Terms of reference and conduct of the inquiry

Terms of reference

1. On 22 March 2013, the OFT sent the following terms of reference to the CC:

    1. In exercise of its duty under section 22(1) of the Enterprise Act ('the Act') to make a reference to the Competition Commission ('the CC') in relation to a completed merger, the Office of Fair Trading ('the OFT') believes that it is or may be the case that -

        (a) a relevant merger situation has been created in that:

            (i) enterprises carried on by or under the control of AEG Facilities (UK) Limited have ceased to be distinct from enterprises previously carried on by or under the control of LN-Gaiety Holdings Limited and CCE Spinco, Inc.; and

            (ii) as a result, the conditions specified in section 23(4) of the Act will prevail, or will prevail to a greater extent, with respect to the supply of indoor live music venues in London; and

        (b) the creation of that situation has resulted or 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 indoor live entertainment venues in London of a capacity equal to or larger than circa 5,000 people.

    2. Therefore, in exercise of its duty under section 22(1) of the Act, the OFT hereby refers to the CC, for investigation and report within a period ending on 5 September 2013, on the following questions in accordance with section 35(1) of the Act:

        (a) whether a relevant merger situation has been created; and

        (b) if so, whether the creation of that situation has resulted or may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods and services.

    (signed) JACKIE HOLLAND
    Senior Director, Office of Fair Trading
    22 March 2012 (typo—2013)

2. On 26 March, the OFT provided its documentation suite. Following a review of the OFT information, and new information provided by the parties, we concluded that the entities listed in the original terms of reference did not capture the correct corporate entities and on 29 May, we published the following varied terms of reference:

    1. In exercise of its duty under section 22(1) of the Enterprise Act ('the Act') to make a reference to the Competition Commission ('the CC') in relation to a completed merger, the Office of Fair Trading ('the OFT') believes that it is or may be the case that:

(a) by virtue of entering into a management agreement and a temporary facility management agreement in relation to the venue known as the Wembley Arena, a relevant merger situation has been created in that:

(i) enterprises carried on by or under the control of AEG Facilities (UK) Limited a subsidiary of Anschutz Entertainment Group Inc and previously carried on by or under the control of LN-Gaiety Holdings Limited and CCE Spinco, Inc. have ceased to be distinct from enterprises carried on by or under the control of other subsidiaries of Anschutz Entertainment Group Inc; and

(ii) as a result, the conditions specified in section 23(4) of the Act will prevail, or will prevail to a greater extent, with respect to the supply of indoor live music venues in London; and

(b) the creation of that situation has resulted or 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 indoor live entertainment venues in London of a capacity equal to or larger than circa 5,000 people.

2. Therefore, in exercise of its duty under section 22(1) of the Act, the OFT hereby refers to the CC, for investigation and report within a period ending on 5 September 2013, on the following questions in accordance with section 35(1) of the Act:

(a) whether a relevant merger situation has been created; and

(b) if so, whether the creation of that situation has resulted or may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods and services.

(signed) JACKIE HOLLAND
Senior Director, Office of Fair Trading
29 May 2013

Interim measures

3. On 26 March 2013, we adopted the initial undertakings accepted by the OFT from AEG on 26 February 2013 and consents accepted by the OFT on 27 February 2013. These undertakings and consents are published on the CC website.

4. On 10 April 2013, we directed AEG to appoint a monitoring trustee and published the directions on the CC website.

Conduct of the inquiry

5. We published biographies of the members of the Inquiry Group conducting the inquiry. The administrative timetable for the inquiry was published on the CC website on 12 April 2013.

6. We received written evidence from AEG and Quintain. A non-sensitive version of AEG's main submission can be found on the CC website.

7. On 25 April 2013, members of the Inquiry Group, accompanied by staff, visited Wembley Arena and The O2 to see the operation of the two businesses.

8. We received written evidence from Live Nation, the former management company operating Wembley Arena, and held a hearing with it on 29 April 2013.

9. We invited a wide range of interested parties to comment on the acquisition. These included customers of the main parties, competitors and potential competitors. Evidence was obtained through oral hearings with third parties, through telephone contacts and through further written submissions. All summaries of hearings can be found on our website.

10. An issues statement was published on our website on 7 May 2013, setting out the areas of concern on which the inquiry would focus.

11. We held a hearing with AEG and Quintain, the owners of Wembley Arena and the wider Wembley site, on 5 June 2013.

12. In the course of our inquiry, we sent to AEG and other parties some working papers and extracts from those papers for comment, and to check for accuracy and confidentiality.

13. On 24 July a non-confidential version of the provisional findings report was placed on the CC website.

14. We would like to thank all those who have assisted in our inquiry.

Financial background

Introduction

1. This appendix provides details of AEG's UK operations including the venue and financial performance of The O2 complex. It also details the venue and financial performance of Wembley.

AEG's UK operations specifically related to The O2 complex

2. Table 1 shows The O2 events for the period 2009 to 2011 by type. It shows that core music events represented [✂] per cent of all events in 2011, down from [✂] per cent in 2009. Comedy and sport together made up around [✂] per cent of events over the three years.

TABLE 1 **The O2 events by type, 2009 to 2011**

	2009	*2010*	*2011*
Concert	[✂]	[✂]	[✂]
Entertainment/ conferences/religious	[✂]	[✂]	[✂]
Comedy	[✂]	[✂]	[✂]
Sport	[✂]	[✂]	[✂]
Unknown	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: AEG.

Financial performance

3. For the financial year ended 31 December 2011, AEG Inc's UK revenue was £[✂] million. AEG's UK businesses were by far the most significant part of its European operations.[1] We set out below a summary of financial information for the three areas of AEG's UK business: The O2 complex (O2 arena and the entertainment district); AEG Live (promotion); and AXS (ticketing).

The O2 complex

4. Table 2 shows the historic performance of The O2 complex between 2009 and 2012. The O2 complex increased revenues over the period from £[✂] million to £[✂] million ([✂] per cent). In the same period gross profit grew in line with revenues (gross profit margin remained around [✂] per cent) whilst EBITDA increased by [✂] per cent to £[✂] million and EBIT by [✂] per cent to £[✂] million.

[1] As can be seen from the breakdown of AEG's European EBITDA in 2011.

TABLE 2 **Summary financial performance of The O2 complex**

£ million

	Years ended 31 December			
	*2009**	*2010†*	*2011†*	*2012†*
Revenue	[✂]	[✂]	[✂]	[✂]
Gross profit	[✂]	[✂]	[✂]	[✂]
Gross profit (%)	[✂]	[✂]	[✂]	[✂]
EBITDA	[✂]	[✂]	[✂]	[✂]
EBIT	[✂]	[✂]	[✂]	[✂]
EBIT (%)	[✂]	[✂]	[✂]	[✂]

Source: AEG.

*[✂]
†[✂]

5. Table 3 shows The O2 complex budget for 2013. AEG budgeted [✂]. The O2 represented [✂] per cent of budgeted total sales and [✂] per cent of budgeted EBITDA for The O2 complex in 2013.

TABLE 3 **The O2 complex budget, 2013**

£ million

	Arena	*Entertainment District*	*Piazza management*	*Total*
Revenue	[✂]	[✂]	[✂]	[✂]
EBITDA	[✂]	[✂]	[✂]	[✂]

Source: AEG.

6. Table 4 shows the breakdown of The O2's budgeted revenue for 2013.

TABLE 4 **The O2 budget for 2013**

Revenue	*£'000*
Naming rights	[✂]
Founding partners	[✂]
Suites	[✂]
VIP club	[✂]
Fulfilment costs (sponsorship/naming)	[✂]
A. Total contractually obliged income	[✂]
Event rental	[✂]
Other event rental	[✂]
F&B royalties	[✂]
Event premium seating	[✂]
Event car parking	[✂]
Merchandise	[✂]
Ticketing rebate	[✂]
Box office surcharge	[✂]
B. Total event revenue	[✂]
Marketing	[✂]
Other	[✂]
Catering service charge	[✂]
Facility fee	[✂]
C. Total other revenue	[✂]
Total arena revenue (A + B + C)	[✂]
Total arena expenditure	[✂]
Arena EBITDA	[✂]

Source: AEG.

7. Table 4 shows that:

   (a) Total sponsorship-type revenue (COI, £[✂] million) was budgeted to be more significant than total event revenue (£[✂] million). The O2 was forecast to earn significant revenues from naming rights (£[✂] million), founding partners (£[✂] million) and sponsorship suites (£[✂] million).

   (b) Event rental comprised £[✂] million.[2] This equates to [✂] per cent of budgeted event revenue and [✂] per cent of total arena revenue.

   (c) The ticketing rebate (The O2's share of the ticket agent's booking fee) represented £[✂] million of forecast revenue.

Promotion—AEG Live (UK)

8. Table 5 shows the historic financial performance of AEG live (UK) for the period 2008 to 2013.

[2] Event rental plus other event rental in Table 4.

TABLE 5 **AEG Live (UK) financial performance, 2008 to 2012**

£ million

	2008	*2009*	*2010*	*2011*	*2012*
Touring revenue	[✂]	[✂]	[✂]	[✂]	[✂]
Total contribution*	[✂]	[✂]	[✂]	[✂]	[✂]
Total contribution (%)	[✂]	[✂]	[✂]	[✂]	[✂]
General & administrative expense	[✂]	[✂]	[✂]	[✂]	[✂]
EBITDA	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AEG.

*Total contribution includes sponsorship income.

9. Revenue fluctuated significantly during the period from a low of £[✂] million in 2008 to a high of £[✂] million in 2010. Contribution margins had been low and had varied during the period 2008 to 2012. In 2008, contribution margin was [✂] per cent. This increased during the period 2009 to 2011 where margin ranged between [✂] and [✂] per cent. In 2012, it fell significantly to only [✂] per cent. AEG Live has not achieved [✂] EBITDA returns, with the business [✂] (at an EBITDA level) in three of the five years between 2008 and 2012 and also [✂] over this period.

Ticket agency—AXS

10. AEG's ticketing business, AXS, currently has a very small share of the UK ticketing market. For the latest available accounting period (2012), [✂]. We understand that this is due to the time at which revenues are recorded for accounting purposes.[3]

Wembley

Performance

Number and type of events

11. Table 6 shows a summary of the number of events and the attendance at Wembley during the period 2007 to 2012.

TABLE 6 **Summary of the number of events and the attendance at Wembley, 2007 to 2012**

	Years ended 31 March					
	2007	*2008*	*2009*	*2010*	*2011*	*2012*
Concerts	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Entertainment/conferences/religious	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Sport	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Attendance	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average event attendance	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Wembley and Quintain.

[3] AXS will generate revenue in the future from sponsorship deals, and from taking a proportion of the booking fees in relation to the ticket sales it makes. There is no revenue for either of these in 2012 due to the booking fees only being recognized once the show that the tickets relate to has taken place, and no sponsorship deals taking place in its first few months of launching in 2012.

12. Table 6 shows that the number of music concerts held at Wembley declined significantly ([✂] per cent) between 2007 and 2012. Over the same period, the number of entertainment/conferences/religious events increased significantly ([✂] per cent). Overall attendance declined by [✂] per cent over the period.

13. The most significant change in events and attendance in the period was between 2007 and 2008, immediately following the opening of The O2. The total number of events fell [✂] per cent from [✂] to [✂] events. The vast majority of this fall comprised concerts which fell [✂] per cent from [✂] to [✂] events. It can also be seen from Table 6 that the average attendance per event in this period fell by [✂] per cent from [✂] to [✂].

14. There was a substantial spike in the number of events (both music concerts and other entertainment) in 2010 which saw event and attendance levels similar to 2008. In 2012, the overall number of events rose, as did total attendance driven by other entertainment events, though average attendance per event continued to decline.

15. Table 7 shows the same information by event type based on Wembley booking data.

TABLE 7 **Wembley events by type, 2009 to 2011**

	Years ended 31 March		
	2009	*2010*	*2011*
Concert	[✂]	[✂]	[✂]
Entertainment/con-ferences/religious	[✂]	[✂]	[✂]
Comedy	[✂]	[✂]	[✂]
Sport	[✂]	[✂]	[✂]
Unknown	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Wembley and Quintain.

Financial performance

16. Table 8 shows a summary of the historic financial performance of Wembley.

TABLE 8 **Summary of the historic financial performance of Wembley, 2007 to 2012**

£'000

	Years ended 31 March					
Revenue	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*
Venue rental	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Merchandise	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Concessions	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ticketing	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Parking	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Other	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total revenue	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Event costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Contribution	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Contribution per event	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Contribution margin (%)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Fixed costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBITDA	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBITDA margin (%)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Wembley and Quintain.

17. Table 8 shows that revenue at Wembley declined [✂] per cent between 2007 and 2012, resulting in a [✂] per cent fall in contribution (sales less event costs) and a [✂] per cent fall in EBITDA.

18. Wembley derived most of its revenue from venue rental charges. It also generated some additional revenues from merchandise sales, food and beverage concessions, ticketing and parking.

19. The decline in revenue over the period 2007 to 2012 was broadly based, affecting all revenue categories, although merchandise was particularly badly hit [✂] per cent). It is likely that the fall in merchandise revenues was due to the significant decline in the number of music concerts [✂] per cent) taking place. The overall decline in revenues (and the significant decline in merchandise income) resulted in an increase in the importance of venue rental compared with other income streams. In 2007 venue rental changes made up [✂] per cent of revenues. This increased to between [✂] and [✂] per cent in the period 2008 to 2011 and [✂] per cent in 2012.

20. Table 8 does not show any revenue from sponsorship. Quintain signed a sponsorship contract with Barclaycard directly ([✂]) with the associated revenues from the contract accruing entirely to the venue owner (Quintain) rather than to the venue operator (Live Nation).

21. Table 9 shows how the EBITDA generated by Wembley translated into financial returns to Live Nation under the management contract and to Quintain as ultimate owner of the venue.

TABLE 9 **Returns to Quintain and Live Nation from the Wembley contract**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Wembley and Quintain.

*Excludes sponsorship income which was outside the Live Nation Wembley contract.

22. Table 9 shows that Live Nation made around £[✂] million profit from the contract in 2007. However, it made a loss on the contract in 2009, 2011 and 2012. This resulted in a cumulative loss for the period 2008 to 2012 of £[✂]. Quintain's income from the Wembley contract fell to around [✂] per cent between 2007 and 2012. However, due to the income guarantee, its income was relatively stable from 2009 onwards. This revenue consisted entirely of the income guarantee from Live Nation.

The management agreements

Introduction

1. In this appendix we summarize the management agreements between AEG UK and WCEL including the main financial terms. The appendix covers:

   (a) the Interim Management Agreement (the 'Interim Agreement'); and

   (b) the long-term Management Agreement (the 'Agreement').

2. In [✂] 2012, AEG UK entered into a management agreement (the 'Agreement') with WCEL to manage Wembley Arena. Wembley Arena was previously managed by Live Nation but this contract was terminated by WCEL on 10 December 2012 with the termination taking effect at midnight on 11 February 2013.

3. The Agreement contained an Interim Management Agreement (the 'Interim Agreement') which enabled AEG UK to assume management of Wembley Arena for the period following termination of the Live Nation contract and before commencement of the Agreement which was conditional upon competition authority clearance and the grant of a licence by Brent Council.

The Interim Management Agreement

4. The Interim Agreement was expressed to terminate on [✂] or earlier if required by the CC. AEG UK commenced management of Wembley Arena on 12 February 2013 following termination of the Live Nation contract.

5. Under its terms Quintain was to pay AEG UK a fixed operating fee of £[✂] to 'act as exclusive manager and operator' of Wembley and to perform services specified in a schedule to the Interim Agreement. The operational budget for the venue was to be agreed between Quintain and AEG UK in advance, although subsequent budget changes could be agreed between the parties as necessary.

6. The specific services that AEG UK was required to provide as set out in a schedule to the Interim Agreement included:

   (a) facility operations (housekeeping, janitorial services, event conversion, routine repairs and maintenance);

   (b) event services (such as admission procedures, user and general operational staff services, crowd control, emergency response planning, supervision of catering);

   (c) all financial services (including payroll, funding and payment of all expenses and maintenance and preparation of financial reports and statements);

   (d) facility and event marketing and box-office operations, security and human resource services;

   (e) legal, IT and public and community relations services, and merchandise operations;

(f) all event booking (including negotiation and entering into contracts), sales of sponsorship and suite and premium seating; and

(g) administration services including negotiation and execution of sponsorship and premium seating contracts and negotiation and exploitation of commercial rights (defined as pouring rights, branding of food and beverage products for sale, Internet, website and database rights and memorial gifts).

7. In addition, AEG was responsible for hiring and paying staff to perform the services, routine and preventative maintenance and minor repairs and, subject to WCEL approval, establishing and adjusting prices and rates and rate schedules for event commitments.

8. The Interim Agreement provided for the transfer of staff at Wembley previously employed by Live Nation to AEG UK under TUPE arrangements.[1]

The long-term Management Agreement

9. The long-term Management Agreement (the Agreement) was a [✂] contract between AEG and Quintain, [✂].

10. The services AEG UK was required to perform are no different from those specified in the Interim Agreement and the Agreement also provided for the transfer of staff at Wembley previously employed by Live Nation to AEG UK under TUPE arrangements. The means of remuneration, however, were different and reflect the long-term nature of the Agreement.

11. Remuneration was expressed in terms of profit and revenue sharing: [✂].

12. [✂]

[1] Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) arrangements.

AEG business plan for Wembley Arena

AEG's business model

1. AEG's business model focuses on hosting a large number of high-quality events at a venue in order to maximize attendance. This attendance is then used to drive contractually obligated income (COI), which is largely based around sponsorship.

2. AEG said that its strategy for Wembley Arena (Wembley) was reflective of its general corporate strategy, which included the need to maintain and drive footfall. To achieve this strategy, it said that [✂]. It also told us that it aimed to improve the customer experience continually (ticketed, non-ticketed, VIP, artists and sponsors), including investment in new experiences and development and enhancement of existing facilities.

3. AEG told us that this model was reflected in the terms of the Management Agreement, [✂].

AEG's business plan for Wembley

4. In its business plan for Wembley, AEG set out current status projections and 'low', 'base' and 'high' case forecasts. A summary of the first four years of this forecast (2013 through to 2016) is set out in Table 1.

TABLE 1 **Summary of AEG business plan for Wembley, 2013 to 2016**

£ million

	*Year 1** *2013*	*Year 2* *2014*	*Year 3* *2015*	*Year 4* *2016*
Current status				
Events	[✂]	[✂]	[✂]	[✂]
Facility EBITDA	[✂]	[✂]	[✂]	[✂]
Total sponsorship†	[✂]	[✂]	[✂]	[✂]
AEG return‡	[✂]	[✂]	[✂]	[✂]
AEG low case				
Events	[✂]	[✂]	[✂]	[✂]
Facility EBITDA	[✂]	[✂]	[✂]	[✂]
Total sponsorship†	[✂]	[✂]	[✂]	[✂]
AEG return‡	[✂]	[✂]	[✂]	[✂]
AEG base case				
Events	[✂]	[✂]	[✂]	[✂]
Facility EBITDA§	[✂]	[✂]	[✂]	[✂]
Total sponsorship†	[✂]	[✂]	[✂]	[✂]
AEG return‡	[✂]	[✂]	[✂]	[✂]
AEG high case				
Events	[✂]	[✂]	[✂]	[✂]
Facility EBITDA	[✂]	[✂]	[✂]	[✂]
Total sponsorship†	[✂]	[✂]	[✂]	[✂]
AEG return‡	[✂]	[✂]	[✂]	[✂]

Source: AEG.

*Estimates include costs of £[✂].
†Shows the total annual revenues forecast from sponsorship.
‡Shows the financial return to AEG after taking into account the Management Agreement with Quintain [✂].
§The EBITDA of Wembley before any sponsorship.

5. It can be seen from Table 1 that in 2016 AEG forecast that Wembley would make an EBITDA before sponsorship of between £[✂] million (low case) and £[✂] million (high case). That compared to the 'current status' EBITDA of £[✂] million and represented an increase of between [✂] per cent (low case) and [✂] per cent (high case).

6. We set out in Table 2 a summary of AEG's base case scenario for Wembley in 2016. It shows:

   (a) a breakdown of how AEG would aim to improve EBITDA;

   (b) how the improved EBITDA would then be distributed between AEG and Quintain under the Management Agreement;

   (c) how new sponsorship revenues forecast by AEG would be split between AEG and Quintain under the Agreement; and

   (d) the total financial return forecast to each of AEG and Quintain.

TABLE 2 **AEG's Wembley 2016 'base case' forecast**

	£m
[✂]	[✂]

Source: AEG.

*The number of tickets retained for sale for events staged at Wembley.

7. After accounting for new sponsorship revenues and [✂], the base case forecast return to AEG in year 4 would be £[✂] million. In comparison, maintenance of the status quo would represent a [✂] of £[✂] million to AEG.

8. By 2016, AEG's base case forecast showed an incremental improvement in returns compared with status quo of £[✂] million (a [✂] to AEG of £[✂] million compared with a [✂] of £[✂] million). The incremental improvement in returns in the low case would be £[✂] million (a [✂] to AEG of £[✂] million compared with a [✂] of £[✂] million) and in the high case £[✂] million (a [✂] to AEG of £[✂] million).

9. We set out below in greater detail some of the key factors driving the forecast improvement in performance in AEG's business plan.

Sponsorship

10. New sponsorship deals would be the single most important factor driving increased returns for AEG compared with the status quo. [✂]

11. [✂][1]

Facility fee

12. [✂]

[1] [✂]

Outbox [✂]

13. [✂]

14. Outbox is a ticket business whose owners include AEG, [✂]. Its technology platform would enable tickets to be sold from a site branded by the ticket agent—an approach known as 'white labelling'.

15. [✂]

VIP club

16. AEG would [✂] VIP ticket/opportunities at Wembley. These would offer fans the opportunity to upgrade their tickets to include, for example, priority access [✂] and other benefits.

17. [✂]

Event rental

18. In AEG's updated business plan for Wembley, 'event rental' would play a very small role in driving incremental EBITDA. [✂]

19. [✂]

20. [✂]

21. [✂]

Other

22. AEG also forecast improvements in incremental EBITDA at Wembley through: [✂] and [✂].

Overall impact on Wembley revenue mix

23. In Figures 1 and 2 we show the mix of revenues at Wembley in the first year of the forecast (Figure 1) and compare this with the anticipated mix of revenues in year 4 based on AEG's base case forecast (Figure 2).

FIGURE 1

Wembley revenue mix—current status

[✂]

Source: AEG Initial Submission.

FIGURE 2

Wembley revenue mix—year 4 base case

[✂]

Source: AEG.

24. It can be seen that the result of AEG's business plan for Wembley would be that [✂]. The reduction in venue rental as a percentage of total revenues would be driven by increases in: [✂].

Counterfactual background information

Introduction

1. This appendix sets out Quintain's and third parties' evidence submitted in respect of possible alternative managers for Wembley.

An alternative venue manager

Views of Quintain

2. Quintain said that it did not see [✂] as alternative venue managers to AEG. It said that: [✂].

Views of third parties

3. Live Nation said that it would have wanted to continue to manage Wembley.

4. SMG Europe told us that it had wanted to have a presence in London for some time, but that it had been unable to find a suitable opportunity. It had twice expressed an interest in managing Wembley (once when Live Nation won the contract and again more recently when the contract was rumoured to be available). It said that it had recently won the contract to manage the First Direct Arena in Leeds, in a competition against Live Nation and AEG.

5. Pucka Entertainment Limited[1] said that AEG, Live Nation and SMG Europe were the most credible operators globally but other stand-alone operators had also been effective, including local councils.

6. Harvey Goldsmith said that for Wembley to thrive it would need a strong style of management as seen by that displayed at The O2.

[1] Pucka Entertainment Limited was an event organizer and sports promoter, primarily for the football industry. It promotes the Masters Football events.

The live entertainment supply chain

Introduction

1. This appendix describes the live entertainment supply chain. It covers: artists, managers, agents and promoters and their revenue streams; the ticket price-setting process; event planning; venue booking; and ticket selling.

2. Each live entertainment event has its own particular relationships and interactions with each part of the supply chain. Not every supply chain interaction described below will feature on each occasion.

Artists or acts, managers, agents and promoters and their revenue streams

3. Artists or acts are usually self-employed and are responsible for the creative content. A manager is employed to manage the artist's day-to-day business affairs and is responsible for negotiating all aspects of their commercial relationships. Artists and managers are jointly responsible for the content and production of a tour (eg sound and lighting).

4. An agent is engaged by the artist and manager and is responsible for maximizing the artist's income from a tour. An agent will invite and evaluate bids from promoters to organize or promote an artist's tour (or part of a tour), and will lead negotiation of terms with promoters on behalf of the artist and manager.

5. A promoter is responsible for organizing or promoting an artist's tour (or part of a tour), including contracting with venues and ticket agents, and organizing advertising. Live Nation is the largest promoter in the UK and globally, with SJM being the next largest. AEG Live is the third largest promoter in the UK, being less than one-fifth the size of both Live Nation and SJM respectively. MAMA also controls a large promotion business in the UK. These promoters are all also active as venue operators in the UK.

6. The promoter takes the significant majority of financial risk of a tour/event. The promoter bids for the right to promote the tour based on an estimate of the likely revenue and costs of that tour/event. The promoter's income is the residual net profit after deductions of all costs.[1] The largest element of these costs is the act's fee which the promoter guarantees. Mick Perrin Worldwide told us that this was around 60 per cent of estimated revenue for comedy events, and Metropolis Music and Live Nation told us that this was around 90 per cent, and sometimes up to 95 per cent, for music events. This guarantee is based on the promoter's estimate of revenue from ticket sales and costs. If the ticket sales are lower than estimated and/or costs higher, the promoter will bear the financial effect. This could mean that a promoter makes a loss on a tour/event. Conversely the promoter will benefit from higher attendance and lower costs. We describe in more detail the process for estimating revenue and costs in the following sections of this appendix.

7. In addition to the guaranteed fee, the artist also receives all net merchandising revenues after deduction of the fees payable to the venue. The act's manager receives a proportion of the artists' total net revenue, whilst the agent receives a

[1] Tour costs include the artist's fee, production, venue rental and marketing.

proportion of the artist's net income from a tour, typically between 10 and 20 per cent.[2]

Setting the ticket price

8. Third parties told us that ticket prices were set in negotiations between the act, manager, agent and promoter. Negotiations on ticket price were based on the ticket face value which comprised the artist's fee, VAT and PRS.[3] Additional charges from venues (such as restoration/facility fees) or ticket agents (such as booking and processing fees) were added later in the process on top of the agreed face value.

9. Live Nation told us that the promoter usually made a suggestion on ticket price based on an estimate of the event costs and the return to the artist. However, as a result of the promoter bidding process, an agent may have differing ticket prices offered by different promoters. Live Nation told us that this auction-type process resulted in each promoter having to decide if it wished to enter into a 'bidding war' based on ticket price with other promoters.

10. Metropolis Music told us that some managers and agents had differing approaches from others. Some were more concerned with the amount of income a particular event could bring in and would want to charge a higher price for tickets, while others took a more holistic view and agreed a ticket price that they believed was fair for both the act and the ticket-buying consumer. It also told us that the ticket price for an act increased as it became more successful in its career, while it said that when setting a ticket price it would look at what people had paid for the same act historically. Metropolis Music also said that it would often have a conversation with the agent if it thought it was requesting too high a ticket price.

11. Harvey Goldsmith told us that in relation to ticket prices, most promoters would decide on the final price of a ticket based on two factors: the capacity of the venue, and the costs of promoting the event. Promoters would also consider the views of the artist, their management or their agent who might want to increase the price of tickets and earn more from the event. Harvey Goldsmith also said that it was quite rare for the promoter to increase ticket prices for his or her benefit because the promoter only received financial reward after the artist, their management and agent had been paid.

12. Promoters will contact a range of venues to arrange their tours, subject to the requirements of its agreed bid. Promoters tend to enter into agreements with venue operators on an event-by-event basis rather than long-term contracts. This agreement is based on a rate card for that venue. The rate card for each venue remains the same for all promoters.

13. The variations to the rate card occur where there are multiple nights at the venue, a very high ticket price, a very high security presence or the show is particularly long. Live Nation told us that variations against the rate card were rare.

14. In addition, the promoter will tend to know the costs for security and box office due to their experience of booking past events and tours.

15. All costs at the bid stage are estimates and affect how much the promoter is willing to bid (and guarantee to the artist). They affect the promoter's future negotiations with

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[2] Ticketmaster and Live Nation: *a report on the completed merger between Ticketmaster Entertainment, Inc and Live Nation, Inc*, CC, May 2010, paragraph 2.8.
[3] PRS (Performing Right Society, www.prsformusic.com) usually represents 3 per cent of ticket revenues, not including booking fees or commissions and is paid to the owner of the music.

third party providers (including venues). From this point onwards, the result of the promoter's negotiations relate directly to how much margin the promoter will make.

Event planning

Promoter selection

16. Acts tend to use the same promoter each time they tour, but often contract with their preferred promoter for each tour separately to enable agents regularly to assess the competitiveness of each promoter's bid. Co-promotion between two promoters may also take place, eg where an act wants a specialist local promoter for a section of the tour.

17. Live Nation told us that the selection process started with the artists providing their availability to their manager. The manager would tell the agent, and the agent would then invite promoters to bid for the event or tour. Live Nation said that the agent tended to specify the timing of the tour, how many dates were available and the type of venue(s) required.

18. Live Nation told us that a promoter estimated revenues and costs based on the routing of the tour. It started off with date, city, venue, number of tickets, ticket price and then the costs of that building, which was usually published in a rate card. This produced a net sum which the promoter guaranteed to the artist.

19. The agents receive bids from several promoters and compare detailed tour proposals, including the routing of the tour, ticket prices, and number of seats. The decision is then taken by the agent to award the tour to the promoter that delivers the most revenue to the artist.

Venue selection

20. Promoters told us that venue choice was determined by considering a combination of: capacity, availability of dates, location, and artist preference including technical features (acoustics), appearance, brand and reputation. Whilst promoters would propose which venues to use for a tour to an artist and its management, ultimately the artist chose the venue.

Capacity

21. Third parties told us that an agent and/or promoter tended to look for the largest capacity venue which an artist could fill, as this was the most profitable option. Harvey Goldsmith told us that the demand that an act had and how this related to the capacity of a particular venue was the most important consideration when selecting a venue. The Royal Albert Hall told us that capacity was the most important first part of the equation, for the main reason that the act would want the show to sell out.

Availability

22. Third parties told us that availability was an important consideration but also the availability within the route of the tour. Third parties also told us that acts expected a tour route to minimize travel and disruption and that promoters were incentivized to ensure the most efficient tour routing to keep costs low and therefore maximize

profitability. Live Nation told us that acts did not like being taken from London to Glasgow to come back, so promoters had to show some sense to the routing.[4] Harvey Goldsmith told us that availability of dates was the second most important consideration.

Location

23. Third parties told us that location of an event was an important consideration in the tour routing and that London was a 'must-play' location in both the UK and Europe.

Artist preference

24. Live Nation told us that the act, manager and agent set the parameters of the type of venue prior to promoter involvement. Harvey Goldsmith told us that the act and the act's representatives decided where and when they wanted to play, but noted that the promoter created the tour routing based on the availability of venues within a specified time period. Mick Perrin Worldwide provided an example where, as part of the initial process, the act's agent and the promoter discussed the touring period and the size of venues to be approached for availability. This could also include the type of accommodation to be booked for the act, which might have a negative impact on the budget available to the promoter for that tour.

25. Live Nation told us that the choice of venue depended on the type of act and what would complement that artist, for example: audience age, seated or standing or required aesthetics (eg the Royal Albert Hall was very different from Hammersmith Apollo or Brixton Academy in terms of its aesthetics).

Booking the venue

26. When a promoter wants to reserve a venue, it 'pencils' an event for certain dates.

27. AEG told us that the key objective of the pencilling system was to sustain good relationships with all promoters, as no single promoter (eg AEG Live) would be able to provide sufficient event days of required quality to fill the entire calendar. The pencilling system at The O2 worked as follows:

    (a) Typically pencilling of event dates took place 6 to 12 months ahead of an event.

    (b) The agent or promoter approached AEG requesting dates [✂].

    (c) Detailed information about the event was not required unless the promoter was unknown, in which case AEG requested format, scale, nature of event and promoter credentials.

    (d) Allocation of pencils was on a first-come, first-served basis even if this meant that a less profitable event took place.

    (e) Once events had been pencilled, there were three possible scenarios:

        (i) The first pencil dropped out due to lack of interest/change of tour dates, then all other pencils moved up (this might happen a number of times until either scenario (ii) or (iii) occurred).

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[4]CC third party hearing with the Live Nation, April 2013.

(ii) The first pencil confirmed and negotiation of hire agreement and ticket sales schedule took place. The date would then no longer be available to other pencils.

(iii) The first pencil was challenged by a later pencil: the first pencil had 48 hours (24 hours if less than six months to event) to confirm and pay a deposit. Otherwise the first pencil would be removed and all other pencils moved up.

(f) If the venue suspected that two promoters were competing to secure the same artist, then the pencil was made for the artist, not the promoter, to ensure that that artist would be allocated to a date.

(g) Cancellation of confirmed dates was subject to fees [✂].

28. The process is shown in Figure 1.

Ticket selling

29. We were told that ticket agents levy a booking fee (or service charge) per ticket. This is their main revenue and is attributed to operational costs including staff, ticket retail, technology and event access control. This charge is negotiated with the promoter and/or the venue for each event.[5]

30. We were also told that ticket agents levy a processing charge (also called a transaction or delivery charge) per order to cover costs including postage, courier, or technology supporting e-tickets.[6]

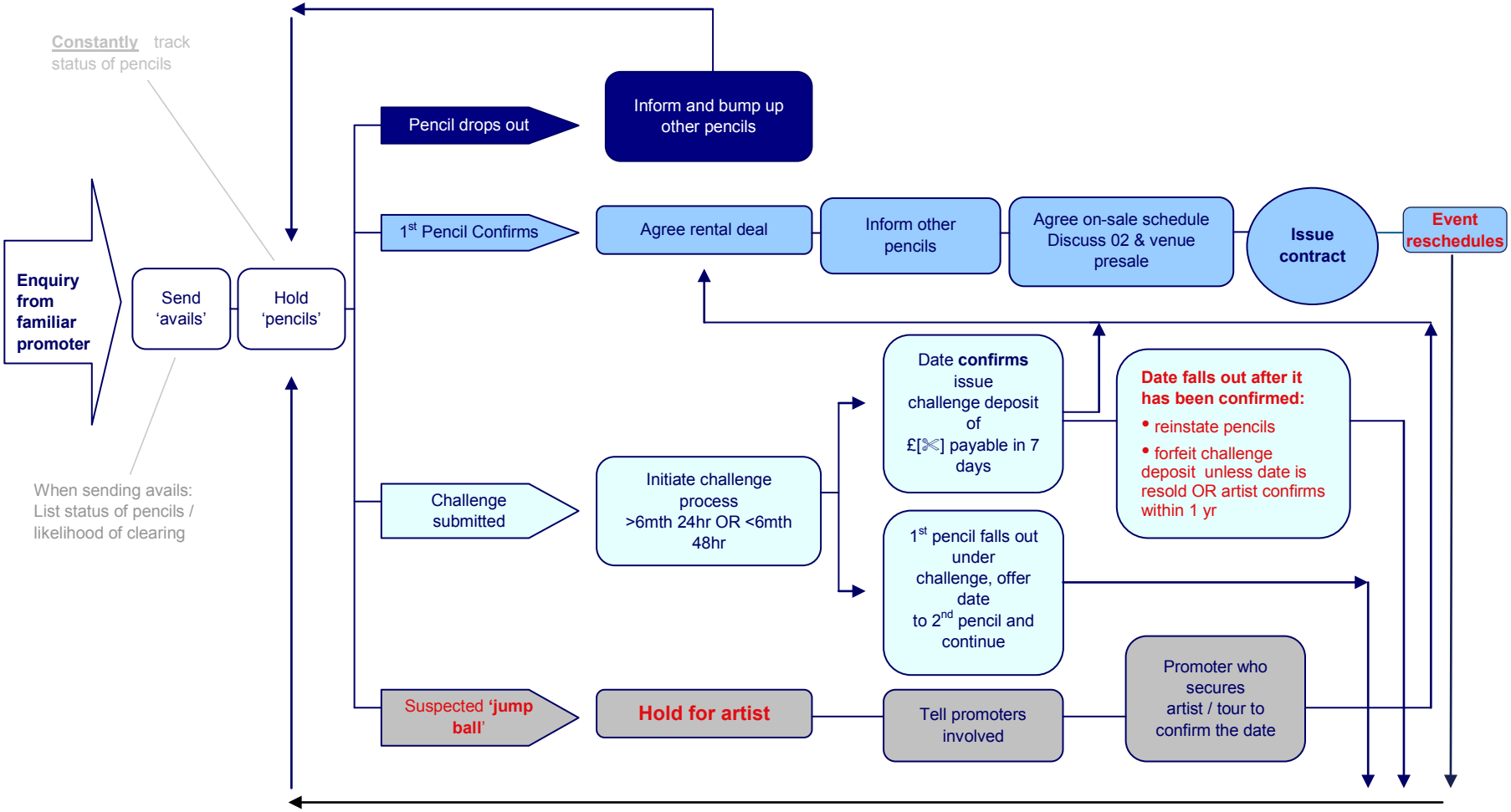
31. We found that most booking fees were typically 10 to 15 per cent of the ticket price, though the percentage could vary depending on the value of the ticket. In most cases, the promoter or venue for which the agent is acting received a rebate in the form of a share of the booking fee. The ticket agent either bore the cost of selling the ticket, including any credit card processing charges and the cost of dispatching the ticket, or passed some or all of these costs on to the consumer.

32. The two largest primary ticket agents for live music events in the UK are Ticketmaster (owned by Live Nation) and See Tickets (owned by Vivendi). Other ticket agents include CTS Eventim and AEG through AXS.

[5] www.ticketmaster.co.uk/h/service_charges.html and www.seetickets.com/content/faq.
[6] www.ticketmaster.co.uk/h/service_charges.html and www.seetickets.com/content/faq.

FIGURE 1

AEG booking system at The O2

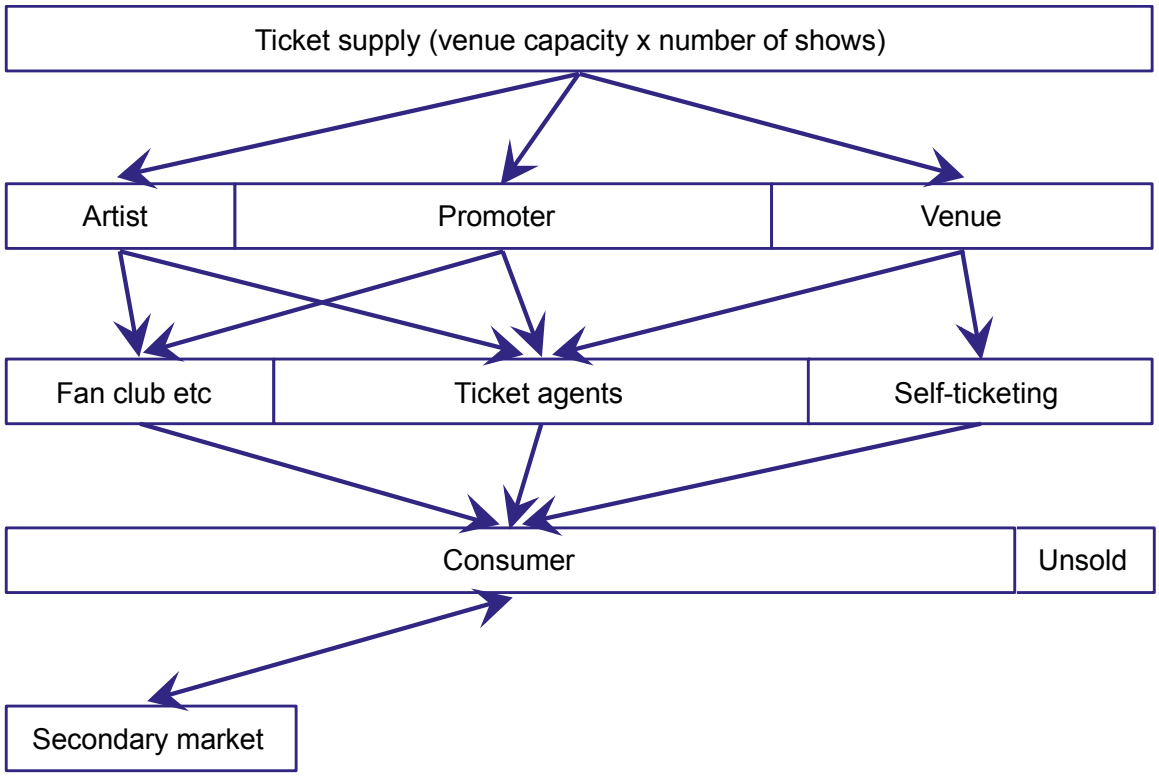


Source: AEG.

33. Figure 2 shows the various ways in which a ticket for an event can reach a consumer.

FIGURE 2

Route of tickets to the consumer



Source: CC analysis, *Ticketmaster Entertainment and Live Nation* report, Appendix B.

34. We found that acts, promoters and venues regularly used 'pre-sales' to offer tickets for an event to selected customers, prior to tickets going on general sale. Some pre-sales were restricted to individuals registered with an artist's fan club, while others were to customers of corporate sponsors (for example, O2 customers at O2-sponsored venues). Pre-sales typically started two days before tickets went on general sale.[7]

35. We were told that a promoter manages the allocation of tickets for an event on a dynamic basis, using a range of ticket agents to ensure that they gain access to the widest customer base and provide the best opportunity for an event to sell out. Contractual rights to an initial allocation do not, in practice, restrict the reallocation of tickets.[8]

[7] *Ticketmaster Entertainment and Live Nation* report, Appendix B, paragraph 34.
[8] *Ticketmaster Entertainment and Live Nation* report, Appendix B, paragraph 35.

Evidence of switching

Introduction

1. We analysed whether promoters were switching between The O2 and Wembley, and focused on medium-sized events (defined as events with a booked capacity of between 5,000 and 12,500).

2. This appendix sets out the following evidence:

   (a) our analysis of events which were provisionally booked at The O2 and subsequently confirmed at Wembley;

   (b) analysis conducted by AEG, which surveyed The O2 and Wembley booking teams and identified events which could feasibly have been held at the other venue; and

   (c) analysis conducted by Live Nation, which investigated the threat of switching from Wembley to The O2, and events which were pencilled at Wembley and subsequently moved to The O2.

3. All three of the analyses had some limitations. In our analysis the historic pencil data records used varied in completeness and level of detail. This was due to the fast-moving nature of the booking process and computer system changes over the period of analysis. The booking data collected by AEG was subjective as it relies on the recollections and memories of the booking teams at The O2 and Wembley. Live Nation's analysis was also based on booking team recollections. However, the analyses consistently show that switching was only taking place to a very limited extent.

4. While we placed some weight on the fact that all sources of evidence suggest that switching was limited, we were mindful that switching patterns were unlikely to provide a perfect view of the extent of competitive constraints between the merger venues.

5. This was because the competitive process was often unobservable as it typically took place when an act, agent or promoter was deciding a tour routing, prior to the promoter pencilling or confirming the event. Also, since events and tours recurred in-frequently, and when they did recur they may have had a different theme, configuration or target audience, we would not expect to be able to identify switching behaviour over time by each act.

CC analysis of pencilling and booking data

Approach

6. In order to identify events that considered both venues up to the point of booking, we matched pencil and booking data. Pencil data revealed all events that provisionally booked a venue and booking data revealed all events that took place at a venue.

7. Historic pencil data was available for The O2, but not for Wembley as its pencilling system had deleted all released pencils and kept only confirmed bookings.

Therefore, it was only possible to match pencils for The O2 with bookings at Wembley. Booking data was available for both The O2 and Wembley.

8. We could therefore only identify events that took place at both venues and events that had been pencilled at The O2 but took place at Wembley. We could not identify events that were pencilled at Wembley but eventually took place at The O2.

9. Furthermore, this analysis could not identify all events for which The O2 and Wembley were considered by the artist, agent or promoter. This is because the promoter may have already made a choice between the two venues before pencilling its preferred venue. However, in such instances, the choice was most likely made on non-price factors, as it was made before the price negotiation and was restricted by availability.

Data and methodology

10. The O2 pencil data was available for the period from August 2010. It recorded event name, promoter, event dates and the pencilling status. We found that the pencilling system tracked all changes of pencils over time. It stated which pencil has been held by an event/promoter and if the pencil has been confirmed. Initially, the promoter does not have to reveal the event details. Therefore, the information about the event was in some cases incomplete.[1]

11. The O2 booking data covered the period 2010 to 2012. The booking data included information about all confirmed events at The O2. The booking data recorded event name, promoter, event date, number of event and building days, number of performances and event attendance.[2] The Wembley booking data covered the period 2004 to 2012. The Wembley data included comparable information to The O2: event name, promoter, event date, number of event and building days, number of performances and event attendance.

12. To identify acts that considered both venues within a certain period of time, the data sets were matched by event name and promoter. As 2011 was the first complete year with respect to pencils, we focused our switching analysis on 2011. We identified [✂] events that took place at both venues in 2011 and [✂] events that were pencilled at The O2 but eventually took place at Wembley. In 2011, [✂] events took place at The O2 and [✂][3] at Wembley.

13. These [✂] events could be seen as events for which the two venues were potential substitutes. We investigated these [✂] events in more detail to understand whether:

    (a) switching of events between venues or simultaneous use of venues was due to price or non-price factors (eg venue availability, venue size, etc); and

    (b) simultaneous use of venues occurred due to complementarity of the venues (eg target different catchment areas), and if so whether there was substitution at the margin between the dates at The O2 and the dates at Wembley.

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[1] This refers to pencils of promoters like 3A Entertainment, AEG Live, Kennedy Street Entertainment, Live Nation, Metropolis Music, Phil McIntyre Entertainment, SJM Concerts; less than 10 per cent of 4,322 pencils and pencil editions in 2011.
[2] Some of the booking data goes back to 2008. However, the complete data set is available for 2010–2012. Additional information recorded in the booking data: genre, booked capacity, tickets sold, ticket price, rate card category, configuration, event costs and a split of different revenue sources.
[3] We excluded 'other income' and 'Brent events' events, as these events are usually non-ticketed, do not pay a venue hire fee, and generate zero, or minimal, income.

Overlapping events

14. AEG provided us with qualitative information on each overlapping event. The four main reasons given for why events overlapped were:

    (a) *Catchment area.* Some events took place in both venues in order to draw from different geographical catchment areas, eg north-east or south-west London. If the audience was sufficiently distinct for two venues, some promoters considered it to be profitable to have an event in both venues despite the duplication of fixed costs.

    (b) *Venue size.* When an event was pencilled at both venues and it later emerged that the size of one venue was not appropriate.

    (c) *Availability.* If a promoter was not able to secure a date at the preferred venue, the event may have also taken place at the other venue (eg when an event sold well and the promoter decided to add additional event days, but the preferred venue was already booked by another promoter/artist).

    (d) *Speed of ticket sales*. The sale of tickets may have started for an event at one venue, and depending on the speed of ticket sales, the promoter may have decided to add additional event days at the same venue or at a venue of a different size. It is also possible that ticket sales start at two different venues and then additional nights are added at the venue with better selling tickets.

15. Table 1 shows the [✂] overlapping events between The O2 and Wembley in 2011, and the reasons why the events were played at both venues.

TABLE 1 **Overlapping events between The O2 and Wembley in 2011**

*Artist**	*Promoter*	*Event days*		*The O2 pencils for Wembley dates?*	*Venue choice driven by:*				
		O2 arena	*Wembley*		*Venue size*	*Availability*	*Catchment area*	*Speed of ticket sales*	*Other reason*
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AEG.

*[✂]
Note: Sometimes the promoter does not reveal information about the event the pencils are for. In these cases it was not possible to match a particular pencil to a booking at Wembley.

16. In [✂] out of [✂] events taking place at both venues, the event was held at both venues in order to cover different catchment areas. In these cases the venues were acting as complements, not substitutes. The choice for the remaining [✂] events was motivated by either availability, speed of ticket sales or a strong preference to play both venues.

17. There were [✂] overlapping events that had more than one event day at least at one of the venues. For these [✂] events, we considered the possibility of substitution at the margin between the venues (eg substituting two days at The O2 and one day at Wembley with two days at Wembley and one day at The O2). However, the choice of a venue for additional event days could be restricted by the same determinants as outlined in the table above. For [✂] events, substitution at the margin did not appear possible because:

(a) In six cases the event was held at both venues in order to cover two different catchment areas ([✂]).

(b) [✂] was playing at a smaller venue (Hammersmith Apollo) and turned out to be very successful. The promoter tried to secure an additional event day at The O2. However, this was at short notice and while The O2 was the preferred venue, it had already been booked by another artist. On the second tour the same year the artist played only at The O2 ([✂]).

18. Therefore [✂] was the only event that played at both venues, where there might have been substitution at the margin, on the basis of speed of ticket sales. Furthermore, of the [✂] overlapping events, only [✂] had pencils at The O2 for the dates which were eventually booked at Wembley. To put this in context, [✂] events took place at The O2 and [✂] at Wembley in 2011.

Switching events

19. We also investigated reasons why the [✂] events pencilled at The O2 eventually took place at Wembley.

TABLE 2 **Switching events between The O2 and Wembley in 2011**

Artist	*Promoter*	*Event days*		*O2 pencils*	*Venue choice driven by:*		
		The O2	*Wembley*		*Venue size*	*Availability*	*Other reason*
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AEG.

Note: Sometimes the promoter does not reveal information about the event the pencils are for. In these cases it was not possible to match a particular pencil to a booking at Wembley.

20. The reasons for the venue choice for [✂] events that were pencilled at The O2 and eventually took place at Wembley were either venue size or availability. In one case the reason was more strategic, as the promoter did not want one artist (part of two different events) to play at the same venue twice.

21. Overall, the evidence of switching was fairly limited. This result was supported by a review of The O2 venue hire fee for overlapping and non-overlapping events. If venues competed for an event over the price, we might have expected the venue hire fee to be lower for overlapping/switching events than the venue hire fee for non-overlapping events. However, we did not identify consistent evidence of promoters receiving higher discounts for overlapping events than for non-overlapping events.

AEG's analysis of closeness of competition

22. AEG provided an analysis of the closeness of competition between The O2 and Wembley. The analysis was based on data drawn from interviews with booking teams of The O2 and of Wembley regarding events that took place in 2011 and 2012.

23. AEG asked The O2 booking team to identify, for each event, whether, in their opinion, Wembley was a 'feasible'[4] alternative for that event. AEG also asked the booking team whether it believed that the event had been pencilled at Wembley or if Wembley was mentioned during negotiations. Information about 'feasibility' and 'mentioning' during negotiation was gathered from the Wembley booking team regarding The O2.

24. AEG interpreted feasible alternatives as a sign for potential competition and pencils and a mention during negotiations as a sign of actual competition. Events which took place at both venues were excluded as it was assumed that the venues were complements and not substitutes in those instances.

AEG analysis

25. Table 3 shows the number and proportion of events that were pencilled at the other venue or if negotiations included the mentioning of the other venue, by booked capacity.

TABLE 3 **Pencils at the other venue, 2011/12**

Booked capacity	*Events at The O2**				*Events at Wembley*	
	WA pencilled	*WA not pencilled*	*WA mentioned*	*WA not mentioned*	*The O2 mentioned*	*The O2 not mentioned*
>12,500	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
5,000–12,500	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
<5,000	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
All events	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AEG.

*Booked capacity segments do not sum to the total of all events, because some The O2 events have a booked capacity equal to zero. This is the case [✂].

26. We noted that there were some differences in the two analyses of actual and potential competition. There were [✂] events at The O2 which the booking team said were pencilled at Wembley, but for which they also thought Wembley was not a feasible alternative. We also noted that they identified [✂] overlapping or switching events in the analysis of The O2 pencil data and Wembley booking data that all also took place at Wembley. The O2 booking team thought only [✂] of these were pencilled at Wembley. In addition, they considered [✂] other events to be pencilled at Wembley.

27. We considered the AEG analysis to be of limited usefulness in terms of assessing competition. We did, however, note that, in line with our own analysis, it indicated that competition was limited.

Analysis of the impact of competition on venue hire prices

28. If The O2 and Wembley were in competition for an event, then we might expect that these events would be more likely to receive discounts on the rental fee or more likely to receive higher discounts. On the basis of the information provided by the booking teams, AEG tried to identify a relationship between discounts and feasibility

[4] A broad definition of 'feasible' was used in this analysis. The analogy which the booking teams were given as to whether Wembley was a feasible alternative to The O2 was that it was feasible to travel to Heathrow by taxi, tube, or train, but not feasible to walk.

of the other venue, or pencilling at the other venue.[5] AEG submitted an econometric analysis investigating the effect of actual and potential competition on discounts[6] for events at The O2. The analysis regressed venue hire discounts off the rate card on actual competition and potential competition as measured respectively by pencils and venue feasibility identified by the booking teams. The analysis controlled for different factors including: promoter, time (day of week, month year), number of matinees, building and event days, genre and capacity.

29. The results implied that, for events for which a greater level of actual or potential competition was suspected, the promoter did not receive significantly higher discounts on the venue hire fee. The relationship between discounts and actual/potential competition was negative but not significant. The econometric analysis revealed that the number of building days had negative impact on discounts and number of matinee shows had a positive one. Furthermore, it seemed that AEG Live and other members of the AEG Family[7] tended to receive lower discounts above the discounts they received on the rate card.

Switching evidence provided by Live Nation

30. Live Nation submitted evidence of switching, and threats to switch, from Wembley to The O2. It said that promoters used the threat to switch to The O2 in order to get discounts on event hire at Wembley.

31. Live Nation identified [✂].

32. Live Nation also identified events in the past three years which the Wembley booking team said were initially pencilled at Wembley, but where the performance eventually took place at The O2. These events are listed in Table 4.

TABLE 4 **Events pencilled at Wembley and subsequently booked at The O2***

Year	*Wembley pencils which booked at The O2*	*Event names*	*Total events held at Wembley in the year*
2010	[✂]	[✂]	[✂]
2011	[✂]	[✂]	[✂]
2012	[✂]	[✂]	[✂]
2013	[✂]	[✂]	[✂]

Source: Live Nation.

*The identification of these events is based on the recollection of the Wembley booking team. The Wembley pencilling system deletes all events that have been released and did not take place at Wembley. Therefore, provisional booking data exists only for future events.

33. The Live Nation evidence was indicative of limited switching between The O2 and Wembley at the point of booking.

[5] The considered discounts are discounts above the standard discounts given [✂]. Standard discounts that are usually applied by the booking team are: [✂].
[6] See footnote to paragraph 10 above.
[7] In 2006, AEG acquired a [✂] per cent interest in Marshall Arts Ltd, a UK music concert and tour promotion company. However, AEG is not directly involved in the management of the promotion business of Marshall Arts which continues to operate independently and in competition with AEG Live. In 2008, AEG signed up to a [✂] joint venture with ex-Live Nation Managing Director Stuart Galbraith to create boutique promoter Kilimanjaro. On [✂] 2012, AEG transferred to Mr Galbraith all of the shares it held in Kilimanjaro and all joint venture arrangements were terminated. [✂]

Analysis of venue hire charges

1. An important component of a venue hire agreement between a promoter and a venue operator is the venue hire fee. We analysed venue hire fees at The O2. Our analysis aimed to identify factors determining the level of the venue hire fee. We were particularly interested to assess whether AEG could charge a higher rental fee for those events where it faced less competition. If so, competition between venues could be significant in affecting rental charges.

2. This appendix describes the analysis of venue hire fees in detail. We assessed if there was a relationship between venue hire fee and attendance, genre, promoter and/or other revenue streams. We also analysed event costs and margins. First, we analysed booking data for The O2, and then for Wembley.

The O2

3. The analysis was based on The O2 booking data provided by the parties. The data set included event-related information such as event name, promoter, date, rate-card category, number of performances, booked capacity, tickets sold, attendance, event cost and revenues by revenue source. The analysis focused on 2011 as this was the most recent year not affected by extraordinary events, namely the Olympic Games in 2012.

4. There are three measures of event size:

   (a) *Booked capacity.* This is the pre-event measure of event size. This measure is related to the promoters' expectations regarding event size, though some events we looked at in The O2 did not have a booked capacity. For lower bowl events, booked capacity was systematically higher than actual attendance.

   (b) *Tickets sold.* For the promoter, this is the most relevant figure as it determines income source. However, we found that non-ticketed events have recorded no tickets sold. Also, the number of tickets sold is known only after the venue has been chosen and the event has taken place.

   (c) *Attendance.* The event attendance shows the actual event size. Performing the analysis using attendance numbers assumes that the promoter has a good idea about the likely attendance numbers before the event takes place, when making a choice between appropriately-sized venues. This assumption seemed reasonable in a primary market such as London. [✂]

5. There are limitations to all three measures with respect to using the size of an event as a proxy for competition and the choices available to promoters. We decided that the most effective method was to identify event size by event attendance numbers.

6. The O2 had two types of venue hire fee rates as set out in the rate card: full arena and lower bowl. All prices on the rate card were listed prices subject to negotiation; however, they usually consisted either of a fixed rate or of a fixed rate plus a variable component. The full arena rate was a fixed amount depending on the day of the week.[1] The lower bowl rate card was a fixed amount plus a fixed rate per attendee on

[1] Rate card rate for full arena: [✂].

tickets sold over the agreed lower bowl capacity.[2] This distinction was important for the analysis of the venue hire fees as it implied that there is a predefined increasing relationship between the venue hire fee and attendance for lower bowl events.

Notes on interpreting the figures below

7. For all the figures that follow, we considered three different sizes of events (based on event attendance): below 5,000, between 5,000 and 12,500 and above 12,500 attendees. Different event size categories are set out in the graphs below by grey vertical lines.

8. The horizontal dashed line indicates the lowest possible relevant arena (full bowl/ lower bowl) rate according to the rate card. Events promoted by AEG are shown in red and those by other promoters in blue.

9. Due to the permutations of the rate card, we considered full arena and lower bowl events separately.

10. Figure 1 displays the venue hire fee for full arena events in 2011.

FIGURE 1

Venue hire fee and attendance, full arena (The O2)

[✂]

Source: CC analysis.
Note: [✂] for the duration of the event, including building and de-rigging days).

11. Figure 1 shows that:

    (a) There was significant discounting off the rate cards. We were told that promoters affiliated with the AEG Group had a discounted rate card fee of £[✂]. However, it does not seem that AEG Live had much higher discounts in practice than other promoters.

    (b) There was not a significant increase in venue hire fee as attendance increased in relation to full arena events in 2011.

12. Figure 2 displays the venue hire fee for lower bowl events in 2011.

FIGURE 2

Venue hire fee and attendance, lower bowl (The O2)

[✂]

Source: CC analysis.
Note: Scatter includes only event days with one performance per day.

13. Figure 2 shows that:

    (a) There was significant discounting off the rate cards.

---

[2] Rate card rate for lower bowl up to [✂] attendees: [✂].
Rate card rate for lower bowl [✂] seated or [✂] standing attendees: [✂].

(b) Venue hire fee increased with number of attendees. However, the increasing venue hire fee followed the charging outlined on the rate card.

14. Figure 3 displays discounts off the rate card for full arena and lower bowl events in 2011.

FIGURE 3

Venue hire fee discount on rate card fee (The O2)

[✂]

Source: AEG.
Note: Identification of rate card fee is based on day of the week for full arena events. The rate card has two lower bowl rates with two different attendance thresholds. The lower bowl rate card fee has been identified based on day of the week plus attendance and the discount has been calculated with the most favourable lower bowl rate. The discount for an event in per cent is applied for all event days. The graph only includes events with one performance per day and excludes following outliers [✂]. Negative discount percentages reflect events where the promoter has paid a venue hire fee above the rate card, taking into account build days.

15. Figure 3 shows no implication of any obvious relationship between discount and event size. Although discounts seemed to be slightly higher for large events, the difference was not statistically significant.

16. Figure 4 displays the venue hire fee by genre. Full arena and lower bowl events are considered separately.

FIGURE 4

Venue hire fee and genre (The O2)

[✂]

Source: CC analysis.
Note: Scatter includes only event days with one performance per day. Does not display Brit Awards 2011 (15 February 2011, venue hire fee of £[✂] for the duration of the event, including building and de-rigging days).

17. Figure 4 shows that there was a lot of variation in event hire fees for both full arena and lower bowl events but this did not relate to types of event.

18. Figure 5 displays the venue hire fee by promoter including full arena and lower bowl events.

FIGURE 5

Venue hire fee and promoter (The O2)

[✂]

Source: CC analysis.
Note: Scatter includes only event days with one performance per day. Does not display Brit Awards 2011 (15 February 2011, venue hire fee of £[✂] for the duration of the event, including building and de-rigging days).

19. Figure 5 shows that:

(a) There was no visible relationship between venue hire fee and promoter. However, we know that large promoters like Live Nation, SJM Concerts or Metropolis Music received a £[✂] discount and AEG Live received a £[✂] discount on the rate card for full arena events.

(b) JV events exhibited the highest spread of venue hire fees. However, JV events had non-standard event agreements. They were usually events aimed at bringing content into the arena.

20. Figure 6 displays the venue hire and number of event days by month for full arena and lower bowl events.

FIGURE 6

Venue hire fee and number of event days by month (The O2)

[✂]

Source: CC analysis.
Note: Scatter includes only event days with one performance per day. Does not display Brit Awards 2011 (15 February 2011, venue hire fee of £[✂] for the duration of the event, including building and de-rigging days)).

21. The graph on the left-hand side of Figure 6 shows:

(a) The number of booked days by month for The O2 (blue line) and Wembley (red line) in 2011. Booked days included event and building days associated with the events.

(b) With respect to event days The O2 was busiest in [✂] and Wembley was busiest [✂]. The number of booked days developed in the same direction over the year at both venues (except for [✂] when Wembley had [✂] attendance levels). We note that events at Wembley typically had a larger number of 'building days'[3] than events at The O2.

22. The graph on the right-hand side of Figure 6 shows that discounts off rate card were fairly similarly distributed across the year. They did not tend to be higher in months when The O2 was very busy compared with months with lower available capacity. There was a lot of discount variation.

23. We examined venue hire fees by month, during 2011, for The O2 (Figure 3). If promoters cannot leverage bargaining power over time, then we expected prices to be higher in periods of low availability compared with periods of high availability.

24. We found that venue hire prices [✂].

25. Figure 7 shows event cost by attendance. The graph splits out full arena from lower bowl events.

FIGURE 7

Event cost and attendance, by rate (The O2)

[✂]

Source: CC analysis.
Note: Scatter includes only event days with one performance per day.

26. The left graph in Figure 7 shows that event costs for full arena events increased with the number of attendees for all types of events. This relationship appeared to be less

[3] The time taken to install the stage and other production components of the event. This will often take up a significant part of the day ensuring that no other events can be shown at that venue.

pronounced for lower bowl events, although increasing event costs explained increasing venue hire fees to some extent. We reviewed margins to assess whether the increase of venue hire fees could be explained by increasing event costs.

27. Figure 8 shows the margins (percentage) by attendance. The graph splits out full arena from lower bowl events.

FIGURE 8

Margin (percentage) and attendance, by rate (The O2)

[✂]

Source: CC analysis.
Note: Scatter includes only event days with one performance per day. Margin has been calculated on the basis of the venue revenues from the hire fee and ancillary event revenues, ie (event hire fee + event ancillary revenues – event costs) / (event hire fee + event ancillary revenues).

28. Figure 8 shows that the percentage margin increased with number of attendees for full arena and lower bowl events. This suggests that the higher prices charged for larger events could not be fully explained by increasing costs and that this is true for full arena events as well as for lower bowl events.

29. There are two potential reasons for the higher margins on larger events:

    (a) Margins were higher because customers of larger events were less price sensitive (demand-side factors).

    (b) Margins were higher for bigger events because there was less competition for these events (supply-side factors).

30. On average, revenue, the venue hire fee and margin increased with attendance levels at The O2. It is difficult to identify whether this was driven primarily by demand-side factors (eg less price-sensitive customers for larger events) or supply-side factors (eg less competition for larger events). If it was the latter, the merger might have been expected to have an impact on event hire fees for medium-sized events.

31. However, it seemed that demand-side factors prevailed. An analysis of overall event profits showed that overall event profits increased with the event size and that the venue operator's share of these profits declined.

32. Figure 9 shows event profit and revenues (including ancillary revenues). The graph distinguishes between overall event profits (blue) and revenues generated by the venue operator (gold).

FIGURE 9

Event profits/revenues, by attendance (The O2)

[✂]

Source: AEG analysis.
Note: Event profits calculated with cost estimates based on AEG Live costs.

33. Figure 9 shows that the increase in overall event profits was stronger than the increase in revenues generated by the venue operator, as the size of the event increased.

Wembley

34. The available data for Wembley was comparable to the data provided for The O2. The data set included events-related information like event name, promoter, event date, number of performances, booked capacity, attendance, event cost and revenues by revenue source. Our analysis focused on 2011 as this was the most recent year not affected by extraordinary events, namely the Olympic Games in 2012.

35. The Wembley rate card did differentiate between short hall and full hall events. In both cases there was a fixed fee. However, the fee varied with respect to capacity and configuration.

36. As with The O2, we considered events with fewer than 5,000 attendees and events between 5,000 and 12,500.[4] In each graph the two size categories are set out by grey vertical lines.

37. Figure 10 shows the venue hire fee at the Wembley by attendance.

FIGURE 6

Venue hire fee, by attendance (Wembley)

[✂]

Source: CC.
Note: Scatter includes only event days with one performance per day and an attendance up to 12,525 and does not include 'Other income' / 'Brent events'.

38. Figure 10 shows that:

    (a) There was significant discounting off the rate card.

    (b) Venue hire fee increased with number of attendees.

    (c) Events with zero attendance were non-ticketed religious events.

39. Figure 11 shows the venue hire fee at the Wembley by genre.

FIGURE 7

Venue hire fee, by genre (Wembley)

[✂]

Source: CC.
Note: Scatter includes only event days with one performance per day and an attendance up to 12,525 and does not include 'Other income' / 'Brent events'.

40. Figure 11 shows that there was a lot of variation for events within a specific genre. [✂] tended to achieve a lower venue hire fee.

41. Figure 12 shows the venue hire fee at Wembley by promoter.

[4] The capacity of Wembley is restricted to a maximum of 12,500 attendees.

FIGURE 8

Venue hire fee, by promoter (Wembley)

[✂]

Source: CC analysis.
Note: Scatter includes only event days with one performance per day and an attendance up to 12,525 and does not include 'Other income' / 'Brent events'.

42. Figure 12 shows that at Wembley, it is difficult to identify a relationship between venue hire fee and promoter, as many promoters had only one event per year. For events with multiple events per year there seemed to be some variation. [✂][5]

43. Figure 13 shows event cost at the Wembley by attendance.

FIGURE 9

Event cost, by attendance (Wembley)

[✂]

Source: CC analysis.
Note: Scatter includes only event days with one performance per day and an attendance up to 12,525 and does not include 'Other income' / 'Brent events' events.

44. Figure 13 shows that event costs increased with number of attendees. Increasing event costs can explain increasing venue hire fees to some extent. We reviewed margins to assess if the increase of venue hire fees could be explained by increasing event costs.

45. Figure 14 shows margins (percentage) at the Wembley by attendance.

FIGURE 10

Margin (percentage), by attendance (Wembley)

[✂]

Source: CC analysis.
Note: Scatter includes only event days with one performance per day and an attendance up to 12,525 and does not include 'Other income' / 'Brent events' events. [✂]

46. Figure 14 shows that the percentage margin increased with attendance. This suggests that higher prices for larger events could not be fully explained by increasing costs, for the same reasons as outlined in paragraph 45.

[5] [✂]

Spillover effects—constraints on price and non-price factors

1. In our definition of the relevant markets in Section 7 we considered the interaction between the supply of entertainment, sponsorship and catering space to different customers within the same venue.

2. We recognized the possible existence of 'spillover effects' between the various revenue sources generated in each of the markets at a venue. Spillover effects occur if a reduction in volumes in one market (eg due to a price increase or a reduction in quality) leads to a decrease in volumes, and thus profits, in another market.

Critical loss analysis

3. We performed a CLA to examine the number of lost events, or the proportion of lost attendance at each venue, that would cause a net reduction in profits, in the following two scenarios:

   (a) a 5 per cent increase in the venue hire fee;[1] and

   (b) a reduction in quality at the venue (to achieve a 5 per cent saving on total costs[2]).

4. We consider these two scenarios because competition can in principle take place to some extent through prices (scenario (a)), *and* more importantly, through non-price factors (scenario (b)).

5. We calculated the number of events or the proportion of attendance which, if lost, would make the price increase or the cost saving unprofitable. We calculated both the number of events and the proportion of attendance because we considered that each scenario could result either in promoters switching their events to other venues, or a reduction in the number of people wishing to attend events.

6. At The O2, we calculated two versions of the CLA:

   (a) with reference to all events held at The O2; and

   (b) excluding events with attendance greater than 12,500.

7. We repeated the analysis excluding events with attendance greater than 12,500 because, for these events, The O2 is already the only indoor venue in London with sufficient capacity to stage the event. Therefore The O2 currently faces little or no competition for these events from other London venues.

8. We did not calculate the impact of a 5 per cent reduction in costs excluding events with attendance greater than 12,500 as we did not have an appropriate basis to allocate overhead costs between events of different sizes.

9. At Wembley, we also calculated two versions of the CLA:

---

[1] A price increase of 5 per cent was chosen to provide an illustrative example. We note that the Guidelines do not specify the appropriate percentage change to use to test for an SLC.

[2] A 5 per cent cost saving was chosen to provide an illustrative example. We note that a 5 per cent cost saving is not equivalent to a 5 per cent price increase, and in both cases the Guidelines do not specify the appropriate percentage change to use to test for an SLC.

(a) using Wembley's existing business model; and

(b) using the proposed business model for Wembley reflected in AEG's business plan for Wembley.

10. We used AEG's business plan for Wembley as AEG told us, and third parties consistently said that they expected, that AEG would change the business model at Wembley under its management. Therefore, we examined whether the change in business model would affect the results of our CLA.

Summary of the results of our CLA

5 per cent increase in the venue hire fee

11. Table 1 summarizes the results of our CLA using a 5 per cent increase in the venue hire fee:

TABLE 1 **Results of critical loss analysis in relation to a price increase**

	The O2			*Wembley*		
A 5% price increase would be unprofitable if:	*All events*	*Excluding events >12,500 capacity*	*Ref*	*Current business model*	*Business plan*	*Ref*
Lost # events	[✂]	[✂]	Table 3	[✂]	[✂]	Table 5
Lost % events	[✂]	[✂]	Table 3	[✂]	[✂]	Table 5
Lost # attendance	[✂]	[✂]	Table 4	[✂]	[✂]	Table 6
Lost % attendance	[✂]	[✂]	Table 4	[✂]	[✂]	Table 6

Source: CC analysis of AEG and Wembley Arena data.

Note: In this table and throughout our CLA analysis, the number of lost events has been rounded up.

The O2

12. We found that, at The O2 a 5 per cent increase in the venue hire fee would be unprofitable if the venue lost either [✂] events ([✂] per cent), or [✂] per cent of its total annual [✂].

13. Excluding events with a capacity above 12,500, [✂], we found that The O2 would need to lose [✂] events ([✂] per cent), or [✂] per cent of the total annual [✂] at these events before a 5 per cent increase in venue hire fee would be unprofitable (due to lower attendances and ancillary incomes generated by lower capacity events).

Wembley

14. Under the existing business model at Wembley, a larger number of events ([✂] events, or [✂] per cent of events) or larger percentage of total annual attendance ([✂] per cent) would need to be lost before a 5 per cent increase in the venue hire fee would be unprofitable. This is because, under the existing business model, venue hire income accounted for a much more significant proportion of total revenue than sponsorship or ancillary income.

15. However, if Wembley moved to the business model reflected in AEG's business plan—which would increase the importance of sponsorship income—a 5 per cent

price increase would be unprofitable with the loss of [✂] ([✂] per cent) events, or [✂] per cent of total annual attendance.

Reduction in quality at the venues

16. Table 2 summarizes the results of our CLA using a reduction in quality at the venue.

TABLE 2 **Results of CLA in relation to cost-saving as a result of quality reduction**

	The O2		*Wembley*		
	All events	*Ref*	*Current business model*	*Business plan*	*Ref*
Lost # events	[✂]	Table 7	[✂]	[✂]	Table 9
Lost % events	[✂]	Table 7	[✂]	[✂]	Table 9
Lost # attendance	[✂]	Table 8	[✂]	[✂]	Table 10
Lost % attendance	[✂]	Table 8	[✂]	[✂]	Table 10

Source: CC analysis of AEG and Wembley Arena data.

The O2

17. Our analysis calculated that a strategy of reducing the quality of The O2 (to achieve a 5 per cent saving on total costs) would be unprofitable if the venue lost [✂] per cent of its total annual attendance, as a result of fewer people attending events at the reduced quality venue.

Wembley

18. Under the existing business model applied at Wembley, a strategy of reducing the quality of the venue (to achieve a 5 per cent saving on total costs) would be unprofitable with a loss of [✂] per cent of total annual attendance, excluding the impact of any lost sponsorship. If we assume that sponsorship income is directly related to attendance, the critical loss would occur at [✂] per cent of total annual attendance.

19. Under AEG's business plan for Wembley, sponsorship income would be a much more important source of revenue. Using AEG's business plan for our analysis, the percentage of lost attendance that would make a strategy to reduce quality (to achieve a 5 per cent saving on total costs) unprofitable falls to [✂] per cent.

20. AEG's contract (with Quintain) to manage Wembley [✂].[3]

Limitations of our CLA

21. In using the results of our CLA to interpret the level of constraint on the merger venues as a result of spillover effects, we noted the following limitations:

    (a) This type of analysis is most useful when there is a single price, such that a price increase has to be imposed on all customers. This would be the case, for example, if all promoters paid the rate card, and this rate increased by 5 per cent. If promoters do not have an opportunity to negotiate discounts, then some of them might move their event elsewhere. However, in this case, it appeared that

[3] Further details of the management contracts between AEG and Quintain are included in Appendix C.

promoters were able to negotiate the venue hire fee (see Appendix F), discounting was prevalent and few promoters pay the full rate (see Appendix H). Therefore price increases could theoretically be targeted at those promoters who are less price sensitive, and who would therefore not switch their events as a result of the price increase. This limitation applies only to the CLA which considered an increase to the venue hire price, but not to the CLA which considered a reduction in venue quality.

(b) While the analysis showed that the loss of a very small number of events would make a price increase unprofitable, post-merger there were very few alternative options for medium-sized events and therefore we would expect switching away from The O2 and Wembley to be very low. This limitation applies in the case of both types of CLA that we performed.

Implications of the limitations to our CLA

22. With uniform pricing, the result of CLA can be interpreted as the number of events that would need to switch from the venue due to the uniform price increase, to make that price increase unprofitable. However, as a result of the first limitation, the venue operator would be able to use bilateral negotiations to target price increases to its less price-sensitive customers.

23. If the venue operator could target these customers perfectly, then non-uniform pricing could be used to increase venue hire fee income, without the loss of any events because the venue operator could withhold the price increase to any customer that would switch as a result.

24. If the venue operator could not target price increases perfectly to its less price-sensitive customers, it may fail to identify correctly some price-sensitive customers. In this case, the result of the CLA gives the number of events that would need to switch (due to not being identified by the venue operator as price sensitive) in order to make the price increase unprofitable.

25. Lost events could be those that switch to another venue, or those that (in the absence of a suitable alternative venue) do not go ahead at all, as a result of the price increase. The second limitation suggests that, since switching to other venues is limited (as evidenced by Appendix G), the event would be more likely not to go ahead at all (compared with a scenario where switching is more common).

Our CLA methodology

26. We performed critical loss calculations for both The O2 and Wembley (using booking data from 2011) to determine whether the different mix of revenue streams (venue hire, ancillary revenue, and sponsorship revenue) affected the level of critical loss, at each venue.

27. We have calculated critical loss both in terms of lost events, and in terms of lost attendance.

Lost events

28. Our analysis assumed that when faced with a price increase, a promoter would decide whether or not to remove all dates for an event from the venue, rather than stage the event with fewer dates. We considered that promoters would react in this way because:

(a) Events have fixed costs, such as the cost of setting up the stage and production, and the hire of the venue for a 'building' day.[4] Due to fixed costs, a promoter would generally expect to make a larger return on events with more event dates, assuming demand was sufficient to sell sufficient tickets for all dates. If the return on an event became unattractive to a promoter due to an increase in the venue hire fee, it would therefore be likely that the return would be even lower for a lower number of event dates.

(b) Larger venue hire discounts are available for events with more event dates (see Appendix H). Therefore, the venue hire price faced by the promoter would be likely to increase further if it reacted to the first price increase by proposing to reduce the number of event dates—because it is likely that any discount it was receiving for multiple dates would be reduced or removed.

29. We considered that a lost event would result in the venue operator losing the venue hire income, as well as (through 'spillover effects') ancillary revenues associated with the event, and potentially sponsorship revenue where this was related to the number of events held or the total annual attendance at the venue.

Lost footfall

30. As well as calculating the critical loss in terms of numbers of whole events that would need to be lost before a 5 per cent price increase would be unprofitable, we have also calculated the volume, and percentage, of footfall that would need to be lost.

31. This calculation assumes that the venues would not lose whole events, but that the volume of footfall at events would decrease as the venue hire fee increases. This could occur, for example, if the increased venue hire cost was passed through to consumers by promoters, such that consumers faced higher ticket prices for events.

32. However, it appears unlikely that an increase in the venue hire fee would lead to significantly lower attendance at events, even if the increase was passed through in full to ticket prices. The average cost of venue hire for a whole event is:

(a) £[✂] at The O2—for an average event with [✂] event days, and [✂] venue hire days; and

(b) £[✂] at Wembley—for an average event with [✂] event days, and [✂] venue hire days.

33. An increase of 5 per cent in venue hire fees would therefore increase total event costs to the promoter by:

(a) £[✂] at The O2; and

(b) £[✂] at Wembley.

34. If promoters were to pass through the whole of these cost increases to the ticket price faced by consumers, it would result in an increase in ticket prices of:

(a) [✂]p at The O2, which has an average event attendance of [✂]; and

[4] The time taken to install the stage and other production components of the event. This will often take up a significant part of the day, ensuring that no other events can be shown at that venue.

(b) [✂]p at Wembley, which has an average event attendance of [✂].

35. At The O2, the average ticket price during 2011 was £[✂]. An increase of [✂]p is equivalent to [✂] per cent.

36. A final ticket price increase of [✂] per cent would be unlikely to deter many consumers from attending events, and therefore would be unlikely to impact the total attendance at events.

Our CLA calculations

CLA for 5 per cent increase in venue hire fee

TABLE 3 **CLA for price increase—lost events at The O2**

		The O2 (2011)	*The O2 (2011) (excluding events with >12,500 attendance)*	*Source*
Excluding sponsorship income				
A	Annual number of events	[✂]	[✂]	AEG
B	Average days of venue hire per event	[✂]	[✂]	AEG
C	Average venue hire fee, per day (£)	[✂]	[✂]	AEG
D = (B*C)	Average venue hire fee, per event (£)	[✂]	[✂]	AEG
E = A*(D*5%)	Additional venue hire revenue from 5% price increase (£)	[✂]	[✂]	Calculation
F	Average ancillary income per event (£)	[✂]	[✂]	AEG
G	Average direct costs per event (£)	[✂]	[✂]	AEG
H = E/(D*1.05+F-G)	Number of events the venue would need to lose to make hire fee increase unprofitable	[✂]	[✂]	Calculation
Including sponsorship income				
I	Average event attendance	[✂]	[✂]	AEG
J	Total annual attendance	[✂]	[✂]	AEG
K	Attendance threshold before sponsorship rebates	[✂]	[✂]	AEG
L = J-K	Attendance lost before sponsorship threshold reached	[✂]	[✂]	Calculation
M†	Sponsorship income lost at threshold (£)	[✂]	[✂]	AEG
N = L/I	Number of events lost to reach threshold	[✂]	[✂]	Calculation
O = Min(H,M)	Number of events lost before venue hire fee increase is unprofitable	[✂]	[✂]	Calculation
P‡	Net profit impact at O events lost (£)	[✂]	[✂]	Calculation

Source: CC analysis of AEG data.

†[✂]
‡[✂]

TABLE 4 **CLA for price increase—lost attendance at The O2**

		The O2 (2011)	*The O2 (2011) (excluding events with >12,500 attendance)*	*Source*
Excluding sponsorship income				
A	Additional venue hire income from 5% price increase (£)	[✂]	[✂]	Calculation
B	Total annual attendance	[✂]	[✂]	AEG
C	Average attendance, event total	[✂]	[✂]	AEG
D	Average ancillary income, per event (£)	[✂]	[✂]	AEG
E = D/C	Average ancillary income, per attendee (£)	[✂]	[✂]	AEG
F = A/E	Attendance the venue would need to lose to make venue hire price increase unprofitable	[✂]	[✂]	Calculation
G = F/B	% attendance venue would need to lose to make venue hire price increase unprofitable (%)	[✂]	[✂]	Calculation
Including sponsorship income				
H	Attendance threshold before sponsorship rebates	[✂]	[✂]	AEG
I = B-H	Lost attendance before threshold	[✂]	[✂]	Calculation
J	Sponsorship income lost at threshold (£)	[✂]‡	[✂]‡	AEG
K = E*I	Ancillary income lost at threshold (£)	[✂]	[✂]	Calculation
L = Min (F,I)	Number of attendance venue would need to lose to make venue hire price increase unprofitable	[✂]	[✂]	Calculation
M = L/B	% attendance venue would need to lose to make venue hire price increase unprofitable (%)	[✂]	[✂]	Calculation
N = A-J-K†	Net profit impact at L attendance lost (£)	[✂]	[✂]	Calculation

Source: CC analysis of AEG data.

‡[✂]
†[✂]

TABLE 5 **CLA for price increase—lost events at Wembley**

		Wembley (2011)†	*Wembley (business plan, year 5 of 15)†*	*Source*
Excluding sponsorship income				
A	Annual number of events	[✂]	[✂]¶	Wembley
B	Average days of venue hire per event	[✂]	[✂]	Wembley
C	Average venue hire fee, per day (£)	[✂]	[✂]	Wembley
D = (B*C)	Average venue hire fee, per event (£)	[✂]	[✂]	Wembley
E = A*(D*5%)	Additional venue hire revenue from 5% price increase (£)	[✂]	[✂]	Calculation
F	Average ancillary income per event (£)	[✂]	[✂]¶	Wembley
G	Average direct costs per event (£)	[✂]	[✂]	Wembley
H = E/(D*1.05+F-G)	Number of events the venue would need to lose to make venue hire fee increase unprofitable	[✂]	[✂]	Calculation
		[✂]		
Including sponsorship income			[✂]	
I	Average event attendance	[✂]	[✂]¶	Calculation
J = A*I	Total annual attendance	[✂]	[✂]¶	Wembley
K	Total sponsorship income (£)	[✂]§	[✂]¶	Wembley
L = K/J	Implied sponsorship income per attendance (£)	[✂]	[✂]	Calculation
M = E/ (D*1.05+F-G+L*I)	Number of events the venue would need to lose to make venue hire fee price increase unprofitable	[✂]	[✂]	Calculation

Source: CC analysis of Wembley Arena data.

†[✂]
¶[✂]
§[✂]

TABLE 6 **CLA for price increase—lost attendance at Wembley**

		Wembley (2011)†	*Wembley (business plan, year 5 of 15)†*	*Source*
Excluding sponsorship income				
A	Additional venue hire revenue from 5% price increase (£)	[✂]	[✂]	Calculation
B	Total annual attendance	[✂]	[✂]‡	Wembley
C	Average attendance, event total	[✂]	[✂]‡	Calculation
D	Average ancillary income, per event (£)	[✂]	[✂]‡	Calculation, Wembley
E = D/C	Average ancillary income, per attendee (£)	[✂]	[✂]	Calculation
F = A/E	Attendance the venue would need to lose to make venue hire price increase unprofitable	[✂]	[✂]	Calculation
G	% attendance venue would need to lose to make venue hire price increase unprofitable (%)	[✂]	[✂]	Calculation
Including sponsorship income				
H	Total sponsorship income (£)	[✂]§	[✂]‡	Wembley
I = H/B	Implied sponsorship income per attendee (£)	[✂]	[✂]	Calculation
J = A/(E+I)	Attendance the venue would need to lose to make venue hire price increase unprofitable	[✂]	[✂]	Calculation
K = J/B	% attendance venue would need to lose to make venue hire fee increase unprofitable (%)	[✂]	[✂]	Calculation

Source: CC analysis of Wembley Arena data.

†[✂]
‡[✂]
§[✂]

CLA for reduction in quality (to achieve a 5% cost saving)

TABLE 7 **CLA for non-price factors—lost events at The O2**

		The O2 (2011)	*Source*
Excluding sponsorship income			
A	Total direct event costs (£)	[✂]	AEG
B	Total overhead costs (£)	[✂]	AEG
C = A+B	Total costs subject to saving (£)	[✂]	Calculation
D = C*0.05	5% cost saving (£)	[✂]	Calculation
E	Average venue hire fee per event (£)	[✂]	AEG
F	Average ancillary income per event (£)	[✂]	AEG
G	Average direct costs per event (£)	[✂]	AEG
H = E+F-G	Net lost income per lost event (£)	[✂]	Calculation
I = D/H	Number of events that would need to be lost to make cost saving unprofitable	[✂]	Calculation
Including sponsorship income			
J	Number of events lost to reach sponsorship rebate threshold	[✂]	Table 3
K	Sponsorship income lost at rebate threshold (£)	[✂]	AEG
L = J*H	Other revenue lost at threshold (£)	[✂]	Calculation
M = J+(D-K-L)/H	Number of events that would need to be lost to make cost saving unprofitable	[✂]	Calculation

Source: CC analysis of AEG data.

TABLE 8 **CLA for non-price factors—lost footfall at The O2**

		The O2 (2011)	*Source*
Excluding sponsorship income			
A	5% saving on total costs (£)	[✂]	Table 7
B	Total annual attendance	[✂]	AEG
C	Average ancillary income, per attendee (£)	[✂]	Table 4
D = A/C	Number of attendees that would need to be lost to make cost-saving unprofitable	[✂]	Calculation
E = D/B	% of annual attendance that would need to be lost to make cost-saving unprofitable (%)	[✂]	Calculation
Including sponsorship income			
F	Lost attendance before sponsorship rebate	[✂]	Table 4
G	Sponsorship income lost at threshold (£)	[✂]	AEG
H = F*C	Other revenue lost at threshold (£)	[✂]	Calculation
I = F+(A-G-H)/C	Number of attendees that would need to be lost to make cost saving unprofitable	[✂]	Calculation
J = I/B	% of annual attendance that would need to be lost to make cost-saving unprofitable (%)	[✂]	Calculation

Source: CC analysis of AEG data.

TABLE 9 **CLA for non-price factors—lost events at Wembley**

		Wembley (2011)†	*Wembley (business plan, year 5 of 15)‡*	*Source*
Excluding sponsorship income				
A	Total direct event costs	[✂]	[✂]	Wembley
B	Total overhead costs	[✂]	[✂]	Wembley
C = A+B	Total costs subject to saving	[✂]	[✂]	Calculation
D = C*0.05	5% cost saving	[✂]	[✂]	Calculation
E	Average venue hire fee per event	[✂]	[✂]	Wembley
F	Average ancillary income per event	[✂]	[✂]‡	Wembley
G	Average direct costs per event	[✂]	[✂]	Wembley
H = E+F-G	Net lost income per lost event	[✂]	[✂]	Calculation
I = D/H	Number of events the venue would need to lose to make cost saving unprofitable	[✂]	[✂]	Calculation
Including sponsorship income				
J	Average event attendance	[✂]	[✂]‡	Wembley
K	Implied sponsorship income per attendance (£)	[✂]§	[✂]	Table 6
L = J*K	Lost sponsorship income per lost event (£)	[✂]	[✂]	Calculation
M = D/(H+L)	Number of events the venue would need to lose to make cost saving unprofitable	[✂]	[✂]	Calculation

Source: CC analysis of Wembley Arena data.

†[✂]
‡[✂]
§[✂]

TABLE 10 **CLA for non-price factors—lost footfall at Wembley**

		Wembley (2011)†	*Wembley (business plan, year 5 of 15)*‡	*Source*
Excluding sponsorship income				
A	5% saving on total costs (£)	[✂]	[✂]	Table 9
B	Total annual attendance	[✂]	[✂]	Wembley
C	Average ancillary income, per attendee (£)	[✂]	[✂]	Table 6
D = A/C	Number of attendees that would need to be lost to make cost-saving unprofitable	[✂]	[✂]	Calculation
E = D/B	% of annual attendance that would need to be lost to make cost-saving unprofitable (%)	[✂]	[✂]	Calculation
Including sponsorship income				
F	Implied sponsorship income per attendee (£)	[✂]§	[✂]	Table 6
G = A/(C+F)	Number of attendees that would need to be lost to make cost saving unprofitable	[✂]	[✂]	Calculation
H = G/B	% of annual attendance that would need to be lost to make cost-saving unprofitable (%)	[✂]	[✂]	Calculation

Source: CC analysis of Wembley Arena data.

†[✂]
‡[✂]
§[✂]

Vertical foreclosure

Vertical effects in promotion

Ability to foreclose

1. We considered whether AEG would have the ability to foreclose rival promoters from a substantial part of UK promotion activity.

2. Following the merger, AEG would have the ability to foreclose rival promoters from London indoor entertainment venues with capacity over 5,000. We were told by third parties that London was an important part of many UK/global tour routings, which indicates that the ability to secure London venues may be paramount for many promoters.

Incentive to foreclose

3. We considered whether AEG had a profit incentive to foreclose rival promoters. It would have an incentive if the profits that it lost in venue hire to other promoters' acts were recuperated through additional profits from additional tours won from rival promoters.

4. We performed an analysis to assess whether AEG would have an incentive to foreclose non-AEG promoters at The O2 and Wembley.

5. We calculated the profit impact on AEG, in terms of lost venue profits, of foreclosing all non-AEG promoters at The O2 and Wembley. We assumed that events previously promoted by non-AEG promoters would no longer take place at The O2 or Wembley—because foreclosed promoters would move their acts to play at other venues.

6. We then calculated how many new UK tours AEG Live would need to win, as a promoter, in order that the promoter and venue profits from new tours would exceed the profit lost by foreclosing other promoters at The O2 and Wembley.

7. We assumed that:

   (a) each new tour would have a London leg, and that it would take place at The O2;[1]

   (b) each additional tour would perform for an average of 2.1 event dates at The O2;[2]

   (c) each tour performing at The O2 would generate venue profits for AEG of £[✂] per event date;[3] and

   (d) each additional tour would generate promoter profits for AEG Live of £[✂].[4]

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[1] Our analysis assumes that tours won by AEG perform at The O2. The O2 has higher per tour venue profit than Wembley Arena. The average venue profit per tour at The O2 was £[✂] in 2011. At Wembley Arena the average venue profit per tour was £[✂] over the same period. Using this assumption gives the lower bound of the number of new tours AEG Live would need to win to recoup lost profits through foreclosure. If some of the new tours played a London leg at Wembley Arena, the venue profits from those events would be lower, and AEG Live would need to win a greater number of new tours.
[2] The O2 booking data, average number of event days per event.
[3] The O2 booking data, average venue profit per event day.
[4] From AEG Live UK's 2011 budget.

8. The calculations we performed are set out in Table 1.

TABLE 1 **Analysis of AEG's incentive to foreclose other promoters at The O2**

	Profits lost by foreclosing non-AEG promoters†		*Source*
A	The O2 venue profits from non-AEG Live promoted events, 2011‡ (£)	[✂]	AEG
B	Wembley venue profits from non-AEG Live promoted events, 2011 (£)	[✂]	Wembley Arena
C = A + B	Lost venue hire profits from total foreclosure (£)	[✂]	Calculation
	Promoter profits per tour won (before overheads)		
D	Promoter profits per tour (£)	[✂]	AEG
	Venue profits per tour won (before overheads)		
E	Average venue profit at The O2 per event day (£)	[✂]	AEG
F	Average number of tour dates at The O2	[✂]	AEG
G = E * F	Average venue operator profit per additional tour at The O2 (£)	[✂]	Calculation
H = D + G	Total regained profit per new tour won by AEG Live (£)	[✂]	Calculation
I = C / H	Number of additional tours required to make foreclosure strategy profitable	[✂]	Calculation
J	Number of AEG Live tours in UK in 2011 (2012)	[✂]	AEG

Source: AEG.

†We have calculated the profits lost at The O2 and Wembley as a result of foreclosing non-AEG Live promoters. We have excluded the potential loss of profits, which could be lost if the same promoters withdrew from other AEG venues in the UK or globally in retaliation (see Appendix N).
‡Excludes Marshall Arts, in which AEG Group companies have a [✂] per cent shareholding.

9. Our analysis showed that if AEG refused to give non-AEG promoters access to The O2 and Wembley Arena, it would lose venue profits of £[✂] million at The O2 (Row A), and £[✂] million at Wembley (Row B)—a total of £[✂] million (Row C) (based on 2011 data), which was generated from those promoters' events.

10. We calculated how many new tours AEG Live would need to win, as a promoter, in order to gain at least £[✂] million profit. We found that, in 2011, AEG Live's average profit contribution per tour promoted was £[✂] (Row D). We assumed that AEG would route the London leg of the new tours through its most profitable venue (The O2), where we calculated from 2011 booking data that the average tour contributed £[✂] profit to the venue operator (Rows E to G). We therefore estimated that each new tour gained would make a profit contribution of £[✂] (Row H).

11. We estimate that AEG Live would need to win an additional [✂] tours (Row I) in order to make a strategy of foreclosing other promoters at The O2 and Wembley profitable.

12. In 2011, AEG Live promoted [✂] tours in the UK, and [✂] in 2012 (Row J). AEG would need to win new business equivalent to more than twice the level of its existing business in 2012 in order for a foreclosure strategy to be profitable.

13. Our analysis suggested that it was unlikely that AEG would be able to profitably apply a strategy to foreclose other promoters from The O2 and Wembley.

Sponsorship

1. In this appendix we briefly describe the market for sponsorship and the forms this can take.

Background

2. In 2011, the European sponsorship market was estimated at more than €27 billion, and an estimate for global sponsorship was projected to be more than $50 billion. In 2012, the UK accounted for approximately 20 per cent of global sponsorship deals.

3. Sport was the most heavily sponsored industry, accounting for over 80 per cent of all reported sponsorship contracts and value. In 2012, there were around 2,000 sponsorship deals, ranging in value from tens of thousands to hundreds of millions of dollars. The average value (across a sample of about 55,000 deals) was about $44,500. The average length of sponsorship was about 2.4 years, though most deals are one year long with much a smaller number running for multiple years.

4. Venue sponsorship in the top 50 sponsorship deals accounted for around $75 million in 2012. Global venue sponsorship deals in 2012 were estimated to be around $535 million.

Types of sponsorship

5. The sponsorship market currently offers a wide range of opportunities and media through which impressions[1] can be achieved. These include:

   (a) paper based, including printed media such as newspapers and magazines;

   (b) television, radio and Internet, such as commercial breaks, sponsored programmes, and banner sponsors;

   (c) experiential sponsorship, such as hands-on experiences of products and services; and

   (d) out of home, such as billboards, posters, large screens, and buildings including venues, transport interchanges, shopping malls, and attractions.

Venue sponsorship

6. In this section we describe the two main types of venue sponsorship that currently exist at live entertainment venues: naming rights agreements and preferred suppliers for products and services:

   (a) Naming rights agreements, whereby the sponsor has their company name as, or integrated into, the venue name. Examples include:

      (i) O2 with ‘The O2’, ‘The O2 Arena’, ‘The IndigO2’ and other O2 Academy venues;

[1] The single display of a given advertisement.

(ii) Barclaycard with ‘Wembley Arena—A Barclaycard Unwind Experience’;

(iii) Emirates airline with ‘Emirates Stadium’, home of Arsenal Football Club;

(iv) Kia with ‘The Kia Oval’ cricket ground; and

(v) First Direct with the new ‘First Direct Arena’ in Leeds.

(b) Preferred suppliers for products and services, for example:

(i) Barclays Bank, official retail bank of The O2; and

(ii) ABInBev, official beer supplier for The O2.

Countervailing factors and barriers to entry

1. In this section of the appendix, we summarize recent examples of entry and expansion as well as those venues which are scheduled to open in 2013, first in London and second in the rest of the UK.

Recent examples of entry and expansion

London

2. The O2 was opened in June 2007. It has a maximum capacity of 20,000. AEG spent around £350 million converting the former Millennium Dome into The O2 Complex (including The O2). The cost of The O2 itself was approximately £235 million.

3. The 2012 London Olympics led to the construction of a number of publicly-funded indoor and outdoor venues. One of these, the Copper Box, will reopen as a venue in July 2013. It will have a capacity of 7,500. Its focus will be on sports events but it will be capable of hosting other entertainment events.

Rest of the UK

4. The Echo Arena and Convention Centre in Liverpool is an 11,000-capacity arena which opened in 2008. It cost £164 million to build and was financed through Liverpool City Council, English Partnerships, the NWDA[1] and ERDF[2] funding.[3]

5. The First Direct Arena in Leeds is due to open in the summer of 2013. It has a 13,500 capacity (13,000 seated). SMG Europe said that it cost around £70 million to build and that Leeds City Council and Yorkshire Forward[4] contributed to the build cost.

6. The Hydro in Glasgow is a 12,500-capacity (12,000 seated) arena due to open in September 2013.[5] It is reported to have cost around £125 million to build.[6]

Views of AEG and third parties

7. In this section, we summarize the views of AEG and third parties regarding the ease of entry and expansion and their estimates of the cost of entry.

AEG

8. AEG said that it was difficult but not impossible to acquire land with planning permission which was sufficiently well connected to a metropolitan area. It said that there had been several new entrants into the live entertainment venue market in the past

[1] The North-West Regional Development Agency.
[2] The European Regional Development Fund.
[3] Source: Echo Arena website.
[4] Yorkshire Forward was the regional development agency for the Yorkshire and the Humber region of the UK. It was abolished on 31 March 2012 following the public spending review of 2010.
[5] Source: Clyde Waterfront website.
[6] Source: Clyde Waterfront website.

few years. The Hydro in Glasgow and the First Direct Arena in Leeds were examples of complete or near-complete arenas in 2013.

9. AEG said that generally, existing venues faced low barriers with respect to expanding their focus. For example, Alexandra Palace had shifted focus to core music events and [✂].

10. AEG said that the Copper Box was an example of a potential new entrant in London, which would provide an alternative venue with a capacity of 7,500. It said that the Copper Box's website advertised itself as the third largest Arena in London, which will be available to host a variety of sporting and non-sporting activities including international, national and regional sporting events, plus a range of non-sporting events such as concerts, conferences, exhibitions and shows.

11. AEG said that the cost of a new arena could be quite low and cited the Ziggo Dome in Amsterdam, an arena with a 15,000 capacity which opened in June 2012 at a cost of €70 million.

Views of third parties

12. The Royal Albert Hall said that it was highly unlikely that a new large arena would be built in London because the costs were so significant. The only way it could possibly be done would be as part of a huge mixed development, possibly including some public subsidy (for example, a site such as Battersea Power Station).

13. SMG Europe said that it had been looking to establish a presence in London. It believed that the lack of suitable available sites in London meant that this was most likely to be through a contract to manage an existing venue rather than establishing a new or converted facility.

14. SMG Europe also told us that it had looked at the Copper Box in London but had discounted this option because it was not a purpose-built venue for concerts and conversion would be very expensive. It also said that the legacy requirements were significant, which further detracted from its viability as a commercial venue.

15. Live Nation estimated the cost of a new build arena at £100 million—excluding land acquisition—which it considered was a significant barrier to entry. It said that the lack of a return on an arena build was such that construction was not viable without government subvention (eg the recent new arenas in Glasgow and Leeds). In its view, local authorities only looked to add amenities where they did not exist and this made new arenas most unlikely in London because two already existed (Wembley and The O2).

16. Live Nation said that new arena schemes had been on the drawing boards for Edinburgh, Bristol, Brighton and Cardiff for many years. However, they had not been developed because no commercial operator was likely to be able to commit the capital needed to fund an arena. It also said that the London arena market was not in expansion and that London was about to lose one of its historic venues, Earls Court, to redevelopment.

17. London Legacy Development Corporation (LLDC) said that it currently owned only one indoor venue which was relevant, the Copper Box (capacity 7,500), which would open in July 2013. It said that the primary focus of the Copper Box would be sporting activity but that it was also capable of hosting concerts, comedy shows and some corporate activities.

18. LLDC said that, for music events, the Copper Box might compete with other mid-sized venues, such as the Royal Albert Hall and Hammersmith Apollo, but it lacked some of the facilities these venues could offer to promoters. It said that, although discussions with a range of promoters had taken place, no music/entertainment events had been confirmed to date.

19. LLDC also said that it had scoped the idea of a 'Pavilion' (temporary structure) in the Olympic Park, which could act as an indoor venue capable of hosting live entertainment, community and corporate activities. The capacity of this temporary structure would be around 5,000. The structure was currently subject to licensing and other permissions and it was uncertain whether it could host live entertainment events.

20. LLDC said that many venues, including indoor, were under-utilized and there was spare capacity around London and elsewhere because there was not enough artistic content available.

21. Pucka Entertainment Limited,[7] a sports promoter, said that the cost of building a new arena in London, excluding land purchase costs, would be in the region of £200 million. It said that the Nottingham arena (capacity 7,000), which hosted the Panthers ice hockey team, was given a free grant of city centre land and cost £50 million to build in 2000. It said that in Europe it was not unusual for new arenas to cost between £400 and £500 million.

22. Pucka Entertainment Limited said that access to good transport links was critical in London, which significantly reduced the availability of suitable sites. To convert an existing building into an arena would also be a very expensive proposition and was therefore highly unlikely to occur.

23. The Roundhouse said that while the music industry was buoyant, it believed that London had enough live venues. It cited The Troxy, an east London venue with a similar capacity of about 2,000 that had not been able to book high-profile shows.

24. The Roundhouse told us that it cost £32 million in 2006 to redevelop its venue. It estimated the cost of building a new arena in excess of £200 million.

25. Quintain told us it had invested around £35 million to reconfigure and refurbish Wembley in 2005/06.

26. None of the other third parties that we spoke to expected any significant entry or expansion in live entertainment venues in London.

Our assessment of the likelihood of entry or expansion

27. The cost of building a new venue or converting an existing one is substantial. Estimates ranged from £50 million to £200 million for a new build (excluding the cost of the land) and £30 million to £235 million for a redevelopment.

28. We considered that many of the examples of cost estimated by parties were likely to be conservative as they often related to arenas outside London; building and/or conversion costs are likely to be significantly more expensive in London than elsewhere in the UK. In addition, the price of acquiring suitable land was also likely to be substantially higher in London than elsewhere in the UK.

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[7] Pucka Entertainment Limited, an event organizer and sports promoter, primarily for the football industry. It promotes Masters Football events.

29. In addition, our view was that there was less likelihood of a public subsidy being available for a new live entertainment venue in London because such facilities already exist. As a result, it was more likely that any new entrant in London would have to fund privately the substantial cost requirements of entering the market.

30. It is difficult to estimate the cost of acquiring suitable land and constructing a new large indoor arena in a well-connected area of London. The cost of converting the Millennium Dome was probably the most relevant benchmark. However, even if we assumed that the cost would be 50 per cent lower than this (£117.5 million), we considered that the level of investment required represented a substantial barrier to entry.

31. We considered that the cost of converting of an existing facility in London would vary considerably depending on the venue. It could be a less costly process if undertaken by the owners of an existing facility, principally as there would be no need to purchase land. However, our view was that it was still likely to involve a very significant expense (perhaps a minimum of tens of millions of pounds). We believed that the most relevant evidence in this regard was the comments made by SMG Europe about the expense of converting the Copper Box in London (see paragraph 14) as well as the cost of renovations (not full conversions) to Wembley (£35 million in 2005/06—see paragraph 25) and The Roundhouse (£30 million in 2006—see paragraph 24).

32. We considered that any conversion was likely to have to compete on a commercial basis against alternative uses, such as mixed use redevelopment including residential housing. We noted, for example, that the Earls Court redevelopment involved the construction of a new retail space as well as 7,500 new homes.[8]

Availability of sites and regulatory requirements

33. Our view was that it was not simply the cost of a suitable site in London which represented a barrier to entry: finding a suitable site would also be difficult. We considered that it would be difficult to acquire land with planning permission which was sufficiently well connected to a metropolitan area.

34. A site for a new or converted venue would need to be large, well connected to local public transport and stand a good chance of achieving planning permission. We considered that the number of sites in London meeting these criteria was likely to be low. The difficulty of being able to transport very large numbers of people to and from a venue regularly would be likely to rule out a large number of sites.

35. We noted that SMG Europe, a highly credible competitor, had been trying to enter the London market for some time but had been unable to do so due to the lack of available opportunities. Further, we were told that Cirque du Soleil had been unable to secure a permanent London home.

36. We considered that regulatory requirements, such as licences and planning permissions, did not represent the most significant barrier to entry or expansion, but were nevertheless likely to cause further issues for an entrant.

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[8] Source: myearlscourt.com.

Credibility with agents and promoters

37. We found that there were a number of factors which artists, agents and promoters took into account when choosing a venue, including: characteristics of the event; ambience ('look and feel') acoustics; reputation; facilities; capacity; and the availability of the venue at the time required by the show/tour schedule.

38. We believed that a newly-built or converted venue would initially be required to establish its reputation in many of these areas. Existing venues may initially hold a 'novelty value' advantage over a new entrant, which would not have an established reputation with artists, agents, promoters or the public.

39. To attract acts, however, it would be necessary for a new entrant to build relationships and establish its reputation, most notably with agents and promoters. As well as time, this would probably initially require the new venue to offer significant discounts, risk sharing with promoters or even free venue rental hire in order to attract acts.

40. We considered that the process of building credibility with agents, promoters and the public would be achievable for a venue with attractive characteristics. This was because the characteristics of a new venue would be the most important factor considered by an agent or promoter. This view was shared by The Roundhouse which said that The O2 had benefited from being a new venue which artists had wanted to play at the expense of Wembley. AEG also said that it would not take long to build a positive reputation as a venue among promoters, artists and agents if one was able to provide a positive experience or a proposition that was not yet available to the end-consumer. We therefore thought that building credibility for a venue, as long as it had attractive characteristics, was unlikely to represent a significant barrier to entry.

Multiple promoter interactions

1. Table 1 below lists in detail all promoters with events at The O2 in 2011, showing if a promoter promoted small, medium and/or large events at The O2, if a promoter was a repeat customer at The O2 and if a promoter was involved with other AEG venues.

TABLE 1 **Promoters and events by event size**

Promoter	*Small events*		*Medium events*		*Large events*			
	Number of events days	*Share of event days %*	*Number of events days*	*Share of event days %*	*Number of events days*	*Share of event days %*	*Repeat customer**	*Other AEG venue customer†*
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AEG.

*If the promoter also promoted events at The O2 in 2010 and/or 2012, then it is considered to be a returning promoter over time.
†Events at Hammersmith Apollo, IndigO2 or other AEG venues outside of the UK promoted by the same promoter in 2010 to 2012 have been identified.
Note: Small events have an event day attendance below 5,000, medium events have an event day attendance between 5,000 and 12,500 and large events have an event day attendance above 12,500.

The O2 complex

1. The O2 complex, previously the Millennium Dome, is a 113,300 square metre (28-acre) development located in north Greenwich, east London, near the River Thames, which opened in June 2007. The O2 complex comprises:

   (a) The O2;

   (b) IndigO2 (live music club);

   (c) the Entertainment District;

   (d) a Cineworld multiplex cinema;

   (e) the O2 Bubble (exhibition centre, currently hosting the British Music Experience); and

   (f) Building 6 (a flexible live entertainment and conferencing venue[1]).

2. Figure 1 shows a map of the complex.

[1] Proud2 has been replaced by Building 6.

FIGURE 1

The O2 complex

Source: The O2 website.

3. Table 1 shows a list of facilities at The O2 complex that corresponds with Figure 1 above.

TABLE 1 **List of facilities at The O2 complex**

2	American Bar & Grill/Alphabet City	1	The O2 Box Office
6	Gaucho	3	Sky Gallery
9	Pizza Express	4	Starbucks
10	Jimmy's World Grill & Bar	5	O2 Shop
11	Armadillo	7	indigO2
13	Union Square	8	indigO2 Box Office
14	Garfunkels	12	The O2 Angels
15	Thai Silk	20	Cineworld
16	The Slug & Lettuce	29	Nissan Innovation Station
17	Rodizio Rico	30	O2 Guru Truck
18	Frankie & Benny's	31	Starbucks
19	Wasabi	33	Proud2
21	TGI Friday's	34	Proud2 VIP Entrance
22	INC Club	35	The O2 bubble
23	GBK	36	British Music Experience
24	Water Margin	37	me@sony
25	Zizzi		
26	Nando's		
27	Cheyenne Spur Grill & Steak		
28	Las Iguanas		
32	Harvester		

Source: The O2 website.

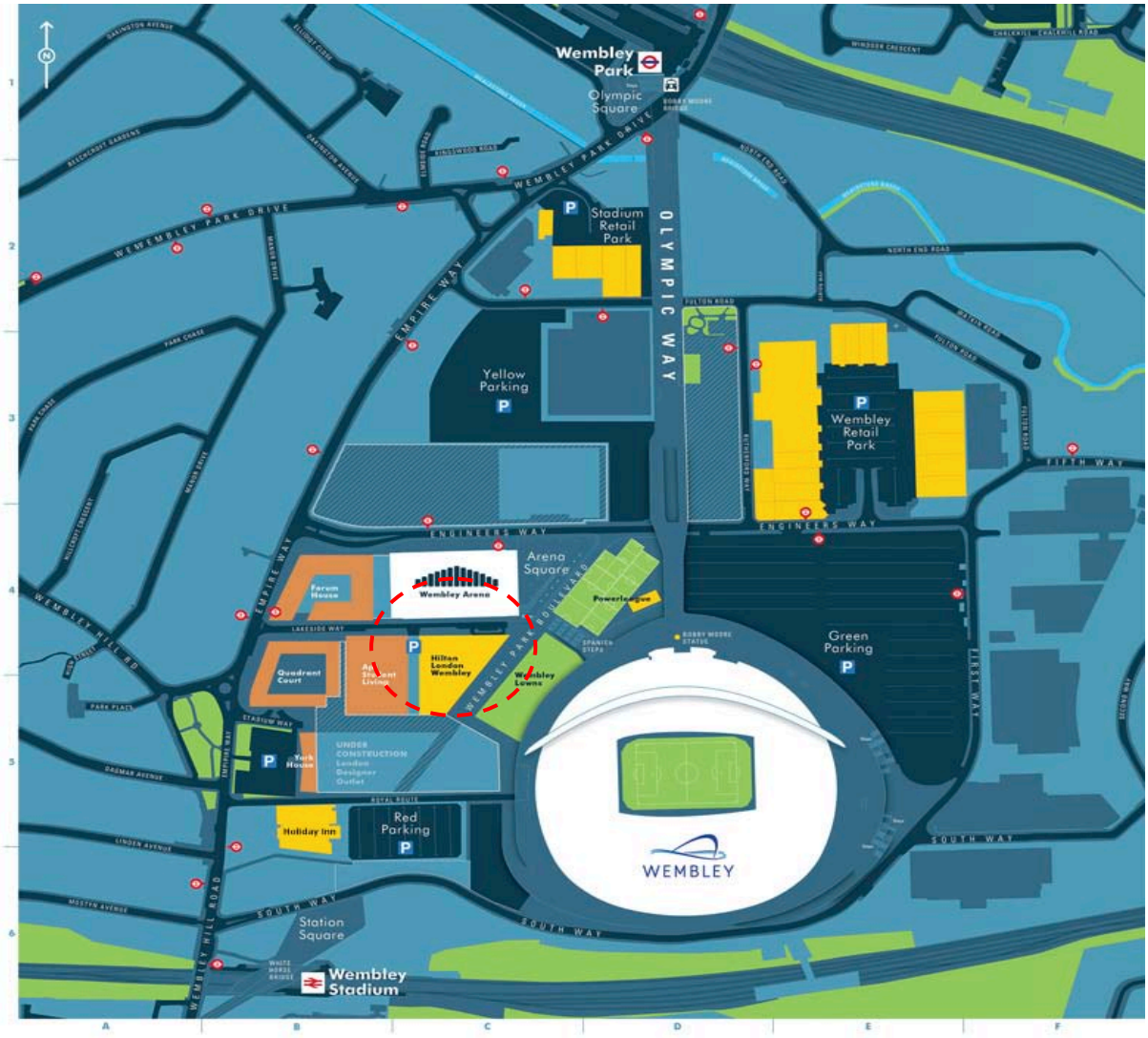
Wembley complex

1. Wembley Arena (Wembley) is an entertainment venue located in Wembley, in north-west London. Wembley is located adjacent to Wembley Stadium. The two venues are separated by Arena Square.

2. Figure 1 shows a map of the Wembley complex:

FIGURE 1

The Wembley complex



Source: Wembley City website.

3. Table 1 shows a list of facilities at the Wembley complex that corresponds with Figure 1.

TABLE 1 **List of facilities at the Wembley complex**

Street finder

E2	Albion Way
C4	Arena Square
A1	Beechcroft Gardens
D1	Bobby Moore Bridge
F1	Chalkhill Road
A5	Dagmar Avenue
B1	Elliot Close
C1	Elmside Road
B4	Empire Way
C4	Engineers Way
F3	Fifth Way
F4	First Way
D2	Fulton Road
A4	High Street
A4	Hillcroft Crescent
C1	Kingswood Road
B4	Lakeside Way
A5	Linden Avenue
A3	Manor Drive
A6	Moysyn Avenue
E2	Noreth End Road
B1	Oakington Avenue
D1	Olympic Square
D2	Olympic Place
A3	Park Chase
A5	Park Place
B5	Royal Route
D3	Rutherford Way
F5	Second Way
B6	South Way
D4	Spanish Steps
B5	Stadium Steps
B6	Station Square
F2	Watkin Road
A2	Wembley Hill Road
C4	Wembley Park Boulevard
C2	Wembley Park Drive
B6	White Horse Bridge
E1	Windsor Crescent

Landmark finder

B5	Apt Student Living
D4	Bobby Moore Statue
B4	Forum House
C4	Hilton Wembley London
	- Association Restaurant
	- Icons Bar
	- TGI Fridays
D4	Powerleague
B4	Quadrant Court
	- Tesco Express
D4	Spanish Steps
D2	Stadium Retail Park
	- Currys
	- JD Sports
	- Lidl
	- Maplin
	- McDonalds
C4	Wembley Arena
	- Arena Restaurant
C4	Wembley Lawns
B5	Wembley Plaza Hotel
D5	Wembley Stadium
	- Club Wembley Entrance
	- Wembley Stadium Main Entrance
	- Wembley Stadium Ticket Office
	- Wembley Stadium Tour / Store
E3	Wembley Retail Park
	- Alison
	- Carpetright
	- Dreams
	- Halfords
	- Harveys
	- Joysleep
	- Moore Spice
	- Wicks
B5	York House

4. Wembley has a maximum capacity of 12,525. The seating arrangements can be modified to accommodate standing or seated events and smaller events (some of the seating is retractable). For example:

   (a) fully seated configuration: 9,000; and

   (b) maximum standing configuration: 12,525.

5. Wembley includes a hospitality suite with 200 seats, which is open on arena event days and is available for private hire.

6. Wembley has four small backstage bars but does not include any other entertainment facilities for customers.

Glossary

3A	3A Entertainment Ltd. A UK-based live music promotion company.
Act	The individual or group performing. A synonym for **artist** but often used where more than one person is performing.
AEG	Anschutz Entertainment Group Incorporated. A US-based owner and operator of sports and entertainment **venue**s, live entertainment promoter AEG Live, ticket agent AXS.com, and owner of sports teams in the USA and Europe. A wholly-owned subsidiary of the **Anschutz Company**.
AEG Live UK	AEG Live (UK) Limited. It operates **AEG**'s event promotions business in the UK. A wholly-owned subsidiary of **AEG Live USA**.
AEG Live USA	AEG Live LLC. The global promotion arm and a wholly-owned subsidiary of **AEG**.
AEG UK	AEG Facilities UK. Provides consultancy services to **venue**s in Glasgow, Brussels, Barcelona, Rotterdam and Moscow, as well as managing **Wembley**. A wholly-owned subsidiary of **AEG**.
AEG Facilities USA	AEG Facilities LLC. Manages AEG's venues around the world either directly or through subsidiaries. 51 per cent owned by **AEG**, 49 per cent owned by Facilities Holdings, an investment vehicle of Investment Compass Group.
Agent	Person or company who represents the interests of an **artist** or **act** in dealings with a **promoter** of live entertainment events.
Agreement	Fifteen-year management agreement between **AEG UK** and **WCEL**.
Alexandra Palace	An iconic Victorian palace and **venue** in north London.
AMG	Academy Music Group Limited. A UK owner and operator of live music **venue**s, co-owned through its holding company, Academy Music Holdings Limited, by **Live Nation-Gaiety**, Bob Angus (owner of **Metropolis**) and Simon Moran (owner of **SJM**).
Anschutz Company	US majority owner of AEG LLP, in partnership with Facilities LLP (Compass Group).
Ansco	Ansco Arena Limited. The UK parent company of **The O2.**
Arena	Indoor **venue** normally with a capacity above 5,000 spectators which can be configured for a wide range of types of event and audience size, whether seated or standing, and not limited to live music.
Artist	The individual or group performing. A synonym for **act** but often used where only one person is performing.
AXS	AXS.com. A ticket agent and wholly-owned subsidiary of **AEG**.

Booking fee	A fee paid by the consumer to the **ticket agent/venue** for the arrangement of a booking (also referred to as the **service charge**).
Build day	A period when a production is being constructed before or de-constructed following an event.
CC	Competition Commission.
CCP	Credit card processing. A fee payable by a merchant to a credit card company for transactions with consumers using a credit card.
COI	Contractually obligated income, constituting revenue from sponsorship agreements, naming rights agreement, third party leases, suite licences and VIP club seat licences.
Convenience fee	See **booking fee**.
Dark night	An evening when a **venue** has no event.
Disney on Ice	An ice-based production, promoted by **Feld Entertainment**. A wholly-owned subsidiary of the Walt Disney Company.
Earls Court	A **venue** primarily involved in hosting exhibitions, owned by Earls Court and Olympia Limited.
EBITDA	Earnings before interest, tax, depreciation and amortization.
Eventim	Eventim UK. A London-based ticketing company and part of CTS EVENTIM AG, Europe's largest ticketing provider, operating in 20 countries.
Face value	The price printed on a ticket excluding all additional fees such as **facility fee**, credit card processing fee, **booking fee** and transaction/delivery fee.
Facility fee	A fee levied by a **venue** that is used to maintain the physical infrastructure of that **venue**. It is added to the overall ticket price as a part of the ticketing process.
Feld Entertainment	Promoter for **Disney on Ice** shows.
Festival	A large outdoor event featuring many **act**s/**artist**s over one or more days where the physical infrastructure is hired in and erected for the duration of the event.
Footfall	The number of visitors in attendance. Footfall is a key metric for the performance of sponsorship contracts.
Foreclosure	In the context of competition law, the closing of potential opportunities to actual or potential competitors by means of exclusivity arrangements (so that, for example, a party who agrees to purchase all his requirements for products of a particular range from one supplier denies other suppliers the opportunity of supplying him). There will be foreclosure where such arrangements make it difficult to enter the market and where there are no concrete

	possibilities for bypassing those arrangements, for example by acquiring or using other distribution formats.
Gaiety	Gaiety Investments Limited.
Genre	A broad category or class of live music.
Gigs&Tours.com	A ticketing service managed by **See Tickets** on behalf of **SJM Concerts** and **Metropolis Music**.
Guidelines, the	*CC2—Merger References: Competition Commission Guidelines*.
Hammersmith Apollo	A **venue** with about 3,000 capacity in London, owned by Stage C Ltd, jointly owned by **AEG** and **Eventim**.
Harvey Goldsmith	A **promoter** of live music in the UK and abroad.
HMV Group	Now known as HMV Retail Ltd. A British entertainment retailing company operating in the UK. In 2009 it purchased the live entertainment **MAMA Group**, though it sold the group in December 2012.
Hypothetical monopolist test	A test which is the generally accepted conceptual approach to market definition. It involves considering whether a hypothetical monopolist of a certain product or set of products, which might constitute a market, could profitably impose a small but significant non-transitory increase in price (see Part 2 of the **Guidelines**).
IndigO2	Small **venue** located within **The O2 complex**
Interim Agreement	Interim management agreement between **AEG UK** and **WCEL**.
Live Nation	Live Nation, Inc, a US-based operator of live music and theatrical venues in the USA and Europe and a worldwide **promoter** and producer of live entertainment events. The largest global producer and **promoter** of live music events.
Live Nation-Gaiety	Live Nation Gaiety Limited. Co-owned by **Live Nation** (via an intermediary holding company) and Gaiety. It owns or part-owns several subsidiaries including **AMG**, Festival Republic, DFC, Angel Festivals and Windfield Promotions.
MAMA Group	Mama Group plc. Owner and operator of live entertainment **venue**s. Owner of the Mean Fiddler live music promotion company.
Manager	Person who works closely with **artist**s to manage their careers, including negotiating with **agent**s.
Marshall Arts	A worldwide music concert and tour promotion company.
Metropolis Music	A UK live music **promoter**.
Mick Perrin Worldwide	A UK stand-up comedy **promoter**.

NEC	National Exhibition Centre Ltd. Owner of large multi-purpose **venue**s in Birmingham (including the National Indoor Arena), used for live music events and other events.
O2 Academy Brixton	A live music venue in south London with a capacity of about 5,000. A trading name of **AMG**.
O2 Shepherd's Bush Empire	A live music **venue** in west London with a capacity of 2,000. A trading name of **AMG**.
OFT	Office of Fair Trading.
Pencil	A tentative booking in the **venue**'s diary, usually made by the **promoter**.
Pencilling	The process by which a **venue** manages its event diary.
Processing charge	A fee paid for the delivery and/or fulfilment of an order of tickets. Also referred to as **transaction charge** or delivery charge.
Promoter	The person or company that arranges all aspects of an **artist**'s or **act**'s **tour** and guarantees the expected income levels.
Pubs and small clubs	**Venue**s with capacity of below 1,000.
Pucka Entertainment Limited	An event organizer and sports **promoter**, primarily for the football industry. It promotes Masters Football events.
Quintain	Quintain Estates and Development Plc, a property development company which owns **Wembley**.
Rate card	The list of advertised hire fees charged by a venue.
Royal Albert Hall	A live entertainment **venue** in London.
See Tickets	See Group Ltd. The second-largest **ticket agent** in the UK.
Self-ticketing	Practice where **venue**s operate their own ticketing system and sell tickets directly to consumers, rather than employing a **ticket agent** to do so on their behalf.
Service charge	A fee paid by the consumer to the **ticket agent/venue** for the arrangement of a booking (also referred to as the **booking fee**).
SJM	SJM Concerts Ltd, a UK live music promotion company.
SLC	Substantial lessening of competition.
SMG Europe	A **venue** operation and management company, with operations in the UK and around the world.
SMG	Scottish Media Group. Originally formed as Scottish Television, it changed its name to Scottish Media Group in 1996 when it acquired Caledonian Publishing.

Stadium	The largest type of permanent open-air **venue**, usually with capacities of above 50,000, used primarily for sport but also for live music and other events.
The Act	The Enterprise Act 2002.
The Agency Group	A worldwide live entertainment **agent** that represents wide variety of genres including rock, metal, reggae, folk, R&B, hip-hop, classical, and children's entertainment.
The Entertainment District	Surrounds **The O2** and comprises 22 bars and restaurants, a music club, a nightclub, an exhibition area, a multiplex 11-screen cinema and the British Music Experience (an interactive museum of popular music) plus other installations from time to time.
The O2	The O2 arena. A purpose-built indoor **arena** in south-east London offering a maximum seating capacity of 20,000.
The O2 complex	A large entertainment complex in south-east London, comprised of all the parts underneath the dome, including **The O2**, **IndigO2**, **The Entertainment District**, and other installations.
The Roundhouse	A live entertainment **venue** in London.
Ticket agent	Seller of tickets on behalf of another party, eg a **promoter** or **venue**.
Ticketmaster	Ticketmaster Entertainment, Inc. Ticketmaster is the largest **ticket agent** in the world (by tickets sold) and also the largest **ticket agent** in the UK. A wholly-owned subsidiary of Live Nation Entertainment.
Tour	A series of **concert**s in a number of different **venue**s.
Transaction charge	A fee paid for the delivery and/or fulfilment of an order of tickets. Also referred to as **processing charge** or delivery charge.
Venue	A permanent building either specifically designed or modified for live music events.
Waterfront	The Waterfront Limited Partnership, the leaseholder for **The O2 complex** and landlord to all its tenants.
WCEL	Wembley City Estates Limited, the owner of **Wembley**. A wholly-owned subsidiary of **Quintain**.
Wembley	The Wembley Arena. A live entertainment arena with a capacity of about 12,500 in north-west London.
Wembley Arena Business	**Wembley** and the staff working there.
Wembley Arena Unit	The **AEG** staff who provide support to the **Wembley Arena Business** as approved/derogated by the **CC**.
Wembley complex	A large complex in north-west London, comprised of **Wembley**, restaurants, designer outlet shopping and other installations.

Wembley Stadium	A large outdoor live entertainment **venue**, with a primary focus on sporting events. It forms part of the **Wembley complex**.