PHILIPPINE COMPETITION COMMISSION
Ensuring businesses compete and consumers benefit

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IN THE MATTER OF THE PROPOSED JOINT VENTURE BETWEEN MITSUI & CO., LTD. AND KDDI CORPORATION THROUGH THE MERGER OF MITSUI & CO., LTD'S AND KDDI CORPORATION'S RESPECTIVE SUBSIDIARIES, RELIA, INC. AND KDDI EVOLVA, INC. WITH KDDI EVOLVA, INC. AS THE SURVIVING ENTITY	**MAO Case No. M-2023-004**
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COMMISSION DECISION NO. 04-M-004/2023

The Philippine Competition Commission (the "Commission") reviews mergers and acquisitions, including joint ventures, pursuant to Sections 16[1] and 17[2] of Republic Act No. 10667, otherwise known as the Philippine Competition Act ("PCA"), and Section 1, Rule 4[3] of the Implementing Rules and Regulations of the PCA.

This is a review of the proposed joint venture between Mitsui & Co., Ltd. ("Mitsui") and KDDI Corporation ("KDDI") through the merger of their respective subsidiaries, Relia, Inc. ("Relia") and KDDI Evolva, Inc. ("KDDI Evolva") (collectively, the "Parties"), with KDDI Evolva as the surviving entity (the "Proposed Transaction").

Upon careful review of the submissions of the Parties to the Commission and the findings and recommendation of the Mergers and Acquisitions Office ("MAO"), the Commission finds that the Transaction will not likely result in substantial lessening, restriction, or prevention of competition in the relevant market for the following reasons:

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[1] Section 16. *Review of Mergers and Acquisitions.* – The Commission shall have the power to review mergers and acquisitions based on factors deemed relevant by the Commission.

[2] Section 17. *Compulsory Notification.* – Parties to the merger or acquisition agreement referred to in the preceding section wherein the value of the transaction exceeds one billion pesos (P1,000,000,000.00) are prohibited from consummating their agreement until thirty (30) days after providing notification to the Commission in the form and containing the information specified in the regulations issued by the Commission: *Provided,* That the Commission shall promulgate other criteria, such as increased market share in the relevant market in excess of minimum thresholds, that may be applied specifically to a sector, or across some or all sectors, in determining whether parties to a merger or acquisition shall notify the Commission under this Chapter. xxx

[3] Section 1, Rule 4. *Review of mergers and acquisitions.* – The Commission, *motu proprio* or upon notification as provided under these Rules, shall have the power to review mergers and acquisitions having a direct, substantial and reasonably foreseeable effect on trade, industry, or commerce in the Philippines, based on factors deemed relevant by the Commission. xxx

(1) there are sufficient competitive constraints from competitors;

(2) customers have the ability to switch to the remaining competitors with ability to absorb them; and

(3) there is a low barrier to entry for new entrants and expansion of existing players.

The Parties and the Transaction

Mitsui, one of the joint venture parties and the Ultimate Parent Entity ("UPE") of Relia, is a Japanese general trading company engaged in a wide range of businesses world-wide, including in the Philippines. Mitsui mainly focuses on manufacturing, transportation, corporate development, and financing in iron and steel products, mineral and metal resources, energy, machinery, and infrastructure.

Relia is a business process outsourcing ("BPO") services provider with subsidiaries in the Philippines, namely: (i) Inspiro Relia, Inc. ("Inspiro"), (ii) Infocom Technologies, Inc. ("Infocom"), and (iii) Relia Global Shared Services, Inc.[4]

KDDI, the other joint venture party, is primarily engaged in the telecommunications industry. It also supplies services such as information and communication technology ("ICT") solutions and the maintenance of facilities related to telecom and ICT solutions. It engages the Philippine market directly, and through its subsidiaries, namely: (1) KDDI Philippines Corporation ("KDDI Philippines"), and (2) KDDI Philippines Holdings, Inc.

KDDI Evolva, the surviving entity, is a wholly owned subsidiary of KDDI, with no business operations in the Philippines.

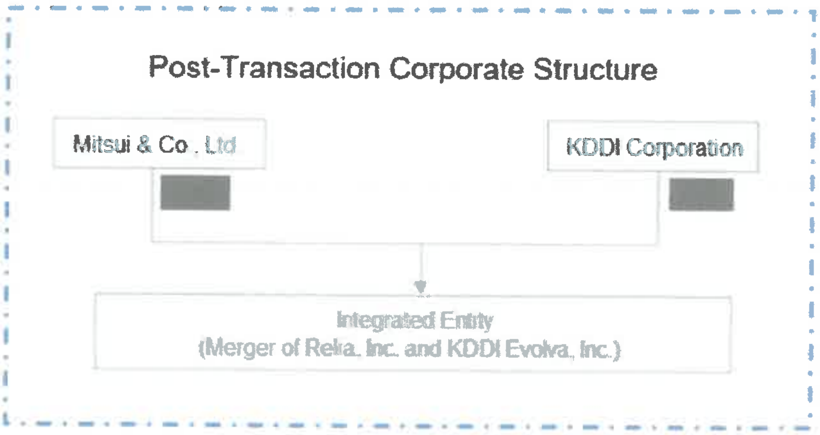
The foregoing Parties plan to carry out the Proposed Transaction in two phases, thus:

Phase 1: Mitsui [redacted] will be making a tender offer to obtain full ownership or at least [redacted] interest therein; and

Phase 2: Mitsui and KDDI will enter into a joint venture through the merger of Relia and KDDI Evolva, where KDDI Evolva will be the surviving entity ("Integrated Entity").

Post-transaction, Mitsui and KDDI shall have joint control over the Integrated Entity [redacted]. Its corporate structure is shown as follows:

[4] Inspiro and Infocom are BPOs that provide customer relationship management ("CRM") services, who share clients with other BPOs based in the Philippines like Concentrix.



The Relevant Market[5]

The MAO identified the provision of SASE for integrated network solutions[6] on a global scale as the relevant market for the assessment of this Transaction.

There are no horizontal overlaps among the lines of operations and businesses of the parties in the Philippines. The Philippine-based subsidiaries of Relia, Inspiro and Infocom, provide customer relationship management ("CRM") services. They do not offer integrated network solutions services. Conversely, the subsidiary of KDDI, KDDI Philippines, only provides network solutions and other system integration services. It does not offer CRM services.

However, a vertical relationship between the parties exists. KDDI Philippines resells licenses of CATO Secure Access Service Edge ("SASE") Cloud to Inspiro. SASE is a cloud-native architecture that combines network and security functions to support the dynamic secure access needs of digital enterprises. An integrated network infrastructure, such as SASE, is a necessary input for businesses like Relia in providing CRM services.

As for the relevant geographic market, the scope of the assessment is global. SASE provides cloud-based secure access to an enterprise network architecture, allowing SASE providers to operate on a global basis. Most of the business enterprises served by SASE providers also operate on a global basis as they use cloud platforms to integrate the network infrastructure of their subsidiaries.[7]

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5 In the assessment of the relevant markets to be considered, the products and services offered and availed of by the Parties were used as starting points.

6 Integrated network solutions refer to the creation of an integrated network system, wherein the network or connectivity of a company is blended in a cohesive manner creating a single ecosystem. This involves hardware and software that ensures that a company's technology works with other parts of its ICT; *See* An Integrated Network – Are You Sure It Means What You Think It Means?, accessed at <https://www.cio.com/article/219806/an-integrated-network-are-you-sure-it-means-what-you-think-it- means.html > on 06 April 2023.

7 "What is SASE?" accessed on 05 April 2023, at: https://www.gartner.com/en/information-technology/glossary/secure-access-service-edge-sase.

Competition Assessment

An assessment of the relevant market reveals that there is sufficient competitive pressure on the Integrated Entity pre- and post-Transaction. While CATO Networks provided by KDDI is considered one of the key players in the market, it competes closely with other numerous providers.[8] Moreover, customers will remain to have the ability to switch to other competitors with adequate absorptive capacity.

Due to low barriers to entry, new entrants and the expansion of existing market participants continue to pose significant competitive constraints on the Integrated Entity. The market for the provision of SASE for integrated network solutions is expected to grow. Industries require more work-from-anywhere network solutions to ensure the connectivity, productivity, and security of their own network. It is also not difficult to enter the market for SASE services as the business startup requirements are not complex and many of the structures, assets, and basic software needed to operate as a SASE provider may be leased from third parties.

No Input Foreclosure on the Provision of SASE for Integrated Network Solutions to CRMs

It appears that KDDI cannot engage in an input foreclosure strategy, post-Transaction, because of the ability of other CRMs to switch to other SASE providers, or to avail of CATO Networks' SASE services from other distributors.

Pre- and post- Transaction, there is no showing that KDDI has significant market power in the provision of SASE for integrated network solutions. Notably 80% of the market by revenue is secured by the top 11 SASE providers, with the top four holding 50% of the market.[9] KDDI and at least more than twenty (20) other vendors hold the remaining 20%.

KDDI cannot foreclose access to CATO SASE because it is not the sole distributor of SASE services through the CATO Cloud software. There are other viable alternative providers of SASE services in the market.

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[8] Other providers of SASE for integrated network solutions: (1) Barracuda Networks, Inc.; (2) Check Point Software Technologies Ltd.; (3) Cisco Systems, Inc. ("Cisco"); (4) Hewlett Packard Enterprise Development LP ("HP"); (5) McAfee, LLC ("McAffee"); (6) Open Systems; (7) Palo Alto Networks; (8) Versa Networks, Inc. ("Versa"); and (9) VMware, Inc. ("WMware"), from Secure Access Services Edge Market Share Estimated to Garner USD 5.5 Billion by 2030 - Report by Market Research Future (MRFR). Accessed on 05 April 2023, at: https://www.globenewswire.com/en/news-release/2023/03/30/2637437/0/en/Secure-Access-Services-Edge-Market-Share-Estimated-to-Garner-USD-5-5-Billion-by-2030-Report-by-Market-Research-Future-MRFR.html>.

[9] Top four SASE providers in the market: (1) Broadcom/Sumantec; (2) Cisco; (3) Palo Alto Networks; and (4) Zscaler. *See* https://www.lightreading.com/sd-wan/security-and-cloud-app-demands-underpin-sase-market-growth/d/d-id/780520.

No Customer Foreclosure of Integrated Network Solutions to CRMs

Relia avails of several integrated network solutions services from providers other than KDDI. Should Relia opt to exclusively engage KDDI for all its integrated network solutions requirements, it cannot foreclose other network service providers. Relia's Philippine subsidiaries do not have significant market power in the CRM market.

Moreover, network solutions providers could offer their services not only to other CRMS, but also to other businesses that need system integrated network management solutions.

ACCORDINGLY, the Commission resolves to **CLEAR** the joint venture between Mitsui & Co., Ltd. and KDDI Corporation through the merger of their respective subsidiaries, Relia, Inc. and KDDI Evolva, Inc., with KDDI Evolva as the surviving entity.

This Decision is rendered solely based on the facts disclosed, circumstances of the Proposed Transaction known to the Commission during the review period, and documents submitted by Mitsui, Relia, and KDDI.

13 April 2023

[SIGNATURE REDACTED]

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Chairperson

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MARAH VICTORIA S. QUEROL
Commissioner

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