

## **CINEWORLD/CITY SCREEN MERGER INQUIRY**

### **Summary of provisional findings**

**20 August 2013**

1. On 30 April 2013, the Office of Fair Trading (OFT) referred the completed acquisition by Cineworld Group plc (Cineworld) of City Screen Limited (the transaction) to the Competition Commission (CC) for investigation and report. We must publish our report by 14 October 2013.
2. With a portfolio of 79 cinemas in the UK, Cineworld is one of the largest operators of cinemas. It is listed on the London Stock Exchange. Its revenue in 2012 was £359 million. Prior to the transaction, City Screen Limited operated 21 cinemas, principally under the Picturehouse brand. Throughout this report, we refer to City Screen Limited and its subsidiaries as Picturehouse. Prior to the transaction, Picturehouse was privately owned and relied on funding from venture capital firms. In 2011, Picturehouse's turnover was £24.3 million.<sup>1</sup> While Cineworld operates mainly large cinemas, many of which are out of town, Picturehouse's cinemas tend to be smaller cinemas located in city centres.
3. Cineworld and Picturehouse (collectively the parties) initiated negotiations in June 2012. The shareholders of Picturehouse did not actively seek out or negotiate with any other potential buyers. On 6 December 2012 Cineworld acquired the entire share capital of City Screen Limited. In making the acquisition, Cineworld's strategy was to reach what it perceived to be a new and growing segment.

---

<sup>1</sup> Excluding City Screen Limited's share of joint venture, the Group Turnover was £18.2 million.

4. Together, the parties' share of supply of cinema exhibition services in the UK is just over 26 per cent. We are satisfied that a relevant merger situation has been created as a result of the transaction.
5. Cinemas are of various sizes, and a distinction is generally made by the industry between multiplexes (which have more than five screens) and other cinemas. Operators of multiplexes tend to focus on showing mainstream films and to offer a largely undifferentiated service, although in recent years some have developed more tailored offerings for certain customer segments. Operators of smaller cinemas, which are generally located in town and city centres, may differentiate themselves from multiplex operators not only through the location of their cinemas and the mix of films they show (which will generally include both mainstream and specialized films), but also through the ancillary services and general ambience their cinemas offer to their customers. Three suppliers of cinema exhibition services, Odeon & UCI Cinemas Holdings Ltd, Cineworld and Vue Entertainment Holdings (UK) Limited, accounted for more than 70 per cent of box office revenues in 2012 in the UK. They operate mainly multiplexes. Picturehouse was the sixth largest UK operator, with a 1.7 per cent share of revenues.
6. The parties overlap in the supply of cinema exhibition services. We defined the relevant product market as the market for the provision of cinema exhibition services, and we saw no reason to include within the definition of the relevant product market other leisure activities and/or food and beverages. For the geographic market definition, we established the boundaries of the markets based on 20-minute

isochrones<sup>2</sup> around the parties' cinemas, but we recognized the need to apply this rule flexibly when assessing competition in specific local areas.

7. Picturehouse also supplies film programming services to cinema exhibitors. This includes the selection of films and negotiations with film distributors. We defined the market as the market for cinema programming services in the UK.
8. Although some decisions are made centrally by cinema exhibitors, we found that much of the competitive process takes place at the local level, and we found that generally, when setting the price of cinema tickets, exhibitors take account of the prices of all types of cinemas operating in their local area.
9. We considered what would have happened in the absence of the transaction (the counterfactual). We found that Picturehouse was a profitable business that was likely to continue to operate as a stand-alone entity, and we did not consider it likely that it would have been sold to another purchaser.
10. We identified three ways in which the transaction could have an effect on competition: first, in the areas where both parties have cinemas, the removal of one competitor could allow the parties to increase their prices or reduce the quality of their services locally; second, in the areas where either party had plans to expand prior to the transaction, the transaction may result in the loss of a competitor either because of the abandonment of the expansion plan or because of common ownership of the current cinema and the future cinema; third, to the extent that they have market power in the provision of programming services, the parties could exercise that power to distort competition in the provision of cinema exhibition services in the

---

<sup>2</sup> A line joining points of equal travel time (usually drive-time) from a given point.

areas where the merger has increased their incentive to do so. We examined evidence relating to each of these three theories.

11. We first considered all local areas where both parties have cinemas. Through a filtering process that primarily involved identifying the number of cinemas under different ownership in the vicinity of the parties' cinemas, we identified nine local areas which we considered merited further investigation. Using a range of evidence and analytical tools, we studied the nature of the competitive process in each area and in particular the extent to which the parties' cinemas competed with each other prior to the transaction and the extent to which other cinemas in these areas exerted a competitive constraint on the parties. We also considered whether any expected loss of competition could be mitigated by the timely entry of a new cinema exhibitor. We provisionally conclude that the transaction may be expected to lead to a substantial lessening of competition (SLC) in the markets for cinema exhibition services in three local areas: Aberdeen, Bury St Edmunds and Cambridge.
12. Second, we examined the expansion plans that the parties were pursuing prior to the transaction. The evidence we received suggested that plans had not been modified by the parties in order to avoid direct competition. We found that three of Picturehouse's planned cinemas and 28 of Cineworld's planned cinemas had reached a stage of development at which they were likely to be taken forward. We filtered out the areas where there was a sufficiently high number of alternative cinemas owned by other exhibitors to expect that the transaction would not lead to competition concerns, and through this process identified two planned Picturehouse cinemas (in Chiswick and Crouch End) which merited further investigation. In both cases, our investigations led us provisionally to conclude that the transaction is unlikely to result in an SLC.

13. Third, we found that Picturehouse's programming services are advisory and customers typically make the ultimate programming decisions. We also found that although customers value highly the expertise that the Picturehouse programming team provides, there are other options open to them and barriers to entry into the supply of programming services appear to be relatively low. We therefore provisionally conclude that the transaction is unlikely to lead to an SLC in the provision of programming services to cinema exhibitors in the UK.