although to a lesser extent for Luxottica's Ray-Ban and Oakley brands.[232]

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[228] Response by [✂] to Question 17 of CCCS's RFI dated 21 September 2017.
[229] Response by [✂] to Question 14 of CCCS's RFI dated 21 September 2017.
[230] Response by [✂] to Question 5 of CCCS's RFI dated 21 September 2017; Responses by [✂], [✂], [✂], [✂], [✂] and [✂] to Questions 8, 10, 12 and 13 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Questions 8, 10, 12, 13 of CCCS's RFI dated 26 September 2017; Responses by [✂], [✂], and [✂] to Question 18 of CCCS's RFI dated 21 September 2017; Responses by [✂], [✂], [✂], [✂], and [✂] to Questions 30 and 45 of CCCS's RFI dated 9 February 2018.
[231] Responses by [✂], [✂], [✂], [✂], and [✂] to Questions 20 and 35 of CCCS's RFI dated 9 February 2018.
[232] Responses by [✂], [✂], [✂], [✂], [✂], and [✂] to Questions 8, 21, 28 and 29 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Questions 8, 21, 28 and 29 of CCCS's RFI dated 26 September 2017; Responses by [✂], [✂], [✂], [✂], and [✂] to Questions 31 and 47 of CCCS's RFI dated 9 February 2018.

b. All distributors had also indicated that they have spare capacity to handle a surge in orders.[233]

190. Second, although Luxottica has a higher market share for sunglasses ([60-70]%) compared to prescription frames ([40-50]%), sunglasses are not direct complements to ophthalmic lenses. Therefore, it would be more difficult for the merged entity to tie sunglasses to ophthalmic lenses. For example, such a tying strategy is unlikely to be effective for retailers that only sell sunglasses, as they will not stock ophthalmic lenses. Even for retailers that sell both sunglasses and prescription glasses, CCCS found that sunglasses generally make up a lower proportion of the retailer's revenue as compared to ophthalmic lenses.[234] This suggests that retailers may more likely give up sourcing sunglasses from the merged entity, than to be required to stock additional ophthalmic lenses and jeopardise their main revenue source.

191. Third, while there is some evidence that suggests that Ray-Ban and Oakley are "must-have" brands, the evidence overall does not support a finding that this is necessarily the case.

a. Initial feedback from third-parties indicated that Ray-Ban and Oakley are considered to be "must-have" brands by retailers due to their high popularity and demand from end-consumers.[235]

b. CCCS notes that a large majority of independent opticians ([70-80]%) and a sizeable percentage of retail chains ([30-40]%) do not carry Luxottica's eyewear products,[236] suggesting that Luxottica's brands while being strong brands are unlikely to be "must-have" brands for retailers.

c. Further, according to Euromonitor, brand shares for Ray-Ban and Oakley are low for the wholesale distribution of prescription frames at 3.7% and 2.0% respectively. CCCS noted that while the brand shares for sunglasses are relatively higher at 30.9% and 10.7% respectively, it would be more difficult to tie/bundle ophthalmic lenses to sunglasses than to prescription frames as sunglasses are not direct complements to ophthalmic lenses.

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[233] Responses by [✂], [✂], [✂], and [✂] to Question 16 of CCCS's RFI dated 21 September 2017.
[234] Responses by [✂] and [✂] to Question 3 of CCCS's RFI dated 9 February 2018.
[235] Responses by [✂], [✂], [✂], [✂], [✂], and [✂] to Question 12 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Question 12 of CCCS's RFI dated 26 September 2017; Responses by [✂], [✂] and [✂] to Questions 28, 43 of CCCS's RFI dated 9 February 2018.
[236] Paragraph 5.1 of Parties' Response dated 16 January 2018 to CCCS 3rd RFI.

d. CCCS also contacted 114 retailers (who are mostly Luxottica's customers) to seek their feedback on whether they considered Ray-Ban and Oakley to be "must-have" brands and the importance of these brands to their business. However, most retailers (101 out of 114 of them) did not take their opportunity to respond and raise concerns.

192. CCCS is of the view that the evidence overall does not support a finding at this pre-merger stage that licensors will object to any tying/bundling strategies by the merged entity, as it depends on *inter alia* whether the licensors are made worse off, after taking into account any impact on brand image and any compensation that the merged entity may provide. While some licensors of eyewear have switched away from Luxottica over the past ten years,[237] feedback from distributors suggests that such countervailing power by licensors may be limited. For example, one distributor mentioned that licensors "*would not risk opposing such a strategy*" even if they had concerns as they are "*too dependent on Luxottica for their revenues*" given Luxottica's "*market leading business in sunglasses design and manufacturing, as well as its unrivalled retail network*".[238] In any case, this does not materially change the outcome of CCCS' assessment.

Conclusion

193. Based on the above, CCCS assessed that the evidence overall does not support a finding at this pre-merger stage that the merged entity will have the ability to leverage on Luxottica's position in the markets for the wholesale distribution of eyewear so as to foreclose competition in the market for the wholesale distribution of ophthalmic lenses.

(d) Leveraging position in ophthalmic lenses to foreclose competition for eyewear

194. CCCS considered if the Transaction will confer on the merged entity the ability to foreclose competition in the markets for the wholesale distribution of eyewear in Singapore, by leveraging Essilor's position in the market for the wholesale distribution of ophthalmic lenses, through foreclosure strategies such as tying or bundling Essilor's lenses to Luxottica's eyewear.

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[237] Paragraph 18.15 of Form M1.

[238] [✂]'s Response to CCCS's RFI dated 21 September 2017.

Parties' submission

195. The Parties submitted that the merged entity will not have the ability to foreclose its competitors by leveraging Essilor's position in ophthalmic lenses as, *inter alia*:

   a. it will not have market power;

   b. the market for lenses is a dynamic environment, where brand awareness is very low, market entry is easy, and companies' positions can quickly change over time;

   c. clients have strong countervailing power; and

   d. there are no material economies of scale which would confer an advantage to the merged entity.[239]

196. Specifically, the merged entity will not have substantial market power for the wholesale distribution of eyewear,[240] given that:

   a. There are numerous suppliers of ophthalmic lenses in Singapore with no capacity constraints that Essilor must compete intensively with;[241]

   b. The vast majority of consumers are not aware of lens brands or manufacturers which is one of the main reasons why retailers can, and typically do multi-source, thereby enabling retailers to switch significant amounts of volume;[242] and

   c. There are low entry barriers given that the costs of setting up a distribution business in lenses are low without the need for any specific R&D investments or know-how, and as evident by the recent entry of at least two distributors.[243]

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239 Paragraph 36.7 of Form M1.

240 Paragraph 4 of the Parties' Response dated 4 December 2017 to CCCS' Issues Letter dated 13 November 2017.

241 Paragraph 43 of the Parties' Response dated 4 December 2017 to CCCS' Issues Letter dated 13 November 2017.

242 Paragraphs 45 and 46 of the Parties' Response dated 4 December 2017 to CCCS' Issues Letter dated 13 November 2017.

243 Paragraphs 59 to 64 of the Parties' Response dated 4 December 2017 to CCCS' Issues Letter dated 13 November 2017.

197. The Parties submitted that its Crizal and Transitions brands of ophthalmic lenses are not "must-have" on the basis that:

a. Crizal lenses are only sold in approximately [✂] ([50-60]%) optical retailers' shops while Transitions lenses are only sold in approximately [✂] shops ([60-70] %)[244];

b. There are a wide range of alternatives that customers can and do purchase instead of Crizal or Transitions lenses;[245] and

c. End-consumers do not have strong brand preferences for lenses to the extent that optical retailers do not experience friction from end-consumers should they choose to switch brands.[246]

CCCS' assessment

198. CCCS's market share assessment and feedback from third-parties suggest that Essilor currently has, and hence the merged entity will have, some degree of market power.

a. Based on CCCS's estimated market shares, Essilor is the market leader for the market for the wholesale distribution of ophthalmic lenses in Singapore, with the highest market share of [50-60]% which is higher than its next two closest competitors [✂] ([10-20]%) and [✂] ([10-20]%).

b. Essilor supplies its ophthalmic lenses to a large majority of independent opticians ([60-70]%) and all retail chains in Singapore.[247]

199. However, the evidence overall does not support a finding at this pre-merger stage that Essilor's market power in the market for the wholesale distribution of ophthalmic lenses is sufficient to confer on the merged entity the ability to foreclose competition in the markets for the wholesale distribution of eyewear, for the following reasons.

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[244] Paragraph 54 of the Parties' Response dated 4 December 2017 to CCCS' Issues Letter dated 13 November 2017.
[245] Paragraph 55 of the Parties' Response dated 4 December 2017 to CCCS' Issues Letter dated 13 November 2017.
[246] Paragraph 56 of the Parties' Response dated 4 December 2017 to CCCS' Issues Letter dated 13 November 2017.
[247] Paragraph 5.1 of Parties' Response dated 16 January 2018 to CCCS' 3rd RFI dated 18 December 2017.

200. First, market feedback suggests that retailers are able to switch lens suppliers in response to any anti-competitive tying/bundling strategy by the merged entity.

a. Despite the absence of strong countervailing buyer power, most retailers indicated that they source from multiple lens suppliers (up to 7 suppliers),[248] and that they are able and willing to switch lens suppliers, should the merged entity raise prices and/or engage in anti-competitive tying/bundling.[249]

b. All distributors had also indicated that they have spare capacity to handle a surge in orders.[250] Distributors also generally consider their portfolio of brands to be of similar strength as Essilor's.[251]

c. Feedback from all retailers indicate that Essilor does not impose any conditions in the wholesale distribution of its products to retailers. In addition, most retailers did not provide further comments on their view on whether the merged entity will impose conditions post-merger.[252]

201. While two retailers mentioned that they considered Essilor's Crizal and Transitions brands as "must-haves" due to their popularity,[253] CCCS is of the view that such evidence overall does not support a finding that Essilor has "must-have" brands.

a. Feedback from retailers confirms that end-consumers generally display low brand awareness for ophthalmic lenses and that ophthalmic lenses are generally considered as commoditised products, especially for single-vision lenses. For example, a number of retailers feedback that end-consumers are generally unfamiliar with ophthalmic lenses, and rely on opticians' recommendations.[254]

b. All retailers generally agreed that Essilor's brands of ophthalmic lenses are substitutable with brands from other suppliers, with one retailer

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[248] Responses by [✂], [✂], [✂], [✂], and [✂] to Question 5 of CCCS's RFI dated 9 February 2018.
[249] Responses by [✂], [✂], [✂], [✂], [✂], and [✂] to Questions 7, 21, 28 and 29 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Questions 7, 21, 28 and 29 of CCCS's RFI dated 26 September 2017; responses by [✂], [✂], [✂], [✂], and [✂] to Question 16 of CCCS's RFI dated 9 February 2018.
[250] Responses by [✂], [✂], [✂], and [✂] to Question 16 of CCCS's RFI dated 21 September 2017.
[251] Responses by [✂] and [✂] to Question 2 of CCCS's RFI dated 13 February 2018.
[252] Responses by [✂], [✂], [✂], [✂], [✂], and [✂] to Question 16 of CCCS's RFI dated 21 September 2017; and [✂]'s Response to Question 16 of CCCS's RFI dated 26 September 2017.
[253] Responses by [✂] and [✂] to Question 11 of CCCS's RFI dated 21 September 2017.
[254] Responses by [✂] and [✂] to Questions 8, 14, 16 and 19 of CCCS's RFI dated 9 February 2018.

mentioning that it had successfully switched from Essilor's ophthalmic lenses with minimal impact to its business.[255]

Conclusion

202. Based on the above, the evidence overall does not support a finding at this pre-merger stage that the merged entity will have the ability to leverage on Essilor's position in the market for the wholesale distribution of ophthalmic lenses so as to foreclose competition in the markets for the wholesale distribution of eyewear.

(e) Conclusion

203. On balance, after considering non-coordinated, coordinated and conglomerate effects that would arise from the Transaction, the evidence overall does not support a finding that the Transaction will lead to SLC in Singapore.

X. EFFICIENCIES

204. As CCCS has not made a finding that the Transaction, if carried into effect, will lead to a SLC in Singapore, it is not necessary for CCCS to weigh any efficiency generated by the Transaction against any harm on competition.

XI. THE DECISION

205. For the reasons above and based on the information available, CCCS assesses that the Transaction, if carried into effect, will not infringe the section 54 prohibition. In accordance with section 57(7) of the Act, this decision shall be valid for a period of one year from the date of this decision.

Toh Han Li
Chief Executive
Competition and Consumer Commission of Singapore

[255] Responses by [✂], [✂], [✂], [✂], [✂], and [✂] to Question 9 of CCCS's RFI dated 21 September 2017; [✂]'s Response to Question 9 of CCCS's RFI dated 26 September 2017; Responses by [✂], [✂], [✂], [✂], and [✂] to Question 15 of CCCS's RFI dated 9 February 2018.

<u>Annex A</u>

List of optical retailers consulted during the merger review

S/N	Name of Company	Any responses provided?
1.	[✂]	Yes
2.	[✂]	Yes
3.	[✂]	Yes
4.	[✂]	Yes
5.	[✂]	Yes
6.	[✂]	Yes
7.	[✂]	Yes
8.	[✂]	Yes
9.	[✂]	Yes
10.	[✂]	Yes
11.	[✂]	Yes
12.	[✂]	Yes
13.	[✂]	Yes
14.	[✂]	No
15.	[✂]	No
16.	[✂]	No
17.	[✂]	No
18.	[✂]	No
19.	[✂]	No
20.	[✂]	No
21.	[✂]	No
22.	[✂]	No
23.	[✂]	No
24.	[✂]	No
25.	[✂]	No
26.	[✂]	No
27.	[✂]	No
28.	[✂]	No
29.	[✂]	No
30.	[✂]	No
31.	[✂]	No
32.	[✂]	No
33.	[✂]	No
34.	[✂]	No
35.	[✂]	No
36.	[✂]	No
37.	[✂]	No

38.	[✂]	No
39.	[✂]	No
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41.	[✂]	No
42.	[✂]	No
43.	[✂]	No
44.	[✂]	No
45.	[✂]	No
46.	[✂]	No
47.	[✂]	No
48.	[✂]	No
49.	[✂]	No
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51.	[✂]	No
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55.	[✂]	No
56.	[✂]	No
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58.	[✂]	No
59.	[✂]	No
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61.	[✂]	No
62.	[✂]	No
63.	[✂]	No
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66.	[✂]	No
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72.	[✂]	No
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78.	[✂]	No

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87.	[✂]	No
88.	[✂]	No
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92.	[✂]	No
93.	[✂]	No
94.	[✂]	No
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103.	[✂]	No
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106.	[✂]	No
107.	[✂]	No
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110.	[✂]	No
111.	[✂]	No
112.	[✂]	No
113.	[✂]	No
114.	[✂]	No