

## Terms of reference and conduct of the inquiry

### Terms of reference

1. On 20 August 2012, the OFT sent the following reference to the CC:
  1. In exercise of its duty under section 33(1) of the Enterprise Act ('the Act') to make a reference to the Competition Commission ('the CC') in relation to an anticipated merger, the Office of Fair Trading, ('the OFT') believes that it is or may be the case that:
    - (a) arrangements are in progress or contemplation which, if carried into effect, will result in the creation of a relevant merger situation in that:
      - i. enterprises carried on by or under the control of the Rank Group PLC will cease to be distinct from enterprises carried on by or under the control of Gala Casinos Limited; and
      - ii. the value of turnover in the UK of the enterprises acquired exceeds £70 million; and
    - (b) the creation of that situation may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services, including the supply of casino services (i) at a national level in the UK, and (ii) at a local level in the areas of Stockton-on-Tees, Aberdeen, Bristol, Cardiff, Stockport/Didsbury, Liverpool/New Brighton, Leeds, Edinburgh and Bradford.
  2. Therefore, in exercise of its duty under section 33(1) of the Act, the OFT hereby refers to the CC, for investigation and report within a period ending on 3 February 2013, on the following questions in accordance with section 36(1) of the Act:
    - (a) whether a relevant merger situation will be created; and
    - (b) if so, whether the creation of that situation may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods and services.

*(signed)* ALI NIKPAY  
**Office of Fair Trading**  
**20 August 2012**

### Conduct of the inquiry

2. On 28 August 2012, we posted on our website an invitation to express views about the merger. [Non-confidential versions of initial submissions](#) were published on our website.
3. On 14 September 2012, we posted on our website a [notice of an extension of the inquiry period](#), made pursuant to section 39(4) of the Act. [The extension was terminated](#) by a further notice posted on our website on 1 October 2012. As a result of this extension, the date by which we are required to publish our final report is 20 February 2013.

4. On 2 October 2012, we posted a revised [administrative timetable](#) for our inquiry.
5. We invited selected competitors of Rank and Gala to comment and fill out a questionnaire on the merger. We gathered oral evidence through hearings with selected third parties. [Summaries of these hearings](#) are on our website.
6. On 2 October 2012, we posted an [issues statement](#) on our website. We received one response from [Genting Casinos UK Ltd](#).
7. All members of the Inquiry Group, accompanied by staff, visited a number of the parties' casinos in Stockport, Didsbury and Manchester on 10 October 2012.
8. We received a joint written submission from Rank and Gala and posted a [non-confidential version](#) on our website on 3 October 2012. We also held hearings with Rank and Gala on 16 November in separate sessions.
9. During the course of our inquiry, we sent Rank and Gala working papers for comment and considered a number of submissions from them and other parties.
10. A [customer survey](#) was performed on behalf of the CC by Gfk NOP. The agency's report and presentation, alongside a report from the independent survey monitor, were posted on our website on 14 December 2012.
11. A non-confidential version of the [provisional findings](#) and [notice of possible remedies](#) was placed on the CC website on 18 December 2012. We held response hearings with several third parties and the main parties between 11 and 15 January 2013. We also published written responses to the notice of possible remedies and provisional findings on our website on 11 and 22 January 2013 respectively.
12. We sent a remedies working paper to the main parties on 28 January 2013 for comment. We also consulted both main parties on our revised provisional findings.
13. On 19 February 2013, we published a non-confidential version of the [final report](#) on our website.

### **Interim measures**

14. On 29 October 2012 we accepted undertakings offered by [Rank](#) and [Gala](#) and published them on our website.
15. On 21 December 2012, we granted permission to Rank to request specified financial information from Gala.

## Background on the industry and the parties

### Industry background

#### Types of casino

1. There are two main types of casino in the UK:
  - (a) Casinos operate from a physical location. They generally provide a range of table games (eg roulette, blackjack) and machine games (eg slot machines).
  - (b) Remote casinos do not operate in a traditional casino location. According to HMRC, remote gaming means playing a game of chance for a prize through any kind of remote communication, for example the Internet, telephone, mobile phone/tablet or interactive television.
  
2. Casinos in Great Britain are licensed under the 1968 Act and the 2005 Act. Those two Acts prescribed the number of casinos<sup>1</sup> that are permitted to operate and their location. The theoretical maximum number of 1968 Act licences is 186, of which 146 are currently active and 40 are currently issued but not in use, ie 'cold'. The ownership of each licence is shown in the table below. The number of casinos is less than the number of licences because some casinos are able to use more than one licence at a particular site (eg to permit a higher number of gaming machines). The table below summarizes the number of licences held by each licensee.

TABLE 1 Number of casino licences per operator

Operator	Total number of standard casinos (1968 and 2005)	1968 Act licences		2005 Act licences	
		Active	Cold	Open	Awarded but not yet open
Genting	40	44	11	-	1
Grosvenor (Rank)	35	37	10	-	-
Gala	24	27	4	-	-
LCI	10	11	-	-	-
A&S	6	6	-	-	-
Aspers	3	2	-	1	1
Guoco (controls Rank)	-	1	5	-	-
Other	14	18	10	-	4
<b>Total</b>	<b>133</b>	<b>146</b>	<b>40</b>	<b>1</b>	<b>6</b>

Source: CC.

#### Notes:

1. The number of licences is greater than the number of casinos because some licences have been combined into a single location and the licences includes high-end casinos.
2. Gala licences include Dundee and excludes Gibraltar. Both are to be excluded from the merger.
3. Genting total includes Fox Poker Club on Shaftsbury Avenue. Genting Coventry is counted as one location due to co-location at Coventry Skydome.
4. LCI casino count of ten casinos excludes the London Poker Club.

3. Rank and Gala, as well as other companies including high-street betting companies (eg William Hill and Ladbrokes) operate remote casinos in the UK. Casino games (including poker) can also be played on online social networks such as zynga.com

<sup>1</sup> Where we refer to 'casinos' in this appendix we are referring to bricks-and-mortar casinos unless we indicate otherwise.

and on specialist websites such as pokerstars.com. The GC is not presently responsible for regulating remote casinos whose physical assets are not located in Great Britain.

## **Casino income**

4. There are two main indicators to describe the income generated by a casino:
  - (a) The term 'drop' describes the total amount of cash that a casino visitor exchanges for 'chips'. Most casino games, other than gaming machines, are played with chips or tokens, as opposed to cash.<sup>2</sup> When a player enters the casino they exchange cash for chips. Slot machines and other electronic gaming machines are played with cash.<sup>3</sup> The drop does not reflect the amount won or lost, because a customer may recycle winnings during a single visit, and at the end of the visit the customer could exchange unspent chips for cash, which could be less than or more than the original drop.
  - (b) The term Gross Gambling Yield (GGY) is defined as the amount retained by operators after the payment of winnings but before the deduction of the costs of the operation. It is broadly analogous to casino gaming revenue but excludes revenue from ancillary services such as F&B and is therefore less than total casino revenue. Gaming Duty is levied on GGY.

## **UK Gross Gambling Yield**

5. During the period April 2011 to March 2012, casinos generated a GGY of £868 million, representing a 9 per cent increase over the prior 12-month period. Casinos therefore represented 15 per cent of the GGY for the gambling operators regulated by the GC,<sup>4</sup> which totalled £5.8 billion<sup>5</sup> in 2011/12. Total UK expenditure on gambling (including with operators that are not regulated by the GC) is likely to be significantly higher. For example, Mintel estimated UK consumer expenditure on gambling to be approximately £8.4 billion in 2010, making it the UK's fourth most valuable leisure activity.<sup>6</sup>

## **Casino admissions**

6. In the period October 2010 to September 2011 the number of admissions to local casinos was 17.42 million, approximately the same as a year earlier (17.38 million in the period April 2010 to March 2011) and 1.8 per cent higher than the 17.1 million admissions in the period April 2009 to March 2010.

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<sup>2</sup> Some casinos allow customers to bet with cash at the table, but winning bets will typically be paid in chips.

<sup>3</sup> Some casinos have also introduced a 'ticket in ticket out' system, pursuant to which customers add credits to the slot machine, and remove any winnings or unused credit, using a ticket which can be exchanged for cash at a cash desk.

<sup>4</sup> British gambling markets (betting, bingo, casinos, arcades, gaming machines and lotteries) and remote gambling. Excludes the National Lottery, spread betting, and non-UK-regulated remote gambling operators, as those activities are not regulated by the GC.

<sup>5</sup> Gambling Commission, *Industry statistics 2009 – 2012*. As set out in further detail in Appendix H, the GC regulates gambling in the UK, but it does not regulate the National Lottery or spread betting. Furthermore, its regulation of remote gaming encompasses only those companies that are regulated in the UK. Most of the major remote gaming companies accessible to UK customers are not regulated in the UK.

<sup>6</sup> *Gambling Habits*, Mintel, December 2010, p22.

## Taxation of casino revenue

7. Gaming Duty is a duty on casino gaming profits and is based on the 'gross gaming yield' for premises where gaming takes place. The rates of Gaming Duty are between 15 and 50 per cent, with the rate escalating as GGY increases. It applies only to premises-based gaming.<sup>7</sup> According to HMRC, gross gaming yield consists of the total value of the stakes, minus players' winnings, on games in which the house is the banker, and any charges made in connection with dutiable gaming, including charges made for participation in equal chance games such as poker. It does not include any charge which is made only for admission to the premises. Gaming Duty applies to *games of chance*, such as roulette, blackjack, etc, where individuals play against a bank held by the gaming operator ('casino games'), and *equal chance games*, such as backgammon and poker, where the gaming operator provides facilities for customers to play against each other.

## Table games and their relative popularity in local casinos

8. Casinos offer a range of table games. There are two broad categories of table game.
  - (a) First, games of chance,<sup>8</sup> including: roulette, blackjack, craps/dice, three-card poker and baccarat/punto banco, for which the casino enjoys a 'house edge'—a statistical probability that it will pay out less on bets the customer wins than it receives from bets the customer loses.
  - (b) The second category is equal chance games, where players play principally against other players, such as poker. This section provides a brief overview of each game including the house edge or other source of revenue from the viewpoint of the casino operators.
9. The GC publishes a periodic summary of the regulatory returns showing the average number of gaming tables for each type of game. Based on the most recent statistics, roulette is the most popular (almost half of the total drop), and is significantly more popular than the next two table games—punto banco (baccarat) and blackjack. Electronic roulette generated 16 per cent of the total drop, whilst gaming machines generated 2.4 per cent of total drop.

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<sup>7</sup> A separate Remote Gaming Duty applies to other gaming. Remote gaming means playing a game of chance for a prize through any kind of remote communication, for example the Internet, telephone or interactive television. Within this notice, the 'provision of facilities' has the same meaning as in section 5 of the 2005 Act and 'remote gambling equipment' has the meaning given by section 36 of the 2005 Act.

<sup>8</sup> Based on the HMRC definitions applied to Gaming Duty.

TABLE 2 Total drop and number of tables per game

	<i>Total drop by game</i>		<i>Number of tables</i>	
	<i>Apr 2011–Mar 2012</i>		<i>Apr 2011–Mar 2012</i>	
	<i>£m</i>	<i>% total</i>	<i>Number</i>	<i>% total</i>
American roulette	2,419.6	44.8	835	9.7
Punto banco	943.6	17.5	111	1.3
Blackjack	756.0	14.0	575	6.7
Three-card poker	203.8	3.8	229	2.7
Dice	29.9	0.6	21	0.2
Casino stud poker	5.1	0.1	12	0.1
Other	52.5	1.0	224	2.6
Subtotal	4,410.5	81.7	2,007	23.4
Electronic roulette	861.9	16.0	3,858	44.9
Total	5,272.4	97.6	5,865	68.3
Gaming machines (Types B1,B2,B3)	128.7	2.4	2,723	31.7
Grand total	5,401.2	100.0	8,588	100.0

Source: GC.

### **Regulation of games of chance**

10. The GC publishes the rules of core casino games in Great Britain, which outline the basic rules of the five most popular casino games: roulette, blackjack, punto banco, three-card poker and dice.<sup>9</sup>

### **Electronic gaming**

11. Alongside card games, casinos provide a venue for playing casino games on gaming machines. A gaming machine is defined by the 2005 Act as a machine that is designed or adapted for use by individuals to gamble (whether or not it can also be used for other purposes). Most gaming machines are of the reel-based type, also known as fruit, slot, or jackpot machines. According to the GC there were 140,516 gaming machines across all gambling categories in the period April 2011 to March 2012. Of these, 2,724, or 2 per cent of the total were located in casinos and 98 per cent were located in adult gaming centres or family entertainment centres.<sup>10</sup>
12. There are various categories of gaming machine (B1, B2, B3, B4, C, D). The machines located in casinos are almost exclusively of type B1, of which there were 2,526 in UK casinos. Type B1 has a maximum jackpot of £4,000. In addition there were 61 type B2 and 7 type B3 machines in casinos. There are no B4, C or D machines in casinos. As explained in detail in Appendix H on regulation, the number of gaming machines permitted per casino is limited by statute.
13. The Return to Player (RTP) refers to the proportion of cash paid back to the player. Average percentage RTP is generally measured over 10,000 or 100,000 games or greater for compensated<sup>11</sup> and random<sup>12</sup> machines respectively, dependent upon their category. There is no statutory minimum percentage payout for gaming machines but all machines are required to display clearly the percentage RTPs, or

<sup>9</sup> Regulation of casino games is described in greater detail in Appendix H.

<sup>10</sup> These premises are regulated by the GC.

<sup>11</sup> Compensated machines vary the chance of winning a prize as a result of the outcome from previous play. Where such a machine is below its target percentage RTP it may become more generous dependent upon design and vice versa, though the prize distribution is still determined by chance.

<sup>12</sup> Random machines rely purely on statistical probabilities to achieve their target percentage RTP. The odds of achieving a win remain constant, and are not affected by previous wins or losses.

the odds of winning prizes from use of the machine. The standard RTP settings for B1 machines supplied by all manufacturers in the UK are 90 per cent or higher.

14. The GC publishes technical standards<sup>13</sup> for machines. This standard is applicable to all category A & B1 gaming machines as defined under section 235 of the 2005 Act. This standard came into force for all category A & B1 gaming machines supplied or sited within Great Britain from 1 September 2007. The purpose of the standard is to set out in detail GC requirements with respect to game features, display notices and general machine operation including metering. These have been developed to help ensure that the GC's three licensing objectives are met. Those objectives are to: prevent gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime; ensure that gambling is conducted in a fair and open way; and protect children and other vulnerable persons from being harmed or exploited by gambling.

### **Additional background information on the parties**

15. This section provides additional background information on the parties.

### **Rank**

#### *Grosvenor bricks-and-mortar casinos*

16. Rank operates eight casinos under the Grosvenor format and 20 under the G Casino format. There are also six 'Bespoke' casinos which are individually branded, and one 'E Casino' in Scarborough that contains only gaming machines. All Rank casinos currently in operation are licensed under the 1968 Act. Most facilities are open 24 hours a day, where possible under the licence conditions.
17. Over the last five years Rank has invested in upgrades and rebranding of ten Grosvenor casinos to change them to the G Casino format, which involves investment in the facilities, between [x] pounds per venue.<sup>14</sup> Rank has reported that some casinos showed EBITDA growth of over [x] per cent after two years versus pre-investment numbers, [x].
18. Over the period FY2007 to 2012, the number of admissions increased from [x] million to [x] million, an annualized rate of [x] per cent. The gross margin has [x] in the 12 months to 31 December 2007 to 78 per cent in the 12 months to June 2012. Over the same period, both EBITDA<sup>15</sup> and EBIT<sup>16</sup> have [x] percentage points (EBITDA from [x] per cent in 2007 to [x] per cent in the year ended 30 June 2012, and EBIT from [x] per cent in 2007 to [x] per cent in the year ended 30 June 2012). Table 3 summarizes the financial performance of Grosvenor for the last five years. Table 3 shows December year-ends between 2007 and 2011, and the year ended 30 June 2012,<sup>17</sup> which therefore means that the results of the six months ending 31 December 2011 are included in both of the most recent columns of data.

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<sup>13</sup> [www.gamblingcommission.gov.uk/pdf/Machine\\_standards\\_category\\_A\\_and\\_B1\\_June\\_2012\\_revision\\_2.pdf](http://www.gamblingcommission.gov.uk/pdf/Machine_standards_category_A_and_B1_June_2012_revision_2.pdf).

<sup>14</sup> Rank: G Casino conversions: Birmingham, Bolton, Brighton, Cardiff, London Piccadilly, Luton, Newcastle, Plymouth, Sheffield and Walsall. In Leeds and Walsall Rank operates an electronic casino alongside its bricks-and-mortar casino.

<sup>15</sup> Earnings before interest, tax, depreciation and amortization.

<sup>16</sup> Earnings before interest and tax.

<sup>17</sup> In 2011 Rank changed its year-end to 30 June.

TABLE 3 Grosvenor financial performance, 2007–2012

	31 Dec 2007	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011	30 Jun 2012*
UK customer visits ('000)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
UK revenue (£m)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Cost of goods sold (£m)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
UK gross profit (£m)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
UK EBITDA (£m)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
UK EBIT before central costs (£m)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Central costs (UK and Belgium) (£m)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
EBIT after central costs, for UK and Belgium (£m)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Gross profit margin (%)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
EBITDA margin (%)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
EBIT margin (%)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: Rank.

\*Rank changed its year-end from 31 December to 30 June.

Note: Visitor, revenue and EBIT figures exclude Belgium, but central costs relate to the whole division.

### Grosvenor remote casinos

19. Rank Interactive provides shared services for Rank's remote gambling services—including casino games.<sup>18</sup> These activities comprise: bingo, casino games, poker and sports betting via a number of specific brands and dedicated websites.<sup>19</sup> Rank Interactive was established in 1999 and was a separate division of Rank until 30 June 2012. In the five-month period to 31 May 2012, Rank Interactive attracted stakes of £[REDACTED] (equivalent to a pro rata 12-month total of [REDACTED]). In the year ended 30 June 2012 Rank Interactive generated revenue of £77.7 million and operating profit of £10.5 million, representing an operating profit margin of 13.5 per cent.<sup>20</sup> The revenue mix was: £59.7 million from bingo and games, £8.4 million from sports betting, £8.5 million from casino games, and £1.1 million from poker.<sup>21</sup> The online casino activities are regulated by the Alderney Gambling Control Commission. The Grosvenor website provides a link to the bricks-and-mortar casinos, which are described as 'Local Casinos'.

### Electronic games

20. Rank has three slot machine suppliers—[REDACTED]. Each supplier provides a different type of machine and different games. According to Rank, each supplier offers alternative theoretical payout ratios for its machines as standard (for example, [REDACTED] offers payout levels of over 90 per cent), and recommends a payout ratio which it believes will optimize the return generated by the machine. Rank's central management function normally follows the recommendations of its slot machine suppliers in setting payout ratio levels. Rank's experience suggests that machines with higher payout ratios often generate increased revenue because of the improved customer experience those machines offer, and Rank does not take the payout ratios of its competitors into account in setting its own payout ratios. For ease of administration, Rank applies payout ratios nationally to all machines provided by each supplier based on these considerations. Currently, Rank's theoretical payout levels are [REDACTED]. A sticker is

<sup>18</sup> Remote gambling is a legal activity in Great Britain, which is the primary market for Rank Interactive. It uses Internet and telecommunications technologies to allow people to place bets and play a variety of games (including bingo, casino games and poker) from their computers, mobile phones, tablet devices and televisions.

<sup>19</sup> www.bluesq.com; www.bluesqpoker.com; www.meccabingo.com; www.meccagames.com; www.grosvenorcasin.com; www.grosvenorpoker.com; www.gukpt.com.

<sup>20</sup> See [www.rank.com/articles/101/The Rank Group Plc - Prelim Results 18m to 30 June 2012.pdf](http://www.rank.com/articles/101/The_Rank_Group_Plc_-_Prelim_Results_18m_to_30_June_2012.pdf).

<sup>21</sup> Preliminary results announcement.

displayed on each machine indicating the minimum payout ratio for players, for example 'at least 92 per cent' or 'at least 94 per cent'.

21. Rank told us that there had been [REDACTED].

### *Loyalty programme*

22. Grosvenor operates a loyalty scheme called 'Grosvenor Play Points' which rewards customers with points. The customer can earn points for playing table games, on slots, electronic gaming, in the poker room and for purchasing drinks and food at the bar and restaurant. One Play Point is worth 1p to the customer. These points can be exchanged for additional gaming vouchers, for food and drinks, for poker room fees and for gifts via an online gifts catalogue.
23. Rank has implemented the electronic loyalty card scheme at [REDACTED].<sup>22</sup> The remaining [REDACTED] casinos have the option of operating a stamp-based loyalty scheme (broadly rewarding the number of attendances at the casino) in addition to other promotional activity. Stamp card loyalty schemes are also used from time to time at casinos which operate Play Points, for example to encourage play on specific games such as slots. Since May 2012, Play Points has offered two membership categories—a blue entry-level card and a gold level which is by invitation only.
24. The aim of Rank's scheme is to capture data on consumers' behaviour to better inform the local casino's offering. The loyalty scheme can also be used in conjunction with promotions in order to reward increased attendances. However, as around [REDACTED] per cent of customers outside of London (and [REDACTED] per cent of customers in London) only visit one Rank casino, the scheme is not designed to increase attendance at a number of different clubs. For ease of administration, the loyalty scheme is coordinated by Rank's central team who collect and analyse the data of those customers that use their loyalty cards. Currently only around [REDACTED] per cent of customers, on average, in fact use their loyalty cards in casinos where the loyalty card is available, although this varies significantly between casinos.

### *Capex*

25. In the past five years, Rank has invested [REDACTED] in its local casino estate, including a number of major refurbishments that have cost [REDACTED]. Table 4 summarizes the annual capex over the past five years and [REDACTED].

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<sup>22</sup> [REDACTED]

TABLE 4 Grosvenor annual capex

	£ million					
	31 Dec 2007	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011	Total
[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]		[X]	[X]	[X]	
	[X]		[X]	[X]	[X]	
	[X]		[X]	[X]	[X]	
	[X]		[X]	[X]	[X]	
	[X]		[X]	[X]	[X]	
	[X]		[X]	[X]	[X]	
	[X]		[X]	[X]	[X]	

Source: Rank.

26. Rank's view is that payback on a new casino should be achieved within [X]. There should be a [X] per cent cash-on-cash return in year 2. There should be a [X] net present value, for which Rank applies a [X] per cent cost of capital discount rate.

### Gala Coral

27. The ownership of the Gala Coral Group has changed over the past ten years. In 1997 a management buy-in, led by John Kelly, purchased 130 Gala Bingo Clubs from Bass. The deal was backed by PPM Ventures. In December 2000, the Gala Group, backed by CSFB Private Equity, acquired 26 casinos from the Hilton Group. Gala Bingo also became the leading bingo operator that year on the back of a number of acquisitions. Private equity firms, Candover and Cinven, acquired the Group in February 2003 for £[X]. In August 2005 a third investor, Permira, bought a stake in the company valuing Gala at nearly £[X]. In October 2005, Gala Group acquired Coral Eurobet in a deal that created Europe's largest integrated betting and gaming company with an enterprise value of approximately £[X]. In 2010 mezzanine debt holders took ownership of the Group and existing shareholders Candover, Cinven and Pemira exited.
28. Following the 2010 change of ownership, on 27 May 2011 the Gala Coral Group completed a refinancing of its former senior secured credit facilities. The borrowings raised £[X] million.<sup>23</sup> The net proceeds of these borrowings, together with Group cash, were used to repay all of the Group's existing senior secured facilities. These new borrowings are repayable between [X], thus extending the maturity date of the Group's borrowings to [X] from the date of this inquiry. The balance sheet at 24 September 2011 recorded total net debt (including GCGI loan notes and the Gala Propco Three Limited loan, net of cash balances and issue costs) was [X], compared with [X] at 25 September 2010. The ratio of net debt to EBITDA at 24 September 2011 was [X].

### Gala Casinos

29. Gala Casinos historically operated as a division, which encompassed the principal legal entity, Gala Casinos Limited, alongside other businesses within the Gala Coral Group.

<sup>23</sup> The new debt package comprised new senior secured credit facilities of £925 million (which included a £100 million undrawn revolving credit facility), senior secured notes of £350 million and senior notes of £275 million.

30. Gala Casinos comprises 24 casinos in the UK and one in Gibraltar and it also owns four cold licences in the UK. Gala's casinos in Dundee and Gibraltar, as well as its cold licence in Westminster, are to be excluded from the acquisition package.
31. Gala Casinos has traditionally targeted higher volume, lower stakes gambling which delivers reduced risk and lower earnings volatility. More recently, the business has taken steps to shift focus away from admissions towards core and higher-value players.
32. The number of admissions to Gala casino premises has [X]. In the most recent financial year ending 28 September 2012, the number of admissions was [X] million at period 12, which suggests that the full-year out-turn will be [X] million.<sup>24</sup> Turnover has [X] million in 2008 to [X] million in 2011, with gross margin remaining constant at [X] per cent, and EBTDA margin between [X] and [X] per cent. The year-to-date results indicate that profitability [X] in the current financial year. However, the management accounts do not provide information about possible exceptional items that may be recorded in the results. Central costs have varied between [X] and [X] between 2008 and 2011, [X] in the current financial year.

TABLE 5 Summary of management accounts for period 12 (week 48 out of 52) FY2012

	FY2008 Period 13	FY2009 Period 13	FY2010 Period 13	FY2011 Period 13	FY2012 Period 12 (Not a full year)	FY2012 13/12 Pro rata
Customer visits ('000)	[X]	[X]	[X]	[X]	[X]	[X]
Cash drop (£m)	[X]	[X]	[X]	[X]	[X]	[X]
Turnover (£m)	[X]	[X]	[X]	[X]	[X]	[X]
Cost of goods sold (£m)	[X]	[X]	[X]	[X]	[X]	[X]
Gross profit (£m)	[X]	[X]	[X]	[X]	[X]	[X]
Variable costs (£m)	[X]	[X]	[X]	[X]	[X]	[X]
Fixed costs (£m)	[X]	[X]	[X]	[X]	[X]	[X]
PBIT before central costs (£m)	[X]	[X]	[X]	[X]	[X]	[X]
Central costs (£m)	[X]	[X]	[X]	[X]	[X]	[X]
PBIT after central costs (£m)	[X]	[X]	[X]	[X]	[X]	[X]
EBITDA before central costs (£m)	[X]	[X]	[X]	[X]	[X]	[X]
EBITDA post central costs (£m)	[X]	[X]	[X]	[X]	[X]	[X]
Memo: EBITDA impact of unallocated costs (£m)	[X]	[X]	[X]	[X]	[X]	[X]
Gross margin (%)	[X]	[X]	[X]	[X]	[X]	[X]
EBITDA margin (post unallocated and central costs) (%)	[X]	[X]	[X]	[X]	[X]	[X]
EBIT margin (post unallocated and central costs) (%)	[X]	[X]	[X]	[X]	[X]	[X]

Source: Gala.

Note: FY2012, period 12 management accounts have been annualized using the ratio 13/12.

### Gala remote casinos

33. Gala operates remote casinos via the Gala Interactive division, via the [www.galacasino.com](http://www.galacasino.com) website. This business is excluded from the acquisition package. The business is regulated by the Gibraltar Gambling Commissioner. The website provides a link to each of the Gala non-remote casinos.
34. In the [X]), Gala Interactive attracted a total amount staked of [X],<sup>25</sup> a pro rata<sup>26</sup> annual amount of [X]. Of the total amount staked, [X] per cent related to casino

<sup>24</sup> Pro rata for full year based on a ratio of 13/12.

<sup>25</sup> Gala management accounts.

games, [X] per cent to electronic games and [X] per cent to bingo. The gross win for Gala Interactive was [X] per cent of the total amount staked. Gross profit (expressed as a percentage of gross win) was [X] per cent and EBITDA was [X] per cent.

### *Electronic games*

35. Gala uses Category B1 slot machines, supplied to Gala under agreement by slot machine providers Novomatic and IGT. The average age of most machines is around [X]. There are also some gaming machines [X].
36. Gala has not [X].

### *Loyalty programme*

37. Gala currently operates two distinct loyalty schemes—‘Fortune’ and ‘Valuable Player’:
  - (a) The Fortune reward scheme has been in operation in all UK Gala casinos for the past five years, and is open to all Gala members. ‘Fortune’ loyalty points are linked and recorded to each Gala customer’s membership card, accrued in relation to spend across table games, electronic roulette, slot machines and F&B purchases, and may be converted into gaming chips, or redeemed against food and drink.
  - (b) The Valuable Player loyalty scheme has been in operation in all UK Gala casinos since 1 March 2012. The Valuable Player loyalty scheme is offered to customers on an invitation-only basis, and is limited to the top few thousand customers by cash drop. The Valuable Player loyalty scheme offers benefits such as fast track entry, hospitality throughout a casino visit, complimentary food and drink, car parking and transport home. Gaming benefits of the Valuable Player scheme include the potential to open up a higher stakes table on request, reserving favourite slot machines and ‘chips back’ benefits based on the determined value of the customer.
38. Loyalty points earned under either scheme have no value outside of Gala’s casinos.
39. [X] are members of the Fortune reward scheme as their membership card also acts as their loyalty card, meaning the members would have to actively opt out of joining the scheme at the point of membership. The Valuable Player scheme targets approximately [X] of Gala’s most valuable customers. At the end of June 2012, Gala had around [X] signed up as Valuable Players.

### *Capex*

40. In the last five years, Gala Casinos has incurred capex of [X] in the casino estate, of which [X] was for expansion and development and [X]. During the five-year period, Gala has undertaken refurbishment of the following sites: [X]. The historical capex is summarized in Table 6.

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<sup>26</sup> 52 weeks/44 weeks.

TABLE 6 **Gala historical capex on casino estate**

£ million

	FY07	FY08	FY09	FY10	FY11	Total
Expansion	[X]	[X]	[X]	[X]	[X]	[X]
Development	[X]	[X]	[X]	[X]	[X]	[X]
Maintenance	[X]	[X]	[X]	[X]	[X]	[X]
Total	[X]	[X]	[X]	[X]	[X]	[X]

Source: Gala submission to the OFT. Excludes Gibraltar and Isle of Man.

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## Consumer surveys

1. The parties undertook two separate consumer surveys (both conducted by Frontier Economics and Accent) covering casinos in some of the areas of overlap identified by the OFT ('the parties' surveys'). GfK also surveyed customers of some other casinos of the parties for the CC ('the CC's survey').
2. This appendix:
  - briefly describes the sampling approach of the parties' surveys and discusses the limitations that this imposed on the CC in terms of sampling;
  - discusses the issues that the CC considered in relation to the framing of some hypothetical questions in the parties' surveys and how it attempted to take these into account in designing the CC's survey;
  - describes the CC's survey in more detail; and
  - examines in more detail results from hypothetical questions in both surveys as per the information they can provide for market definition and competitive assessment in areas of overlap.
3. In summary, the CC has made use of the surveys in many aspects of this inquiry. However, for the reasons explained in this appendix we put limited weight on the responses to the hypothetical questions (ie questions to gather the respondents' reactions to small changes in the casinos' offer and to closure of casinos) in the parties' and the CC's survey for market definition and the competitive assessment.

### Sampling of the parties' and CC's survey

4. The parties' first survey covered Rank's and Gala's casinos in Bristol, Cardiff, Leeds and New Brighton/Liverpool. A subsequent survey was then commissioned with customers of Gala's Stockport and Sunderland casinos and of Rank's Didsbury and Swansea casinos. The fact that two consumer surveys had already been conducted had two implications for the ability of the CC to undertake any further surveys.
5. First, as these surveys were conducted recently (at the OFT stage), this meant that the CC could not survey the same casinos in an effective way (for example, if it wanted to ask a different set of questions or similar, but differently framed, questions). This is for the following reasons:
  - The parties' surveys had effectively 'creamed off' those respondents who were most available or prepared to participate in research.
  - A subsequent CC survey interview with similar questions was likely to irritate respondents who had already given their opinions on this topic very recently. We considered that this may reduce the response rate and may introduce a bias in the responses.
  - If a subsequent CC survey covered only those who did not take part in the parties' surveys, the ability to obtain a representative sample would have likely to have been affected.

6. For these reasons and in the light of the size of the databases for each of the parties' casinos, the CC considered that it could only carry out a customer survey for the Rank and Gala casinos that had not been surveyed already in the parties' surveys. Therefore, based on the initial information available at the time of commissioning the survey, we focused on the following categories of casinos:
  - areas of overlap and of concern identified at the OFT stage but where the parties had not undertaken a survey (customers of the Gala and Rank casinos in Aberdeen and Stockton-on-Tees);
  - areas of overlap where the OFT did not reach a conclusion. This covered customers of the parties' eight London casinos;<sup>1</sup> and
  - some areas of overlap that, on the basis of the information available at the time, the CC had identified as a possible concern, but for which the OFT had excluded any realistic prospect of an SLC. These included customers of Gala's casinos in Bradford and Northampton and Rank's casinos in Coventry and Leicester.
7. The target sample size for the non-London casinos was 150 (as in the parties' surveys) and because of the added complexities (ie more choice of casinos and other venues) in London the target sample size was 200.
8. The decision of the CC to conduct a separate survey of casino customers not covered by the parties' surveys provided an opportunity to frame differently some of the questions, and in particular the hypothetical questions (see discussion in paragraphs 17 and 31). However, it also meant that the CC's and the parties' surveys differed, for example, in the respondents' eligibility, structure and framing of some of the questions. This meant that in interpreting the results the CC had to be mindful of these differences (in particular see discussion for market definition and diversion questions).

### **The CC's survey**

9. The CC's survey was conducted by GfK on the telephone using the contacts in the customer databases of Gala and Rank which they supplied to the CC.
10. The eligible respondents were defined as being at least 18 years old, not in excluded professions (ie casinos, market research, journalism), and having visited the casino in the previous six months.
11. This is a tighter definition of eligibility than for the parties' surveys, which were based on respondents having visited the casino in the past 12 months. The change was made to improve the quality of data, specifically the accuracy of recall of their last visit to the casino.
12. Although the initial customer database was very large, it had to be cleaned, de-duplicated and prepared for the research, which caused the sample to reduce significantly:
  - Total initial sample: 1.9 million customers.

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<sup>1</sup> Gala Barracuda, Golden Horseshoe, Russell Square and Tottenham Court Road; and Rank Gloucester, Piccadilly, Park Tower and Victoria.

- Including only customers who had visited in the past six months: 1.1 million customers.
  - After removal of customers who had self-excluded:<sup>2</sup> 1.0 million.
  - Exclude any contacted in previous research (parties' surveys by Accent): 1.0 million.
  - Valid phone number (11 digits, beginning with valid number): 0.6 million.
  - Visited one of the relevant casinos: 152,000.
  - Did not opt out of receipt of marketing materials:<sup>3</sup> 73,000.
13. This base of 73,000 customers appeared sufficient to achieve the samples sought. However, the quality of the customer database information proved poor. A significant minority (one in four) of the customer telephone numbers was incorrect (even after pre-checking that they had the correct number of digits and appeared to be a usable number). This, in conjunction with the majority (80 per cent) of numbers being mobiles, for which owners often reject non-recognized calls, resulted in the need to broaden the eligibility criteria in some areas.
14. The eligibility for recruitment was therefore broadened in the following way:
- (a) For Gala's casinos, those who had originally opted out of receipt of marketing materials were included in the contact sample for:
- (i) Barracuda—from 16 October;
  - (ii) Russell Square—from 16 October;
  - (iii) Golden Horseshoe—from 25 October;
  - (iv) Aberdeen—from 25 October; and
  - (v) Northampton—from 25 October.
- (b) Rank customers that had only opted for SMS contact (rather than both mail and SMS contact) were included for Park Tower (from 23 October) and Gloucester Road (from 23 October).
15. These modifications were made in order to enable GfK to have a larger contact base, without which it was clear that there would be a shortfall in interviews for customers of some casinos. The fieldwork was closely monitored throughout.
16. The response rate was maximized by trying to contact respondents up to a maximum of eight times and scheduling call backs with respondents at a time convenient to them. However, despite this the target sample sizes were not achieved in four London casinos (Russell Square, Barracuda, Golden Horseshoe and Park Tower). This was mainly due to the small size of the original contact sample for some casinos.

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<sup>2</sup> Some customers had requested that they should not be allowed to enter the casino to gamble.

<sup>3</sup> Many customers, on registering with the casino, had stated that they did not wish to be contacted by the casino for marketing purposes. Although a CC survey did not strictly fall into this category of communication we decided not to contact these customers where possible.

## **Framing of some of the questions in the parties' and CC's survey**

17. Both the CC's and the parties' surveys asked some hypothetical questions. A first set of questions aimed at better understanding the reactions of respondents to a small worsening in the offer of the casino they had last visited. A second set of questions focused on what respondents stated they would have done if hypothetically the casino they last visited was closed. We consider the framing of these questions next.
18. In general one has to be careful in framing hypothetical questions to reactions to price or service quality as there are particular difficulties with these questions.<sup>4</sup>

### ***Reactions to a small worsening in the offer***

19. The parties' surveys included a set of questions aimed at eliciting responses relevant to implementing the hypothetical monopolist test by asking respondents what they would do if the quality of table games services at the casino worsened (ie they had to wait longer),<sup>5</sup> if the prices of food and drinks increased by a small discrete amount,<sup>6</sup> and if they did not benefit from a promotion.<sup>7</sup>
20. Most respondents to the first question on facing longer waiting times to play table games stated they would have waited, while most respondents to the question about the change in the price of drinks stated that they either did not eat or drink or if they had, the higher price would have made no difference, while for the question about not having received a promotion very few people stated they had received anything and consequently the sample base was very low.<sup>8</sup>
21. We considered that focusing on small changes in specific elements or features of the overall service was not appropriate. This is because these questions (with the exception of the question on promotions<sup>9</sup>) focused only on one element of the service and asked the question to all respondents rather than asking only those that either played table games or had some food and drink (ie those interested in the relevant element of service). Given that most casino visitors gamble, we considered that the most relevant question was the one about facing longer waiting times to play table games.
22. We recognized the difficulties in framing this type of question given that casino visitors consume a range of services (particularly a range of table and gambling machine games but also F&B and entertainment), a large proportion of respondents visits casinos in groups and, critically, other service features are shown by other questions in the CC's survey to be significantly more important than price (eg friendliness of staff and ambience of the casino) but are not easily quantifiable and therefore not easily amenable to this type of question.

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<sup>4</sup> See [CC/OFT Good practice in the design and presentation of consumer survey evidence in merger inquiries March 2011](#), paragraphs 3.34–3.42.

<sup>5</sup> The exact question (Q18) was 'If you knew in advance that [casino from the sample] would not have enough tables open, such that you would have to wait 15 minutes to play (compared to not normally waiting), what would have most likely done?'

<sup>6</sup> The exact question (Q19) was 'If you knew in advance that [casino from the sample] had increased its prices of food and drink by approximately £0.50 from £10 for a meal and drink to £10.50, what you would have most likely done?'

<sup>7</sup> The exact question was (Q20) 'Did you benefit from promotional offers (eg a free bet or a gift) or receive a complimentary drink or meal last time you visited this casino?'

<sup>8</sup> The parties told us that responses to this question could only be interpreted across all casinos in the surveys given the small sample size for each casino sample.

<sup>9</sup> We note that this approach was not followed in Q21 which asked 'ONLY IF RECEIVED SOMETHING AT Q20 If you knew in advance that you wouldn't receive a free bet or complimentary food or drink, what would you have most likely done?'

23. The CC's survey included a question that attempted to assess respondents' reaction to 'the cost to you of the casino trip' being 10 per cent higher.<sup>10,11</sup> Results (unweighted—see discussion at paragraphs 34 to 49) showed that:
- 45 per cent in non-London casinos (46 per cent in London casinos) would have gone to the casino and spent the extra money;
  - 27 per cent in non-London casinos (20 per cent in London casinos) would have gone to the casino but reduced the amount spent; and
  - 28 per cent in non-London casinos (34 per cent in London casinos) would have not gone to the casino.
24. However, both the CC and the research agency came to the view that this question was not as effective as we may have wished and may have not worked as intended. We concluded that the question was ambiguously framed and the responses may reflect this. For example, it was not clear whether respondents interpreted the reference to the cost of the casino trip also to include any expenditure that took place before arriving at the casino or before returning home (eg food and drinks consumed and the cost of travelling to and from the casino). Respondents that selected 'not gone to that casino' may have also gone to another casino or somewhere else, but we were unable to distinguish between these different interpretations.
25. Therefore, we considered that responses to this question in both surveys are likely to have suffered from significant framing problems that affected the reliability of the results.

### ***Diversion questions***

26. Both the CC's and the parties' surveys also asked diversion questions. The parties' surveys asked the following: 'Thinking about the set of possible alternative options available to you, if the last time you visited [casino from the sample], it had been closed for refurbishment for 6 months, what would you have most likely done instead?'<sup>12</sup>
27. We considered that the diversion question in the parties' surveys was not well framed. In particular, we had concerns that it implied that the respondent would only know that the casino was closed when he/she arrived at the location. We considered that this could introduce a bias in the answers. In particular, we thought that it is more likely to have elicited a choice of another nearby venue (casino or other venue) and for a significant minority it may have elicited an 'unengaged' response of—ie 'I would have gone home instead'. We considered that there may have been also a bias in the chosen casinos because respondents may have been more likely to choose the closest casino to the one they last visited. The parties said that there was no evidence of a framing bias, that the CC's observations were speculative and that, to the extent that diversion ratios could be affected by the framing of the question in the parties' surveys, it would be likely to make respondents less likely to choose 'gone home' and more likely to choose another casino. They also argued that the concern

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<sup>10</sup> The CC's survey Q27 was expressed as follows: 'If you had known when planning your trip/before your visit (text dependent on response to Q7) that the cost to you of the casino trip was 10% higher, would you still have gone to the (NAME) casino at (LOCATION) and spent the extra money, gone but reduced the amount you gambled or spent on refreshments, or would you have not gone to the casino at all?'

<sup>11</sup> We have chosen 10 per cent because the parties' surveys suggested that price was not the key reason why respondents chose a particular casino. A smaller price change may have not, therefore, elicited much reaction from respondents.

<sup>12</sup> Q13.

was implausible and immaterial for a number of reasons. First, they stated that there should be no presumption that respondents would have inferred that they did not find out about the casino closure until they were already out on their night out. We consider that the way the question was framed, specifically using the word ‘visited’ gives the impression that the respondent had been to the venue and only then realized it was closed. Second, the parties argued that the proportion of respondents that stated they would have diverted to a non-casino option was consistent in the CC’s and parties’ surveys and consistent between the questions in the parties’ survey asking about diversion and the questions asking for the reaction of respondents to a small worsening of the casino offer. We considered that the results from the two surveys were not comparable given they covered different casinos in different areas. In relation to the second point raised, we note we had concerns about the framing of the reaction to a small worsening of the offer questions in both surveys (see paragraphs 19 to 25). Having considered the parties’ observations we consider that the framing of this question was likely to have introduced a bias, although it is difficult to conclude on the precise direction of such a bias.

28. Another concern, though less important than the one discussed above, in the framing of the diversion question in the parties’ surveys was the qualification that the casino was ‘closed for refurbishment for 6 months’. For visitors with a strong preference for the casino they last visited, in particular, this may have biased answers to ‘gone home’ as the framing of the question allowed them to defer the visit. The parties argued that this concern was also speculative and that results were driven by respondents that visited the casinos frequently and therefore it was unrealistic to suppose that they would delay a casino visit if faced with a six-month closure. We consider that the parties’ interpretation depends on whether the frequent visitors to a Gala or Rank casino have strong preferences for that particular casino or they are simply frequent casinos visitors. In the former case it is likely that the respondent may have waited. Furthermore, the definition of ‘frequent visitor’ in the parties survey includes customers that visited more than five times a year and hence includes a proportion of respondents that visit on average once every two months (see paragraph 42). We considered that it could not be established whether the parties’ argument had some validity from the available information. We, therefore, still consider that it is plausible that a proportion of respondents may have been led to consider delaying their visit.
29. The diversion question in the CC’s survey was drafted as follows to cater for these concerns:
- Thinking back to the last time you visited the (Name) casino in (Location), we’d like to understand the alternatives that you might have considered on that occasion. Suppose you had known planning your trip to the casino/before your visit to the casino that the (Name) casino in (Location) would be closed permanently, what would you have done instead?<sup>13</sup>
30. To sum up, the main differences between the CC’s and the parties’ surveys in how the question is framed are in the CC’s survey:
- The information about the closure was known at the time the respondent planned his/her trip to the casino.<sup>14</sup> As a result, the responses should reflect the actual time and circumstances when the respondent took the decision to visit the casino

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<sup>13</sup> Q25.

<sup>14</sup> This was achieved by adapting the questionnaire wording for each respondent to reflect when they made the decision.

(whether at home or elsewhere) and not when he/she arrived at the casino. We consider this an important improvement in the framing of this question.

- The casino was described as being permanently closed rather than closed for the next six months. This reduced the risk of postponement of the visit to that casino.
31. Therefore, we considered that responses to this question in the parties' surveys are likely to have suffered from significant framing problems. We considered though that the framing problems were less severe for the diversion question than for that about the reaction to a small worsening in the offer.

### **The use of survey results for market definition and competitive assessment**

32. Responses to both set of hypothetical questions in the parties' and CC's survey are potentially important sources of information on assessing competitive constraints. In this section we discuss what use we could make of the evidence from the hypothetical questions in the surveys, in light of the framing concerns discussed in paragraphs 17 to 30 and other important considerations about the appropriate weighting of responses and whether the focus should be on the non-London casinos sample (see paragraphs 33 to 49). Given that we considered that the question about the reactions to a small worsening in the offer suffered from significant framing and other problems we focused more closely on the diversion ratio question. We also considered whether we could use the CC's and the parties' surveys for the local assessment, and, if so what weight we could put on them.

### ***London vs non-London***

33. The parties' surveys presented results in aggregate and separately for each casino. All of the casinos surveyed were outside London. The CC's survey covered London and non-London casinos. Given that there are important differences between London and non-London casinos we considered that we should report results separately for the two subgroups of casinos. For illustration below we report the aggregated results in the sample of non-London casinos. Although our competitive assessment focuses on local areas of overlap, the sample size for each casino is often small and aggregated results for non-London casinos increased the sample size.

### ***Weighting by frequency and revenues***

34. Casino visitors differ in terms of their frequency of visits and the amount of money they are willing to gamble—ie cash drop. For example, Gala provided information showing that its top 50 and 100 visitors represented a substantial proportion of cash drop in its casinos (Table 1). For the whole sample of Gala casinos in Table 1, the top 100 customers in terms of cash drop accounted for [%] per cent of cash drop [%] per cent of visitors (ranging from [%]).

TABLE 1 Proportion of Gala's cash drop from the top 50 and 100 customers

	<i>per cent</i>		<i>Number of visitors*</i>
	<i>Top 50</i>	<i>Top 100</i>	
Aberdeen casino	[X]	[X]	[X]
Bristol new casino	[X]	[X]	[X]
Cardiff Electric casino	[X]	[X]	[X]
Liverpool casino	[X]	[X]	[X]
Leeds casino	[X]	[X]	[X]
Northampton casino	[X]	[X]	[X]
Teesside casino	[X]	[X]	[X]
Leicester new casino	[X]	[X]	[X]
Bradford new casino	[X]	[X]	[X]
Russell Square casino	[X]	[X]	[X]
Barracuda casino	[X]	[X]	[X]
TCR casino	[X]	[X]	[X]
Golden Horseshoe casino	[X]	[X]	[X]
Sunderland new casino	[X]	[X]	[X]
Nottingham Intl casino	[X]	[X]	[X]
Stockport casino	[X]	[X]	[X]
Birmingham casino	[X]	[X]	[X]
Total	[X]	[X]	[X]

Source: Gala.

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\*The number of visitors in Gala's customer database that has elected the particular casino as their 'favourite'. This underestimates the number of total visitors to a casino, as customers other than those that chose the casino as favourite are not accounted for.

35. Therefore, to be meaningful we consider that diversion ratios should reflect these differences across visitors. This means that customers that generate a higher cash drop for casinos should be given a weight equivalent to the proportion of cash drop they generate. This includes both those that visit a casino very frequently, though their cash drop per visit is not very high, and those who visit infrequently, but whose cash drop is very high.
36. We considered that neither the CC's nor the parties' surveys had been successful in weighting responses. Table 2 shows results for both surveys.

TABLE 2 Diversion ratios

	<i>per cent</i>				
	<i>CC's survey unweighted</i>	<i>CC's survey weighted by cash drop</i>	<i>CC's survey weighted by cash drop and frequency</i>	<i>Parties' surveys (partially weighted)*</i>	
	<i>Non-London† Sample (1,191)</i>	<i>Non-London† Effective sample (100)</i>	<i>Non-London† Effective sample (34)</i>	<i>Bristol, Cardiff, Leeds, Liverpool Sample (1,147)</i>	<i>Stockport, Swansea, Sunderland, Didsbury Sample (609)</i>
Stayed at home	22	17	9	27	39
Another casino	34	53	75	23‡	13‡
Another gambling venue	2	2	1	10§	8§
Non-gambling venue	33	22	11	25¶	25¶
Gamble online or telephone	0	1	1	N/A	N/A
Gambling game at home	0	0	0	N/A	N/A
Done something else	3	1	1	4	5
Don't know	5	4	2	6	11

Source: CC's and parties' surveys.

\*See discussion in paragraphs 42 and 1.

†Eight non-London casinos in the CC's survey: Gala/Rank Aberdeen, Gala Bradford, Rank Coventry, Gala Northampton, Rank Stockton, Gala Teesside and Gala Leicester.

‡Combines 'Another casino' and 'Another (named) casino'.

§Did not specify that this was not a casino.

¶Another venue (night out) + (F&D).

Note: N/A = not available.

37. Table 2 shows the results of the CC's survey for all the non-London casinos aggregated. The unweighted answers show that about 34 per cent of respondents would have diverted to another casino while 33 per cent would have chosen a non-gambling venue.
38. The CC also weighted the results for each respondent's stated cash drop (ie the amount of money exchanged for gambling chips<sup>15</sup>) and for cash drop and frequency of visit, respectively.<sup>16</sup> When weighted by cash drop, and cash drop and frequency, the diversion to another casino would increase to 53 and 75 per cent respectively. The proportion of respondents who would have opted for a non-casino service or venue does not change when weighted by cash drop, but halves when it is also weighted for frequency. However, the weighted results in the CC's survey are less robust than the unweighted ones, as the weighting reduces the effective sample size very substantially.<sup>17</sup>
39. However, other results (based on the unweighted data) indicate that the likelihood of diverting to another casino increases with the respondents' cash drop:
- Of those who exchanged £50 for gambling chips or less, 36 and 33 per cent would have diverted to another casino and another non-gambling venue, respectively, while for those whose cash drop was more than £201 the diversion ratios would be 61 and 12 per cent respectively.

<sup>15</sup> The parties said that if weighting by cash drop, we should also include the amount of money spent on food and drink. We considered that we could not do this because it would mean aggregating an amount that was spent (for food and drinks) and an amount that indicates the respondent willingness to put at risk and not the actual spend. Furthermore, we considered that given that food and drink are often offered as compliments, their inclusion has no substantial impact on margins.

<sup>16</sup> We used the following frequency weighting: 'Once a week or more' (104), 'Once every 2–3 weeks' (20), 'Once a month' (12), 'Once every 2 months' (6), 'Once every 3 months' (4), 'Once every 4–6 months' (2.5), 'Once a year' (1) and 'Less often' (0.5).

<sup>17</sup> GfK told us that this meant that for an unweighted sample of 1,191 weighting by cash drop would reduce the effective sample size to 100. Weighting by frequency and cash drop would reduce the effective sample size to 34.

- Although all respondents had some influence on the decision to visit a casino, the CC's survey results suggest that those who went alone (and therefore were the only decision-maker) were significantly more likely to divert to a casino than those who went as part of a group (where decisions were taken by the group and not necessarily by the respondent to the survey). For example, of the 40 per cent that stated they would have opted to visit another casino (for the entire sample of the CC's survey) 45 per cent visited the casino alone, 40 per cent in a small group and 35 per cent in a large group. Conversely, of the 28 per cent that stated they would have opted to visit another casino 10 per cent visited the casino alone, 30 per cent in a small group and 34 per cent in a large group.

40. In addition, there are other trends confirming that when cash drop increases so does the proportion of (weighted) responses that stated they would divert to another casino:

- Table 2 shows that 34 per cent—with a confidence interval (CI) of  $\pm 3$  per cent<sup>18</sup>—of unweighted responses would have gone to another casino, while when weighted by cash drop this is 53 per cent—CI  $\pm 10$  per cent—and when weighted by cash drop and frequency it is 75 per cent—CI  $\pm 14$  per cent. The latter result means that at least more than 61 per cent (and up to 89 per cent) of respondents when weighted for cash drop and frequency would choose 'gone to another casino'.
- Disaggregated results for all the non-London casinos in the CC's survey suffer from the reduction in the effective sample size when weighted and this problem is even more acute given the smaller unweighted samples. However, Table 3 shows that with the exception of Gala Aberdeen, for all casinos in the CC's survey when weighting by cash drop and frequency is applied the proportion of (weighted) respondents that would chose another casino is substantially higher. This is consistent with the identified trend.

TABLE 3 Proportion of respondents that would have diverted to another casino

Casino	Unweighted	<i>per cent</i>	
		<i>Weighted by cash drop</i>	<i>Weighted by cash drop and frequency</i>
Gala Aberdeen	57	54	41
Rank Aberdeen	42	69	93
Gala Bradford	33	39	60
Rank Coventry	15	26	63
Gala Northampton	34	46	76
Rank Stockton	33	59	80
Gala Teesside	36	69	90
Gala Leicester	24	55	88

Source: CC's survey, Q25.

- Furthermore, the responses to reactions to a small worsening in the offer when weighted indicate a similar trend. While the unweighted results for the entire sample show that 45 per cent of respondents would have stayed at the casino this increases to 63 per cent when weighted by cash drop and to 75 per cent when weighted by cash drop and frequency.

<sup>18</sup> We used a 95 per cent confidence interval.

41. We have put limited weight on these aggregated results to assess the extent to which respondents (once their responses are weighted by cash drop and frequency) would divert to other non-bricks-and-mortar casino services because we consider that the unweighted results do not correctly reflect the constraint imposed by non-casinos services/venues:
- (a) as discussed in paragraph 34, a very small proportion of customers represents a very substantial proportion of cash drop;
  - (b) the discussion in paragraph 40 shows that as respondents cash drop increases they are more likely to divert to another casino; and
  - (c) when we weighted visits by cash drop and frequency, the impact on sample size meant that we could not put much weight on these results.
42. The parties said that their survey already weighted for frequency and, separately, that these were correlated with customers' cash drop (for Gala) and spend (for Rank). They said that they had weighed for the frequency of visits. In particular, they stated that across the casinos they surveyed they had attached a weight of approximately [%] per cent to frequent visitors (those who visited the casino more than five times a year) and [%] per cent to infrequent customers (those who visit five or less times a year), although, we were told by the parties, the weights varied from casino to casino to reflect the actual proportion of visits in each casino from frequent and infrequent visitors. The parties further explained that they implicitly assigned weights to frequent and infrequent visitors by stratifying their sample in order to achieve responses that would adequately capture the views of customers making more frequent visits. To illustrate the idea, they gave the example of Rank Bristol. They said that of all visits to Rank Bristol in the last 12 months in their database, [%] per cent were from infrequent customers, and [%] per cent from those visiting more than five times. Correspondingly, given a total target sample size of 150, the target quota for responses from infrequent customers was set at [%] respondents and the equivalent for frequent customers was [%].
43. The parties have also argued that the amount cash drop or spend and the number of visits are correlated and, therefore, visits would be a good proxy for cash drop when we examine the surveys' results for the diversion question. They provided an analysis showing the proportion of total visits and the proportion of total spend for Rank or cash drop for Gala that is accounted for by customers grouped by the number of visits (ie those that visited 1 to 5, 6 to 10 etc times in the last 12 months). They argued that there is correlation between these proportions and that, therefore, the CC's concern that the parties' survey was not weighted by cash drop was not valid and that we should put more weight on the results of the parties' surveys.<sup>19</sup>
44. We accept that the parties have at least partially (and implicitly) weighted their responses by frequency of visit. However, the CC has some important remaining concerns related to this. [%]. We note that there is a substantial difference between Gala and Rank in terms of the proportion of total visits from the group of customers that made 1 to 5 visits in the last 12 months. Data provided by the parties shows that for Gala the 1 to 5 band accounts for [%] per cent of all visits and [%] per cent of cash drop while for Rank the same band accounts for [%] per cent of visits and [%] per cent of spend.<sup>20</sup> This indicates that the parties' customer bases differed and that this may suggest that a different cut-off may have been appropriate. Second, even if

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<sup>19</sup> Rank argued that the fact that it uses the data from its [%] to inform its business strategy means that it is representative. The CC observed that often businesses have to make decisions on the information they have, despite any limitations it may have.

<sup>20</sup> As discussed at paragraph 45 this data is partial as it covers only customers for whom the casino has recorded cash drop.

the parties' survey weighted (though not perfectly) for frequency of visit, it did not do so for the respondents' cash drop or spend.

45. We were also not convinced that we could put significant weight on the evidence provided by the parties that frequency of visit and cash drop or spend are closely correlated. First, the choice of range of visits, while it simplified the analysis, was not strictly necessary and introduced a degree of arbitrariness in the analysis. The degree of correlation (or better 'similarity') between proportion of visits and (recorded) cash drop or spend may depend on the choice of range. Second, and more importantly, the parties told us that this analysis covers only those customers for which they have recorded cash drop or spend. Gala and Rank told us they record all the cash drop or spend, respectively, from higher spending customers in line with regulatory requirements. They also record a proportion of the cash drop or spend of other customers.<sup>21</sup> This suggested that they may not systematically record all cash drop or spend of higher spenders. For example, it may not include their spend or cash drop in each individual visit that was not sufficiently high to be recorded (ie below £1,500). Customers that made frequent visits but did often not hit the £1,500 threshold would be high spenders but their cash drop would be unrecorded.
46. Gala told us that its correlation analysis was based on [X] per cent of total cash drop recorded in the P&L [X]. Rank told us that the spend that was included in its analysis was [X] per cent as a whole (approximately two-thirds for its New Brighton casino) and [X] per cent of its visits ([X] per cent for its New Brighton casino).<sup>22</sup> Therefore, we considered that there was a substantial part of cash drop or spend that is not accounted for. Furthermore, Gala's cash drop used in the parties' analysis did not include slot machines. Gala subsequently re-estimated the proportion of total cash drop included in its analysis as approximately 54 per cent [X].<sup>23</sup> We also observed that while the similarity between the proportion of visits and that of (recorded) cash drop was strong for Gala, it was much less so for Rank (eg for those customers that visited between 1 to 5 times in the last 12 months their proportion of visits was [X] per cent, spend was [X] per cent and these visitors accounted for [X] per cent of all customers. [X] for customers who made more than [X] visits ([X] per cent of all customers) the proportion of visits was [X] per cent while their proportion of spend was [X] per cent).
47. Taken at face value and notwithstanding its limitations, the parties' analysis suggested that there should be a linear relationship between number of visits and amount of cash drop or spend—ie customers that visited ten times should spend ten times more than those that visited only once. This would mean that the spend (or cash drop) per visit should remain constant regardless of the number of visits made by customers and high spend customers would spend the same per visit as the occasional 'leisure' customer, but high spending customers would spend more because they visited more. In the light of the evidence provided we do not consider this to be plausible. We also examined the data provided by the parties in their response to the provisional findings and (even disregarding the limitations and concerns expressed above) it did not suggest that there was a linear relationship. Overall we concluded that we could not place much weight on this analysis for the reasons mentioned above.

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<sup>21</sup> Rank told us that [X] per cent of its customers had used its loyalty card in the last 12 months. Rank subsequently told us [X]. Gala told us that [X].

<sup>22</sup> We also note that we have considered it appropriate to focus on Gala and Rank casinos outside London.

<sup>23</sup> They estimated this assuming that the contribution that slot machines make to revenue is [X]. Working on this basis, they estimate that total actual cash drop is [X] than recorded cash drop in the P&L [X].

48. For completeness Table 2 also shows the results from the parties' surveys which reported much lower diversion ratios to other casinos—ie between 23 and 33 per cent and between 13 and 21 per cent respectively—than for the CC's non-London sample.<sup>24</sup>
49. In summary, we considered that the unweighted diversion ratios in the CC's survey and the partially weighted (ie partially weighted for frequency of visit but not for cash drop) diversion ratios in the parties' surveys were not good indicators of the relative importance of potential substitutes to casinos. This is because there is substantial variation in consumers' overall cash drop. The evidence from the CC's survey shows that high-spending customers, which are more important for casinos, are significantly more likely to divert to another casino than are lower spenders. Similarly those visiting the casino alone are significantly more likely to divert to another casino than those customers visiting in a large group. For the parties' surveys the CC had also some concerns about the framing of the question and the weighting mechanism applied. Therefore, we have put limited weight on the results of the surveys on diversion ratios.

### ***Use of diversion ratios in the local competitive assessments***

50. Notwithstanding the above considerations in relation to the results for the aggregated samples of both the CC's and the parties' surveys, we also considered whether they provided useful, and sufficiently reliable, information for the local assessment. We considered that this evidence could serve two purposes.
51. First, it could provide some indication of the relative closeness of competition between local casinos and, specifically, between the parties' casinos in overlap areas. Both surveys asked what customers would do in the event of a casino closure. If a higher proportion of customers said that they would divert to the parties' casino than to other local casinos, this could be evidence that the parties' casinos are close substitutes. However, we treated these results with caution and only as indicative.<sup>25</sup> The sample sizes for each individual casino (and for respondents that have chosen a casino alternative) were often small, severely affecting the statistical significance of the results in most cases. In addition, as discussed in paragraph 49, the diversion ratios are unweighted (for the CC's survey), or at best partially weighted for frequency of visit alone (for the parties' surveys). Although we considered that to be informative the diversion ratios needed to have been weighted for frequency of visit and cash drop, as discussed further below, we thought that for this specific use this concern was limited given that the comparison was confined to diversion ratios to other casinos.
52. Second, the parties said that the CC should take into account the diversion ratio for any option that did not involve diversion to another casino as an indication of the local constraint the parties faced from non-casino providers (ie when respondents have chosen another venue, service or decided to stay at home). However, we had a number of concerns related to the use of these diversion ratios for the analysis of local overlaps:

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<sup>24</sup> Range is due to ambiguous nature of one of the answer categories (ie unclear whether 'another gambling venue' also included a casino and if so to what extent).

<sup>25</sup> The parties' surveys originally calculated the diversion ratios including respondents who stated that they would divert to non-casino venues (they also stated that they attempted to reconcile the survey results with the population, based on frequency of visit). We recalculated their diversion ratios using only respondents who would divert to casinos. Given that we considered the ranking of the diversion ratios but not to the absolute values, this does not have material implications. This adjustment, however, makes the diversion ratios in the two surveys consistent, but for the fact that in the CC's survey respondents were allowed to give more than one response. However, these are generally few and we do not think that this affects the results in any material way.

- As discussed in paragraph 31, we considered that the framing of the diversion question in the parties' surveys was not appropriate.
  - Although we considered it appropriate to weight responses by cash drop and frequency of visits, because of the small sample size we have not used these results for the aggregated sample of non-London casinos in the CC's survey. These concerns are heightened when considering the disaggregated results for each casino. The parties said that their survey was weighted for frequency. However, we consider that this weighting is partial. We also have concerns as to whether the frequency of visits is a good indicator of spend.
  - Although diversion ratios to non-casino options could in principle be interpreted as a rough indicator of the elasticity of demand faced by the casino locally, we considered that, when unweighted, they could suffer from an important further bias compared with diversion ratios among casinos discussed in paragraph 49. As discussed in paragraph 41, the evidence shows that those with a higher cash drop are more likely to have diverted to another casino. Therefore, we consider that the unweighted or partially weighted results are likely to be biased and assign too much weight to diversion to non-casino options, while this concern is less relevant when considering diversion among casinos.
  - A high diversion ratio to non-casino alternatives may simply reflect a lack of local casino alternatives and, therefore, the fact that the casino surveyed already had a significant degree of market power locally.<sup>26</sup>
  - Lastly, the diversion questions in both surveys were asked to all and not only marginal consumers.
53. Given the concerns identified, overall we considered we could only put limited weight on the results of the surveys for our local assessment. Nonetheless, we have taken into account the diversion ratios among casinos (only to indicate ranking among casinos) as an indicator of the closeness of the parties pre-merger, but have put substantially more weight on other local factors such as the parties' internal documents. However, we had further concerns about the diversion ratios to non-casino options compared with those that indicated the ranking among casinos. In the light of this and other considerations, we did not make use of the diversion ratios to non-casino options in our local assessment.

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<sup>26</sup> We note that the diversion ratio estimated in the two surveys related to the closure of a casino, while the effect of the merger may only manifest in a worsening of the parties' offer locally. Consumers' reactions to the two may differ.

## National effects

### Introduction

1. This appendix provides:
  - (a) more information and analysis on the concern that post-merger Rank may acquire the ability and incentives to obtain exclusivity from the main supplier of B1 slot machines (ie those available exclusively in casinos) and in so doing foreclose its competitors; and
  - (b) our analysis of the variation across Rank's casinos in terms of opening times, maximum betting limits and payout ratios.

### Foreclosure effect

2. [REDACTED] the concern could extend to electronic table games (ie electronic roulette), but that its main concern lay with B1 slot machines. [REDACTED] post-merger this would result in foreclosing [REDACTED], other casino providers in the UK from obtaining access to these key inputs. It is also possible that Rank would not obtain strict exclusivity, but that it would ensure that it obtained new B1 slot machines introduced by Novomatic first, with all other casino competitors being supplied with a delay and/or at a higher price—ie partial foreclosure. In this appendix we principally focus on the concern about full foreclosure through Rank's obtaining exclusivity from Novomatic for B1 slot machines.
3. In this appendix we:
  - (a) describe the concern [REDACTED];
  - (b) consider the necessary conditions for such a concern to arise; and
  - (c) examine whether there is sufficient evidence that such a concern may arise as a result of the merger.
4. In summary, the evidence suggests that:
  - (a) in order to obtain exclusivity from its main B1 slot machine supplier (ie Novomatic) post-merger Rank is likely to have to provide substantial compensation to Novomatic for the sales to other casino providers it will have to forgo. This is unlikely to be attractive to Rank; and
  - (b) even if Rank obtained exclusivity from Novomatic it is not apparent that other casinos and customers would be affected negatively by this, unless (i) the remaining B1 slot machine suppliers (such as IGT and WMS) provided machines of lower quality and/or their ability to invest in new products were likely to be affected negatively by foreclosure, (ii) customers placed a substantial value on the quality of the B1 slot machines in a casino and these consisted of a substantial share of profits for casinos, and/or (iii) there were entry barriers to supply B1 slot machines in the UK. The evidence available on these points suggests that foreclosure would be unlikely even if Rank obtained exclusivity.

5. If Rank were able to engage in partial foreclosure, this would be less costly than full foreclosure from exclusivity (in terms of the premium it would have to pay to compensate Novomatic) but it would also be less effective as a way to exclude competitors.

### ***Theory of harm***

6. [REDACTED] pre-merger there were only two main credible suppliers of B1 slot machines for the UK market, but the market for electronic roulette is more global with more suppliers capable of supplying the UK market (with the main suppliers being Novomatic and Inspired). Rank told us that for B1 slot machines the main UK suppliers were Novomatic and IGT.<sup>1</sup> For electronic roulette machines Gala told us that the main provider was Novomatic followed by Inspired and to a lesser extent Interblock.<sup>2</sup>
7. Genting told us that it sourced B1 slot machines from Novomatic and IGT. It understood that Gala currently sourced B1 slot machines and electronic roulette from both Novomatic and IGT, while Rank purchased exclusively from Novomatic. Genting told us that it sourced its electronic roulette machines from Novomatic and Inspired. It also understood that Gala sourced from the same suppliers, while Rank sourced exclusively from Novomatic.
8. [REDACTED]<sup>3</sup>
9. In essence, this is a possible vertical effect concern arising from this merger. [REDACTED] Rank post-merger would be such an important national purchaser of B1 slot machines for casinos that it would have the ability and incentives to obtain exclusivity for these machines from the most important supplier in order to foreclose its casinos' competitors.
10. There are two variations of this concern [REDACTED]. The first is that Rank would obtain exclusivity from a main supplier or from all of its current suppliers<sup>4</sup> (henceforth, we refer exclusively to Novomatic for ease of exposition). The second is that it would not obtain exclusivity but that it would ensure that it obtained new electronic equipment introduced by Novomatic first with all other casino competitors being supplied with a delay or at a higher price relative to that charged to Rank—ie partial foreclosure. The second option would cost less to Rank than exclusivity (in terms of premium it would have to pay to Novomatic) but it would also be a less effective way to exclude competitors. We focus principally on the concern about exclusivity (in view of its potentially more negative effects for consumers if it were to occur).

### ***Economic assessment***

#### ***Necessary conditions***

11. In order for this concern to arise post-merger a number of conditions must be satisfied. Anticompetitive concerns through exclusivity would arise only if Rank were to acquire a dominant position at the national level through the merger and seek to abuse that position.<sup>5</sup> The framework for assessing whether this would be likely to

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<sup>1</sup> Rank also included WMS and Gala also included Spielo as a supplier of B1 slot machines in the UK.

<sup>2</sup> Rank told us that Inspired was an additional supplier of electronic roulette.

<sup>3</sup> We were told by Genting that there were only two main suppliers because these machines needed to be specified according to UK regulations.

<sup>4</sup> Rank told us that it purchased from Novomatic, IGT and WMS [REDACTED].

<sup>5</sup> Such behaviour would be contrary to the Chapter II prohibition of the Competition Act 1998 and would be dealt with in accordance with its provisions.

arise involves the consideration of the ability and incentives of Rank to enter into exclusive agreements with suppliers and the potential effects on customers if it were to do so. This would require the following questions to be answered affirmatively:

- (a) Would the merger provide Rank with the ability to obtain exclusivity in the UK from the main B1 slot machine supplier, Novomatic?
  - (b) Would Rank have incentives to compensate Novomatic for its forgone UK sales in exchange for exclusivity (ie by paying a premium over the current market price)?
  - (c) If Rank obtained exclusivity in the UK would this harm consumers?
12. Rank mentioned a number of reasons why this theory of harm was unrealistic. Some<sup>6</sup> suggest that the approach would be too narrow. We note Rank's arguments but considered it appropriate in this case to start our assessment by establishing whether foreclosure could be considered likely in the narrowest meaningful context—ie the most likely to make this theory of harm possible. Other considerations would become relevant if, and to the extent, we could not exclude this concern in this narrow context.

### *Ability*

13. In order to be able to extract exclusivity from Novomatic, Rank post-merger would have to have a significant share of the downstream casino market for which the electronic equipment is an input. The pre- and post-merger shares of a number of casinos are shown in Table 1 of the provisional findings report.
14. Post-merger Rank would have to have a share of number of casinos, cash drop and admissions of 44, [40–50] and [50–60] per cent respectively.<sup>7</sup>

### *Incentives*

15. In order for Rank to obtain exclusivity from Novomatic, Rank would need to compensate the latter for the lost sales of B1 slot machines to Genting and other casino providers.<sup>8</sup> The amount that Rank would have to compensate Novomatic for exclusivity would have to be at least<sup>9</sup> equivalent to the total margin Novomatic would make on post-merger sales to casinos other than Rank.<sup>10</sup>
16. The amount of lost sales by Novomatic if it granted exclusivity to Rank post-merger would be likely to be substantial in the short run and would remain so unless Rank were able to increase its sales at the expense of its casino competitors. The latter depends on how effective exclusivity is at excluding casino competitors and on Rank's ability to capture sales lost by its competitors.<sup>11</sup> In addition, this would be a

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<sup>6</sup> For example, Rank argued that B1 slot machine suppliers supplied not only casinos but also LBOs (though, we note, LBOs do not purchase B1 slot machines); suppliers may have substantial worldwide commercial relationships with casinos in the UK part of international chains or groups (an argument also put forward by Gala); the suppliers may have little incentive to facilitate the emergence of a monopolist buyer.

<sup>7</sup> Gala argued that its share of purchases would be reduced when the 2005 Act casinos came into operation. These casinos are allowed a substantially higher number of slot machines.

<sup>8</sup> This is not only because this is implicit in an exclusivity arrangement, but also because competitive constraints for Rank could come from several casino operators, [3<], depending on their local presence.

<sup>9</sup> It could be higher given that Novomatic would risk facing a monopsonist buyer.

<sup>10</sup> These are the sales Novomatic would make to casino operators other than Rank post-merger, assuming that it would source all its needs from Novomatic, including those purchases that Gala made from Inspired and other suppliers.

<sup>11</sup> Rank argued that the regulatory limits to the number of slot machines would limit its ability to capture sales lost by its competitors. We note that customers of competing casinos faced with lower quality slot machines may switch to Rank's casinos not

delayed effect that would compensate Novomatic only in part<sup>12</sup> for the sales lost due to exclusivity. Novomatic provided us with the proportion of its UK turnover that it made in 2011 from sale of B1 slot machines to the UK market. Limited to the B1 slot machines that are exclusively sold to UK casinos, Novomatic made [X] per cent of its sales to Rank, [X] per cent to Gala, [X] per cent to Genting and [X] per cent to Aspers. If Rank obtained exclusivity it would therefore have to compensate Novomatic for the loss of at least [X] per cent of its UK sales.<sup>13</sup>

17. The above analysis is static. However, we note that many of the 2005 Act licences have been won by independent operators and that these casinos, in general, are likely to have a higher number of machines per casino than the casinos operated by Rank.<sup>14</sup> This is likely to make the level of compensation from Rank to Novomatic in exchange for exclusivity much higher. Furthermore, we note that another [X] concern [X] that, if Rank obtained exclusivity from Novomatic, post-merger for its B1 slot machines and electronic roulette, it might marginalize the other suppliers. Although [X] understood that Rank did not source from suppliers other than Novomatic, the presence of other suppliers as an alternative potential source of supply may currently allow Rank to obtain better terms and conditions from Novomatic. Rank may therefore not wish to facilitate the emergence of an upstream monopoly supplier, particularly if the foreclosure effects downstream are not very pronounced. In any event, if Rank obtained exclusivity from Novomatic, other suppliers would lose part of Gala's<sup>15</sup> pre-merger sales but would potentially have access to all pre-merger sales made by Novomatic to other casino operators, unless these were foreclosed and forced to exit.

### Effects

18. Even if Rank obtained exclusivity from Novomatic, it is unclear whether this would lead to exclusion of casino competitors and whether this would harm customers, for a number of reasons:
- (a) Other casino operators would still have access to two suppliers of B1 slot machines, which could offer the same functionality as Novomatic's with, in this instance, no effect on customers, unless Novomatic's competitors were forced to exit, which we consider unlikely.
  - (b) Therefore, only if Novomatic's competitors produced B1 slot machines of lower quality and/or they were negatively affected in the future from the loss of sales to the former Gala post-merger, would casino competitors be negatively affected. We have no information on whether this is indeed the case.
  - (c) Even if this were the case B1 slot machines are only one aspect of the offer of a casino. Overall only 15 per cent of all UK casinos' GGY came from slot machines (mainly B1 slot machines but also some B2 and B3 slot machines) over the

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necessarily to play slot machines. This is especially the case if these customers played a number of games and did not focus solely on slot machines.

<sup>12</sup> If foreclosure by Rank is effective at reducing competition between casinos the quality of the offer is likely to decline, potentially leading to reduced sales of slot machines in the UK.

<sup>13</sup> This is an estimate that assumes that Novomatic did not make any additional sales of B1 machines to other UK casino operators (ie smaller casino chains and/or independents). If it did, Novomatic's share of supply of B1 machines to casino providers other than Rank would be higher.

<sup>14</sup> Up to 150 B1 slot machines in a large and 80 in a small 2005 Act casino, compared with a maximum of 20 at existing casinos. Therefore, if all licences are taken up at new casinos and they were able to use their full allocation of B1 slot machines, this may account for up to 1,840 machines (ie (150 B1 slot machines \* 8 casinos) + (80 B1 slot machines \* 8 casinos)) compared with around 1,140 post-merger Rank/Gala B1 slot machines (ie 57 Rank + Gala casinos \* 20 B1 slot machines per casino).

<sup>15</sup> Rank argued that given that it does not currently source exclusively from Novomatic this would also include some of its purchases of B1 slot machines from suppliers other than Novomatic.

period October 2010 to September 2011.<sup>16</sup> Casinos offer table games and other services (eg food and drinks) in addition to slot machines. Rank told us that it generated over [redacted] per cent of its revenues from table games and only [redacted] per cent from slot machines, while Gala told us that [redacted] per cent of its gross profits were generated by table gaming and electronic roulette and [redacted] per cent from slot machines. Genting, [redacted] told us that in 2011 [redacted] per cent of its gaming revenues in the provincial estates came from slot machines rather than live tables. The CC's survey shows that only 20 per cent of respondents played slot machines when they last visited one of the merging parties' casinos surveyed.<sup>17</sup> The parties' survey also shows that only 4 per cent of respondents to the sampled casinos have chosen the casino because of the 'widest range of games'.<sup>18</sup>

19. Second, concerns about foreclosure would only arise if there were entry barriers to the supply of B1 slot machines to UK casinos. We note that the concern expressed by [redacted] relies on entry not occurring. If Novomatic were to become the monopoly, or a more dominant, supplier of B1 slot machines in the UK, this would attract other suppliers and Rank's competitors post-merger could sponsor entry. We note in particular, that Rank's competitors post-merger are part of large international groups which might be able to sponsor entry. On the ease of entry into the supply of B1 slot machines to UK casino providers, Astra Games (the UK subsidiary of Novomatic AG) told us that there were substantial development costs due to the specific regulatory requirements in the UK (ie maximum stake of £2 and a maximum prize of £4,000), and high homologation costs. IGT-UK told us that from the standpoint of any established international casino slot manufacture, the UK was very unusual in that the standardized product that was sold to many different jurisdictions must be significantly adapted for the UK. It also told us that it took it over a year to adapt a product in 2010 for the UK market. Inspired (which we understand supplies mostly electronic roulette machines) told us that entry costs were not prohibitive as shown by recent entry by Novomatic and Gauselmann. In addition, Gala told us that [redacted]. This suggests that entry overall is feasible and has occurred in the past.
20. Third, if Rank already had some advantages from Novomatic [redacted], this effect can be expected to be stronger, even pre-merger, and disadvantage small independent casinos. [redacted]

### Variations across Rank's casinos

21. We have analysed a panel of data on Rank's casinos. It covers monthly data on 46 casinos over 64 months from July 2007 to August 2012. For each casino and each month we have data on:
  - (a) opening hours—both opening and closing times;
  - (b) payout ratios for individual games—namely American roulette, blackjack, three-card poker, casino stud poker, electronic gaming and other games; and
  - (c) betting limits for individual games—again American roulette, blackjack, three-card poker, casino stud poker, electronic gaming and other games.

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<sup>16</sup> Gambling Commission, *Industry Statistics, April 2008 to September 2011*, Table 41.

<sup>17</sup> The CC's survey, Q12.

<sup>18</sup> Rank told us that this figure related to its first survey and that when combining their two surveys this figure fell to 2 per cent. The CC's survey also shows that only 2 per cent of respondents chose the casino they last visited because it offered a 'wide range of games'.

22. We find that:

- (a) Closing times are generally similar across Rank casinos, which tend to close around 6.00am. In contrast, opening times vary both across casinos and across time. In the period in question, casinos have tended to open earlier.
- (b) There is generally no variation in casinos' payout ratios, either across casinos or across time.
- (c) There is significant variation in casinos' betting limits. A limited number of casinos, half of them in London, have especially high average betting limits for American roulette across the period when compared with other casinos, and most of these displayed significant variation in betting limits across time. Among those with more modest betting limits there was also significant variation over time.

### ***Casinos in the sample***

23. The Rank casinos in this sample are listed below.

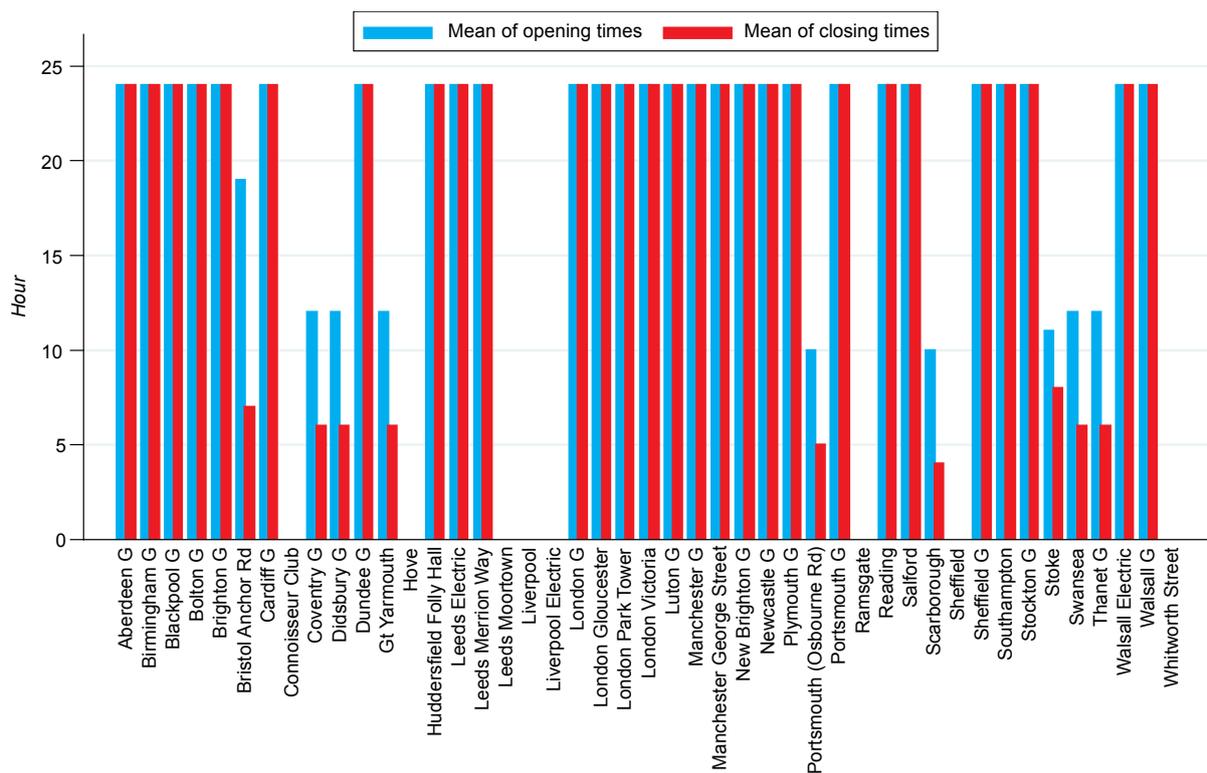
Aberdeen G	Luton G
Birmingham G	Manchester G
Blackpool G	Manchester George Street
Bolton G	New Brighton G
Brighton G	Newcastle G
Bristol Anchor Rd	Plymouth G
Cardiff G	Portsmouth (Osbourne Rd)
Connoisseur Club	Portsmouth G
Coventry G	Ramsgate
Didsbury G	Reading
Dundee G	Salford
Great Yarmouth	Scarborough
Hove	Sheffield
Huddersfield Folly Hall	Sheffield G
Leeds Electric	Southampton
Leeds Merrion Way	Stockton G
Leeds Moortown	Stoke
Liverpool	Swansea
Liverpool Electric	Thanet G
London G	Walsall Electric
London Gloucester	Walsall G
London Park Tower	Whitworth Street
London Victoria	

### ***Opening hours***

24. Figure 1 shows data on casinos' average opening and closing hours for the last month that data was available, August 2012, with the vertical axis denoting the hour of opening or closing (for a 24-hour clock, with 0 hours representing midnight and 12 representing noon). Blue columns denote opening times and red columns denote closing times. Where casinos are open for 24 hours, both opening and closing hours are shown as 24. Many casinos are open for 24 hours, although nine of the casinos for which data was available did not.

FIGURE 1

Opening and closing times, Rank casinos

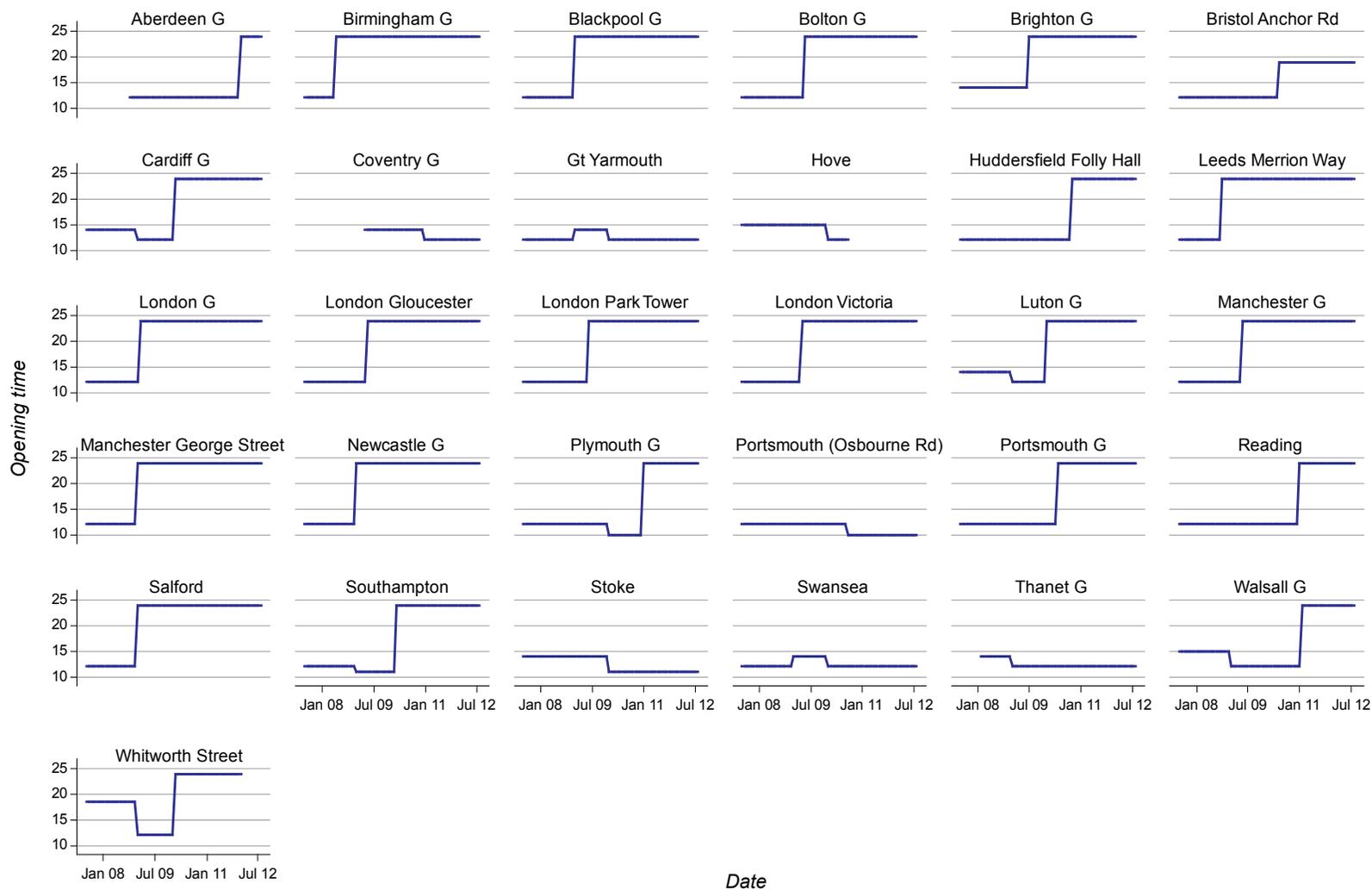


Source: CC analysis of data supplied by Rank.

- There has been significant variation in opening times over time. Figures 2 and 3 show opening times from July 2007 to August 2012 for individual Rank casinos. Again, where the casino is open for 24 hours the opening time is shown as 24. The majority of casinos, 31 out of 46, have changed their opening time at least once during this period. Many casinos have gone from opening in early afternoon to being open 24 hours.

FIGURE 2

Rank casino opening times 2007–2012 (all showing changes), charts by casino

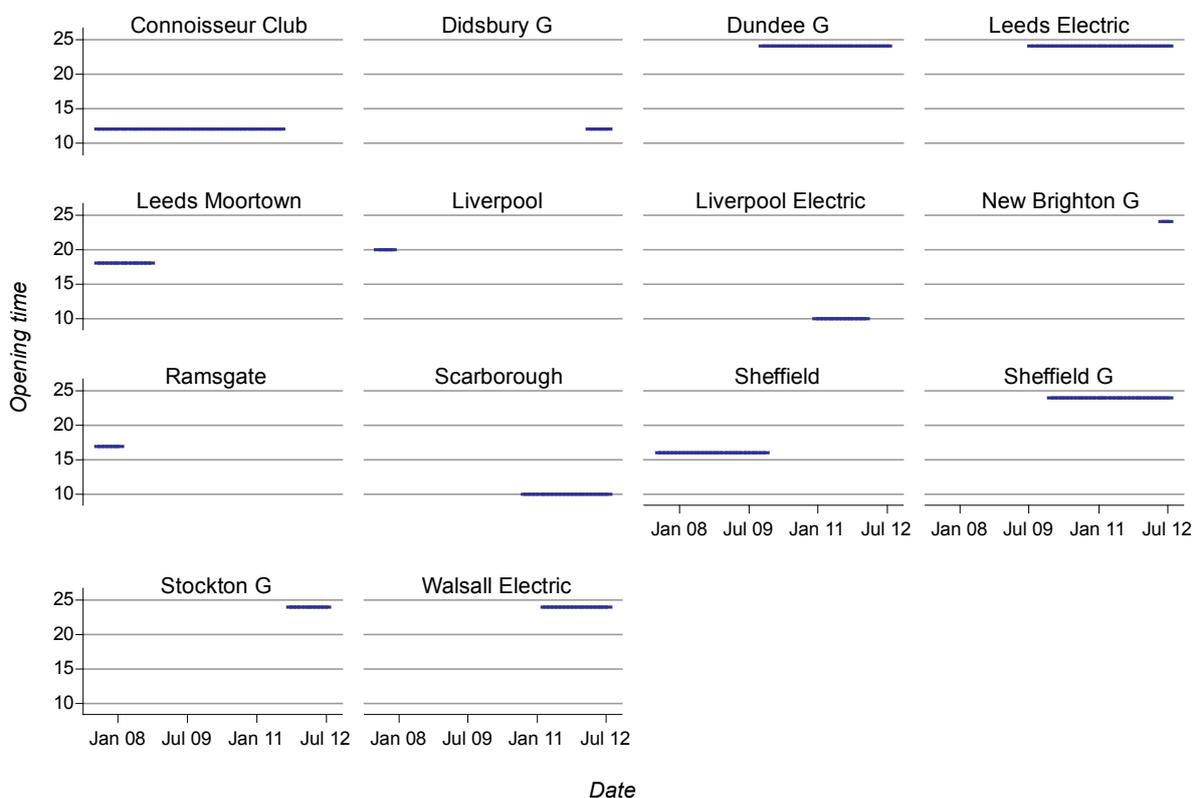


Source: CC analysis of data supplied by Rank.

26. In contrast, only a minority (15 out of 46) of casinos show no change in their opening times over the period for which data was available. As can be seen in Figure 3, data for many of these casinos is restricted to a particularly short subset of the period, so it is possible that some of these did change their opening times outside the period for which data was available.

FIGURE 3

**Rank casino opening times 2007–2012 (all with no change), charts by casino**



Source: CC analysis of data supplied by Rank.

**Payout**

27. Table 1 below shows summary statistics for the entire panel of data on casinos' payout ratios for the period July 2007 to August 2008. There is no variation at all in the panel, implying that payout ratios do not vary over time or across casinos for these games.<sup>19</sup>

<sup>19</sup> There is a small amount of variation in the panel for some other games, but these have been excluded from the analysis as they have a very low numbers of observations.

TABLE 1 Summary statistics for payout ratio data

Game	Number of observations	Mean	Standard deviation	Minimum	Maximum
American roulette	2,011	97.30	0	97.30	97.30
Blackjack	2,015	96.75	0	96.75	96.75
Three card poker	1,891	98.00	0	98.00	98.00
Casino stud poker	680	97.49	0	97.49	97.49
Electronic gaming	2,110	97.30	0	97.30	97.30
Other	726	98.00	0	98.00	98.00

Source: CC analysis of data supplied by Rank.

## Betting limits

28. Table 2 shows summary statistics for the entire panel of data on casinos' betting limits for the period July 2007 to August 2008. There is a large amount of variation in the panel, with ranges for individual games all greater than £[redacted].

TABLE 2 [redacted]

Game	Number of observations	Mean £	Standard deviation £	Minimum £	Maximum £
American roulette	1,950	[redacted]	[redacted]	[redacted]	[redacted]
Blackjack	1,889	[redacted]	[redacted]	[redacted]	[redacted]
Three-card poker	1,832	[redacted]	[redacted]	[redacted]	[redacted]
Casino stud poker	656	[redacted]	[redacted]	[redacted]	[redacted]
Electronic gaming	2,085	[redacted]	[redacted]	[redacted]	[redacted]
Other	626	[redacted]	[redacted]	[redacted]	[redacted]

Source: CC analysis of data supplied by Rank.

29. To examine the source of this variation within the panel, Figure 4 shows the average betting limits across the period for American roulette across Rank casinos. While most casinos' average betting limit for American roulette is around £[redacted], a small number of casinos' average betting limits are significantly in excess of this, in the region of £[redacted]. These casinos are: [redacted].

FIGURE 4

[redacted]

Source: CC analysis of data supplied by Rank.

30. Figure 5 shows American roulette betting limits over time for those casinos with an especially large average betting limit. There is no clear trend in American Roulette betting limits for these casinos, though where changes do occur they are significant in magnitude, including three changes of £[redacted] and one change of £[redacted].

FIGURE 5

[redacted]

Source: CC analysis of data supplied by Rank.

31. Figure 6 shows American roulette betting limits over time for the remaining casinos that exhibited some variation over time (a further [redacted] casinos did not change their American roulette betting limit over this period). In general, betting limits have increased over the period. Moreover, the changes that do occur are of significant

magnitude, often at least £[REDACTED]. Of the 46 casinos in question, [REDACTED] did not change their American roulette betting limit during the period for which data was available.

FIGURE 6



*Source:* CC analysis of data supplied by Rank.

32. There is significant variation across casinos and across time in betting limits for other games. For example, Figures 7 and 8 below show betting limits across time for all casinos showing some variation for blackjack and electronic gaming. In both cases there are significant variations in betting limit levels across casinos and changes in betting limits across time for individual casinos.

FIGURE 7



*Source:* CC analysis of data supplied by Rank.

FIGURE 8



*Source:* CC analysis of data supplied by Rank.

**Maps and additional information on competition in local areas of concern**

***Aberdeen***

FIGURE 1

**Distribution of Gala (red) and Grosvenor (green) customers (Gala customers on top)**



FIGURE 2

**Distribution of Gala (red) and Grosvenor (green) customers (Grosvenor customers on top)**



FIGURE 3

**Grosvenor Aberdeen isochrones—Grosvenor Aberdeen and Gala Aberdeen customer visits (Gala on top)**



FIGURE 4

**Grosvenor Aberdeen isochrones—Grosvenor Aberdeen and Gala Aberdeen customer visits (Grosvenor on top)**



***Birmingham***

FIGURE 5

**Distribution of Grosvenor Birmingham (green) and Gala Birmingham (red) customers (Gala customers on top)**



FIGURE 6

**Distribution of Grosvenor Birmingham (green) and Gala Birmingham (red) customers (Grosvenor customers on top)**



FIGURE 7

**Gala Birmingham isochrones—Gala Birmingham and Grosvenor Birmingham customer visits (Gala on top)**



FIGURE 8

**Gala Birmingham isochrones—Gala Birmingham and Grosvenor Birmingham customer visits (Grosvenor on top)**



***Bournemouth & Southampton***

FIGURE 9

**Gala Bournemouth isochrones, distribution of Gala Bournemouth (red) and Grosvenor Southampton (green) customers (Gala customers on top)**



FIGURE 10

**Gala Bournemouth isochrones, distribution of Gala Bournemouth (red) and Grosvenor Southampton (green) customers (Grosvenor customers on top)**



FIGURE 11

**Gala Southampton isochrones, distribution of Gala Bournemouth (red) and Grosvenor Southampton (green) customers (Gala customers on top)**



FIGURE 12

**Gala Southampton isochrones, distribution of Gala Bournemouth (red) and Grosvenor Southampton (green) customers (Grosvenor customers on top)**



FIGURE 13

**Gala Bournemouth isochrones—Gala Bournemouth and Grosvenor Southampton customer visits (Gala on top)**



FIGURE 14

**Gala Bournemouth isochrones—Gala Bournemouth and Grosvenor Southampton customer visits (Grosvenor on top)**

FIGURE 15

**Grosvenor Southampton isochrones—Gala Bournemouth and Grosvenor Southampton customer visits (Gala on top)**



FIGURE 16

**Grosvenor Southampton isochrones—Gala Bournemouth and Grosvenor Southampton customer visits (Grosvenor on top)**



***Bradford***

FIGURE 17

**Distribution of Gala Bradford (red) and Grosvenor Leeds (green) customers (Gala Bradford customers on top)**



FIGURE 18

**Distribution of Gala Bradford (red) and Grosvenor Leeds (green) customers (Grosvenor Leeds customers on top)**



FIGURE 19

**Distribution of Gala Bradford (red) and Grosvenor Huddersfield (green) customers (Gala Bradford customers on top)**



FIGURE 20

**Distribution of Gala Bradford (red) and Grosvenor Huddersfield (green) customers (Grosvenor Huddersfield customers on top)**



FIGURE 21

**Gala Bradford isochrones—Gala Bradford and Grosvenor Leeds customer visits (Gala on top)**



FIGURE 22

**Gala Bradford isochrones—Gala Bradford and Grosvenor Leeds customer visits (Grosvenor on top)**



FIGURE 23

**Gala Bradford isochrones—Gala Bradford and Grosvenor Huddersfield customer visits (Gala on top)**



FIGURE 24

**Gala Bradford isochrones—Gala Bradford and Grosvenor Huddersfield customer visits (Grosvenor on top)**



***Bristol***

FIGURE 25

**Distribution of Gala Bristol (red) and Grosvenor Bristol (green) customers (Gala customers on top)**



FIGURE 26

**Distribution of Gala Bristol (red) and Grosvenor Bristol (green) customers (Grosvenor customers on top)**



FIGURE 27

**Gala Bristol isochrones—Gala Bristol and Grosvenor Bristol customer visits (Gala on top)**



FIGURE 28

**Gala Bristol isochrones—Gala Bristol and Grosvenor Bristol customer visits  
(Grosvenor on top)**



**Cardiff**

FIGURE 29

**Distribution of Gala Cardiff (red) and Grosvenor Cardiff (green) customers  
(Gala customers on top)**



FIGURE 30

**Distribution of Gala Cardiff (red) and Grosvenor Cardiff (green) customers  
(Grosvenor customers on top)**



FIGURE 31

**Gala Cardiff isochrones—Gala Cardiff and Grosvenor Cardiff customer visits  
(Gala on top)**



FIGURE 32

**Gala Cardiff isochrones—Gala Cardiff and Grosvenor Cardiff customer visits  
(Grosvenor on top)**



**Coventry**

FIGURE 33

**Distribution of Gala Birmingham (red) and Grosvenor Coventry (green)  
customers (Gala customers on top)**



FIGURE 34

**Distribution of Gala Birmingham (red) and Grosvenor Coventry (green)  
customers (Grosvenor customers on top)**



FIGURE 35

**Distribution of Grosvenor Coventry (green) and Gala Leicester (red) customers  
(Gala customers on top)**



FIGURE 36

**Distribution of Grosvenor Coventry (green) and Gala Leicester (red) customers  
(Grosvenor customers on top)**



FIGURE 37

**Distribution of Gala Northampton (red) and Grosvenor Coventry (green)  
customers (Gala customers on top)**



FIGURE 38

**Distribution of Gala Northampton (red) and Grosvenor Coventry (green)  
customers (Grosvenor customers on top)**



FIGURE 39

**Grosvenor Coventry isochrones—Grosvenor Coventry and Gala Birmingham  
customer visits (Gala on top)**



FIGURE 40

**Grosvenor Coventry isochrones—Grosvenor Coventry and Gala Birmingham  
customer visits (Grosvenor on top)**



***Huddersfield***

FIGURE 41

**Distribution of Gala Leeds and Bradford (red) and Grosvenor Huddersfield  
(green) customers (Gala customers on top)**



FIGURE 42

**Distribution of Gala Leeds and Bradford (red) and Grosvenor Huddersfield (green) customers (Grosvenor customers on top)**



FIGURE 43

**Grosvenor Huddersfield isochrones—Grosvenor Huddersfield and Gala Leeds/Bradford customer visits (Gala on top)**



FIGURE 44

**Grosvenor Huddersfield isochrones—Grosvenor Huddersfield and Gala Leeds/Bradford customer visits (Grosvenor on top)**



**Leeds**

FIGURE 45

**Distribution of Gala Leeds (red) and Grosvenor Leeds (green) customers (Gala customers on top)**



FIGURE 46

**Distribution of Gala Leeds (red) and Grosvenor Leeds (green) customers (Grosvenor customers on top)**



FIGURE 47

**Gala Leeds isochrones—Grosvenor Leeds and Gala Leeds customer visits (Gala on top)**



FIGURE 48

**Gala Leeds isochrones—Grosvenor Leeds and Gala Leeds customer visits (Grosvenor on top)**



FIGURE 49

**Gala Leeds isochrones—Grosvenor Leeds and Gala Bradford customer visits  
(Gala on top)**



FIGURE 50

**Gala Leeds isochrones—Grosvenor Leeds and Gala Bradford customer visits  
(Grosvenor on top)**



***Leicester***

FIGURE 51

**Distribution of Gala Leicester (red) and Grosvenor Coventry (green) customers  
(Gala customers on top)**



FIGURE 52

**Distribution of Gala Leicester (red) and Grosvenor Coventry (green) customers  
(Grosvenor customers on top)**



FIGURE 53

**Gala Leicester isochrones—Gala Leicester and Grosvenor Coventry customer  
visits (Gala on top)**



FIGURE 54

**Gala Leicester isochrones—Gala Leicester and Grosvenor Coventry customer  
visits (Grosvenor on top)**



***Liverpool & New Brighton***

FIGURE 55

**Distribution of Gala Liverpool (red) and Grosvenor New Brighton (green) and  
(Gala customers on top)**



FIGURE 56

**Distribution of Gala Liverpool (red) and Grosvenor New Brighton (green) and  
(Grosvenor customers on top)**



FIGURE 57

**Gala Liverpool isochrones—Gala Liverpool and Grosvenor New Brighton  
customer visits (Grosvenor on top)**



FIGURE 58

**Gala Liverpool isochrones—Gala Liverpool and Grosvenor New Brighton  
customer visits (Gala on top)**



***London***

FIGURE 59

**Distribution of Gala Barracuda customers**



FIGURE 60

**Distribution of Gala Golden Horseshoe customers**



FIGURE 61

**Distribution of Gala Russell Square customers**



FIGURE 62

**Distribution of Gala Tottenham Court Rd customers**



FIGURE 63

**Distribution of Rank Tottenham Court Rd customers**



FIGURE 64

**Distribution of Rank Victoria customers**



FIGURE 65

**Distribution of Rank Park Tower customers**



FIGURE 66

**Distribution of Rank Piccadilly customers**



FIGURE 67

**Gala Golden Horseshoe customer visits only**



FIGURE 68

**Gala Russell Square customer visits only**



FIGURE 69

**Gala Tottenham Court Road customer visits only**



FIGURE 70

**Grosvenor Gloucester Road customer visits only**



FIGURE 71

**Grosvenor Park Tower customer visits only**



FIGURE 72

**Grosvenor G Piccadilly customer visits only**



FIGURE 73

**Grosvenor Victoria customer visits only**



FIGURE 74

**Gala Barracuda customer visits only**



***Luton***

FIGURE 75

**Distribution of Grosvenor Luton (green) and Gala Barracuda (red) customers  
(Gala on top)**



FIGURE 76

**Distribution of Grosvenor Luton (green) and Gala Golden Horseshoe (red)  
customers (Gala on top)**



FIGURE 77

**Distribution of Grosvenor Luton (green) and Gala Russell Square (red)  
customers (Gala on top)**



FIGURE 78

**Distribution of Grosvenor Luton (green) and Gala Tottenham Court Rd (red)  
customers (Gala on top)**



FIGURE 79

**Grosvenor Luton isochrones—Grosvenor Luton and Gala Barracuda customer  
visits (Gala on top)**



FIGURE 80

**Grosvenor Luton isochrones—Grosvenor Luton and Gala Golden Horseshoe customer visits (Gala on top)**



FIGURE 81

**Grosvenor Luton isochrones—Grosvenor Luton and Gala Russell Square customer visits (Gala on top)**



FIGURE 82

**Grosvenor Luton isochrones—Grosvenor Luton and Gala Tottenham Court Road customer visits (Gala on top)**



***Manchester (Didsbury) & Stockport***

FIGURE 83

**Distribution of Grosvenor Manchester Bury New Rd, George St. and Salford (green) and Gala Stockport (red) customers (Gala on top)**



FIGURE 84

**Distribution of Grosvenor Manchester Bury New Rd, George St and Salford (green) and Gala Stockport (red) customers (Grosvenor on top)**



FIGURE 85

**Distribution of Grosvenor Didsbury (green) and Gala Stockport (red) customers (Gala on top)**



FIGURE 86

**Distribution of Grosvenor Didsbury (green) and Gala Stockport (red) customers (Grosvenor on top)**



FIGURE 87

**Grosvenor Manchester George Street isochrones—Grosvenor George Street, Bury New Road and Salford and Gala Stockport customer visits (Gala on top)**



FIGURE 88

**Grosvenor Manchester George Street isochrones—Grosvenor George Street, Bury New Road and Salford and Gala Stockport customer visits (Grosvenor on top)**



FIGURE 89

**Grosvenor Didsbury isochrones—Grosvenor Didsbury and Gala Stockport customer visits (Gala visits on top)**



FIGURE 90

**Grosvenor Didsbury isochrones—Grosvenor Didsbury and Gala Stockport customer visits (Grosvenor visits on top)**



***Newcastle-upon-Tyne & Sunderland***

FIGURE 91

**Newcastle Grosvenor isochrones, distribution of Grosvenor (green) and Gala (red) customers (Gala on top)**



FIGURE 92

**Newcastle Grosvenor isochrones, distribution of Grosvenor (green) and Gala (red) customers (Grosvenor on top)**



FIGURE 93

**Gala Sunderland isochrones—Gala Sunderland and Grosvenor Newcastle customer visits (Gala on top)**



FIGURE 94

**Gala Sunderland isochrones—Gala Sunderland and Grosvenor Newcastle customer visits (Grosvenor on top)**



FIGURE 95

**Grosvenor Newcastle isochrones—Grosvenor Newcastle and Gala Sunderland customer visits (Gala on top)**



FIGURE 96

**Grosvenor Newcastle isochrones—Grosvenor Newcastle and Gala Sunderland customer visits (Grosvenor on top)**



***Northampton***

FIGURE 97

**Distribution of Gala Northampton (red) and Grosvenor Coventry (green) and customers (Gala customers on top)**



FIGURE 98

**Distribution of Gala Northampton (red) and Grosvenor Coventry (green) and customers (Grosvenor customers on top)**



FIGURE 99

**Gala Northampton isochrones—Gala Northampton and Grosvenor Coventry customer visits (Gala on top)**



FIGURE 100

**Gala Northampton isochrones—Gala Northampton and Grosvenor Coventry customer visits (Grosvenor on top)**



**Sheffield**

FIGURE 101

**Distribution of Grosvenor Sheffield (green) and Gala Leeds (red) customers  
(Gala on top)**



FIGURE 102

**Distribution of Grosvenor Sheffield (green) and Gala Leeds (red) customers  
(Grosvenor on top)**



FIGURE 103

**Grosvenor Sheffield isochrones—Grosvenor Sheffield and Gala Leeds  
customer visits (Gala on top)**



FIGURE 104

**Grosvenor Sheffield isochrones—Grosvenor Sheffield and Gala Leeds  
customer visits (Grosvenor on top)**



**Stockton-on-Tees**

FIGURE 105

**Distribution of Grosvenor Stockton (green) and Gala Stockton (red) customers  
(Gala on top)**



FIGURE 106

**Distribution of Grosvenor Stockton (green) and Gala Stockton (red) customers  
(Grosvenor on top)**



FIGURE 107

**Gala Teesside isochrones—Gala Teesside and Grosvenor Stockton customer  
visits (Gala on top)**



FIGURE 108

**Gala Teesside isochrones—Gala Teesside and Grosvenor Stockton customer visits (Grosvenor on top)**



TABLE 1 Drive-times and distances between casinos

<i>Town</i>	<i>Party</i>	<i>Casino</i>	<i>Competitor</i>	<i>Time (minutes)</i>	<i>Distance (km)</i>
ABERDEEN	Rank	Aberdeen—G Casino	Aberdeen—Gala Casino	3	1
ABERDEEN	Rank	Aberdeen—G Casino	Aberdeen—Soul Casino	2	1
ABERDEEN	Gala	Aberdeen—Gala Casino	Aberdeen—G Casino	3	1
ABERDEEN	Gala	Aberdeen—Gala Casino	Aberdeen—Soul Casino	1	0
BIRMINGHAM	Rank	Birmingham—G Casino	Birmingham—Gala Casino	3	1
BIRMINGHAM	Rank	Birmingham—G Casino	Birmingham—Broadway Casino	2	1
BIRMINGHAM	Rank	Birmingham—G Casino	Coventry—Maxims Casino Coventry	37	29
BIRMINGHAM	Rank	Birmingham—G Casino	Dudley—Castle Casino	19	14
BIRMINGHAM	Rank	Birmingham—G Casino	Coventry—Mint Casino Coventry	44	34
BIRMINGHAM	Rank	Birmingham—G Casino	Birmingham—Genting Club Star City	13	7
BIRMINGHAM	Rank	Birmingham—G Casino	Birmingham—Genting Casino Hurst St	4	2
BIRMINGHAM	Rank	Birmingham—G Casino	Birmingham—Genting Casino Edgbaston	4	2
BIRMINGHAM	Rank	Birmingham—G Casino	Birmingham—Rainbow Casino	8	4
BIRMINGHAM	Rank	Birmingham—G Casino	West Bromwich—Shaftesbury Casino	17	10
BIRMINGHAM	Gala	Birmingham—Gala Casino	Walsall—G Casino—Bentley Mill Way	25	20
BIRMINGHAM	Gala	Birmingham—Gala Casino	Birmingham—G Casino	3	1
BIRMINGHAM	Gala	Birmingham—Gala Casino	Coventry—The Isle Casino	41	36
BIRMINGHAM	Gala	Birmingham—Gala Casino	Dudley—Castle Casino	20	14
BIRMINGHAM	Gala	Birmingham—Gala Casino	Coventry—Mint Casino Coventry	43	32
BIRMINGHAM	Gala	Birmingham—Gala Casino	Birmingham—Broadway Casino	4	2
BIRMINGHAM	Gala	Birmingham—Gala Casino	Birmingham—Genting Casino Edgbaston	6	4
BIRMINGHAM	Gala	Birmingham—Gala Casino	Birmingham—Genting Casino Hurst St	1	0
BIRMINGHAM	Gala	Birmingham—Gala Casino	West Bromwich—Shaftesbury Casino	17	11
BIRMINGHAM	Gala	Birmingham—Gala Casino	Coventry—Maxims Casino Coventry	36	27
BIRMINGHAM	Gala	Birmingham—Gala Casino	Birmingham—Rainbow Casino	6	4
BIRMINGHAM	Gala	Birmingham—Gala Casino	Birmingham—Genting Club Star City	11	5
BOLTON	Rank	Bolton—G Casino	Stockport—Gala Casino	37	40
BOLTON	Rank	Bolton—G Casino	Liverpool—Gala Leo Casino	60	60
BOLTON	Rank	Bolton—G Casino	Blackpool—Paris Casino	56	61
BOLTON	Rank	Bolton—G Casino	Stockport—Casino36	37	40
BOLTON	Rank	Bolton—G Casino	Liverpool—Genting Casino Liverpool	59	59
BOLTON	Rank	Bolton—G Casino	Bolton—Genting Casino Bolton	2	1

<i>Town</i>	<i>Party</i>	<i>Casino</i>	<i>Competitor</i>	<i>Time (minutes)</i>	<i>Distance (km)</i>
BOLTON	Rank	Bolton—G Casino	Salford—Genting Casino Salford	20	17
BOLTON	Rank	Bolton—G Casino	Liverpool—Genting Club Liverpool	59	59
BOLTON	Rank	Bolton—G Casino	Manchester—Manchester235	23	22
BOLTON	Rank	Bolton—G Casino	Manchester—Genting Club Manchester	23	23
BOURNEMOUTH	Gala	Bournemouth—Gala Casino	Southampton—Grosvenor Casino	59	47
BOURNEMOUTH	Gala	Bournemouth—Gala Casino	Bournemouth—Genting Casino Bournemouth	1	0
BRADFORD	Gala	Bradford—Gala Casino	Leeds—Grosvenor Casino	21	16
BRADFORD	Gala	Bradford—Gala Casino	Huddersfield—Grosvenor Casino	23	22
BRADFORD	Gala	Bradford—Gala Casino	Leeds—Alea Leeds	22	19
BRADFORD	Gala	Bradford—Gala Casino	Huddersfield—Casino Red	21	20
BRADFORD	Gala	Bradford—Gala Casino	Leeds—Napoleons Casino	20	15
BRADFORD	Gala	Bradford—Gala Casino	Bradford—Napoleons Casino	2	1
BRISTOL	Gala	Bristol—Gala Bristol Harbourside	Bristol—Grosvenor Casino	1	0
BRISTOL	Gala	Bristol—Gala Bristol Harbourside	Bristol—Genting Casino Bristol	4	2
BRISTOL	Rank	Bristol—Grosvenor Casino	Bristol—Gala Bristol Harbourside	1	0
BRISTOL	Rank	Bristol—Grosvenor Casino	Bristol—Genting Casino Bristol	4	2
CARDIFF	Gala	Cardiff—Gala Casino	Cardiff—Grosvenor Casino	5	3
CARDIFF	Gala	Cardiff—Gala Casino	Cardiff—Les Croupiers Casino Ltd	7	3
CARDIFF	Rank	Cardiff—Grosvenor Casino	Cardiff—Gala Casino	5	3
CARDIFF	Rank	Cardiff—Grosvenor Casino	Cardiff—Les Croupiers Casino Ltd	8	4
COVENTRY	Rank	Coventry—The Isle Casino	Northampton—Gala Casino	45	58
COVENTRY	Rank	Coventry—The Isle Casino	Birmingham—Gala Casino	41	36
COVENTRY	Rank	Coventry—The Isle Casino	Leicester—Gala Casino	42	39
COVENTRY	Rank	Coventry—The Isle Casino	Northampton—Gala Sol Central Casino	45	57
COVENTRY	Rank	Coventry—The Isle Casino	West Bromwich—Shaftesbury Casino	49	44
COVENTRY	Rank	Coventry—The Isle Casino	Northampton—Aspers	45	58
COVENTRY	Rank	Coventry—The Isle Casino	Birmingham—Genting Casino Edgbaston	44	38
COVENTRY	Rank	Coventry—The Isle Casino	Coventry—Maxims Casino Coventry	17	13
COVENTRY	Rank	Coventry—The Isle Casino	Birmingham—Rainbow Casino	36	32
COVENTRY	Rank	Coventry—The Isle Casino	Leicester—Genting Casino Leicester	43	39
COVENTRY	Rank	Coventry—The Isle Casino	Birmingham—Genting Casino Hurst St	41	36
COVENTRY	Rank	Coventry—The Isle Casino	Birmingham—Genting Club Star City	37	32
COVENTRY	Rank	Coventry—The Isle Casino	Birmingham—Broadway Casino	43	37

<i>Town</i>	<i>Party</i>	<i>Casino</i>	<i>Competitor</i>	<i>Time (minutes)</i>	<i>Distance (km)</i>
COVENTRY	Rank	Coventry—The Isle Casino	Dudley—Castle Casino	54	51
COVENTRY	Rank	Coventry—The Isle Casino	Coventry—Mint Casino Coventry	9	5
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Leeds—Gala Casino	28	29
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Stockport—Gala Casino	53	43
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Bradford—Gala Casino	23	22
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Sheffield—Napoleons Casino	56	53
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Manchester—Manchester235	53	41
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Leeds—Napoleons Casino	29	30
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Salford—Genting Casino Salford	54	44
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Bradford—Napoleons Casino	25	22
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Manchester—Genting Club Manchester	52	40
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Stockport—Casino36	53	43
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Sheffield—Napoleons Casino	49	39
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Leeds—Alea Leeds	29	30
HUDDERSFIELD	Rank	Huddersfield—Grosvenor Casino	Huddersfield—Casino Red	3	2
LEEDS	Gala	Leeds—Gala Casino	Leeds—Grosvenor Casino	2	2
LEEDS	Gala	Leeds—Gala Casino	Sheffield—G Casino	58	60
LEEDS	Gala	Leeds—Gala Casino	Huddersfield—Grosvenor Casino	28	29
LEEDS	Gala	Leeds—Gala Casino	Leeds—Napoleons Casino	1	0
LEEDS	Gala	Leeds—Gala Casino	Huddersfield—Casino Red	26	28
LEEDS	Gala	Leeds—Gala Casino	Leeds—Alea Leeds	5	4
LEEDS	Gala	Leeds—Gala Casino	Sheffield—Napoleons Casino	58	56
LEEDS	Gala	Leeds—Gala Casino	Bradford—Napoleons Casino	20	15
LEEDS	Rank	Leeds—Grosvenor Casino	Bradford—Gala Casino	21	16
LEEDS	Rank	Leeds—Grosvenor Casino	Leeds—Gala Casino	2	2
LEEDS	Rank	Leeds—Grosvenor Casino	Leeds—Alea Leeds	5	3
LEEDS	Rank	Leeds—Grosvenor Casino	Sheffield—Napoleons Casino	58	55
LEEDS	Rank	Leeds—Grosvenor Casino	Leeds—Napoleons Casino	3	2
LEEDS	Rank	Leeds—Grosvenor Casino	Huddersfield—Casino Red	29	30
LEEDS	Rank	Leeds—Grosvenor Casino	Bradford—Napoleons Casino	22	17
LEICESTER	Gala	Leicester—Gala Casino	Coventry—The Isle Casino	42	39
LEICESTER	Gala	Leicester—Gala Casino	Nottingham—Alea Nottingham	55	43
LEICESTER	Gala	Leicester—Gala Casino	Nottingham—Dusk Till Dawn	53	41

<i>Town</i>	<i>Party</i>	<i>Casino</i>	<i>Competitor</i>	<i>Time (minutes)</i>	<i>Distance (km)</i>
LEICESTER	Gala	Leicester—Gala Casino	Nottingham—Genting Casino Nottingham	55	43
LEICESTER	Gala	Leicester—Gala Casino	Coventry—Maxims Casino Coventry	59	52
LEICESTER	Gala	Leicester—Gala Casino	Coventry—Mint Casino Coventry	51	44
LEICESTER	Gala	Leicester—Gala Casino	Leicester—Genting Casino Leicester	1	1
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	New Brighton—Rank Group	16	11
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	Salford—Grosvenor Casino	54	54
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	Bolton—G Casino	60	60
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	Manchester—Grosvenor Casino George St	56	57
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	Manchester—G Casino Bury New Rd	57	57
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	Manchester—Genting Club Manchester	56	56
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	Liverpool—Genting Club Liverpool	3	2
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	Manchester—Manchester235	55	56
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	Liverpool—Genting Casino Liverpool	2	2
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	Birkenhead—Genting Casino Wirral	13	10
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	Southport—Genting Casino Southport	43	33
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	Salford—Genting Casino Salford	55	54
LIVERPOOL	Gala	Liverpool—Gala Leo Casino	Bolton—Genting Casino Bolton	60	60
LONDON	Rank	London—G Casino Piccadilly	London—Gala Tottenham Court Rd	2	1
LONDON	Rank	London—G Casino Piccadilly	London—Gala Golden Horseshoe	6	4
LONDON	Rank	London—G Casino Piccadilly	London—Gala Barracuda Casino	3	2
LONDON	Rank	London—G Casino Piccadilly	London—Gala Casino—61–66 Russell Sq	3	2
LONDON	Rank	London—G Casino Piccadilly	London—Casino At The Empire	1	0
LONDON	Rank	London—G Casino Piccadilly	London—Golden Nugget Casino	0	0
LONDON	Rank	London—G Casino Piccadilly	London—Aspers—Stratford	16	12
LONDON	Rank	London—G Casino Piccadilly	London—Colony Club	3	2
LONDON	Rank	London—G Casino Piccadilly	London—Genting Casino Cromwell Mint	5	4
LONDON	Rank	London—G Casino Piccadilly	London—The Sportsman	3	2
LONDON	Rank	London—G Casino Piccadilly	London—Playboy Club	2	1
LONDON	Rank	London—G Casino Piccadilly	London—Palm Beach Club	2	1
LONDON	Rank	London—G Casino Piccadilly	London—Fox Club Poker	1	0
LONDON	Rank	London—G Casino Piccadilly	London—Napoleons Casino	1	0
LONDON	Gala	London—Gala Barracuda Casino	London—Grosvenor Casino Park Tower	3	2
LONDON	Gala	London—Gala Barracuda Casino	London—Grosvenor Casino Victoria	1	1

<i>Town</i>	<i>Party</i>	<i>Casino</i>	<i>Competitor</i>	<i>Time (minutes)</i>	<i>Distance (km)</i>
LONDON	Gala	London—Gala Barracuda Casino	Luton—G Casino	56	55
LONDON	Gala	London—Gala Barracuda Casino	London—G Casino Piccadilly	3	2
LONDON	Gala	London—Gala Barracuda Casino	London—Grosvenor Casino Gloucester	7	5
LONDON	Gala	London—Gala Barracuda Casino	London—Napoleons Casino	4	2
LONDON	Gala	London—Gala Barracuda Casino	London—Playboy Club	3	2
LONDON	Gala	London—Gala Barracuda Casino	London—Casino At The Empire	3	2
LONDON	Gala	London—Gala Barracuda Casino	London—Genting Casino Cromwell Mint	5	4
LONDON	Gala	London—Gala Barracuda Casino	London—Fox Club Poker	3	2
LONDON	Gala	London—Gala Barracuda Casino	London—Palm Beach Club	3	1
LONDON	Gala	London—Gala Barracuda Casino	London—Golden Nugget Casino	3	2
LONDON	Gala	London—Gala Barracuda Casino	London—The Sportsman	1	0
LONDON	Gala	London—Gala Barracuda Casino	London—Colony Club	2	2
LONDON	Gala	London—Gala Barracuda Casino	London—Aspers—Stratford	18	13
LONDON	Gala	London—Gala Casino Russell Sq	London—Grosvenor Casino Victoria	5	4
LONDON	Gala	London—Gala Casino Russell Sq	London—Grosvenor Casino Park Tower	5	4
LONDON	Gala	London—Gala Casino Russell Sq	London—Grosvenor Casino Gloucester	9	6
LONDON	Gala	London—Gala Casino Russell Sq	Luton—G Casino	57	55
LONDON	Gala	London—Gala Casino Russell Sq	London—G Casino Piccadilly	3	2
LONDON	Gala	London—Gala Casino Russell Sq	London—Playboy Club	5	3
LONDON	Gala	London—Gala Casino Russell Sq	London—Fox Club Poker	2	1
LONDON	Gala	London—Gala Casino Russell Sq	London—Golden Nugget Casino	3	2
LONDON	Gala	London—Gala Casino Russell Sq	London—The Sportsman	4	3
LONDON	Gala	London—Gala Casino Russell Sq	London—Casino At The Empire	3	2
LONDON	Gala	London—Gala Casino Russell Sq	London—Napoleons Casino	3	2
LONDON	Gala	London—Gala Casino Russell Sq	London—Palm Beach Club	4	3
LONDON	Gala	London—Gala Casino Russell Sq	London—Genting Casino Cromwell Mint	7	5
LONDON	Gala	London—Gala Casino Russell Sq	London—Colony Club	5	3
LONDON	Gala	London—Gala Casino Russell Sq	London—Aspers—Stratford	15	11
LONDON	Gala	London—Gala Golden Horseshoe	London—Grosvenor Casino Park Tower	6	4
LONDON	Gala	London—Gala Golden Horseshoe	Luton—G Casino	58	56
LONDON	Gala	London—Gala Golden Horseshoe	London—Grosvenor Casino Gloucester	5	3
LONDON	Gala	London—Gala Golden Horseshoe	London—G Casino Piccadilly	6	4
LONDON	Gala	London—Gala Golden Horseshoe	London—Grosvenor Casino Victoria	3	2

<i>Town</i>	<i>Party</i>	<i>Casino</i>	<i>Competitor</i>	<i>Time (minutes)</i>	<i>Distance (km)</i>
LONDON	Gala	London—Gala Golden Horseshoe	London—Colony Club	5	3
LONDON	Gala	London—Gala Golden Horseshoe	London—The Sportsman	4	3
LONDON	Gala	London—Gala Golden Horseshoe	London—Genting Casino Cromwell Mint	5	3
LONDON	Gala	London—Gala Golden Horseshoe	London—Casino At The Empire	7	5
LONDON	Gala	London—Gala Golden Horseshoe	London—Playboy Club	5	3
LONDON	Gala	London—Gala Golden Horseshoe	London—Golden Nugget Casino	6	4
LONDON	Gala	London—Gala Golden Horseshoe	London—Aspers—Stratford	21	16
LONDON	Gala	London—Gala Golden Horseshoe	London—Palm Beach Club	6	4
LONDON	Gala	London—Gala Golden Horseshoe	London—Napoleons Casino	7	5
LONDON	Gala	London—Gala Golden Horseshoe	London—Fox Club Poker	6	5
LONDON	Gala	London—Gala Tottenham Court Rd	London—Grosvenor Casino Victoria	4	3
LONDON	Gala	London—Gala Tottenham Court Rd	Luton—G Casino	57	56
LONDON	Gala	London—Gala Tottenham Court Rd	London—G Casino Piccadilly	2	1
LONDON	Gala	London—Gala Tottenham Court Rd	London—Grosvenor Casino Park Tower	4	3
LONDON	Gala	London—Gala Tottenham Court Rd	London—Grosvenor Casino Gloucester	8	5
LONDON	Gala	London—Gala Tottenham Court Rd	London—Aspers—Stratford	16	12
LONDON	Gala	London—Gala Tottenham Court Rd	London—Fox Club Poker	1	1
LONDON	Gala	London—Gala Tottenham Court Rd	London—Casino At The Empire	2	1
LONDON	Gala	London—Gala Tottenham Court Rd	London—Genting Casino Cromwell Mint	6	5
LONDON	Gala	London—Gala Tottenham Court Rd	London—Colony Club	4	2
LONDON	Gala	London—Gala Tottenham Court Rd	London—Palm Beach Club	3	2
LONDON	Gala	London—Gala Tottenham Court Rd	London—Napoleons Casino	1	1
LONDON	Gala	London—Gala Tottenham Court Rd	London—The Sportsman	3	2
LONDON	Gala	London—Gala Tottenham Court Rd	London—Playboy Club	3	2
LONDON	Gala	London—Gala Tottenham Court Rd	London—Golden Nugget Casino	1	1
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Gala Barracuda Casino	7	5
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Gala Casino Russell Sq	9	6
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Gala Tottenham Court Rd	8	5
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Gala Golden Horseshoe	5	3
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Fox Club Poker	7	5
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Napoleons Casino	7	5
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Playboy Club	5	3
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Casino At The Empire	7	5

<i>Town</i>	<i>Party</i>	<i>Casino</i>	<i>Competitor</i>	<i>Time (minutes)</i>	<i>Distance (km)</i>
LONDON	Rank	London—Grosvenor Casino Gloucester	London—The Sportsman	7	4
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Colony Club	5	3
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Golden Nugget Casino	6	4
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Palm Beach Club	6	4
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Genting Casino Cromwell Mint	1	1
LONDON	Rank	London—Grosvenor Casino Gloucester	London—Aspers—Stratford	22	16
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Gala Tottenham Court Rd	4	3
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Gala Barracuda Casino	3	2
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Gala Casino Russell Sq	5	4
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Gala Golden Horseshoe	6	4
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Palm Beach Club	2	1
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Colony Club	2	1
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Aspers—Stratford	19	14
LONDON	Rank	London—Grosvenor Casino Park Tower	London—The Sportsman	3	2
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Napoleons Casino	4	2
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Playboy Club	2	1
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Golden Nugget Casino	3	2
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Genting Casino Cromwell Mint	2	2
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Casino At The Empire	4	2
LONDON	Rank	London—Grosvenor Casino Park Tower	London—Fox Club Poker	3	2
LONDON	Rank	London—Grosvenor Casino Victoria	London—Gala Casino Russell Sq	5	4
LONDON	Rank	London—Grosvenor Casino Victoria	London—Gala Barracuda Casino	1	1
LONDON	Rank	London—Grosvenor Casino Victoria	London—Gala Golden Horseshoe	3	2
LONDON	Rank	London—Grosvenor Casino Victoria	London—Gala Tottenham Court Rd	4	3
LONDON	Rank	London—Grosvenor Casino Victoria	London—The Sportsman	1	1
LONDON	Rank	London—Grosvenor Casino Victoria	London—Casino At The Empire	4	3
LONDON	Rank	London—Grosvenor Casino Victoria	London—Playboy Club	3	2
LONDON	Rank	London—Grosvenor Casino Victoria	London—Genting Casino Cromwell Mint	6	4
LONDON	Rank	London—Grosvenor Casino Victoria	London—Palm Beach Club	4	2
LONDON	Rank	London—Grosvenor Casino Victoria	London—Colony Club	3	2
LONDON	Rank	London—Grosvenor Casino Victoria	London—Golden Nugget Casino	4	3
LONDON	Rank	London—Grosvenor Casino Victoria	London—Fox Club Poker	4	3
LONDON	Rank	London—Grosvenor Casino Victoria	London—Aspers—Stratford	19	14

<i>Town</i>	<i>Party</i>	<i>Casino</i>	<i>Competitor</i>	<i>Time (minutes)</i>	<i>Distance (km)</i>
LONDON	Rank	London—Grosvenor Casino Victoria	London—The Ritz Casino	4	3
LONDON	Rank	London—Grosvenor Casino Victoria	London—Napoleons Casino	5	3
LONDON	Rank	London—The Clermont Club	London—Gala Tottenham Court Rd	3	2
LONDON	Rank	London—The Clermont Club	London—Gala Barracuda Casino	3	2
LONDON	Rank	London—The Clermont Club	London—Gala Golden Horseshoe	5	4
LONDON	Rank	London—The Clermont Club	London—Gala Casino Russell Sq	4	3
LONDON	Rank	London—The Clermont Club	London—Aspers—Stratford	18	13
LONDON	Rank	London—The Clermont Club	London—Genting Casino Cromwell Mint	3	3
LONDON	Rank	London—The Clermont Club	London—Casino At The Empire	2	2
LONDON	Rank	London—The Clermont Club	London—Napoleons Casino	3	2
LONDON	Rank	London—The Clermont Club	London—The Sportsman	3	2
LONDON	Rank	London—The Clermont Club	London—Golden Nugget Casino	2	1
LONDON	Rank	London—The Clermont Club	London—Fox Club Poker	2	2
LONDON	Rank	London—The Clermont Club	London—Colony Club	1	0
LONDON	Rank	London—The Clermont Club	London—Palm Beach Club	1	1
LONDON	Rank	London—The Clermont Club	London—Playboy Club	0	0
LUTON	Rank	Luton—G Casino	London—Gala Barracuda Casino	56	55
LUTON	Rank	Luton—G Casino	London—Gala Casino—61–66 Russell Sq	57	55
LUTON	Rank	Luton—G Casino	London—Gala Tottenham Court Rd	57	56
LUTON	Rank	Luton—G Casino	London—Gala Golden Horseshoe	58	56
LUTON	Rank	Luton—G Casino	London—The Sportsman	56	55
LUTON	Rank	Luton—G Casino	London—Fox Club Poker	58	56
LUTON	Rank	Luton—G Casino	London—The Ritz Casino	59	57
LUTON	Rank	Luton—G Casino	London—Colony Club	58	57
LUTON	Rank	Luton—G Casino	London—Napoleons Casino	58	57
LUTON	Rank	Luton—G Casino	London—Playboy Club	59	57
LUTON	Rank	Luton—G Casino	Luton—Genting Casino Luton	7	6
LUTON	Rank	Luton—G Casino	London—Casino At The Empire	58	57
LUTON	Rank	Luton—G Casino	London—Golden Nugget Casino	58	57
LUTON	Rank	Luton—G Casino		7	6
LUTON	Rank	Luton—G Casino	London—Palm Beach Club	59	56
MANCHESTER	Rank	Manchester—G Casino Didsbury	Stockport—Gala Casino	8	6
MANCHESTER	Rank	Manchester—G Casino Didsbury	Stockport—Casino36	8	6

<i>Town</i>	<i>Party</i>	<i>Casino</i>	<i>Competitor</i>	<i>Time (minutes)</i>	<i>Distance (km)</i>
MANCHESTER	Rank	Manchester—G Casino Didsbury	Manchester—Genting Club Manchester	12	9
MANCHESTER	Rank	Manchester—G Casino Didsbury	Stoke—Genting Club Stoke	58	64
MANCHESTER	Rank	Manchester—G Casino Didsbury	Bolton—Genting Casino Bolton	32	30
MANCHESTER	Rank	Manchester—G Casino Didsbury	Liverpool—Genting Casino Liverpool	59	64
MANCHESTER	Rank	Manchester—G Casino Didsbury	Salford—Genting Casino Salford	17	13
MANCHESTER	Rank	Manchester—G Casino Didsbury	Liverpool—Genting Club Liverpool	59	64
MANCHESTER	Rank	Manchester—G Casino Didsbury	Manchester—Manchester235	13	9
MANCHESTER	Rank	Manchester—G Casino Bury New Rd	Stockport—Gala Casino	18	13
MANCHESTER	Rank	Manchester—G Casino Bury New Rd	Liverpool—Gala Leo Casino	57	57
MANCHESTER	Rank	Manchester—G Casino Bury New Rd	Liverpool—Genting Club Liverpool	56	56
MANCHESTER	Rank	Manchester—G Casino Bury New Rd	Salford—Genting Casino Salford	2	2
MANCHESTER	Rank	Manchester—G Casino Bury New Rd	Manchester—Manchester235	4	3
MANCHESTER	Rank	Manchester—G Casino Bury New Rd	Manchester—Genting Club Manchester	4	3
MANCHESTER	Rank	Manchester—G Casino Bury New Rd	Stockport—Casino36	18	13
MANCHESTER	Rank	Manchester—G Casino Bury New Rd	Liverpool—Genting Casino Liverpool	56	56
MANCHESTER	Rank	Manchester—G Casino Bury New Rd	Bolton—Genting Casino Bolton	21	19
MANCHESTER	Rank	Manchester—Grosvenor Casino George St	Liverpool—Gala Leo Casino	56	57
MANCHESTER	Rank	Manchester—Grosvenor Casino George St	Stockport—Gala Casino	14	10
MANCHESTER	Rank	Manchester—Grosvenor Casino George St	Liverpool—Genting Casino Liverpool	55	56
MANCHESTER	Rank	Manchester—Grosvenor Casino George St	Stockport—Casino36	14	10
MANCHESTER	Rank	Manchester—Grosvenor Casino George St	Salford—Genting Casino Salford	6	5
MANCHESTER	Rank	Manchester—Grosvenor Casino George St	Manchester—Manchester235	2	1
MANCHESTER	Rank	Manchester—Grosvenor Casino George S	Liverpool—Genting Club Liverpool	55	56
MANCHESTER	Rank	Manchester—Grosvenor Casino George St	Bolton—Genting Casino Bolton	24	23
MANCHESTER	Rank	Manchester—Grosvenor Casino George St	Manchester—Genting Club Manchester	0	0
NEW BRIGHTON	Rank	New Brighton	Liverpool—Gala Leo Casino	16	11
NEW BRIGHTON	Rank	New Brighton	Liverpool—Genting Club Liverpool	13	9
NEW BRIGHTON	Rank	New Brighton	Southport—Genting Casino Southport	51	38
NEW BRIGHTON	Rank	New Brighton	Birkenhead—Genting Casino Wirral	9	7
NEW BRIGHTON	Rank	New Brighton	Liverpool—Genting Casino Liverpool	14	9
NEWCASTLE-UPON-TYNE	Rank	Newcastle—G Casino	Sunderland—Gala Casino	26	20
NEWCASTLE-UPON-TYNE	Rank	Newcastle—G Casino	Newcastle—Genting Casino Newcastle	1	1
NEWCASTLE-UPON-TYNE	Rank	Newcastle—G Casino	Newcastle—Aspers	2	1

<i>Town</i>	<i>Party</i>	<i>Casino</i>	<i>Competitor</i>	<i>Time (minutes)</i>	<i>Distance (km)</i>
NORTHAMPTON	Gala	Northampton—Gala Casino	Coventry—G Casino Coventry	45	58
NORTHAMPTON	Gala	Northampton—Gala Casino	Coventry—Mint Casino Coventry	49	57
NORTHAMPTON	Gala	Northampton—Gala Casino	Luton—Genting Casino Luton	55	55
NORTHAMPTON	Gala	Northampton—Gala Casino	Coventry—Maxims Casino Coventry	52	54
NORTHAMPTON	Gala	Northampton—Gala Casino	Northampton—Aspers	2	1
SALFORD	Rank	Salford—Grosvenor Casino	Liverpool—Gala Leo Casino	54	54
SALFORD	Rank	Salford—Grosvenor Casino	Stockport—Gala Casino	17	12
SALFORD	Rank	Salford—Grosvenor Casino	Bolton—Genting Casino Bolton	21	21
SALFORD	Rank	Salford—Grosvenor Casino	Manchester—Manchester235	2	1
SALFORD	Rank	Salford—Grosvenor Casino	Liverpool—Genting Club Liverpool	52	54
SALFORD	Rank	Salford—Grosvenor Casino	Liverpool—Genting Casino Liverpool	53	54
SALFORD	Rank	Salford—Grosvenor Casino	Stockport—Casino36	17	12
SALFORD	Rank	Salford—Grosvenor Casino	Salford—Genting Casino Salford	5	4
SALFORD	Rank	Salford—Grosvenor Casino	Manchester—Genting Club Manchester	3	2
SHEFFIELD	Rank	Sheffield—G Casino	Leeds—Gala Casino	58	60
SHEFFIELD	Rank	Sheffield—G Casino	Sheffield—Napoleons Casino Ecclesall Rd	8	5
SHEFFIELD	Rank	Sheffield—G Casino	Sheffield—Napoleons Casino Livesey St	5	4
SHEFFIELD	Rank	Sheffield—G Casino	Leeds—Napoleons Casino	58	60
SHEFFIELD	Rank	Sheffield—G Casino	Leeds—Alea Leeds	55	56
SOUTHAMPTON	Rank	Southampton—Grosvenor Casino	Bournemouth—Gala Casino	59	47
SOUTHAMPTON	Rank	Southampton—Grosvenor Casino	Portsmouth—Genting Electric Casino	32	32
SOUTHAMPTON	Rank	Southampton—Grosvenor Casino	Southampton—Genting Club Southampton	2	2
SOUTHAMPTON	Rank	Southampton—Grosvenor Casino	Southampton—Maxims Casino Southampton	1	1
SOUTHAMPTON	Rank	Southampton—Grosvenor Casino	Bournemouth—Genting Casino Bournemouth	59	47
STOCKPORT	Gala	Stockport—Gala Casino	Manchester—Grosvenor Casino George St	14	10
STOCKPORT	Gala	Stockport—Gala Casino	Manchester—G Casino Bury New Rd	18	13
STOCKPORT	Gala	Stockport—Gala Casino	Bolton—G Casino—Moor Lane	37	40
STOCKPORT	Gala	Stockport—Gala Casino	Huddersfield—Grosvenor Casino	53	43
STOCKPORT	Gala	Stockport—Gala Casino	Salford—Grosvenor Casino	17	12
STOCKPORT	Gala	Stockport—Gala Casino	Manchester—G Casino Didsbury	8	6
STOCKPORT	Gala	Stockport—Gala Casino	Salford—Genting Casino Salford	20	14
STOCKPORT	Gala	Stockport—Gala Casino	Bolton—Genting Casino Bolton	37	40
STOCKPORT	Gala	Stockport—Gala Casino	Manchester—Manchester235	16	11

<i>Town</i>	<i>Party</i>	<i>Casino</i>	<i>Competitor</i>	<i>Time (minutes)</i>	<i>Distance (km)</i>
STOCKPORT	Gala	Stockport—Gala Casino	Stockport—Casino36	1	0
STOCKPORT	Gala	Stockport—Gala Casino	Manchester—Genting Club Manchester	14	10
STOCKTON-ON-TEES	Rank	Stockton-On-Tees—G Casino	Stockton-On-Tees—Gala Casino	5	3
STOCKTON-ON-TEES	Rank	Stockton-On-Tees—G Casino	Sunderland—Gala Casino	55	44
STOCKTON-ON-TEES	Gala	Stockton-On-Tees—Gala Casino	Stockton-On-Tees—G Casino	5	3
SUNDERLAND	Gala	Sunderland—Gala Casino	Newcastle—G Casino	26	20
SUNDERLAND	Gala	Sunderland—Gala Casino	Stockton-On-Tees—G Casino	55	44
SUNDERLAND	Gala	Sunderland—Gala Casino	Newcastle—Aspers	26	20
SUNDERLAND	Gala	Sunderland—Gala Casino	Newcastle—Genting Casino Newcastle	26	19

**Gala's competitors and key opportunities/threats**

<i>Casino</i>	<i>Date</i>	<i>Rank</i>	[X]						
Aberdeen	Jul-11	Yes				[X]		[X]	[X]
Bradford	Oct-11		[X]		[X]		[X]	[X]	[X]
									[X]
									[X]
Bristol	Jul-11	Yes		[X]				[X]	[X]
									[X]
Cardiff	Jul-11	Yes				[X]		[X]	[X]
									[X]
Edinburgh	Aug-11			[X]				[X]	[X]
									[X]
Hull	June 2011	Mecca Bingo (Rank)			[X]		[X]	[X]	[X]
									[X]
								[X]	[X]
									[X]

<i>Casino</i>	<i>Date</i>	<i>Rank</i>	[X]						
									[X]
Liverpool	Jun-11			[X]				[X]	[X]
									[X]
London— competitor analysis: Hippodrome Casino Leeds	Jun-11	Yes					[X]		[X]
									[X]
Leicester (1)	Jun-011			[X]					[X]
									[X]
Northampton	Jul-11		[X]				[X]		[X]
									[X]
									[X]
Northampton (2)	Jan-12							[X]	[X]
Nottingham (3)	Jun-11			[X]	[X]	[X]			[X]
									[X]
									[X]
									[X]
									[X]
									[X]
									[X]
									[X]

<i>Casino</i>	<i>Date</i>	<i>Rank</i>	[X]						
Nottingham (4)	Jan-12								
Stockport		G Casino Didsbury				[X]	[X]	[X]	[X]
Sunderland (5)	Jul-11	G Casino Teeside and G Casino Newcastle			[X]				[X]

[X]

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[X]





## **Background on 2005 Act licences, cold licences and the merger parties' plans for their cold licences**

1. This appendix provides some background information to the potential competition assessment in the provisional findings:
  - (a) we provide some background information on the 2005 Act licences;<sup>1</sup> and
  - (b) we then provide some background information on the merger parties' cold licences and their overall plan prior to their merger talks.

### **Background information on 2005 Act licences**

2. Any concerns related to the loss of potential competition in bidding for any remaining 2005 Act licences can only arise in relation to the licences that are yet to receive bids or to open the award procedure. We identified seven of the 16 licences originally available under the 2005 Act that are still to be awarded, although stage 1 of the application process<sup>2</sup> has now closed in respect of three of these (Leeds, Luton and Wolverhampton), meaning that parties [X] which have not already submitted a bid would no longer be able to participate.
3. We understand that the local authorities designated under the 2005 Act that have so far issued licences have used a number of selection criteria for awarding these licences, including financial and non-financial criteria. The financial aspects of bids (ie payments to the local authority) account for a small part of the overall weighting, with a far greater proportion being assigned to non-financial aspects such as job creation and regeneration benefits. For example, Wolverhampton City Council told us that out of 1,000 points that could be assigned to each bid 'financial contribution' was limited to 100 points.<sup>3</sup> Wolverhampton City Council told us that other local authorities were likely to adopt or have adopted similar criteria and assigned similar weights.<sup>4</sup> In the light of this, the impact of fewer potential bidders for the remaining licences may lead to bids of reduced quality—for example, with more limited employment prospects or locations that offer fewer regeneration benefits. The merger could therefore result in lower-quality casinos—ie smaller casinos, casinos with fewer facilities or in less valuable locations—and therefore negatively affect consumers.
4. Of the 16 local authorities that could issue 2005 Act licences (see Table 1):
  - (a) eight have already awarded their licence;<sup>5</sup>
  - (b) three have received bids and are at stage 2 of the award procedure;<sup>6</sup>

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<sup>1</sup> See Appendix H for a detailed explanation of the licensing framework established by the 2005 Act.

<sup>2</sup> As explained in greater detail in Appendix H, the local authorities which have already carried out competitions followed a virtually identical two-stage tender process for awarding their licences, and we understand those authorities which have not yet awarded a licence will also follow a two-stage process.

<sup>3</sup> In particular, 225 marks are for deliverability, 175 for job creation, while physical development, regeneration benefits in terms of additional facilities, regeneration benefits in terms of community regeneration, social responsibility and local business benefits carry 100 points each.

<sup>4</sup> This is because the 16 designated authorities established the Casino Licensing Authorities Network, which sought legal counsel's advice on the optimal structure for the licensing competition.

<sup>5</sup> Two (London Newham and Milton Keynes) were awarded to Aspers, one each was awarded to Genting (Solihull) and Opera House (Scarborough), while the remaining four were awarded to independents: Apollo (Kingston upon Hull), Pleasure Beach (Great Yarmouth), Gurney (Middlesbrough) and GGV (Bath & North East Somerset District Council).

(c) two have opened stage 1 of the award procedure;<sup>7</sup> and

(d) three are yet to start the award procedure.

TABLE 1 **Status of 2005 Act licences**

	<i>Stage</i>	<i>Applicants</i>	<i>Details</i>
<i>Large casinos</i>			
Milton Keynes Borough Council	Awarded	Apollo,* Aspers Universal, Aspers Development, LCI, Grosvenor (Rank)	Awarded to Aspers
London Borough of Newham	Awarded	Apollo, Rank, Great Eastern, Quays and Aspers	Awarded to Aspers. Opened 1 December 2011.
Solihull Metropolitan Borough Council	Awarded	Rank, Genting	Awarded to Genting. Planning permission granted April 2012.
Kingston upon Hull City Council	Awarded	Apollo	Awarded to Apollo
Great Yarmouth Borough Council	Awarded	Palatial, Pleasure Beach and Leisure Prop Corp	Awarded to Pleasure Beach
Leeds City Council	Stage 2 opened (8 August 2012)	LCI, Rank, GGV, Rushbond plc, Leeds United Football Club	All five applicants (except for Rank) for provisional statements passed on to stage 2
Middlesbrough Borough Council	Awarded (stage 2 closed 27 February 2012)	Apollo and Gurney Casino Ltd	On 31 May 2012 a provisional statement was issued to Gurney Casino Ltd, which will now seek an operator
Southampton City Council	Not yet commenced		
<i>Small casinos</i>			
Scarborough Borough Council	Awarded	Opera House granted provisional statement	Awarded to Opera House. Apollo pulled out January 2012
Swansea City and County Council	Stage 1 planned from May 2012		Still expected to run competition despite Aspers decision to close in Swansea. Not started as at 4 July 2012.
Wolverhampton Borough Council	Stage 1 closed (31 October 2012)		Stage 1 closes 31 October 2012
Bath & North East Somerset District Council	Awarded (stage 2 closed on 3 October 2011)	Rank, Apollo, † Great Eastern Quays—now GGV	Decision announced 17 August 2012—awarded to GGV in partnership with Partouche (French casino operator) and developer Deeley Freed
Luton Borough Council	Stage 1 closed on 9 November 2012	Rank, Apollo Resorts, Genting and a developer	
Wigtown Divisional Licensing Board	No date set		
East Lindsay District Council	No date set		
Torbay Borough Council	No date set		

*Source:* The GC, local authorities, LCI, Gala and Rank. Information as at the end of November 2012.

\*LCI worked with Apollo Resorts and Leisure in relation to this licence application.

†If successful, it was anticipated that Gala would operate the casino.

<sup>6</sup> Rank, alongside LCI, Leeds United, Rushbond plc and Global Gaming Ventures (GGV) submitted bids for the Leeds licence. Gala told us that Wolverhampton had confirmed there were two applicants that would progress to stage 2 of the process. Rank told us that its bid had not proceeded to the second stage of the Leeds process and that the final award was expected in spring 2013 to LCI, Leeds United or GGV. Luton, where Rank also bid, has now proceeded on to stage 2.

<sup>7</sup> Swansea City and County Council and Wolverhampton Borough Council.

## Background information on cold licences

5. A cold licence is a licence to operate a casino, which is not currently used.<sup>8</sup>
6. A licence may be cold for a number of reasons, including where the current holder:
  - (a) operated a casino that it subsequently closed, but the licence was not returned to, or revoked by, the local authority; or
  - (b) obtained a licence in the past, but has not yet developed a casino. Licences to operate casinos in Great Britain have been granted under both the 1968 Act and the 2005 Act. As discussed in detail in Appendix H, the 2005 Act closed down the opportunities to obtain more casino licences under the 1968 Act beyond April 2007, after which point it was no longer possible to obtain new licences (other than the 16 available under the 2005 Act, or by acquiring an existing 1968 Act licence). However, in the period leading up to April 2007, some casino operators applied for and obtained licences under the 1968 Act, many of which were speculative and have not to date been developed into casinos.
7. The cost of holding a cold licence for the licence holder is limited, consisting of payments to the local authority in the region of a few thousand pounds a year.<sup>9</sup> An important feature of casino licences (either under the 1968 or 2005 Act) is that licences are not currently portable—ie they allow the development and operation of a casino only in the area of the local authority that issued it. Therefore, cold licences allow the holder to develop a casino in the local authority area when and if it becomes a profitable opportunity.<sup>10</sup> Presently, 1968 Act licences can only be used within the boundaries of the local authority which originally issued the licence.<sup>11</sup>
8. In order to develop a cold licence an operator needs to find a suitable site within the relevant licensing area, negotiate an agreement with the landlord of the site, obtain any necessary planning permission for alterations to the site, complete any necessary internal or external renovations and fit out, and develop the casino (see Appendix I). Rank told us that, based on its recent experience, it would take at least [§] from identification of a suitable site to open an operational casino using a 1968 Act cold licence.<sup>12</sup> In some cases it could take longer to develop a 1968 Act cold licence—for example, if the casino were part of a larger development. Alternatively, the time could be less if the premises were already available and few issues arose in relation to planning, licensing and property development. For example, the Hippodrome Casino in London’s Leicester Square took around six years to launch. The planning application by The Hippodrome Casino Limited was approved by Westminster City Council in 2006 and a gaming licence awarded in late 2008. The casino opened in 2012. During the four years from licence award to opening the premises, a substantial building renovation project was undertaken. In contrast, a

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<sup>8</sup> For clarification, the term ‘cold licence’ refers to a casino premises licence granted under the 1968 Act, rather than an operating or personal management licence issued under the 1968 Act. 2005 Act licences will only be granted where there is a plan to develop the licence so the term ‘cold licence’ currently refers exclusively to unused 1968 Act licences. For the difference between these categories of licence, see Appendix H.

<sup>9</sup> Rank told us that the bands of the annual fees for holding a licence were set by DCMS at between £500 and £3,000 a year with an average of £2,000. Gala told us that this was typically £3,000 a year. See also Appendix H on regulatory background for details of fees.

<sup>10</sup> They could also be used to prevent entry into a local area. Gala argued that there was no evidence to support that cold licences had been used in this manner. It gave the example of Sheffield, where Rank has invested [§] million developing cold licences in an area where Genting held a cold licence (Genting now also having activated its Sheffield cold licence with the opening of its casino in September 2012).

<sup>11</sup> See Appendix H for discussion of current proposals for the portability of 1968 Act licences.

<sup>12</sup> Rank told us that GGV obtained a licence to open a casino in Bath on 20 August 2012 and we understand that this casino is scheduled to open in 2014—a period of just over two years.

period of nine months elapsed between the granting of the Stratford licence to Aspers and the opening of the casino in 2011.

### ***Gala's and Rank's cold licences***

9. Table 2 shows the number of cold licences held by Gala and Rank (and separately Guoco)<sup>13</sup> in the UK,<sup>14</sup> and the local authority which issued the licence in each case. It also lists other casino operators holding cold licences in the same area.

TABLE 2 **Local authorities where Rank, Guoco and Gala hold cold licences**

<i>Local authority</i>	<i>Granted/ acquired</i>	<i>Closed</i>	<i>Other cold licences</i>	<i>Parties' views</i>
<b><i>Gala's cold licences</i></b>				
Coventry	Mar 07			Gala intended to activate the licence from [X]
Northampton	Jan 03	Oct 10	1 (Independent)	Closed due to poor financial performance
London (Westminster)*		Nov 08		[X]
Wolverhampton		Sep 11		Closed due to poor financial performance
<b><i>Rank's cold licences</i></b>				
Acocks Green (Birmingham)	Aug 05			Never used
Oldbury	Jun 05			Never used, but plan to open in late 2013. Planning permission obtained in February 2011.
Edinburgh	Apr 07			Never used
Swansea	Jan 05		2 (Aspers)	Never used
Reading	Jul 05			Never used, [X]. Planning permission obtained in May 2012.
Southend	Oct 05			Never used, [X]. Planning permission obtained in October 2011.
Kensington and Chelsea (London)		Oct 11		Opened and subsequently closed
Hove		Aug 10		Opened and subsequently closed
Manchester		Jan 12	1 (Genting) 2 (Independent—Players Club UK and Cheshire Sporting Club)	Opened and subsequently closed
Liverpool		Feb 12	2 (Genting and Independent)	Opened and subsequently closed
<b><i>Guoco's cold licences</i></b>				
Bradford	May 08			Never developed
Glasgow	Sep 07		1 (Genting)	Never developed
London (Westminster)	Dec 09			Acquired from Ladbrokes. Never developed by Guoco. Was in use until 12/11/09 by Ladbrokes.
Middlesbrough	Sep 07			Never developed
Wolverhampton	Sep 07			Never developed

Source: Gala, Rank and Guoco.

\*This cold licence is not part of the merger transaction.

<sup>13</sup> In considering Rank's position, we have also included the five cold licences held by Guoco.

<sup>14</sup> The merging parties do not hold any licences issued under the 2005 Act.

## **Potential competition**

10. In its analysis of whether the merger might result in a loss of potential competition in relation to non-development of cold licences held by the merger parties and/or loss of a bidder for 2005 Act licences where the tender process has not yet begun, the CC focused on a possible loss of actual potential competition.<sup>15</sup> For example, for cold licences we considered cases where we had information to suggest that absent the merger there was a real prospect that a cold licence holder would have developed it into a casino, and that such entry would have occurred in a relatively short time frame.<sup>16</sup> For 2005 Act licences, we considered any areas where there was a realistic prospect that both Rank and Gala would bid for the same licence.

## **Gala's and Rank's overall plans for developing cold licences**

11. We considered Rank's and Gala's overall plans to develop their cold licences. Further information on the merger parties' plans for areas where we considered there was a concern about loss of actual potential competition are discussed in the provisional findings in paragraphs 7.145 to 7.160.

## **Rank's plans for its cold licences**

12. Rank told us that its current general strategic aim was to develop all of its cold licences, where it was possible and where it would be profitable to do so.
13. Our review of Rank's internal documents suggests that it has in the recent past intended to open casinos wherever it has a cold licence, but that it has not been very successful in this strategy.<sup>17</sup> Rank had plans in 2010 to [REDACTED].<sup>18</sup> Similarly, Rank's Strategic Plan for 2011 forecast [REDACTED]. Rank's capex plan for 2011 shows an incremental capex for cold licences of [REDACTED]. Rank told us that it was [REDACTED] through the activation of cold licences in [REDACTED] and it currently held (together with Guoco) 12 cold licences, four of which came into existence due to closure of its casinos between 2010 and 2012. In its Annual Operating Plan for 2013 (prepared when it was already contemplating the acquisition of Gala), Rank expected that it would still have [REDACTED] cold licences in [REDACTED].<sup>19</sup>

## **Guoco's plan for its cold licences**

14. Guoco has been a minority shareholder of Rank since 2007 and has been its majority owner since June 2011. [REDACTED]

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<sup>15</sup> The Guidelines (paragraph 5.4.13 et seq) refer to two forms of potential competition which may be eliminated as a result of a merger: actual potential competition and perceived potential competition. Actual potential competition involves the removal of a potential entrant that could have increased competition and is a constraint only if and when entry occurs (paragraph 5.4.14). Perceived potential competition involves the removal of a firm which is not in the market, but which nevertheless imposes an existing constraint because of the threat that it would enter if existing firms in the market raised their prices. We would characterize cold licences where there were no realistic prospects of development as perceived potential competition. However, we did not see any evidence to suggest that the mere presence of a cold licence affects the behaviour of casino operators, so do not consider perceived potential competition further.

<sup>16</sup> We considered, given the logistics of opening a casino discussed above, that entry in less than two years would be timely.

<sup>17</sup> Since then it has opened casinos in Stockton and New Brighton and [REDACTED].

<sup>18</sup> In the Grosvenor Casinos 2010 Strategic Plan, Rank expected that in [REDACTED] it would open [REDACTED]. It also expected [REDACTED].

<sup>19</sup> Rank told us that the planned opening of the Sandwell casino, which was initially planned for late 2013, was subject to overcoming a legal challenge raised by a competitor in respect of Rank's right to use its licence in Sandwell.

15. Rank's view of Guoco's current intentions (ie after Guoco gained control of Rank) were set out by Rank: 'GuocoLeisure, as holder of the cold licence, has not developed the licence, despite having held it since September 2007 and, [REDACTED].<sup>20</sup>

*Gala's plan for its cold licences*

16. [REDACTED] However, in our review of Gala's internal documents we found that [REDACTED].
17. A [REDACTED] plan document dated [REDACTED] indicated that the Coventry investment had been removed from the budget. This document [REDACTED] and indicated that Gala might [REDACTED] consider a small-scale casino or using the licence on an alternative site. [REDACTED]
18. Gala has also told us that [REDACTED]. Gala said it [REDACTED].<sup>21</sup>
19. [REDACTED]

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<sup>20</sup> Rank subsequently told us [REDACTED].

<sup>21</sup> [REDACTED]

## Quantitative assessment of the effects of local competition

### Introduction

1. Casinos offer a range of table games and gaming machines as well as food and drink services. The services offered have both price elements (eg payout ratio of gaming machines, price of food) and non-price elements (eg service standards, gaming quality). Some of the price and non-price elements of these services, ie price, quality, range and service level (PQRS), can be altered relatively easily in the short run. Any change of these variables contributes to a casino attracting or losing customers. We expect that the greater the competition that a casino faces, the higher the PQRS offered to its customers.
2. One of our theories of harm predicts that the merger may result in a deterioration of the PQRS offered by casinos in particular areas. This is because the removal of a competitor may allow casinos profitably to raise their price or reduce their quality, range or service due to the reduction in the number of competitors to which their customers could switch their business.
3. To test our theory of harm, we examined historical data on the effect of local competition on the parties' casinos. In particular, we tested:
  - (a) Whether casinos' variable profit margins are related to the number of competitors (ie casino fascias) in a local area. A negative relationship between the number of casino competitors and casinos' margins would be consistent with our theory of harm.
  - (b) Whether casinos' salary costs are related to the number of casino competitors in a local area. Service levels are determined in part by the number of staff available with a casino, and we expect that when casinos face increased competition they react by increasing their service level. Therefore a positive relationship between casinos' salary costs (relative to turnover) and the number of competitors would be consistent with our theory of harm.
  - (c) Whether casinos' spending on promotions (relative to their turnover) is related to the number of casino competitors in a local area. Consistent with our theory of harm, we therefore expect a positive relationship between casinos' salary costs (relative to their turnover) and the number of competitors that they face.
4. We also examined the geographical area within which competition between casinos takes place. We did this by analysing the impact of the number of competitors in different drive-time ranges (0–30 minutes, 30–60 minutes, 60–120 minutes and 120–180 minutes) on two indicators of casinos' performance, namely turnover and admissions.
5. Casinos' margins, salary costs, promotions, admissions and turnover may be determined by a number of different variables such as local economic conditions in addition to the level of competition. We therefore opted to use regression techniques to examine the relationships between these variables and the extent of local competition.
6. We had some concerns that there may be a fixed component in casinos' salary costs on a quarterly basis which would bias our estimates of the effects of local competition

on salaries relative to turnover and variable margins. We therefore used two additional methods when estimating the effects of local competition on margins and salaries relative to turnover to correct for this possible bias.

7. We found the following:
  - (a) There is some evidence that increased local competition reduces casinos' margins.
  - (b) We did not find evidence that local competition affects casinos' salary costs relative to their turnover.
  - (c) There is evidence that local competition increases casinos' spending on promotions, relative to their turnover, and that the size of this effect depends on how many existing casino competitors there are.
  - (d) We found evidence that the number of competitors within 30 minutes' drive-time of a casino reduces its admissions and turnover, although we did not find evidence that the number of casino competitors beyond 30 minutes' drive-time has an effect.
8. This appendix has the following structure:
  - (a) We begin by setting out our regression techniques and discussing theoretical issues.
  - (b) We then describe our data set.
  - (c) We discuss our results in more detail.
  - (d) We set out full results in a technical [annex](#).

## **Theory and econometric specification**

9. Our primary methodology involved regressing our variables of interest (variable profit margin, salaries as a percentage of turnover, promotion spending as a percentage of turnover, turnover and admissions) on variables indicating the structure of the casino's local market using a panel data fixed-effects specification. These are the number of casino competitors within a 30-minute drive-time and the square of the number of competitors within a 30-minute drive-time. The square term was included to allow us to examine whether the effect of adding an additional competitor to the market varies according to how many existing casino competitors there are in the market.
10. We also included terms for the number of casino competitors in 30–60, 60–120 and 120–180 minute drive-times, although none of these was found to be significant in any circumstances.
11. In estimating these effects, we controlled for time-invariant characteristics of individual casinos and whether the casino had been refurbished, in addition to seasonal effects affecting all casinos and local economic conditions in the casino's local area. We clustered standard errors by casino.
12. It may be the case that there is a fixed component to casinos' spending on salaries within a quarter. As our calculation of variable profit margins involves treating the whole of spending on salaries as variable, this would mean that our measure of

variable margin would be overstated by an amount equal to the ratio of fixed salary costs to turnover. This would introduce bias into our estimates of the effects of local competition on variable margins. Likewise, our estimate of the effect of local competition on salaries relative to turnover would also be biased.

13. This bias occurs because of the correlations between variables that the fixed salary component within a quarter introduces. In the event of entry, our theory predicts that casinos would increase their spending on salaries relative to turnover as they try to retain customers, even though the absolute level of turnover would decrease due to diversion to the new entrant. If there is a fixed component to salary costs within a quarter, new entry would cause the size of this fixed component to increase relative to turnover because of this diversion. Hence our estimate of the effect of entry on salary costs relative to turnover would be biased upwards.
14. To put this more technically, if the number of casino competitors is negatively correlated with turnover, the inclusion of fixed salary costs makes the error term in our regression specification positively correlated with the number of competitors. This biases upwards our estimate of the effect of the number of competitors on salaries relative to turnover.
15. We use two alternative methods to correct for possible bias occurring due to fixed salary costs. Method I involved including an additional control variable to our specification to take account of variation occurring due to differences in casinos' fixed salary costs. We examined different possibilities for variation in fixed salary costs: that these costs varied between casinos, that they varied between towns and that they were constant across all casinos.
16. Method II involved a two-stage process in which we estimated the fixed component of each casino's salary costs and subtracted these from its total salary costs, before performing the regression according to our original specification. In particular, in the first stage we regressed casinos' salary costs on local wages multiplied by casinos' admissions, local wages multiplied by casinos' number of gaming tables, and control variables for local economies. We then used these results to construct estimates of casinos' fixed salary costs. Finally, we subtracted these estimates of fixed salary costs from our measures of casinos' variable costs and salary costs and performed second-stage regressions as in our primary specification.<sup>1</sup> This method therefore also allows fixed salary costs to vary between casinos.

## Data description

17. Our data set is constructed using financial data collected from Rank and Gala and data from the GC's regulatory accounts, which were used to determine market structure. After cleaning the data, our sample is a panel of quarterly data from Q3 2007 to Q2 2012 for 59 casinos (22 Gala casinos and 37 Rank casinos, with nine in London). More detail on our data-cleaning process is given in the [annex](#).
18. A preliminary examination of the data indicates that the casinos' performance has varied over time. For example, Figure 1 shows that in recent years, casinos' margins have generally been increasing over time, although they experienced a slight fall between 2011 and 2012. This is in contrast to casinos' turnover, which increased sharply between 2010 and 2012.

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<sup>1</sup> Our standard errors were constructed by bootstrapping the first and second stages of the regression together to account for the fact that the first-stage regression introduced correlations between the observations we used in the second stage.

FIGURE 1

**Casinos' total turnover (left) and variable margin (right)**



Source: Parties' data.

19. Table 1 shows summary statistics for the data we collected. Variable profit margin is calculated as turnover less variable costs to turnover. In general, there is significant variation between casinos in each of variable profit margins, and the ratios of salaries and promotions to turnover.

TABLE 1 Summary statistics

<i>Variable</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Minimum</i>	<i>Maximum</i>
Admissions	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
EBITDA (£)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Turnover (£)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Salaries paid (£)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Customer promotions (£)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Variable profit margin	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Ratio of salaries to turnover	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Ratio of promotions to turnover	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Number of competitive fascia	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: Parties' data and CC calculations.

## Results

### ***Variable profit margins and salaries***

20. Table 2 shows the results of our analysis of the effects of local competition on variable margins and the ratio of salaries to turnover using our main specification. In view of our concerns, detailed above, about fixed salary costs biasing our results by introducing endogeneity, these results should be treated with caution, and we report them for the sake of completeness.
21. These results suggest that the entry of a casino competitor within 30 minutes of the casino causes a statistically significant decrease in variable profit margins of [20–30] per cent (at the average margin level) and a statistically significant increase in salaries, relative to turnover, of [10–20] per cent.<sup>2</sup> This method did not suggest that casino refurbishment has a statistically significant effect on casinos' variable margins, nor did it suggest that refurbishment had a statistically significant effect on the ratio of salaries to turnover.

<sup>2</sup> We also found that the square of the number of casino competitors within 30 minutes was significant for both margins and salaries, implying that the effects of changes in the number of competitors depend on the number of competitors already in the market. However, given the concerns that we have about endogeneity, we do not attach particular significance to this finding.

TABLE 2 **Effect of local competition on variable margins and ratio of salaries to turnover—main specification**

<i>Local competition factor</i>	<i>Effect on variable profit margin</i>	<i>Effect on salaries as a proportion of turnover</i>
Entry of a competitor within 0–30 minutes	[-20% - -10%]	[10%–20%]**
Refurbishment of the casino	(Not significant)	(Not significant)

Source: CC analysis.

Note: Throughout the tables in this appendix, \* denotes significance at the 10 per cent level, \*\* denotes significance at the 5 per cent level and \*\*\* denotes significance at the 1 per cent level. In Tables 2 to 5, where figures are reported without asterisks, this indicates that the figure involves additional calculations on the basis of regression outputs that were significant at 5 per cent or less.

### *Fixed salary costs*

22. If, as discussed above, there is a fixed element to casinos' salary costs, the estimates in Table 2 may be biased. To account for this, we used two alternative methods—one included additional control variables to account for fixed salary costs, while the other used a two-stage process to estimate fixed salary costs for each casino and then exclude them from our regressions. We applied each of these methods to estimate the effect of local competition on variable margins and salaries relative to turnover.
23. Table 3 shows the results of these two sets of regressions. When we included additional control variables to account for fixed salary costs, with these costs assumed to be fixed across casinos, we found that the estimated effect of the entry of a competitor was to reduce margins by [10–20] per cent. We also used other assumptions, for example allowing fixed salary costs to vary between casinos and between towns. However, none of these suggested that local competition had a significant impact on variable margins. When we used our two-stage process, the estimated effect of entry on margins was a reduction of [0–10] per cent.

TABLE 3 **Effect of entry of a competitor within 30 minutes' drive on variable margins and ratio of salaries to turnover—fixed salary component**

<i>Estimation method</i>	<i>Estimated effect %</i>
Additional control variable—fixed salaries constant across casinos (Method I)	[-20 - -10]
Additional control variable—fixed salaries vary between towns (Method I)	(Not significant)
Additional control variable—fixed salaries vary between casinos (Method I)	(Not significant)
Two-stage estimation (Method II)	[-10 - 0]

Source: CC analysis.

24. However, we do not find evidence that casinos adjust the variable part of salaries in response to changes in local competition, with neither method suggesting that the number of competitors has a statistically significant effect on the ratio of salaries to turnover.
25. The merger parties said that fixed salary costs should be regarded as varying between casinos. This was because wage levels vary between towns and the number of management staff required varies between casinos of different sizes. In support of this, the parties also provided data from Gala's management accounts suggesting that Gala casinos' four-week expenditure on salaries for management staff and cashiers ranges from less than £[£] to £[£].
26. In view of their less-restrictive nature, our preferred estimation specifications are the two-stage methodology and the inclusion of additional controls allowing fixed salaries to vary between casinos. The latter does not find a statistically significant relationship

between local competition and margins, whereas the former does. There is therefore some evidence to suggest that local competition may reduce casinos' margins.

27. Variable margin can be affected by changes in the components of variable costs as well as changes in the prices of the services offered. We therefore interpret the result that local competition has a significant effect on margins but not on salaries as indirect evidence that casinos may change non-salary elements of their variable costs (see the next section on promotions) or the prices of the services offered.

## Promotions

28. Table 4 shows the results of our analysis of the effect of local competition on the amount that casinos spend on promotions relative to turnover. We found that both the entry of a competitor within 30 minutes and casino refurbishment are associated with statistically significant increases in the amount that casinos spend on promotions relative to turnover. Unlike the other variables we have examined, we found that the effect of entry on promotions spending depends on how many existing competitors there are in the market.
29. In particular, the effect is smaller the more competitors there are in the market, so that the estimated increase in promotions spending relative to turnover for a casino in a market that goes from monopoly to duopoly is [40–50] per cent, whereas it is [20–30] per cent for a casino in a market that goes from having three competitors to four.

TABLE 4 Effect of local competition on promotions relative to turnover

<i>Local competition factor</i>	<i>Effect on promotions as a % of turnover %</i>
Entry of a first competitor (monopoly to duopoly)	[40–50]***
Entry of a second competitor (duopoly to oligopoly of 3)	[30–40]
Entry of a third competitor (oligopoly of 3 to 4)	[20–30]
Refurbishment of the casino	[20–30]

Source: CC analysis.

30. We performed some indicative calculations to examine the possible effects of a change in the number of competitors on total promotions spending. The mean level of promotions is approximately £[x] per quarter, equivalent to [x] per cent of turnover or £[x] per admission. Our calculations indicated that the removal of a competitor from a local area may result in a reduction in the level of promotions per quarter in the region of £[x]—equivalent to a decrease of approximately [x] per cent or a reduction to around £[x] per admission.<sup>3</sup> However, we note that survey evidence suggests that promotions are not particularly important to customers.
31. The merger parties stated that there was a difference in the way in which Rank and Gala recorded promotional spending. Whereas Rank records this spending on the basis of cost, Gala records it at retail price. The parties said that this overstated Gala's promotional spend in the region of [x] per cent, which would bias the results to the extent that Gala's higher promotional spend is attributed to the extent of competition that Gala casinos face.

<sup>3</sup> These calculations were performed by using our main regression specification to estimate how much admissions and turnover change in response to changes in the number of competitors. Given our estimates of the change in promotions over turnover, we then used these numbers to back out the effect of changes in local competition on total promotions and on promotions per admission.

32. However, when we repeated the above analysis on Rank casinos only, we found that the effect of local competition on promotions relative to turnover remained statistically significant, although the magnitude of the effect itself was diminished.
33. One interpretation of the above results is that changes in local competition affect the level of promotions relative to turnover. For example, if a casino's turnover increased due to the exit of a competitor and its promotions spending increased less than proportionately to the increase in turnover, this can be interpreted as deterioration in the level of service in response to weakening of competition. This interpretation appears consistent with further analysis we carried out showing that the entry of a competitor within 30 minutes' drive-time had a negative and statistically significant effect on turnover and a positive (but not significant) effect on the level of promotions.
34. However, there may be an alternative interpretation for this result. It could also be consistent with a situation in which casinos do not vary promotions in response to changes in turnover or local competition. Instead the level of casinos' promotions spending may be invariant to their turnover level. The parties said that this could occur if turnover decreased in response to competition due to a loss of customers, but these customers received lower than average levels of promotions, so that the decrease in promotions was less than proportional to the decrease in turnover. This would mean that the effect of local competition on promotions relative to turnover that we detected would be an arithmetic artefact reflecting the effect of changes in turnover, rather than a competitive response.
35. Either interpretation is plausible. We note that casinos have previously responded to reductions in turnover by reducing the level of customer promotions. Figure 2 shows indices for total spending on salary and promotional costs from 2007 to 2012, with totals expressed as a proportion of their 2007 value. Casinos significantly reduced promotion costs (as a response to a reduction in turnover) at the time of the economic crisis in 2008. In the main report we also noted that there is documentary evidence suggesting that casinos often draw up 'defence plans' in reaction to entry and that these often include increasing the level of promotions (see paragraph 7.13(b)). However, we accept the parties' point that it is possible that the effect of local competition on promotions relative to turnover that we detected could be an arithmetic artefact.

FIGURE 2

### Indices for salary and promotion costs



Source: Parties' data and CC calculations.

36. The merger parties also said that it was unclear whether the effect of local competition on promotions (relative to turnover) was long term or simply reflected short-term response to entry. The parties said that short-term changes could have generated these results for the following reasons:
  - (a) Entry and exit could have occurred at the end of the period considered, so that our analysis did not detect promotions levels falling back to their natural level. It is not clear for how long a 'short-term' promotional response would persist, so we cannot determine whether there is enough data after changes in the number of competitors to rule this out. As our analysis uses the most recently available data, we cannot test this assertion.

- (b) Casinos' initial promotional response to entry may be of a sufficient magnitude that short-term increases in promotions in response to entry result in statistically significant differences between the average level of promotions pre- and post-entry. As it is unclear for how long a short-term promotional increase would persist, it is not possible to test this.
- (c) A decrease in promotional spend after an initial post-entry increase could have been attributed to local market events. However, our analysis includes a number of variables, some of which reflect local conditions and events. To the extent that any variables have been omitted, without any evidence of their nature it is unclear what effect their omission might have on our estimate. Moreover we have no good reason to believe that the effect of such local events would systematically either be limited to or different in those periods in which the parties allege that promotional spend would have decreased after its initial post-entry increase.

37. The parties said that the CC's approach did not allow for entry and exit having different effects on promotions spending relative to turnover. We acknowledge that the estimated effects are an average of entry and exit events.

### **Turnover and admissions**

38. Table 5 displays the results of our analysis of the effects of market structure on casino turnover and admissions. This shows that an increase in the number of competitors that a casino faces within 30 minutes is associated with a decrease in turnover of [10–20] per cent and a smaller, but still significant, decrease in admissions of [0–10] per cent.<sup>4</sup> This is consistent with entry improving the competitive situation in local areas, so that casinos improve their offer in order to retain customers, thereby mitigating the deterioration in their total admissions but not in their turnover.
39. However, we did not find that entry of a competitor within a drive-time in excess of 30 minutes had a statistically significant effect on either turnover or admissions. Moreover, we found no evidence that the effect of entry on either turnover or admissions depends on the number of competitors that are already in the market.

TABLE 5 **Effect of local competition on casino turnover and admissions**

<i>Local competition</i>	<i>Effect on turnover %</i>	<i>Effect on admissions %</i>
Entry of a competitor within 0–30 minutes	[-20 - -10]**	[-10 - 0]***
Refurbishment of the casino	[10–20]*	[10–20]**

Source: CC analysis.

40. There is strong evidence that casino refurbishments contribute to attracting more customers, resulting in an estimated [10–20] per cent increase in admissions, and thereby increasing turnover, with an estimated [10–20] per cent increase. This is consistent with internal documents indicating that the refurbishment is an option for casinos to defend their customer base in the face of increased local competition.

<sup>4</sup> It should be borne in mind that the two results reported here are from slightly different specifications. In particular, the estimates for the effect of local competition on admissions come from a specification that omits terms for the number of competitors within 30 to 60 minutes of the casino and the square of the number of competitors within 30 minutes.

## Conclusions

41. We found that:
  - (a) there is evidence that the number of competitors within 30 minutes' drive-time of a casino reduces its admissions and turnover. We did not find evidence that the number of competitors beyond 30 minutes' drive-time has an effect;
  - (b) there is evidence that, following increased competition, the ratio of casinos' promotions spending to their turnover increases. This might be interpreted either as a competitive response or, as the parties argue, since there appears to be no systematic effect on the absolute level of promotions, as an arithmetic effect;
  - (c) we did not find evidence that local competition affects casinos' salary costs relative to their turnover; and
  - (d) overall, there is some evidence that increased local competition reduces casinos' margins.
42. The parties stated their view that the results of the quantitative assessment should not be interpreted as implying anything about the effects of the merger in any particular local area, and argued strongly that the results showing that increases in the number of competitors reduced casinos' margins represented an average effect across Rank and Gala casinos, and did not imply anything about detriment to customers in particular locations.
43. We concur with the merger parties' view that the estimated effect on margins represents an average effect across all casinos. Additional analysis would have been required to assess the effects of the merger in individual local areas where there may be competitive overlap between the parties.

## Estimation methodology

### Data

1. Our analysis used a panel of quarterly data on 59 casinos (22 Gala, 37 Rank, of which nine were in London) from Q3 2007 to Q2 2012.

### Construction

2. We constructed our dataset in the following manner:
  - (a) We used Rank's and Gala's P&L accounts to construct our dependent variables (turnover, admissions, variable margin and salaries and promotions relative to turnover). Rank's data was presented on a monthly basis while Gala's was on a four-weekly basis.
  - (b) We used quarterly regulatory accounts from the GC to identify the market structure in individual local areas. This data starts in Q2 2007 and ends in Q2 2012.
  - (c) We used MapInfo, along with the casinos' postcodes, to estimate the drive-time distances between the casinos in question.
3. To clean the data:
  - (a) We dropped observations that had missing or logically impossible (eg negative) values for our dependent variables (admissions, turnover, salaries etc).
  - (b) We dropped observations in which key variables (such as turnover, salaries and promotions) change by an implausibly high amount between periods by excluding the top and bottom 1 per cent of the distribution of changes in these variables.
  - (c) We dropped observations with implausibly high or low margin levels, namely the top and bottom 1 per cent of the margin level distribution. There was no plausible reason why these particular margin observations should be so high.
  - (d) Where data was available for at least one of the three months in question, we aggregated it to the quarterly level. This was done by averaging the variable of interest across the number of days' data it represented (28 days for Gala's four-weekly data, the number of days in the relevant month for Rank's monthly data) and then summing these daily figures across the relevant quarter.
  - (e) We dropped casinos for which there were fewer than three observations and fewer than three continuous quarters of data.
4. In the sample, there are 38 changes in the number of competitors within 30 minutes' drive, comprising 14 exits and 24 entries.

### Econometric specification

#### *Main specification*

5. Our initial methodology involved estimating the following equation:

$$(1) Y_{i,t} = x_{1,i}\beta_1 + R_{i,t}\beta_2 + MS_{i,t}\beta_3 + MS_{i,t}^2\beta_4 + L_{j,t}\beta_5 + D_t\beta_6 + \varepsilon_{i,t}$$

6. Where  $Y_{i,t}$  is the variable of interest (variable profit margin, salaries as a percentage of turnover, promotion spending as a percentage of turnover, turnover and admissions) for casino  $i$  and time  $t$ ,  $x_{1,i}$  is a variable capturing individual (and local) time-invariant effects,  $R_{i,t}$  is a dummy variable representing whether casino  $i$  was refurbished at time  $t$ ,  $MS_{i,t}$  is the number of competitors within a 30-minute drive-time of casino  $i$  at time  $t$ ,  $L_{j,t}$  is a set of controls (such as unemployment and local wages) for the local area  $j$  containing casino  $i$  at time  $t$ , and  $D_t$  is a set of time-varying dummies capturing seasonal effects.
7. Standard errors were clustered by casino.

### **Fixed salary components**

8. If total salaries include a fixed component,  $X$ , then our measure of variable profit margins  $\pi_{i,t}$ , by subtracting the whole of total salaries, will understate variable margins by the amount  $X/T_{i,t}$ :

$$(2) \pi_{i,t} = (T_{i,t} - VC_{i,t} - X)/T_{i,t} = \pi_{i,t}^* - X/T_{i,t}$$

where  $\pi_{i,t}^*$  denotes casino  $i$ 's true variable margin at time  $t$ .

9. We use two methods to correct for the bias that fixed salary costs introduce:
- (a) We introduced an additional control variable to account for variation in variable margins and salaries relative to turnover attributable to fixed salary costs.
- (b) We used a two-stage estimation process to estimate the fixed component of salaries and remove this from our measure of variable margins and salaries relative to turnover.

### **Additional control variable**

10. If the true data generating process is, as above:

$$(3) \pi_{i,t}^* = x_{1,i}\beta_1 + R_{i,t}\beta_2 + MS_{i,t}\beta_3 + MS_{i,t}^2\beta_4 + L_{i,t}\beta_5 + D_t\beta_6 + \varepsilon_{i,t}$$

this implies that our specification becomes:

$$(4) \pi_{i,t} = x_{1,i}\beta_1 + R_{i,t}\beta_2 + MS_{i,t}\beta_3 + MS_{i,t}^2\beta_4 + L_{i,t}\beta_5 + D_t\beta_6 + X/T_{i,t} + \varepsilon_{i,t}$$

11. We used a number of alternative specifications for  $X$ :
- (a)  $X$  was the same across casinos.
- (b)  $X$  was the same across local areas.
- (c)  $X$  was different for each casino.
12. We used an analogous process to estimate the effect of local competition on salaries relative to turnover by including the control variable  $X$  as opposed to  $X/T_{i,t}$ .

## Two-stage estimation

13. If the true data generating process is, as above:

$$(3) \pi_{i,t}^* = x_{1,i}\beta_1 + R_{i,t}\beta_2 + MS_{i,t}\beta_3 + MS_{i,t}^2\beta_4 + L_{i,t}\beta_5 + D_t\beta_6 + \varepsilon_{i,t}$$

it is possible to estimate  $\pi_{i,t}^*$  by estimating  $X$  and subtracting  $X^{est}/T_{i,t}$  from our original measure of variable margins,  $\pi_{i,t}$ .

14. In stage 1 we used OLS to estimate the fixed component of salaries by estimating the following equation:

$$(5) \text{Salaries}_{i,t} = (\text{Wage}_{i,t} \cdot \text{Admissions}_{i,t}) \cdot \gamma_1 + (\text{Wage}_{i,t} \cdot \text{Tables}_i) \cdot \gamma_2 + L_j \cdot \gamma_3 + \mu_{i,t}$$

where  $\text{Wage}_{i,t}$  is quarterly earnings at the regional level,  $\text{Tables}_i$  is the number of games tables that a casino has in the last quarter and  $L_j$  is a set of dummy variables for UK regions. We used the results of this regression to construct estimates of the fixed component of salaries:

$$(6) X^{est} = (\text{Wage}_{i,t} \cdot \text{Tables}_{i,t}) \cdot \gamma_2^{est} + L_j \cdot \gamma_3^{est}$$

15. In stage 2 we subtracted the estimates of the fixed component of salaries divided by turnover from our initial measure of variable margins, and regressed this on the independent variables in our original specification. In calculating standard errors, we bootstrapped together the first and second stages of the regression to account for the fact that the first stage regression introduces dependence among the observations to be used in the second stage regression.

$$(7) \pi_{i,t} - (X^{est}/T_{i,t}) = x_{1,i}\beta_1 + R_{i,t}\beta_2 + MS_{i,t}\beta_3 + MS_{i,t}^2\beta_4 + L_{i,t}\beta_5 + D_t\beta_6 + \varepsilon_{i,t}$$

16. We used an analogous process to estimate the effect of local competition on salaries relative to turnover by subtracting  $X^{est}$  from the dependent variable, as opposed to  $X^{est}/T_{i,t}$ .

## Regression results

TABLE 1 Regression results—main specification

Dependent variable	Margin	Log salary / turnover	Log promotions / turnover	Log turnover	Log admissions	Log admissions
Refurbishment	[0.0–0.1] (0.025)	[–0.1–0.0] (0.045)	[0.2–0.3]** (0.089)	[0.1–0.2]* (0.080)	[0.1–0.2]** (0.072)	[0.1–0.2]** (0.077)
Unemployment	0.001 (0.003)	–0.001 (0.004)	–0.011 (0.011)	–0.008 (0.006)	–0.002 (0.006)	–0.002 (0.006)
Competitors 0–30 mins	[–0.2 – –0.1]*** (0.041)	[0.1–0.2]** (0.069)	[0.4–0.5]*** (0.106)	[–0.2 – –0.1]** (0.073)	[–0.2 – –0.1] (0.078)	[–0.1–0.0]*** (0.024)
Competitors 30–60 mins	[–0.1–0.0] (0.018)	[0.0–0.1] (0.032)	[0.0–0.1] (0.094)	[0.0–0.1] (0.046)	[0.0–0.1] (0.048)	
Competitors 0–30 mins squared	0.013* (0.008)	–0.023* (0.013)	–0.066** (0.025)	0.021 (0.015)	0.014 (0.016)	
Observations	893	893	893	893	893	893
Number of groups	50	50	50	50	50	50
R-squared	0.152	0.094	0.231	0.219	0.261	0.249

Source: CC analysis.

TABLE 2 **Regression results—additional control variable for fixed salary costs (fixed across all casinos)**

<i>Dependent variable</i>	<i>Margin</i>	<i>Salary/ turnover</i>
Refurbishment	[-0.1–0.0]* (0.015)	[0.0–0.1] (0.010)
Unemployment	0.003 (0.002)	-0.002* (0.001)
Competitors 0–30 mins	[-0.1–0.0]** (0.030)	[0.0–0.1] (0.019)
Competitors 30–60 mins	[-0.1–0.0] (0.014)	[0.0–0.1] (0.010)
Competitors 0–30 mins squared	0.007 (0.006)	-0.004 (0.004)
Turnover <sup>-1</sup>	-0.250*** (0.050)	0.169*** (0.034)
Observations	893	893
Number of groups	50	50
R-squared	0.602	0.567

Source: CC analysis.

TABLE 3 **Regression results—additional control variable for fixed salary costs (fixed across towns)**

<i>Dependent variable</i>	<i>Margin</i>	<i>Salary/ turnover</i>
Refurbishment	[-0.1–0.0]*** (0.010)	[0.0–0.1]*** (0.008)
Unemployment	0.003* (0.002)	-0.002* (0.001)
Competitors 0–30 mins	[-0.1–0.0] (0.030)	[0.0–0.1] (0.018)
Competitors 30–60 mins	[-0.1–0.0] (0.011)	[0.0–0.1] (0.009)
Competitors 0–30 mins squared	0.000 (0.006)	0.001 (0.004)
Observations	893	893
Number of groups	50	50
R-squared	0.753	0.719

Source: CC analysis.

Note: We included town-level dummy variables interacted with Turnover<sup>-1</sup> in the regression, but do not report.

TABLE 4 **Regression results—stage 1 of two-stage estimation**

<i>Dependent variable</i>	<i>Salaries</i>
Wage * Admissions	[0.0–0.1]*** (0.003)
Wage * Tables	[0.0–0.1] (0.034)
Observations	847
R-squared	0.972

Source: CC analysis.

Note: Standard errors in this table are calculated by running the stage 1 regression independently of stage 2. We included dummies for UK regions in the regression, but do not report these in the table above. The variable Wage \* Admissions is divided by 100 for scaling reasons.

TABLE 5 Regression results—stage 2 of two-stage estimation

<i>Dependent variable</i>	<i>Margin</i>	<i>Salary/ turnover</i>
Refurbishment	[-0.1–0.0] (0.009)	[0.0–0.1]*** (0.006)
Unemployment	0.002* (0.001)	–0.002** (0.001)
Competitors 0–30 mins	[-0.1–0.0]*** (0.018)	[0.0–0.1] (0.012)
Competitors 30–60 mins	[-0.1–0.0] (0.010)	[0.0–0.1] (0.006)
Competitors 0–30 mins squared	0.006* (0.004)	–0.002 (0.003)

Source: CC analysis.

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Note: Standard errors in this table are calculated by bootstrapping the stage 1 and stage 2 regressions.

## Regulatory background

### Introduction

1. This appendix sets out a summary of the regulatory landscape of the casino industry in the UK.
2. The appendix complements Appendix I (Entry and Expansion), which assesses the likelihood of entry or expansion in the casino industry in view of barriers, including regulation.

### Acts of Parliament

3. All casinos in the UK (whether operational or not) and casino operators are or were licensed under one of two Acts of Parliament: the 1968 Act and the 2005 Act. The 2005 Act repealed the 1968 Act and all casino licences issued under the 1968 Act were 'converted' to 2005 Act casino premises licences.<sup>1</sup> These are now known as 'converted premises licences'. The same restrictions as applied to the original 1968 Act licence (for example, in relation to locality of the licence and maximum number of gaming machines) continue to apply to the converted licence (ie they cannot take advantage of the higher number of gaming machines available to newly issued 2005 Act licences).

### Gaming Act 1968

4. The 1968 Act was introduced by Parliament to attempt to regulate the proliferation of casinos within the UK. Prior to the passing of the 1968 Act there were approximately 1,200 casinos in the UK. This number was reduced to 120 by the 1968 Act.
5. The 1968 Act restricted the issue of casino premises licences to 53 local authority areas in Great Britain. Responsibility for issuing licences under the 1968 Act fell to Magistrates' Courts, closely monitored by the Gaming Board of Great Britain, which was established by the 1968 Act. Applications for casino premises licences were required to fulfil an 'unstimulated demand' criterion in the local area, which was difficult to establish. This required applicants for a licence to demonstrate that there was sufficient population in a local area to warrant the opening of a casino, that the proposed casino was sufficiently far away from existing casinos and offered unique facilities to the local area.
6. After the 2005 Act received royal assent on 7 April 2005, the cut-off date for licence applications under the 1968 Act was set as March 2006; however, the cut-off was in fact not implemented until April 2007. The 2005 Act did not come into force until 1 September 2007 and between 7 April 2005 and the April 2007 cut-off date, a large number of 1968 Act casino applications was received, many of which were speculative in response to the limitations on the issue of new casino licences which would be brought in by the 2005 Act (which restricts the issue of new casino licences to 16 local authority areas, 10 of which were already designated under the 1968 Act). This has resulted in a significant number of 'cold' or unused 1968 Act licences in the market.

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<sup>1</sup> Under Part 7 of the 2005 Act (Commencement No 6 and Transitional Provisions) Order 2006 (SI 2006/3272).

7. Since April 2007, no new licences have been issued under the 1968 Act. In total, 186 licences were issued under the 1968 Act and of those 146<sup>2</sup> are currently operational and 40 are unused or 'cold' licences.

### **Gambling Act 2005**

8. In 2002, in response to the publication of the Budd Report<sup>3</sup> and the Government's response to that report, *A Safe Bet for Success*,<sup>4</sup> the Government and Gaming Board began to take a more permissive approach towards casino licensing. This approach was crystallized in the 2005 Act, which significantly updated the UK's gambling laws. The 2005 Act regulates all forms of gambling, including casinos, betting shops, lotteries and bingo. It transferred authority for licensing gambling premises from Magistrates' Courts to the licensing departments of local authorities and created the Gambling Commission, which superseded the Gaming Board as the gambling regulator within the UK (in conjunction with local authorities).
9. The 2005 Act gives its licensing objectives as:<sup>5</sup>
  - (a) preventing gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime;
  - (b) ensuring that gambling is conducted in a fair and open way; and
  - (c) protecting children and other vulnerable persons from being harmed or exploited by gambling.
10. Changes brought about by the 2005 Act included introducing regulation of the remote gambling sector, the removal of the requirement that casino users be registered members, the introduction of 24-hour gambling (subject to local authority approval), the increase in maximum prizes awarded by gaming machines and the removal of the mandatory 24-hour 'cooling-off' period before new members were permitted to gamble. It also reduced restrictions on advertising gaming services.
11. The 2005 Act allows in the first instance for 16 new casino licences: eight licences for 'small' casinos and eight licences for 'large' casinos (these terms are expanded on below). The 2005 Act also provided for one 'regional' casino, plans for which have been abandoned.<sup>6</sup> The 2005 Act contains powers for the grant of further licences in the future. Licensing under the 2005 Act is discussed further below.

### **The Gambling Commission**

12. The GC has oversight of most aspects of the industry (premises licences being the domain of local authorities, as explained further below) and was set up under the 2005 Act to regulate commercial gambling in Great Britain. It is an independent

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<sup>2</sup> It should be noted that the total number of operating casino premises in Great Britain, including 1968 and 2005 Act licences, is 138, as in some cases more than one 1968 Act licence is combined into one premises, to allow for a greater number of gaming machines in one casino. Combining licences in this way was permitted under the 1968 Act.

<sup>3</sup> In December 1999, the Government appointed Sir Alan Budd, former chief economic advisor to the Treasury, to undertake a wide-ranging review of the operation and regulation of the gambling industry. This was the first review of the industry since the mid-1970s. The Budd Report (published in July 2001) recommended significant changes to the way the gambling industry was regulated, and advocated a free-market approach including the abolition of the membership requirement for casinos and the removal of the 'demand criterion' required under the 1968 Act.

<sup>4</sup> Published March 2002, which largely adopted the recommendations made by the Budd Report.

<sup>5</sup> Section 1 of the 2005 Act.

<sup>6</sup> The abandonment of the plans for a regional casino was first suggested by Gordon Brown during Prime Minister's Questions on 11 July 2007: [www.publications.parliament.uk/pa/cm200607/cmhansrd/cm070711/debtext/70711-0002.htm](http://www.publications.parliament.uk/pa/cm200607/cmhansrd/cm070711/debtext/70711-0002.htm) (see question 2). The abandonment was confirmed by then culture secretary Andy Burnham on 26 February 2008.

non-departmental public body sponsored by the Department for Culture, Media and Sport (DCMS) funded by fees determined by the GC and set by statutory instrument, which are paid by the organizations and individuals it licenses. Its functions include:

- (a) issuing operating and personal licences to casino operators and staff;
- (b) monitoring and enforcing compliance with those licences;
- (c) regulation of casino games and payout ratios;
- (d) collating and publishing industry statistics twice a year and an annual report and accounts;
- (e) advising DCMS and the Secretary of State on matters concerning casinos; and
- (f) publishing Licence Conditions and Codes of Practice (LCCP).

## **Licences**

- 13. In order to operate a casino in the UK, a potential operator requires two licences: an operating licence and a premises licence. Operating licences are issued by the GC. Premises licences issued under the 1968 Act were issued by Magistrates' Courts.<sup>7</sup> Premises licences issued under the 2005 Act are issued by the licensing departments of local authorities.
- 14. Holding an operating licence carries with it certain reporting requirements to the GC (see further below). Premises licence holders are not required to report regularly to the local authority which issued the licence, but are required to inform the local authority of certain exceptional events and apply for a temporary use notice for such exceptional events.<sup>8</sup>
- 15. In addition, certain casino employees may be required to hold personal licences,<sup>9</sup> which are issued by the GC.

## **Operating licences**

- 16. A potential casino operator requires an operating licence to run a casino, or to offer casino games in contexts other than a casino (online, for example<sup>10</sup>). Applications for an operating licence are made to the GC, which assess the suitability of applicants to operate a casino.
- 17. Conditions may be attached by the GC to operating licences. In addition, the GC issues codes of practice under section 24 of the 2005 Act, which seek to ensure that facilities for gambling are conducted in a manner consistent with the objectives of the 2005 Act (as set out in paragraph 9). The GC's LCCP are published on the GC web-

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<sup>7</sup> As no 1968 Act licences have been issued since April 2007, the only way to obtain one is through acquisition from an existing holder.

<sup>8</sup> For example, the staging of a poker tournament by a casino operator in premises other than the licensed premises.

<sup>9</sup> Certain casino employees require a personal management licence (PML) and/or a personal functional licence (PFL), which are issued by the GC. Employees in senior management positions require a PML. Employees involved in gaming or handling cash in relation to gambling (eg croupiers, cashiers, security staff) are required to hold a PFL.

<sup>10</sup> There are some circumstances in which an operating licence is not required; for example, casino games played privately where no one pays a fee, overseas websites, fundraising, pubs and social clubs (subject to a maximum stake).

site.<sup>11</sup> The GC has powers to take action against licensed operators which fail to comply with the conditions of their licence or with codes of practice.

18. There are three types of operating licence:
- (a) a 1968 Act casino operating licence;
  - (b) a non-remote 2005 Act casino operating licence; and
  - (c) a remote casino operating licence.<sup>12</sup>

#### *1968 Act casino operating licence*

19. A 1968 Act casino operating licence permits the holder to hold a 1968 Act premises licence for a casino. The holder of the operating licence must also hold a 1968 Act premises licence in order to operate a casino. 1968 Act licences are deemed to have been converted into 2005 Act converted licences.

#### *Non-remote 2005 Act operating licence*

20. The 2005 Act differentiates between 'small' and 'large' casinos. A 2005 Act operating licence is required to operate either size of casino. A holder of a large 2005 Act casino operating licence can operate either a large or small casino. A small casino operating licence permits the holder to operate only a small casino.

#### *'Small' and 'large' casinos under the 2005 Act*

21. A small casino under the 2005 Act must adhere to the following size restrictions:
- a minimum table gaming area of 500 sq metres;
  - a minimum non-gambling area of 250 sq metres; and
  - a maximum of 80 gaming machines from category B1 to D but not category B3A.<sup>13</sup> The number of category B1 machines permitted depends on the table ratio of the gambling area.
22. [X] told us that small casino licences were viewed as less attractive by potential operators due to the ratio of gaming machines to tables specified (2:1) which in effect meant that a small casino must have more gaming tables than a large casino (which only require a ratio of 5:1) to achieve the maximum number of gaming machines allowed.<sup>14</sup> Nonetheless, small licences under the 2005 Act still allow more gaming machines than a 1968 Act licence and are, therefore, still attractive.
23. A large casino under the 2005 Act must adhere to the following size restrictions:
- a minimum table gaming area of 1,000 sq metres;

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<sup>11</sup> [www.gamblingcommission.gov.uk/pdf/LCCP%20consolidated%20version%20-%20December%202011.pdf](http://www.gamblingcommission.gov.uk/pdf/LCCP%20consolidated%20version%20-%20December%202011.pdf).

<sup>12</sup> Remote operating licences are only available under the 2005 Act as remote gambling is a modern development.

<sup>13</sup> See

[www.gamblingcommission.gov.uk/gambling\\_sectors/gaming\\_machines/about\\_gaming\\_machines\\_fruit\\_m/gaming\\_machine\\_categories.aspx](http://www.gamblingcommission.gov.uk/gambling_sectors/gaming_machines/about_gaming_machines_fruit_m/gaming_machine_categories.aspx) for details of gaming machine categories and their payouts.

<sup>14</sup> The 2005 Act specifies a ratio of two machines per table for a small casino. This means that a small casino needs to have 40 tables to achieve the maximum number of machines (80). A large casino is allowed five machines per table which means it only needs to have 30 tables to achieve the maximum number of machines allowed (150).

- a minimum non-gambling area of 500 sq metres;
- a maximum of 150 gaming machines from category B1 to D but not category B3A (see further below). The number of category B1 machines permitted depends on the table ratio of the gambling area.

### *Remote operating licence*

24. A remote casino operating licence permits the holder to offer casino games via an online casino, mobile phone, television or other online service. The 2005 Act permits remote casinos to operate from Great Britain. Operators based outside Great Britain do not require a remote operating licence unless any part of the operator's remote gambling equipment is located in Great Britain.

### **Premises licences**

25. In order to operate a casino, a potential operator holding an operating licence must also apply for a premises licence.<sup>15</sup>

### *1968 Act premises licences*

26. 1968 Act premises licences can be held by their holder in perpetuity (provided a small annual fee is paid), but they can presently be used only in the local area in which they were originally issued, although proposals to allow for the portability of 1968 Act premises licences are before Government (see below for further details). 1968 Act premises licences are transferrable between holders. 1968 Act casino premises are limited to a maximum of 20 category B1 machines (which pay out the highest jackpots, up to £4,000 for a £2 stake).

### *Proposals for the portability of 1968 Act Licences*

27. The CC understands that parts of the casino industry have lobbied Government to relax the restriction on 1968 Act premises licences to the local authority area in which they were issued, so that these licences become portable to other areas (subject to consent of the local authority area to which the casino operator wishes to export the licence).
28. We understand that there is some dissatisfaction with the 2005 Act licence framework within the industry,<sup>16</sup> due to the 'small casino' table ratio paradox explained in paragraph 22 above and, [§]. In addition, 1968 Act premises licences are viewed as 'tried and tested' by operators, and most casino operators already own one or more such licence, so portability of these licences beyond the area in which they were issued would be viewed as an attractive development in the legislative framework.
29. In July 2012, the Commons Culture, Media and Sport Select Committee published a report entitled *The Gambling Act 2005: a bet worth taking?* The report recommended that Government introduce the portability of 1968 Act licences, allowing operators to relocate their 1968 Act licence to any local authority provided that they have the con-

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<sup>15</sup> An operator must separately apply for planning permission for its proposed casino, through the usual planning channels. A casino premises licence is not portable outside the local authority area which issues it, but it is portable within that area—ie it is not attached to any particular premises.

<sup>16</sup> See for example summary of hearing with Clockfair:

[www.competition-commission.org.uk/assets/competitioncommission/docs/2012/rank-gala/clockfair\\_hearing\\_summary.pdf](http://www.competition-commission.org.uk/assets/competitioncommission/docs/2012/rank-gala/clockfair_hearing_summary.pdf).

sent of that local authority. Government has not yet responded to the select committee report, but [⌘].

### *2005 Act premises licences*

30. Under the 2005 Act, local authorities applied for designation to issue a new casino premises licence and 16 were ultimately selected through a process run by an independent advisory panel. The successful 16 authorities were permitted to issue one premises licence for a new casino each. Eight<sup>17</sup> of the 16 were permitted to issue 'large' premises licences and eight<sup>18</sup> were permitted to issue 'small' premises licences (see explanation of 'small' and 'large' casinos in paragraph 21). To date, only one 2005 Act premises licence is operational: the Aspers casino in Newham London Borough Council. The CC understands that two further 2005 Act casinos are due to open in 2013: a Genting casino in Solihull and an Aspers casino in Milton Keynes. As for 1968 Act premises licences, 2005 Act licences are transferrable between operators and held in perpetuity.
31. The individual licensing authorities are at various stages of development with their application processes for the remaining 16 proposed casinos (see Appendix F, Figure 1, for the status of the various 2005 Act licence competitions).

### *Bidding process for a 2005 Act licence*

32. The framework for the bidding process for a 2005 Act licence is set out in Schedule 9 to the 2005 Act. The CC understands that the process has been similar in all 16 2005 Act local authorities as those 16 authorities established the Casino Licensing Authorities Network, which sought legal counsel's advice on the optimal structure for the licensing competition. The authorities which have already carried out competitions<sup>19</sup> followed a virtually identical two-stage process.
33. The first stage of the process is a straightforward premises licence review which is carried out by the local authority for all types of premises which require a licence (eg betting shops, bingo halls, sex shops, off-licences). At this stage a broad initial review of the suitability of an applicant to operate licensed premises is carried out. The second stage of the process is more in-depth. Applicants are scored on a matrix against a number of criteria such as deliverability and risk, employment opportunities, regeneration benefits, financial contributions to the local authority and social responsibility. An evaluation committee takes the final decision to award a licence. The process typically lasts around nine months.
34. Under the 2005 Act, a licence is tied to a particular property, development or building. It can be moved to a different premises only with permission of the local authority.

### *Cost of premises licence*

35. Local licensing authorities in England and Wales are permitted to set the cost of a premises licence, depending on the type of premises. The fees for premises licences

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<sup>17</sup> Great Yarmouth Borough Council; Kingston upon Hull City Council; Leeds City Council; Middlesbrough Borough Council; Milton Keynes Borough Council; Newham London Borough Council; Solihull Metropolitan Borough Council; and Southampton City Council.

<sup>18</sup> Bath and North East Somerset District Council; East Lindsey District Council; Luton Borough Council; Scarborough Borough Council; Swansea City and County Council; Torbay Borough Council; Wigtown Divisional Licensing Board in the area of Dumfries and Galloway Council; and Wolverhampton City Council.

<sup>19</sup> London Borough of Newham, Solihull and Milton Keynes.

in Scotland have been set centrally. Applicants for a premises licence must pay an application fee and then an annual fee.

### *England and Wales*

36. Table 1 sets out the maximum level of premises fees which can be charged by a local licensing authority for a 2005 Act licence.

TABLE 1 **Maximum licence fees, England and Wales**

	£			
	<i>Regional casino premises licence</i>	<i>Large casino premises licence</i>	<i>Small casino premises licence</i>	<i>Converted casino premises licence</i>
Maximum annual fee	15,000	10,000	5,000	3,000
Maximum fee for application to vary licence	7,500	5,500	4,000	2,000
Maximum fee for application to transfer a licence	6,500	2,150	1,800	1,350
Maximum fee for application for reinstatement of a licence	6,500	2,150	1,800	1,350

Source: Gambling (Premises Licence Fees) (England and Wales) Regulations 2007.

### *Scotland*

37. Table 2 sets out the premises fees which are charged by a local licensing authority for a 2005 Act licence.

TABLE 2 **Licence fees, Scotland**

	£			
	<i>Regional casino premises licence</i>	<i>Large casino premises licence</i>	<i>Small casino premises licence</i>	<i>Converted casino premises licence</i>
Annual fee	11,250	7,500	3,750	2,550
Fee for application to vary licence	5,625	3,750	3,000	1,500
Fee for application—(a) to transfer a licence; or (b) for reinstatement of a licence	4,880	1,600	1,350	1,000

Source: Gambling (Premises Licence Fees) (Scotland) Regulations 2007.

## **Regulation of casino games**

38. Prior to June 2011 the GC set out in detail the rules for offering casino games, including the physical layout of the game, odds, minimum payouts and side wagers, for all approved casino games, in an extensive document entitled *The Rules of Casino Games in Great Britain*. The rules were applicable to all casino operators.
39. In June 2011 the GC significantly streamlined its rules (and made some more minor changes to the LCCP) so that if a game is not prohibited by the GC and otherwise conforms to criteria laid down under the 2005 Act, it is automatically permitted. There are currently no casino games prohibited by the GC. The GC continues to publish a 'Core Rules' document<sup>20</sup> covering the standard game rules for the five most popular

<sup>20</sup> [www.gamblingcommission.gov.uk/pdf/Rules%20of%20core%20casino%20games%20in%20Great%20Britain%20-%20June%202011.pdf](http://www.gamblingcommission.gov.uk/pdf/Rules%20of%20core%20casino%20games%20in%20Great%20Britain%20-%20June%202011.pdf).

games in British casinos only (blackjack, roulette, three card poker, punto banco and dice). Player information on the specific rules and odds applied to these five—and any other—table games by individual casino operators must also be displayed in each casino, as required by Code of Practice 3 of the LCCP.

### ***Gaming machines***

40. The Gambling Act 2005 (Mandatory and Default Conditions) (England and Wales) Regulations 2007 and the (Mandatory and Default Conditions) (Scotland) Regulations 2007 set out the rules for the positioning of gaming machines, in relation to other activities on premises.
41. In addition, all gaming machines sited on casino premises must comply with gaming machines technical standards set by the GC. The number and type of gaming machines that can be offered in a casino are set out in the operator's operating licence (see paragraph 21 et seq above).

### **Compliance**

#### ***Reporting requirements***

42. Casino operators are required to make two types of reports to the GC:
  - (a) regulatory returns of financial data (drop and win statistics by month), with an annex for each casino operated by the operator; and
  - (b) key events.

#### ***Regulatory returns***

43. A return must be completed for each type of activity for which a licence is held. For example, if an individual holds a licence authorizing a casino and bingo, two returns will need to be completed and submitted, one for each activity. Casino returns must be submitted quarterly. Gala told us that these financial returns were not particularly onerous and formed only a small part of routine period end procedures Gala carries out.

#### ***Key events***

44. The LCCP includes a list of key events which must be reported to the GC. For casino operators, these include events such as being placed into administration or a petition being made for the winding up of the company holding the licence.

#### ***Regulations against money laundering***

45. Casinos (remote and non-remote) are subject to the provisions of the Money Laundering Regulations 2007 (the Regulations) and are subject to scrutiny by the Financial Services Authority to ensure compliance. Under section 10 of the Regulations, where the GC is satisfied that a casino has in place appropriate procedures to monitor and record how much each customer spends with the casino on gambling (or remote gaming), then a casino must only establish and verify the identity of all customers who in the course of any period of 24 hours spend over €2,000.

46. If the GC is not satisfied of this, the casino must establish and verify every customer's identity.

### ***Compliance visits***

47. The GC relies to some extent on self-regulation by casino operators through the reporting requirements set out above. On top of this, the GC conducts compliance reviews and visits. Its enforcement powers in relation to non-compliance include attaching further conditions to a licence, revoking or suspending a licence, and fining the holder of a licence. The GC publishes a list of operators and personal licence holders who have had regulatory sanctions imposed on them.
48. A visit would ordinarily only take place where the GC had some cause for concern about a particular premises (eg unusual reporting activity, or where it had received a complaint). During a compliance visit the GC's compliance manager will carry out an assessment of how effectively the casino is complying with the objectives of the 2005 Act. Licence holders who do not meet a sufficient standard risk regulatory action. This included revocation or variation of licence, and unlimited fines. Gala told us that accommodating compliance visits was not onerous and was not a barrier to entry or expansion.

### ***Interaction with local authorities***

49. The CC understands that local authorities tend to approach compliance with premises licences on a risk basis, and casino premises are generally viewed as low risk premises. Local authorities do carry out infrequent compliance visits, but would generally only do so if a concern had been raised. If that concern were sufficiently serious, the local authority would arrange a joint visit with a compliance manager from the GC.

## Entry and expansion

### Our approach

1. The Guidelines (paragraph 5.8.3) explain that as part of our assessment of the effect of the merger on competition we look at whether entry by new firms or expansion by existing ones may mitigate the initial effect of the merger on competition and may result in there being no SLC where there would otherwise be one. In assessing entry or expansion we considered if it would be: (a) timely; (b) likely; and (c) sufficient.
2. Our approach was to identify examples of actual and potential entry for casinos, and to examine a range of issues relevant to the likelihood, timing and cost of entry. We first sought to identify a number of different *modes* of expansion, and second sought to identify *relevant factors* that may apply to some or all of the modes of expansion. The assessment draws on these two dimensions to consider the overall likelihood, timeliness and sufficiency of market entry in particular circumstances.

### Potential modes of entry and expansion

3. We identified a number of different modes of entry and expansion:
  - (a) Mode 1: Opening a casino in an existing licensed area using an existing 1968 Act licence—in other words, ‘activating’ a cold licence.<sup>1</sup> This could be entry either: using a licence that was previously used, but closed down, and where the premises may be mothballed or where new premises would be needed; or alternatively using a licence that was awarded ‘on paper’ only and never developed.
  - (b) Mode 2: Opening a new casino in an approved area using a new 2005 Act licence.<sup>2</sup> Licences have been awarded in Newham, Solihull, Bath, Milton Keynes, Kingston upon Hull, Great Yarmouth, Middlesbrough and Scarborough. Entry in other areas would require the relevant local authority to grant a new licence following a process consistent with the current legislation. In some of these areas, this process is under way.
  - (c) Mode 3: Opening of a new casino outside an existing licensed area. We have not explored this mode in further detail because it would not be legal to open a casino in any location that was not permitted under either the 1968 Act or the 2005 Act,<sup>3</sup> and the CC understands that ‘licence portability’ is unlikely in the foreseeable future.<sup>4</sup>
  - (d) Mode 4: Expansion of an existing casino at the current premises, for example by adding new gaming machines or tables, or other facilities to expand the scale and scope of activities. The scale of such expansion may be limited by the availability of physical space in an existing casino premises and would be limited by regulation concerning the permitted number of slot machines, unless there is a cold licence that could be used in the same building.

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<sup>1</sup> See Appendix H for an explanation of the term ‘cold licence’.

<sup>2</sup> See Appendix H for an explanation of licensing under the 2005 Act.

<sup>3</sup> Both of which restricted the issue of licences to a limited number of local authority areas.

<sup>4</sup> See Appendix H for a discussion of current government proposals for portability of licences.

- (e) Mode 5: Expansion of an existing casino at new premises, for example relocating to larger premises to provide space for a larger scale or scope of activities. This mode may overcome the physical constraints relevant to Mode 4, but would be limited by the same regulatory factors.

## **Relevant factors in relation to entry and expansion**

- 4. For each of the potential modes of entry and expansion there are several specific factors that may affect the likelihood, timing and extent of entry or expansion.
  - (a) Licensing requirements in relation to the physical location of a casino. A premises licence is always required for a casino. Such licences are specific to a defined local authority area, and in the case of 2005 Act licences, are tied to a specific physical premises. A 1968 Act licence is portable within the local authority area which issued it (subject to planning permission).
  - (b) Licence conditions and constraints on the specification of a casino—including the scale and range of activities, which may limit expansion of slot machine capacity at an individual casino. As explained in Appendix H, the 1968 Act imposes a limit of 20 category B-D slot machines per licence, and we understand that the majority of casinos operate the maximum permitted number of slot machines and are unable to expand this aspect of their operations further (except where there is scope to increase their opening hours). There may be circumstances in which two licences can be applied to adjacent premises or a single site if there is more than one licence in a particular licensed area, which could enable more than 20 slot machines to be installed. The 2005 Act also limits the number of slot machines in absolute terms and relative to the number of gaming tables.
  - (c) Availability of suitable premises and planning consent—including whether or not a casino had previously operated in existing premises in an eligible location. In this regard, it should be noted that planning permission is required to operate as a casino. Some physical premises may have operated as a bingo hall, or other commercial uses, alternatively a new building may be required. The availability of suitable premises, and the time required to buy or lease such facilities and to obtain planning permission are relevant to our assessment of market entry.
  - (d) Investment appraisal, scale of investment, access to capital. The likelihood and timing of entry would depend on the business case for a particular casino investment. We would expect that this would be a commercial appraisal, using standard cash flow forecasting based on a range of assumptions and estimates, and an appropriate rate of return would be applied by the operator to help in its decision. The investment appraisal would include the expected revenue and the various costs of operating the casino including cost of goods sold, operating expenses and taxes/duty, along with the initial capex for equipping the facilities and maintaining it. The scale of investment could vary significantly between individual premises, depending on the individual specification and whether or not the casino operator had an existing premises or required a new building.
  - (e) Other assets and capabilities required to enter or expand. A new or expanded casino may require additional equipment unless the expansion comprises longer periods of use for existing equipment—comprising gaming tables and gaming machines, card rooms, and ancillary fixtures and fittings associated with the casino such as cash handling, cheque cashing, accounting systems and security systems (eg CCTV). It may also require catering and bar equipment to offer ancillary services. In addition, a casino operator would need to recruit a team of experienced professional staff to operate the casino if it wished to open a new

casino. Some of the equipment, including gaming machines, could be leased instead of purchased, reducing the overall cash investment required at the start of operations.

- (f) Timing considerations. The time required to open a new facility or to expand an existing one would vary between individual sites.

### **Licence portability**

- 5. Rank told us that entry might be stimulated if there was an opportunity for 1968 Act licences to be 'portable' between local authority areas. Rank noted that in July 2012 the DCMS Select Committee issued its report into the 2005 Act (*The Gambling Act 2005: A bet worth taking*) which recommended that existing 1968 Act casino licences are made portable, allowing operators to relocate to any local authority provided that they have the consent of that local authority. Rank told us [REDACTED].

### **Time required to enter the casino market**

- 6. There are several distinct milestones to open a casino. In relation to a 1968 Act licence these include the time required to:
  - (a) locate and agree commercial terms on a suitable premises;
  - (b) confirm or obtain planning permission on an existing premises;
  - (c) complete building and construction project to equip the casino to the desired specification;
  - (d) recruit and train staff to operate all aspects of the facility and open the venue; and
  - (e) attract a sufficient number of visitors, and achieve commercial viability.
- 7. It is likely that stages (a) to (e) above, at least, would need to take place in sequence, with limited overlaps in their timing.
- 8. The time required to activate a 1968 Act cold licence would vary depending on the local circumstances—but indicatively would seem to take [REDACTED] for an existing casino operator with an operating licence and a 1968 Act cold licence to open a new venue, but in some cases could take longer—for example if a major refurbishment were to be required, or less if the premises were already available and few issues arose in relation to licensing and property development. For example:
  - (a) Rank considers that it takes at least [REDACTED] to activate a cold licence, following the identification of suitable premises.
  - (b) The Hippodrome Casino took around six years to launch. The planning application by The Hippodrome Casino Limited was approved by Westminster City Council in 2006 and a gaming licence awarded in late 2008.<sup>5</sup> The casino opened in 2012. During the four years from licence award to opening the premises, a substantial building renovation project was undertaken.

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<sup>5</sup> [www.hippodromecasino.com/info/history](http://www.hippodromecasino.com/info/history).

- (c) Rank told us that Global Gaming Ventures obtained a licence to open a casino in Bath on 20 August 2012 and this casino was scheduled to open in 2014—this is a period of around two years.
- (d) Rank told us that a period of nine months elapsed between the granting of the Stratford licence to Aspers and the opening of the casino in 2011.<sup>6</sup>
- (e) Rank also told us that Aspers obtained its Milton Keynes licence in 2012 and was planning to open in 2013, a year after obtaining the licence.
9. In relation to the 2005 Act licence, as explained in Appendix H, each of the 16 local authorities designated under the 2005 Act has or will carry out a two-stage competitive process to award its licence. Each of the 16 designated authorities is responsible for organizing and running the process. Prior to the formal selection process the local authority publishes and consults on a Statement of Principles, setting out the process that it intends to follow to award a licence. The duration of this process depends on the timetable set by the local authority, but indicatively it takes the local authority in the region of 12 to 24 months to reach a decision on awarding a 2005 Act premises licence following the launch of a competition. For example:
- (a) Wolverhampton<sup>7</sup> is running a process with two stages. Stage 1—deadline October 2012, decision December 2012; stage 2—commencement January 2013, decision September 2013.<sup>8</sup>
- (b) Middlesbrough<sup>9</sup> ran a two-stage process. It received two stage 1 submissions in January 2011. It started stage 2 of its process to award a licence in July 2011. This stage closed in February 2012. In May 2012 the authority announced that it had received one submission at stage 2.
- (c) Leeds<sup>10</sup> is also using a two-stage process. It ran stage 1 between January and April 2012 and invited comments on the proposals it received by May 2012. Leeds expects to complete stage 2 by spring 2013.
- (d) Luton's stage 1 process deadline expired on 9 November 2012. Luton expects to issue the licence in summer 2013.<sup>11</sup>

## Cost of entry

10. It is difficult to make a precise estimate of the cost of opening a new casino because it would depend on the overall scale of the project and the quality of the facility. Based on available evidence, this could range from £[redacted] million to £[redacted] million per casino for proposals studied by Rank and Gala, and as high as £[redacted]million.
- (a) Gala's original plans to open a casino in [redacted] indicated an investment of £[redacted], but this was subsequently revised to [redacted]. We understand that Gala already had a lease on the property concerned. We also understand that this investment plan was subsequently [redacted].

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<sup>6</sup> According to Newham Council, following the stage 2 decision to grant it to Aspers, the other two companies took the council to a judicial review over the decision, but both of them dropped the judicial reviews the day before the actual High Court hearings.

<sup>7</sup> [www.wolverhampton.gov.uk/NR/rdonlyres/48F01478-2FDC-4337-B607-68671892FFA6/0/CasinoPremisesLicenceApplicationPack468Kb.pdf](http://www.wolverhampton.gov.uk/NR/rdonlyres/48F01478-2FDC-4337-B607-68671892FFA6/0/CasinoPremisesLicenceApplicationPack468Kb.pdf).

<sup>8</sup> Stage 2 will only take place if there is more than one bidder after stage 1.

<sup>9</sup> [www.middlesbrough.gov.uk/index.aspx?articleid=2872](http://www.middlesbrough.gov.uk/index.aspx?articleid=2872).

<sup>10</sup> [www.locateinleeds.co.uk/2012/04/2993/](http://www.locateinleeds.co.uk/2012/04/2993/).

<sup>11</sup> [www.luton.gov.uk/Business/Lists/LutonDocuments/PDF/Licensing/Small%20Casino%20Premises%20Licence%20FAQ's.pdf](http://www.luton.gov.uk/Business/Lists/LutonDocuments/PDF/Licensing/Small%20Casino%20Premises%20Licence%20FAQ's.pdf).

- (b) Rank's 2011 Strategic Plan showed that Rank planned to invest a total of £[X] million in the casino estate over the period 2011 to 2016, of which £[X], which would result in [X]. This indicates an average cost of £[X] million to open a casino.
  - (c) In the year ended 30 June 2013 Rank had budgeted for the following capital expenditure on [X].
  - (d) Genting invested £[X] million to develop its new casino in Sheffield (which operates under a 1968 Act licence).
  - (e) Gala's competitor analysis report indicates that the cost of the London Hippodrome refurbishment and conversion to a casino cost £[X] million. However, Gala now understands that the cost was approximately £[X].
11. An additional possible source of evidence is the cost of refurbishment or expansion of existing casinos, such as the G Casino refurbishment programme undertaken by Rank. Rank has incurred [X]. However, this investment is generally related to the capex on an existing casino, as opposed to a new venue, and a proportion of the capex is directed at improving the ancillary services (eg live entertainment and dining). It would therefore appear that an investment of £[X] would generally be less than the investment required to open a new casino.

#### **Details of actual and potential market entry and market exit**

12. The tables below summarize examples identified by Rank of actual and potential market entry in the land-based casino market in the last 12 months.

TABLE 1 **Actual entry**

<i>Source of comment</i>	<i>Location</i>	<i>Act</i>	<i>Comments</i>
Rank	Blackpool	1968	<b>Paris Casino</b> opened in Blackpool in December 2011.
Rank	London	2005	<b>Aspers</b> at Westfield Stratford City (in the London borough of Newham) opened in December 2011, having been awarded the licence only 9 months previously in March 2011.
Rank	Didsbury	1968	<b>Rank</b> opened a new casino in Didsbury in February 2012.
Rank	New Brighton	1968	<b>Rank</b> opened a new casino in New Brighton in April 2012.
Rank	London	1968	The <b>Hippodrome Casino</b> in Piccadilly, the largest casino in the UK owned by an independent operator. The Hippodrome Casino Ltd opened on 13 July 2012 after an extensive redevelopment of the building.
Rank	Bath	2005	<b>Global Gaming Ventures</b> is to open its first casino in the UK in 2014 after winning the bid for a 2005 Act licence in Bath on 20 August 2012.
Rank	Solihull	2005	The <b>Genting</b> Resorts World 2005 Act casino will open at the NEC Solihull in late 2013.
Rank	Milton Keynes	2005	In April 2012, it was announced that Aspers had won the tender to operate a new large casino in Milton Keynes under the 2005 Act.
Rank	Great Yarmouth	2005	Pleasure Beach was awarded a large casino licence under the 2005 Act.
Rank	Scarborough	2005	Opera House was awarded a large casino licence under the 2005 Act.
Rank	Hull	2005	Apollo Resorts & Leisure was awarded a provisional large casino licence under the 2005 Act by Hull City Council. The casino will form part of a new riverside property development, which will also include bars and restaurants.
Rank	Middlesbrough	2005	On 31 May 2012 a provisional statement was issued to Gurney Casino Ltd which will now seek an operator.
Rank	Sheffield	1968	Sheffield Genting commenced trading in September 2012.

Source: Rank.

TABLE 2 **Potential entry**

<i>Source of comment</i>	<i>Location</i>	<i>Act</i>	<i>Comments</i>
Rank	Bristol	1968	Rank considers that there is further scope for new entry or expansion in Bristol due to the presence of a cold licence, which the parties believe is held by Genting. This could, for example, allow Genting to co-locate both of its licences in order to double its slot machine capacity in a single casino location.
Rank	Liverpool	1968	Rank said that there are three cold licences in Liverpool: one held by Rank, one by Genting, and the other by a third party, which Rank understands has recently purchased it with the intention of opening a new casino. Accordingly, there may be new entry or expansion in Liverpool at some point in the future, although we would not consider entry to be timely.
Rank	Leeds	2005	Entry is possible from the winner of the 2005 Act licence currently being tendered in Leeds.
Rank	Manchester	1968	There is scope at some point for entry or expansion in Manchester from the third parties holding three cold licences in the area.

Source: Rank.

TABLE 3 **Exit**

<i>Operator</i>	<i>Licence type</i>	<i>Location</i>	<i>History</i>
Rank	1968	Kensington and Chelsea, London	Operational 1984–2011
Rank	1968	Hove	Operational 1989–2010
Rank	1968	Manchester	Operational 1989–2012
Gala	1968	Northampton	Operational until September 2011
Gala	1968	Wolverhampton	Operational until September 2011
Aspers	1968	Swansea	Opened in 2007. Ceased trading in September 2012
Casino Red	1968	Huddersfield	Opened in 2010. Ceased trading in summer 2012
Gala	1968	Piccadilly	Closed November 2008
Gala	1968	Glasgow Rotunda	Closed March 2008
Gala	1968	Nottingham BSG	Closed March 2008
Genting	1968	Reading Electric	Closed

*Source:* Parties.

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## **Purchaser suitability and evidence requirements for the Edinburgh cold licence**

### **Purchaser suitability and CC information requirements**

1. As set out in the CC's guidance (CC8), the CC takes the view that a suitable purchaser should have no significant connection to the merger parties that may compromise the purchaser's incentives to compete; have access to appropriate financial resources, expertise and assets; have an appropriate business plan; and be free from competition concerns.
2. In our SLC decision for Edinburgh, we found that it was more likely than not that in the absence of the merger Rank would have developed a casino that would have competed with the Gala casino in Edinburgh. In Section 8 of the report we set out our view that, for the remedy to be an effective solution to the SLC, we would need to be satisfied, on the balance of probabilities, that a purchaser would have a similar intention to that of Rank prior to the merger discussions with Gala to develop an operational casino that would compete with the Gala casino that Rank proposes to acquire in Edinburgh. Interested parties that sought to acquire the cold licence merely to retain an option, or bought the licence with a view to portability—ultimately allowing the party to use the licence elsewhere—would not be suitable.
3. We will therefore require a potential purchaser to provide evidence that demonstrates its commitment to developing a casino in Edinburgh. This material may include internal assessments of the area, strategy and plans for developing the casino, suitable locations identified by the purchaser for the casino and planning assessments. Relevant material that a purchaser is able to provide will help us to determine, on the balance of probabilities, whether it is more likely than not that the purchaser will develop an operating casino in Edinburgh.
4. Potential purchasers will be invited to demonstrate their suitability as a purchaser to the CC in the form of written submissions (and possibly via face-to-face meetings). The suitability criteria and evidence requirements to satisfy the criteria are set out below. During the assessment process, the CC may seek further information or clarification. The CC will make an assessment of the suitability of the purchaser and communicate this decision to the bidder and to Rank. Rank's sale of the cold licence will be conditional on approval of the bidder by the CC (ie Rank will require the CC's consent before entering into the agreement).
5. In assessing purchasers for suitability, we do not seek to identify an optimum purchaser, but to make a reasonable assessment of a company's operational capability, financial resources and casino development plans in order to arrive at a judgement as to whether a purchaser will introduce effective competition to the Edinburgh market. Our assessment necessarily requires an element of judgement and is carried out along a number of dimensions determined by the purchaser suitability criteria and the information requirements set out below, as a result of which an assessment of the stage of readiness and commitment to develop a casino in Edinburgh will be derived, and it cannot be reduced to simple binary criteria or check-list.
6. If there were more than one suitable purchaser, Rank would be permitted to select the final purchaser. If there were no suitable purchasers at the end of the divestiture period (and, if relevant, any extension to the divestiture period), Rank would retain the cold licence but would not be permitted to acquire the Gala casino in Edinburgh.

7. The purchaser suitability criteria and evidence requirements for the Edinburgh cold licence divestiture remedy are set out below.

### **Independence from the Rank Group**

8. The existence of significant economic relationships between the purchaser and the Rank Group would be a major area of concern but would be subject to assessment on a case-by-case basis regarding the extent of influence.
9. The evidence requirements with respect to independence would include:
  - (a) identity of purchaser and operator (if different);
  - (b) identity of other investment partners/funding providers (eg equity and debt);
  - (c) details of any interest in the equity or debt of Rank and its affiliates held by the purchaser and operator at any time in the last three years;
  - (d) details of any interest that Rank or its affiliates have held in the purchaser and operator at any time in the last three years; and
  - (e) details of any other commercial or economic relationship between purchaser and Rank Group at any time in the last three years.

### **Appropriate expertise and assets**

10. If a purchaser operates at least one casino (in the UK or another country), then we will interpret this as providing prima facie evidence that the purchaser possesses appropriate expertise to operate and develop the Edinburgh cold licence as a viable competitor.
11. If a purchaser does not operate a casino, then we will need to be provided with persuasive evidence regarding its access to expertise and ability to provide a management team with comprehensive experience of operating and developing casinos including relevant regulatory approvals.<sup>1</sup>
12. Whilst recognizing that most bidders may be starting their assessment of the Edinburgh market opportunity for the first time, we would expect to see a convincing commercial and operational plan that describes the purchaser's motivation for purchasing the licence and its intentions and abilities to develop and open a casino in Edinburgh, including the key milestones, anticipated timetable, and status of the process to identify and secure appropriate premises and other local approvals.
13. The evidence requirements would include:
  - (a) a copy of the operator licence or detailed description of the status of application;
  - (b) details of the proposed locality of the casino or the steps a purchaser intends to take to formulate a short-list of suitable locations;
  - (c) details of access to any suitable premises if available (eg lease agreement, option agreement, heads of terms) or details of the steps a purchaser intends to

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<sup>1</sup> For example, a purchaser would require an operator licence issued by the Gambling Commission.

take in order to secure access to suitable premises (including the proposed timetable for such steps);

- (d) evidence of any existing licensing consents and planning permission to operate a casino on the selected premises (where available), or details of a purchaser's strategy and timetable to apply for planning permission and local licensing consents;
- (e) a business plan describing the commercial and operational plans for developing the cold licence into a casino, including the purchaser's assessment of the relevant target market, demographic trends and demand; and
- (f) a project timetable identifying the expected duration of each stage of the development, and anticipated timing of key milestones including construction, development, opening and operation of the casino.

### **Appropriate financial resources**

- 14. A purchaser should have access to sufficient financial resources to acquire, develop and operate a casino in Edinburgh.
- 15. The evidence requirements would include:
  - (a) financial projections for a period of five years following the acquisition of the cold licence including capital expenditure in each year; and
  - (b) a description of any necessary funding arrangements, including sources of finances for the acquisition of the licence, development of the casino and operation of the business, including investments not funded by retained cash flow (including details of any expressions of interest, highly confident or commitment letters from relevant financing providers, if available).

### **Absence of further competition concerns**

- 16. The acquisition of the cold licence in Edinburgh should not give rise to new competition concerns.
- 17. The evidence requirements would include details of any existing casino or cold licence in Edinburgh in which the purchaser has an economic interest.

## Glossary

<b>1968 Act</b>	The Gaming Act 1968, introduced to regulate the proliferation of casinos within the UK. It restricted the number of areas where new licences could be issued to 53 local authorities. Licences could only be issued if it could be demonstrated that there was an unfulfilled demand.
<b>2005 Act</b>	The Gambling Act 2005, which repealed the <b>1968 Act</b> and restricted the issue of new casino licences to 16 local authority areas and allowed each of those local authorities to issue one casino licence, eight of which were defined as small casino licences and eight as large casino licences.
<b>Act</b>	The Enterprise Act 2002.
<b>Admissions</b>	Individual customer visits to casinos.
<b>Blackjack</b>	Card game normally played with four or six decks of cards, unless otherwise specified. The aim is to achieve a score closer to 21 than the dealer, without going over.
<b>Bricks and mortar casino</b>	A land-based casino operating in the UK.
<b>Capex</b>	Capital expenditure.
<b>Cash drop</b>	Money converted by customers into chips and plaques for table play and cash played on electronic <b>roulette</b> terminals (used interchangeably with the term ' <b>handle</b> ').
<b>CC's survey</b>	Consumer survey conducted by Gfk covering selected Rank and Gala casinos.
<b>Cold licences</b>	Unused licences granted under the <b>1968 Act</b> .
<b>Dice</b>	There are two parts to a dice game. The first part is called the 'come out roll', which is indicated by the large round puck on the table layout placed in the 'off' position. When the puck is in the off position the 'shooter' rolls the dice. If they roll a 7, 11 or a 2, 3, 12 then the pass/win line and don't pass/win line are paid accordingly. Any other number rolled (4, 5, 6, 8, 9 or 10) becomes a 'point'; the dealer moves the puck to the number rolled which is then flipped over to the 'on' position. The object of the game is then to repeat the number first rolled (the point) before rolling a 7. If a 7 is rolled before the point is achieved it is called a '7 out' and signifies the end of a shooter's roll; the dice are then passed to the next shooter. In both cases the puck is returned to the off position and a new game is started on the 'come out roll'.
<b>Electric casino</b>	Casino with gaming machines only, often sited next to a casino.
<b>F&amp;B</b>	Food and beverage.

<b>G Casino</b>	A newer <b>Rank</b> casino format which offers a wider range of entertainment and leisure facilities and aims to attract a broader customer base interested in a combination of casino games and other entertainment.
<b>Gala</b>	Gala Casinos Limited, subsidiary of <b>Gala Coral</b> .
<b>Gala Coral</b>	The Gala Coral Group Limited.
<b>Gambling prices</b>	Gambling prices vary depending on the game. For most games the price is given by the <b>payout ratio</b> . For some <b>table games</b> there is an entry fee or a <b>rake</b> .
<b>Gaming duty</b>	A duty on casino gaming profits, based on the <b>gross gaming yield</b> for premises where gaming takes place. The rates of gaming duty are between 15 and 50 per cent, with the rate escalating as <b>GGY</b> increases. It applies only to premises-based gaming.
<b>Gaming machine</b>	Defined by the <b>2005 Act</b> as a machine that is designed or adapted for use by individuals to gamble (whether or not it can also be used for other purposes). Most gaming machines are of the reel-based type, also known as fruit, slot or jackpot machines. Gaming machines fall into categories depending on the maximum stake and prize available. There is no statutory minimum percentage payout for gaming machines but all machines are required to display clearly the percentage return to players, or the odds of winning prizes from use of the machine.
<b>Gaming machine categories</b>	<b>Gaming machines</b> fall into categories depending on the maximum <b>stake</b> and prize available. B1 machines are allowed only in casinos and have a maximum prize of £4,000. The next category of machine, B2, has a maximum payout of £500.
<b>GC</b>	The Gambling Commission, an independent non-departmental public body sponsored by the Department for Culture, Media and Sport. It was set up under the <b>2005 Act</b> to regulate commercial gambling.
<b>GGY</b>	Gross gambling yield: the amount retained by operators after the payment of winnings but before the deduction of the costs of the operation.
<b>Gross gaming yield</b>	Defined by HMRC as consisting of the total value of the <b>stakes</b> , minus players' winnings, on games in which the house is the banker, and any charges made in connection with dutiable gaming, including charges made for participation in equal chance games such as <b>poker</b> .
<b>Guidelines</b>	CC and OFT, <a href="#">Merger Assessment Guidelines, CC2 (Revised)</a> , September 2012.
<b>Handle</b>	See <b>cash drop</b> .

<b>High-end casinos</b>	offer substantially higher levels of gambling, often have restrictive membership requirements and provide a range of additional free services. High-end casinos attract high-spending, often international, clients.
<b>House edge</b>	A measure in percentage terms of the theoretical advantage that a casino enjoys in a particular game.
<b>Isochrone</b>	Line joining points of equal travel time to a store or population centre.
<b>LBO</b>	Licensed betting office.
<b>Leisure customers</b>	Customers who visit a casino with a lower focus on gambling and who may or may not gamble.
<b>Merger parties' survey</b>	A survey conducted by Accent on behalf of <b>Rank</b> and <b>Gala</b> .
<b>Online casino</b>	Casino played through any kind of remote communication, for example the Internet, telephone or interactive television.
<b>Operating licence</b>	Issued by the <b>GC</b> . Operating licences contain certain reporting requirements to the <b>GC</b> .
<b>Payout ratio</b>	A fixed percentage paid out to the customer.
<b>PCA</b>	Price concentration analysis.
<b>Poker</b>	Three-card poker is played with one deck of cards. Players may make an initial wager, comprising either or both an ante wager (being that the player's hand will have a higher poker ranking than the dealer's) or a pair plus wager (being that the player's hand will achieve a particular hand ranking, irrespective of whether it beats the dealer).
<b>Premises licence</b>	Premises licences issued under the <b>1968 Act</b> were issued by Magistrates' Courts. Premises licences issued under the <b>2005 Act</b> are issued by the licensing departments of the 16 local authorities designated under the 2005 Act.
<b>Punto banco</b>	The game is normally played with six or eight decks of cards, unless otherwise specified in the club. Punto banco is a derivation of the traditional game of baccarat. Players wager on whether they believe the winning hand after all cards are dealt will be that of the player (punto), the banker (banco) or a tie (égalité).
<b>Rake</b>	A specific proportion of the amount staked on each hand of equal chance games (eg <b>poker</b> ) removed by the casino to generate income.
<b>Rank</b>	The Rank Group Plc.
<b>Remote gaming</b>	Playing a game of chance for a prize through any kind of remote communication, for example the Internet, telephone or interactive television.

<b>Remote gaming duty</b>	A duty chargeable when a person provides facilities for <b>remote gaming</b> , where the provider is licensed by the <b>GC</b> , or at least one piece of remote gambling equipment is used in the UK. Anyone who holds a British operating licence, which authorizes them to provide facilities for <b>remote gaming</b> , is liable to pay remote gaming duty on all the profits from that gaming unless it is already liable to another UK gambling duty, or specifically exempted from another UK gambling duty.
<b>Roulette</b>	The game, generally known as American roulette, is played with a wheel containing 37 or 38 compartments numbered from 1 to 36 and either one or two zeros. The numbers from 1 to 36 are divided up equally and coloured either red or black. A single ball is spun and will land in one of the numbered compartments.
<b>SLC</b>	Substantial lessening of competition.
<b>SPA</b>	Sale and purchase agreement.
<b>Stake</b>	Money used by customers to place bets (includes a customer's winnings from the casino which the customer uses to bet with).
<b>Table games</b>	Games such as <b>roulette</b> and <b>blackjack</b> that are played on a table against a live dealer and games of <b>roulette</b> played on an electronic terminal in the casino whether or not linked to a live table game.
<b>Theoretical win/revenue</b>	The amount of money that a casino expects a customer to generate for the casino, including the customer's spend on food and drink and in the card room, and the casino's expected win against the customer on <b>table games</b> , slots and electronic <b>roulette</b> .
<b>Transactional customers</b>	Customers who focus heavily on gambling.