

Anticipated merger between Ladbrokes plc and certain businesses of Gala Coral Group Limited

Decision on relevant merger situation and substantial lessening of competition

ME/6556-15

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 11 January 2016. Full text of the decision published on 25 January 2016.

Please note that [X] indicates figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.

SUMMARY

1. Ladbrokes plc (**Ladbrokes**) and Gala Coral Group Limited (**Gala Coral**) have agreed the terms of a recommended merger of Ladbrokes with certain businesses of Gala Coral, including its Coral Retail, Eurobet Retail and Online business divisions (**Coral**) (the **Merger**). Ladbrokes and Gala Coral are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) considers that enterprises carried on by the Parties will cease to be distinct as a result of the Merger, that the turnover test is met and that accordingly arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. Ladbrokes and Coral overlap in the supply of betting and gaming products distributed through licensed betting offices (**LBOs**), by telephone, via online platforms, and at certain racecourses. Ladbrokes and Coral also overlap in the operation of greyhound tracks and in the supply of greyhound track meetings for the purpose of providing live coverage of greyhound races.
4. The Parties submitted a request for a fast track reference of the case to a phase 2 investigation and gave their consent to the use of the fast track procedure. The CMA commenced its phase 1 investigation on 16 December 2015 and issued an invitation to comment seeking views on the Parties' fast

track request. For a case to be fast-tracked, the CMA must, at an early stage of its investigation, have evidence objectively justifying the belief that the test for reference to phase 2 is met.¹

5. In the circumstances of the case, the CMA has focused its phase 1 investigation on whether the test for reference is met in relation to the supply of fixed odds betting products in LBOs. In light of the approach taken by the CMA's predecessor bodies in previous betting cases and the evidence submitted by the Parties, the CMA has assessed the impact of the Merger on the supply of fixed odds betting products in LBOs in local areas identified using radii of 200 metres, 400 metres and 800 metres around each of Ladbrokes' and Coral's LBOs.²
6. The CMA considers that Ladbrokes and Coral can and do vary some aspects of their offering in LBOs in response to variations in local competitive conditions. As such, there is a realistic prospect of a substantial lessening of competition in local areas where Ladbrokes' and Coral's LBOs compete closely and are insufficiently constrained by other competitors. The CMA has used the criteria applied in *Betfred/Tote* to identify such areas. Based on this assessment, the CMA believes that the Merger gives rise to a realistic prospect of a substantial lessening of competition in 798 local catchment areas where the Merger would result in a reduction of competing LBOs from two to one or from three to two.ⁱ
7. During the course of its investigation, the CMA received comments from third parties that raised other competition concerns regarding the Merger. Given that the CMA believes the test for reference is met in relation to the supply of fixed odds betting products in LBOs in a large number of local areas, it was not necessary for the CMA to reach a conclusion in relation to other potential competition concerns. Third parties will have an opportunity to fully present their views during the in-depth phase 2 investigation, which is not restricted to investigating the concerns identified in relation to fixed odds betting in LBOs in the local areas in relation to which the CMA believes that the Merger gives rise to a realistic prospect of a substantial lessening of competition.
8. As part of their request for a fast track reference, the Parties waived their procedural rights at phase 1, which included their right to offer undertakings in lieu of reference (**UILs**). As a result, the CMA has not considered UILs under section 73 of the Enterprise Act 2002 (the **Act**).

¹ *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, paragraph 6.62.

² See, in particular, the Office of Fair Trading's decision in the [completed acquisition by Lightcatch Limited \(trading as Betfred\) of Tote \(Successor Company\) Limited](#), 16 December 2011 (**Betfred/Tote**).

9. The CMA has therefore decided to refer the Merger pursuant to sections 33(1) and 34ZA(2) of the Act on 11 January 2016.

ASSESSMENT

Parties

10. Ladbrokes operates around 2,160 LBOs in Great Britain and 77 LBOs in Northern Ireland offering betting and gaming services, and provides on-course betting services at racecourses throughout the UK. Ladbrokes also offers betting and gaming services by telephone, online through its website and via mobile applications, as well as owning BetDAQ, an online betting exchange. In addition, as part of its betting and gaming business, Ladbrokes owns and operates two greyhound tracks (at Crayford in south east London and Monmore Green in Wolverhampton) and holds interests in Satellite Information Services Holdings Limited (**SIS**), Bookmakers Afternoon Greyhound Services Limited (**BAGS**), Greyhound TV Limited (**Greyhound TV**) and 49's Limited (**49's**). The turnover of Ladbrokes in the financial year ending 31 December 2014 was approximately £1,174.6 million worldwide and approximately £[X] in the UK.
11. Coral, comprising the businesses of Gala Coral to be merged with Ladbrokes, operates around 1,859 LBOs in Great Britain offering betting and gaming services, and provides on-course betting services at racecourses throughout England. Coral also offers betting and gaming services by telephone and online through its website and via mobile applications. In addition, as part of its betting and gaming business, Coral owns and operates two greyhound tracks (at Romford in north east London and Hove in East Sussex) and holds interests in BAGS, Greyhound TV and 49's. The turnover of Coral in the financial year ending 26 September 2015 was approximately £[X] worldwide and approximately £[X] in the UK.

Transaction

12. On 24 July 2015, the Parties announced that they had agreed the terms of a recommended merger of Ladbrokes with Coral, which as noted above comprises of certain businesses of Gala Coral, including its Coral Retail, Eurobet Retail and Online business divisions.³ On 24 November 2015, Ladbrokes' shareholders voted in favour of the Merger.⁴ Under the terms of the merger agreement, Ladbrokes will acquire the entire issued share capital

³ Ladbrokes and Gala Coral, '[Proposed Recommended Merger](#)', 24 July 2015.

⁴ Ladbrokes, '[Result of General Meeting](#)', 24 November 2015.

of the relevant holding company of Coral in consideration for which Ladbrokes will issue new ordinary shares to the shareholders of Gala Coral. Immediately following completion, which is conditional on, among other things, clearance by the CMA, Ladbrokes' shareholders would hold 51.75% and Coral's shareholders would hold 48.25% of the merged entity.^{5, ii}

13. Gala Coral announced on 21 December 2015 that it had completed the sale of its retail 'bricks-and-mortar' bingo business to Caledonia Investments plc and this is therefore not included in the Merger.⁶ Gala Coral's property companies are also not included in the Merger.⁷

Jurisdiction

14. As a result of the Merger, the enterprises of Ladbrokes and Coral will cease to be distinct. The UK turnover of Coral exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied.
15. The CMA therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
16. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 16 December 2015 and the statutory 40 working day deadline for a decision is therefore 15 February 2016.

Fast track reference

17. The Parties requested that the CMA make a fast track reference of the Merger for an in-depth investigation at phase 2 and gave their consent to use of the fast track procedure.
18. The Parties accepted that the conditions set out in paragraphs 6.61 to 6.65 of the CMA's guidance on jurisdiction and procedure⁸ are satisfied and that the test for reference under section 33 of the Act is met (ie that the CMA believes that there is a realistic prospect that the Merger will give rise to a substantial lessening of competition).
19. As part of the request, the Parties waived the procedural rights they would normally have during the phase 1 investigation and agreed that the CMA

⁵ Ladbrokes and Gala Coral, '[Proposed Recommended Merger](#)', 24 July 2015.

⁶ Gala Coral, '[Completion of disposal of Gala Bingo to Caledonia Investments plc](#)', 21 December 2015.

⁷ Ladbrokes and Gala Coral, '[Proposed Recommended Merger](#)', 24 July 2015.

⁸ [CMA2](#).

would not be required to follow all of the procedural steps it normally follows in cases that are referred for a phase 2 investigation.⁹

20. For the CMA to make a fast track reference, it must, at an early stage of its investigation, have evidence objectively justifying the belief that the test for reference to phase 2 is met.¹⁰
21. The CMA has considered the Parties' request and, for the reasons set out below, believes that the Merger gives rise to a realistic prospect of a substantial lessening of competition in one or more markets in the UK. The CMA has also had regard to its administrative resources and the efficient conduct of the case.¹¹ In light of these considerations, and in view of the fact that none of the third parties that responded to the CMA's invitation to comment raised an objection to the Parties' request, the CMA decided that it was appropriate to proceed with a fast track reference of the Merger to phase 2.

Counterfactual

22. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers the CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it considers that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions as between the merging parties.¹²
23. The Parties submitted that the Merger should be assessed using a counterfactual that takes into account the merger between Betfair Group plc (**Betfair**) and Paddy Power plc (**Paddy Power**) because this should be considered a parallel transaction on the basis that it cannot be clearly ruled out as too speculative.¹³
24. The anticipated merger between Betfair and Paddy Power was cleared by the CMA on 17 December 2015¹⁴ and was approved by the shareholders of both companies on 21 December 2015, with completion expected in the first

⁹ CMA2, paragraphs 6.61, 6.62 & 6.64.

¹⁰ CMA2, paragraph 6.62.

¹¹ CMA2, paragraph 6.65.

¹² *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.5. The *Merger Assessment Guidelines* have been adopted by the CMA (see, CMA2, Annex D).

¹³ *Merger Assessment Guidelines*, paragraphs 4.3.25 & 4.3.26.

¹⁴ *Anticipated merger of Betfair Group plc and Paddy Power plc*, 17 December 2015 (**Betfair/Paddy Power**).

quarter of 2016.¹⁵ Although completion of the merger between Betfair and Paddy Power remains subject to certain conditions, the CMA considers that there is a realistic prospect that it will go ahead.

25. The CMA has to consider whether the statutory test would be met whether or not the parallel transaction proceeds and must make a reference if either counterfactual suggests that the Merger gives rise to a realistic prospect of a substantial lessening of competition. Accordingly, the CMA has assessed the Merger against two alternative counterfactuals: one that assumes the merger between Betfair and Paddy Power proceeds and one that assumes it does not. However, as noted above, in view of the Parties' request for a fast track reference, the CMA has focused its phase 1 investigation on whether the test for reference is met in relation to the supply of fixed odds betting products in LBOs. Given that Betfair is only active online and does not operate any LBOs,¹⁶ the CMA's assessment of the impact of the Merger on local competition between LBOs was unaffected by the existence of the alternative counterfactuals.

Frame of reference

26. The CMA considers that market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merger parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.¹⁷
27. Ladbrokes and Coral overlap in the UK in:
- (a) the supply of betting products distributed off-course (in LBOs, via online platforms and by telephone) and on-course (through a presence at certain racecourses);
 - (b) the supply of gaming products, including casino games, slots games and bingo games, distributed through gaming machines (known as 'Fixed Odds Betting Terminals' (**FOBTs**)) within LBOs or via online platforms; and

¹⁵ Betfair, [Results of Court and General Meetings](#), 21 December 2015; Paddy Power, [2015 EGM information](#), 21 December 2015.

¹⁶ [Betfair/Paddy Power](#), paragraph 3.

¹⁷ [Merger Assessment Guidelines](#), paragraph 5.2.2.

- (c) the operation of greyhound tracks, with each of Ladbrokes and Coral owning and operating two greyhound tracks.
28. Ladbrokes and Coral do not have a vertical relationship and do not supply related products or services to each other. However, Ladbrokes and Coral overlap in the supply of greyhound track meetings for the purpose of providing live coverage of greyhound races to LBOs and online platforms, principally through BAGS, Greyhound TV and SIS. As noted above, Ladbrokes and Coral also each have an interest in 49's, which among other things supplies randomly generated numbers betting products for sale in LBOs.
29. Given the circumstances of this case and the Parties' request for a fast track reference, the CMA has focused its investigation at phase 1 on whether the test for reference is met in relation to the supply of fixed odds betting products in LBOs. The CMA has therefore considered the appropriate frame of reference for this area of overlap and has not found it necessary to conclude on the appropriate frame of reference for the other areas of overlap.

Product scope

30. The UK gambling industry has been considered a number of times in decisions by the CMA and its predecessors, the Office of Fair Trading (**OFT**), the Competition Commission (**CC**), and the Monopolies and Mergers Commission (**MMC**).¹⁸

Product types

31. In those previous decisions, the CMA, the OFT and the MMC concluded that betting is a separate market from gaming and other gambling activities.¹⁹ The Parties submitted that this distinction remains appropriate, given the difference in the customer experience between betting and gaming.
32. Previous decisions of the OFT and the MMC also identified separate markets within betting for fixed odds betting and pool betting.²⁰ Fixed odds betting

¹⁸ In relation to betting, see the CMA's decision in [Betfair/Paddy Power](#); the OFT's decisions in the [completed acquisition by William Hill plc of the licensed betting office business of Stanley plc](#), 1 August 2005 (**William Hill/Stanley**); the [completed acquisition by Hilton Group plc \(through Ladbroke Racing \(Reading\) Limited\) of Jack Brown \(Bookmaker\) Limited](#), 27 September 2005 (**Ladbrokes/Jack Brown**); the [completed acquisition by Ladbrokes plc of Eastwood Bookmakers](#), 16 April 2008 (**Ladbrokes/Eastwood**); the [completed acquisition by Ladbrokes plc \(through North West Bookmakers Limited\) of McCartan Bookmakers](#), 1 August 2008 (**Ladbrokes/McCartan**); and [Betfred/Tote](#); and the MMC's reports on [Grand Metropolitan plc and William Hill Organisation Limited](#), August 1989 (**Grand Met/William Hill**); and [Ladbroke Group plc and the Coral betting business](#), September 1998 (**Ladbrokes/Coral I**). In relation to gaming, see the CC's report on the [anticipated acquisition by The Rank Group plc of Gala Casinos Limited](#), 19 February 2013 (**Rank/Gala**).

¹⁹ For example, see [Ladbrokes/Coral I](#) (paragraph 2.63), [William Hill/Stanley](#) (paragraph 9), [Betfred/Tote](#) (paragraph 10), and [Betfair/Paddy Power](#) (paragraphs 31–33).

²⁰ See [Ladbrokes/Coral I](#) (paragraph 2.65) and [Betfred/Tote](#) (paragraphs 11–15).

refers to a situation where a bookmaker offers to bet with a customer on the outcome of an event on the basis of odds fixed at the time that the bet is placed. In other words, both the bookmaker and the customer can calculate in advance what they will win or lose on a bet in the event of a particular outcome. By contrast, in pool betting, all bets placed by customers in respect of a particular event go into a single pool of funds. The pool is then distributed to the holders of winning bets in proportion to their stakes, after a deduction by the pool operator to cover expenses and profit.

33. The Parties submitted that there are good reasons for the CMA to revisit the distinction between pool betting and fixed odds betting, in particular because the customer experience for both pool betting and fixed odds betting is very similar, but stated that doing so was not material to the competitive assessment given Ladbrokes' and Coral's limited presence in pool betting products.
34. In the circumstances of the case, the CMA has not found it necessary to conclude on the distinction between betting and gaming or, within betting, on the distinction between pool betting and fixed odds betting. On a cautious basis, the CMA has therefore assessed the Merger on the basis of a separate frame of reference for fixed odds betting.

Distribution channels

35. In addition to distinguishing between product types, previous decisions by the OFT and the MMC have identified separate frames of reference based on the different distribution channels through which betting products are made available to customers.
36. Those previous decisions have consistently adopted separate frames of reference for on-course betting and off-course betting, given their geographically separate locations and the different nature of the activities.²¹ The Parties submitted that the reasons for distinguishing between on-course and off-course betting have not changed materially since the OFT's decision in *Betfred/Tote* and that the distinction between them remains appropriate.
37. Within off-course betting, the OFT and the MMC have previously identified separate frames of reference for betting in LBOs and betting by telephone, based on the national nature of telephone betting as opposed to local LBOs, the different types of customer, and the larger size of stakes involved in

²¹ For example, see [Ladbrokes/Coral I](#) (paragraph 2.64), [Ladbrokes/McCartan](#) (paragraphs 8 & 9), and [Betfred/Tote](#) (paragraph 16).

telephone betting.²² In *Betfred/Tote*, the OFT also identified a separate frame of reference for betting online in the absence of evidence that showed betting online formed a strong constraint on betting in LBOs or by telephone.²³

38. The Parties submitted that segmentation by distribution channel is no longer appropriate as the dynamics of the betting market have changed significantly in recent years, in particular driven by the significant increase in the number of customers betting online. In the circumstances of this case, the CMA has not at this stage had the benefit of receiving detailed third party evidence on the constraint imposed by online betting on betting in LBOs. However, comments received by the CMA from a competitor of Ladbrokes and Coral during its consultation on the fast track reference indicate that, despite the internet becoming an increasingly important channel for betting, the dynamics of competition for betting in LBOs remain different from those for betting online. Furthermore, the CMA notes from the evidence submitted by the Parties that market research data indicates that in the year to September 2015 approximately [X] % of gamblers in the UK only bet in LBOs²⁴ and that approximately [X] % of Coral's customers and [X] % of Ladbrokes' customers were gamblers who only bet in LBOs and did not use online platforms.²⁵
39. The CMA therefore considers that the supply of fixed odds betting products in LBOs is an appropriate product frame of reference in which to assess the Merger at this stage.

Geographic scope

40. In previous decisions, the MMC and the OFT considered national, regional and local aspects of competition between off-course LBOs.²⁶ The Parties submitted that the relevant geographic frame of reference for competition between LBOs is local and that it is not appropriate to assess the Merger by reference to national or regional frames of reference since competition occurs at a local level. To support this view, the Parties submitted that the majority of competitive decisions are made by Ladbrokes and Coral at the local level or, where decisions are made centrally, are determined by reference to local conditions of competition or the aggregation of local competitive constraints.

²² See *Ladbrokes/Coral I* (paragraph 2.64), *William Hill/Stanley* (paragraphs 7–9), *Ladbrokes/McCartan* (paragraph 10), and *Betfred/Tote* (paragraph 17).

²³ *Betfred/Tote* (paragraphs 18–21). The CMA also notes that in *Rank/Gala* the CC concluded that online gaming should not be included in the same relevant product market as 'bricks and mortar' casinos (paragraph 5.18).

²⁴ Merger Notice, Annex 14.50: [X].

²⁵ Merger Notice, Annex 14.50: [X].

²⁶ For example, see *Ladbrokes/Coral I* (paragraph 2.113); *William Hill/Stanley* (paragraph 15), *Ladbrokes/McCartan* (paragraph 35), and *Betfred/Tote* (paragraphs 24–36).

41. In relation to local catchment areas around LBOs, the MMC in *Grand Met/William Hill* adopted a ¼ mile (approximately 400 metres) radius as a pragmatic approach to the assessment of local competition based on the licensing regime for LBOs in place at that time. In *Ladbrokes/Coral I*, the MMC also used an 800 metre radius, but did not reach a definitive conclusion on the geographic scope of the market.²⁷ Subsequent decisions by the OFT have supplemented the MMC's approach and acknowledged that the distances adopted were arbitrary in nature and only to be used as a starting point for the analysis of local competition.²⁸ With those considerations in mind, the OFT conducted its local analysis in *Betfred/Tote* using 400 metre and 800 metre radii around each LBO as a starting point. However, in view of the fact that competition between local retail outlets may be closely related to the physical distance between shops,²⁹ the OFT assessed the impact on local competition using a 200 metre radius in order to take into account close geographic proximity between the LBOs operated by Betfred and the Tote.³⁰ In *Betfred/Tote*, the OFT also considered using a wider catchment area with a 1,600 metre radius, but concluded that it was not necessary on the basis that there was no evidence of concerns in such areas.³¹
42. In its investigation, the CMA has not had the benefit of detailed evidence from third parties to assist with its assessment of the distance that LBO customers are likely to travel, in order to reach a conclusion on the local geographic area in which competition between LBOs takes place. However, the CMA notes that [REDACTED]. For example, [REDACTED].³² Similarly, Gala Coral submitted that [REDACTED].³³
43. Accordingly, the CMA considers that the approach used in *Betfred/Tote*, namely radii of 200 metres, 400 metres and 800 metres around each of Ladbrokes' and Coral's LBOs, remains an appropriate geographic frame of reference to use as a starting point to assess the effect of the Merger on the supply of fixed odds betting products in LBOs. The CMA notes that [REDACTED], but has not found it necessary in the circumstances of its phase 1 investigation to also assess the effect of the Merger using a 1,600 metre radius.
44. The CMA received comments during its consultation on the fast track reference from a competitor that indicated that competition between operators of LBOs may also take place at a national level. In that regard, the CMA notes

²⁷ *Grand Met/William Hill* (paragraph 6.53) and *Ladbrokes/Coral I* (paragraphs 2.118–2.120 and paragraphs 2.149–2.151).

²⁸ See, for example *William Hill/Stanley* (paragraph 11) and *Ladbrokes/McCartan* (paragraph 7).

²⁹ For example, see *Commentary on retail mergers* (OFT1305/CC2 com 2, adopted by the CMA as set out in CMA2, Annex D), March 2011, paragraph 2.18.

³⁰ *Betfred/Tote*, paragraphs 35 & 36.

³¹ *Betfred/Tote*, paragraph 36.

³² Ladbrokes, Response to the CMA's request for information dated 19 November 2015, 27 November 2015.

³³ Gala Coral, Response to the CMA's request for information dated 19 November 2015, 27 November 2015.

that the ownership of LBOs in the UK is concentrated, with four bookmakers operating around 87% of LBOs and with Ladbrokes' and Coral's combined share of LBOs being around 45%.³⁴ Furthermore, the CMA also notes that the internal documents provided by the Parties indicate certain decisions affecting the supply of fixed betting products in LBOs are made centrally, although as explained above the Parties submit that such decisions are determined by reference to local conditions of competition or the aggregation of local competitive constraints.

45. In the circumstances of this case, the CMA has not found it necessary to conclude in its phase 1 investigation on whether the impact of the Merger on the supply of fixed odds betting products in LBOs should also be assessed using a national or regional frame of reference, given that it believes that a realistic prospect of a substantial lessening of competition arises on a local basis and therefore that the test for a fast track reference is met.

Conclusion on frame of reference

46. For the reasons set out above, the CMA has considered the impact of the Merger in the supply of fixed odds betting products in LBOs in local areas identified using radii of 200 metres, 400 metres and 800 metres around each of Ladbrokes' and Coral's LBOs.
47. As noted above, the CMA has not found it necessary in the circumstances of this case to conclude on the appropriate frame of reference for the other areas of overlap between Ladbrokes and Coral or on whether the impact of the Merger on the supply of fixed odds betting products in LBOs should also be assessed using a national or regional frame of reference.

Competitive assessment

Horizontal unilateral effects

48. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or degrade quality on its own and without needing to coordinate with its rivals.³⁵ Horizontal unilateral effects are more likely when the merger parties are close competitors.
49. The CMA therefore assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in a substantial lessening of

³⁴ Calculations based on the database of LBOs in the UK provided by the Parties. See Table 1 below.

³⁵ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

competition in relation to unilateral horizontal effects in the supply of fixed odds betting products in LBOs in local areas identified using radii of 200 metres, 400 metres and 800 metres around each of Ladbrokes' and Coral's LBOs.

Local competition in the supply of fixed odds betting products in LBOs

50. The CMA notes that competition between local retail outlets, including LBOs, can take place across a number of parameters, including price, quality, range and service.³⁶ In previous cases, the MMC and the OFT identified that local competition in fixed odds betting in LBOs takes place through both price (in the form of local promotions³⁷) and non-price elements (including the quality of the LBO environment, opening hours and staffing levels).³⁸ The Parties submitted that in local areas Ladbrokes' and Coral's LBOs compete with their rivals primarily in relation to the convenience of location, the quality of staffing, the quality of their facilities, and local price promotions or concessions.
51. The Parties also submitted that they are constrained in every local area by the availability of online betting (particularly in relation to pricing) and the presence of LBOs operated by rival bookmakers. In relation to the latter, the Parties submitted that branding is not a significant driver of customer demand and that all LBO operators offer broadly the same betting products, shop quality and customer service. In the Parties' view, competition between LBOs therefore tends to be driven by convenience of location, meaning that the nearest competing LBO will typically exercise the strongest constraint on any given LBO.
52. In the circumstances of the case the CMA has not had opportunity during its phase 1 investigation to form a view on the extent of the constraint imposed in local areas by the availability of online betting. However, based on the evidence that it has found, the CMA considers that Ladbrokes and Coral can and do vary certain aspects of their offering in response to variations in local conditions of competition (including the presence of competitors). Accordingly, the CMA considers that there is a realistic prospect that the Merger will give rise to a substantial lessening of competition in areas where Ladbrokes and Coral compete closely and are insufficiently constrained by other LBOs.

³⁶ For example, see [Commentary on retail mergers](#), paragraph 4.1.

³⁷ Typically, bookmakers set their odds centrally or, for horseracing and greyhounds, by reference to starting prices set by on-course bookmakers.

³⁸ See [Ladbrokes/Coral I](#) (paragraphs 2.147 & 2.148), [William Hill/Stanley](#) (paragraphs 16–20), [Ladbrokes/McCartan](#) (paragraph 19), and [Betfred/Tote](#) (paragraphs 46 & 51).

Assessment of overlaps between Ladbrokes' and Coral's LBOs in local areas

53. The Parties provided the CMA with a database containing the locations of the LBOs operated by Ladbrokes and Coral and their competitors in the UK. A simple breakdown of LBOs by operator is set out in Table 1 below.

Table 1: Number of LBOs in the UK (excluding Northern Ireland) by operator

<i>Operator</i>	<i>Number of LBOs</i>	<i>% Share of LBOs</i>
Ladbrokes	2,160	24
Coral	1,859	21
Merged entity	4,019	45
William Hill	2,331	26
Betfred	1,396	16
Paddy Power	320	4
Others	933	10
Total	8,999	100

Source: The Parties' LBO database as at October 2015.

54. In merger investigations involving a large number of local overlaps it is common practice for the CMA to use a filtering methodology in its phase 1 investigation to exclude from further assessment areas where it is clear that there is no realistic prospect of a substantial lessening of competition.³⁹
55. In the circumstances of the case, the CMA has adopted the methodology used by the OFT in Betfred/Tote in order to identify local catchment areas in which, as a result of overlaps between Ladbrokes' and Coral's LBOs, the Merger gives rise to a realistic prospect of a substantial lessening of competition. Accordingly, based on the approach in Betfred/Tote, the CMA has assessed the impact of the Merger in relation to each of Ladbrokes' and Coral's LBOs by identifying the local catchment areas in which:
- (a) the Merger removes competition within a 400 metre radius of the LBO (2:1 within 400m);
 - (b) the Merger removes competition within an 800 metre radius of the LBO (2:1 within 800m);
 - (c) the Merger reduces competition to two competing LBOs within a 400 metre radius of the LBO (3:2 within 400m);
 - (d) the Merger gives rise to a situation in which the geographically closest LBO belongs to the other merging party and there is no other competing

³⁹ See for example [Commentary on retail mergers](#), paragraph 2.4.

LBO within a 200 metre radius (closest LBOs and no other LBO within 200m); or

- (e) the Merger gives rise to a situation in which the geographically closest LBO belongs to the other merging party and there is only one other competing LBO within a 200 metre radius (closest LBOs and one other LBO within 200m).

56. The CMA considers that these five categories provide an appropriate basis for identifying the local catchment areas in which competition concerns are likely to arise as a result of local overlaps between Ladbrokes and Coral. Although based on the distance applied under the historic licensing regime in place at the time of the MMC's report in Grand Met/William Hill, the CMA notes that [§]. Therefore, the CMA considers that a reduction of competing LBOs from two to one or from three to two within a 400 metre radius is likely to give rise to competition concerns. The CMA also considers that it remains appropriate, on a cautious basis, to apply an 800 metre filter in order to identify local areas not caught by the 400 metre filter, but in which Ladbrokes and Coral operate the only two competing LBOs and where the Merger will therefore result in the merged entity having a local monopoly. In that regard, the CMA notes that [§].
57. As the OFT explained in its decision in Betfred/Tote, the 400 metre and 800 metre filters do not take into account the geographic proximity of Ladbrokes' and Coral's LBOs or the location of their LBOs relative to the location of any competing LBOs within the local area.⁴⁰ In the circumstances of this case, the CMA has not had the benefit of third party views on the importance of proximity when assessing the strength of competition between LBOs. However, the CMA notes that the responses from competing bookmakers during the OFT's investigation in Betfred/Tote indicated that they would regard LBOs located within 200 or 250 metres of their own LBOs as close competitors.⁴¹ Furthermore, as noted above, the Parties submitted that the nearest competing LBO will typically exercise the strongest constraint on any given LBO and evidence provided by Ladbrokes indicates that the majority of defensive refurbishments of its LBOs are responses to competitive actions by competing LBOs within [§]. The CMA therefore considers that competition concerns may arise where Ladbrokes' and Coral's LBOs are closest to each other geographically and, within a radius of 200 metres, there are no other competing LBOs or only one other competing LBO.

⁴⁰ Betfred/Tote, paragraph 58.

⁴¹ Betfred/Tote, paragraph 59.

58. The results of the local overlap analysis carried out by the CMA are summarised in Table 2 below.⁴² The five categories described above were applied sequentially to each of Ladbrokes' and Coral's LBOs in the order set out in Table 2, with LBOs caught by more than one of the criteria only counted once in the results. In other words, if a local catchment area was identified as raising a competition concern because, for example, the Merger would result in a two to one within 400 metres that local area would not be counted again if it would also result in a two to one within 800 metres.

Table 2: Summary of results of local overlap analysis

	<i>Number of local catchment areas where overlaps identified</i>		
	<i>Coral LBO</i>	<i>Ladbrokes LBO</i>	<i>Total</i>
Closest LBOs and one other LBO within 200m	66	61	127
Closest LBOs and no other LBO within 200m	124	126	250
3:2 within 400m	120	112	232
2:1 within 400m	48	44	92
2:1 within 800m	52	45	97
Total	410	388	798

Source: The Parties' LBO database as at October 2015.

59. Based on the local overlap analysis, the CMA has identified 798 local catchment areas where the Merger will result in there being no other competing LBOs or a reduction in the number of competing LBOs from three to two. Given the elimination of competition, the CMA considers that there is a realistic prospect of a substantial lessening of competition within local catchment areas where there is a merger to monopoly. In previous decisions, including in *Betfred/Tote*, the CMA and the OFT have generally found in phase 1 investigations that a fascia reduction in a local area from three to two gives rise to competition concerns.⁴³ The CMA therefore also considers that there is a realistic prospect of a substantial lessening of competition within local catchment areas in which the Merger will lead to a reduction in the number of competing LBOs from three to two.
60. In view of the Parties' fast track reference request, the CMA has not in its phase 1 investigation conducted further analysis in relation to the overlap areas identified using the methodology set out above.⁴⁴ The CMA notes the comments made by the OFT in previous decisions about the arbitrary nature of the radii applied in the local analysis. However, in the absence of detailed comments from third parties, the CMA considers that the approach it has

⁴² The CMA notes that the methodology may result in findings of a substantial lessening of competition in overlapping local catchment areas. For example, if there is a two to one within a radius of 400 metres around a Ladbrokes LBO, the corresponding Coral LBO may also be identified as giving rise to a two to one within a radius of 400 metres.

⁴³ For example, see *Betfred/Tote* (paragraph 83) and the CMA's phase 1 decision in the [anticipated acquisition by Poundland Group plc of 99p Stores Limited](#), 9 April 2015 (paragraph 277).

⁴⁴ [Commentary on retail mergers](#), paragraph 2.10.

taken in assessing the impact of the Merger on competition in local areas is appropriate in the circumstances.

Conclusion on horizontal unilateral effects

61. As set out above, the CMA has identified that Ladbrokes and Coral overlap in 798 local catchment areas where there would be a reduction in competing LBOs from two to one or from three to two. Within these 798 local catchment areas, the merged entity would either (i) be the only operator of an LBO within a radius of 400 metres or a radius of 800 metres; (ii) face competition from only one other LBO within a radius of 400 metres; or (iii) where Ladbrokes' and Coral's LBOs are geographically closest, face competition from no other LBOs or only one other LBO within a radius of 200 metres. Accordingly, the CMA found that the Merger raises significant competition concerns as a result of horizontal unilateral effects in relation to the supply of fixed odds betting products in LBOs in local areas identified using radii of 200 metres, 400 metres and 800 metres around each of Ladbrokes' and Coral's LBOs.
62. Given that the test for reference is met in relation to the supply of fixed odds betting products in LBOs in local areas, it was not necessary for the CMA to conclude on whether the test for reference is met in relation to the supply of fixed odds betting products in LBOs on a national or regional basis or in relation to any of the other areas of overlap between Ladbrokes and Coral.

Barriers to entry and expansion

63. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no substantial lessening of competition. In assessing whether entry or expansion might prevent a substantial lessening of competition, the CMA considers whether such entry or expansion would be timely, likely and sufficient.⁴⁵ The CMA has not received any evidence that entry or expansion would be sufficiently timely or likely to prevent a realistic prospect of a substantial lessening of competition as a result of the Merger.

Third party views

64. The CMA issued an invitation to comment on 16 December 2015 inviting interested parties to provide views on the Parties' request for a fast track reference. None of the third parties that responded to the CMA's invitation to comment opposed the Parties' request. Other third party comments have

⁴⁵ [Merger Assessment Guidelines](#), from paragraph 5.8.1.

been taken into account where appropriate in the competitive assessment above.

Decision

65. Consequently, the CMA believes that it is or may be the case that the Merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom. The CMA therefore considers that it is under a duty to refer under section 33(1) of the Act.
66. The Parties requested and consented to the use of the fast track process and waived their right to offer UILs. The CMA has therefore decided to refer the Merger pursuant to sections 33(1) and 34ZA(2) of the Act.

Andrea Coscelli
Executive Director of Markets and Mergers
Competition and Markets Authority
11 January 2016

ⁱ In other words, based on this assessment, the CMA believes that 798 of Ladbrokes' and Coral's LBOs fall within local catchment areas where the Merger would result in a reduction of competing LBOs from two to one or from three to two, such that the Merger gives rise to a realistic prospect of a substantial lessening of competition in these catchment areas.

ⁱⁱ Following Ladbrokes' equity placing announced on 24 July 2015 and prior to the issue of shares to Playtech plc (**Playtech**) relating to the marketing services agreement between Playtech and Ladbrokes, Coral's shareholders would hold 45.88% and Ladbrokes' shareholders would hold 54.12% of shares in the merged entity. For a detailed description of the terms of the proposed transaction see [Ladbrokes' Circular and Notice for its General Meeting](#) held on 24 November 2015.