

ANTICIPATED MERGER BETWEEN LADBROKES PLC AND CERTAIN BUSINESSES OF GALA CORAL GROUP LIMITED

Issues statement

4 February 2016

The reference

1. On 11 January 2016, the Competition and Markets Authority (CMA), in exercise of its duty under section 33(1) of the Enterprise Act 2002 (the Act), referred¹ the anticipated merger by Ladbrokes plc (Ladbrokes) of certain businesses of Gala Coral Group Limited (Coral) (the Merger) for further investigation and report by a group of CMA panel members (the Group).
2. In exercise of its duty under section 36(1) of the Act, the CMA must decide:
 - (a) whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation; and
 - (b) if so, whether the creation of that situation may be expected to result in a substantial lessening of competition (SLC) within any market or markets in the United Kingdom (UK) for goods or services.
3. In answering these two questions we will apply a 'balance of probabilities' threshold to our analysis, that is we will decide whether it is more likely than not that an SLC will result from the Merger.²
4. In this statement, we set out the main issues we are likely to consider in reaching our decision on the SLC question (paragraph 2(b)), having had regard to the evidence available to us, including the evidence referred to in the CMA's phase 1 decision to refer the Merger for further investigation (the

¹ The reference was made under the CMA fast-track procedure. See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), paragraphs 6.61–6.65.

² [Merger Assessment Guidelines](#) (September 2010, CC2 (Revised), OFT1254), paragraph 2.12. The *Merger Assessment Guidelines* have been adopted by the CMA Board (see *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, Annex D).

Reference Decision).³ This does not preclude the consideration of any other issues which may be identified during the course of our investigation.

5. Throughout this document we refer to Ladbrokes and Coral collectively as ‘the Parties’ and to the anticipated combined entity as ‘the Merged Entity’ where appropriate.

Background

6. On 24 July 2015, Ladbrokes and Gala Group Finance plc, entered into an agreement (the Merger Agreement) to merge their businesses through the acquisition by Ladbrokes of the entire issued share capital of the holding company for the Coral retail, Eurobet retail and Coral’s online businesses. The ‘bricks-and-mortar’ bingo operations under the Gala Bingo brand and the Coral property companies will not form part of the Merger.
7. In consideration for the acquisition of shares in the holding company, Ladbrokes will issue new ordinary shares (in Ladbrokes) to Gala Finance representing 45.88% of the enlarged issued share capital. Existing Ladbrokes shareholders will own 54.12% of Ladbrokes.⁴ Following completion, the combined entity will be renamed Ladbrokes Coral plc. Within ten business days of completion, the consideration shares issued to Gala Finance will be transferred to the shareholders of GCG Manager S.A. Luxco SCA (the parent company of the Gala Coral group).
8. Ladbrokes operates around 2,160 licensed betting offices (LBOs) in Great Britain and 77 LBOs in Northern Ireland, offering betting and gaming services. Ladbrokes also offers betting and gaming services by telephone and online, through its website and via mobile applications, and owns and operates BetDAQ, an online betting exchange. It also provides on-course betting services at 29 racecourses throughout the UK. 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).

³ See the [Reference Decision](#) on the case page.

⁴ These percentages are subsequent to the placing of additional shares announced on 24 July 2015 but do not reflect the provision of shares to Playtech Limited (an existing shareholder of Ladbrokes and provider of online gambling software and services) envisaged to occur on or around the date of completion. At that point, Playtech Limited will subscribe for shares in Ladbrokes with a total value of around £40 million (see section 3.1 of the Shareholder Circular of 30 October 2015).

9. Coral, comprising of the businesses of Gala Coral to be merged with Ladbrokes, operates around 1,859 LBOs in Great Britain, offering betting and gaming services. Coral also offers betting and gaming services by telephone and online through its website and via mobile applications. It also provides on-course betting services at seven racecourses in the UK. 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.
10. Therefore, the Parties overlap in the supply of betting and gaming products distributed through LBOs, by telephone, via online platforms, and at certain racecourses. The Parties also overlap in the operation of greyhound tracks and in the organisation of greyhound track meetings for the purpose of providing live TV coverage of greyhound races.

Market definition

11. The purpose of market definition is to provide a framework for the analysis of the competitive effects of a merger. The relevant market contains the most significant competitive alternatives available to the customers of the merger firms and includes the most relevant constraints on the behaviour of the merger firms.⁵ In general, market definition and the competitive effects analysis are both driven by considerations relating to the 'closeness' of substitution between the parties' offers and those of alternatives. However, the boundaries of the market do not determine the outcome of the CMA's analysis of the competitive effects of the merger in any mechanistic way. In assessing whether a merger may give rise to an SLC, the CMA may take into account constraints outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others.⁶
12. We will consider the appropriate market definition for the purposes of assessing the Merger by reference to the two broad categories of services in which the Parties overlap: (i) the supply of betting and gaming products; and (ii) the operation of greyhound tracks.

⁵ [Merger Assessment Guidelines](#), paragraph 5.2.1.

⁶ [Merger Assessment Guidelines](#), paragraph 5.2.2.

Supply of betting and gaming products

13. In establishing the relevant product and geographic markets, we will have regard to (but not be bound by) previous relevant decisional practice in this sector and will also take account of the Parties' submissions.
14. The Parties have, for instance, submitted that a segmentation of the supply of betting and gaming products by distribution channel was no longer appropriate as the dynamics of competition in the supply of betting and gaming products have changed significantly in recent years, in particular driven by the significant increase in the number of customers betting online.
15. With regard to the relevant product markets, we will investigate:
 - (a) whether betting and gaming products offered in LBOs are subject to different dynamics of competition (for example if gaming customers have a broader range of suitable options); and
 - (b) the extent to which retail customers⁷ of the Parties regard the online channel as a suitable alternative to betting and gaming in LBOs.
16. As part of this assessment we will consider what percentage of retail customers would switch to the online channel in response to a small but significant and non-transitory increase in price and whether the profit lost on sales to these customers would be sufficient to make this price rise unprofitable.⁸
17. With regard to the relevant geographic markets, we will consider, among other matters, the distance over which LBOs compete for customers, and the extent to which this may vary by type of area. We will also investigate whether there is a national dimension to competition in the supply of betting and gaming products, in particular what competitive parameters of the LBO operators offering are determined by reference to local or national conditions of competition.

The operation of greyhound tracks

18. Greyhound track operators derive revenue mainly from two sources:
 - (a) racegoers, including admission fees, betting commissions and sale of food and drinks; and

⁷ Hereinafter, the term 'retail' is used to refer to the supply of betting and gaming products in LBOs.

⁸ [Merger Assessment Guidelines](#), paragraph 5.2.11 to 5.2.13.

- (b) media rights purchasers, through the sale of media rights for greyhound track meetings.
19. The Parties submitted, for instance, that the effects of the Merger in the operation of greyhound tracks should be assessed by reference to racegoers and media right purchasers⁹ and that it was not appropriate to define separate markets for different types of tracks or greyhound race meetings.
20. With regard to the geographic dimension of the market, the Parties submitted that the maximum catchment area of a greyhound track for racegoers was 20 to 30 miles, equivalent to around 40 minutes travel time. With regard to the sale of media rights, the Parties submitted that the appropriate geographic scope of the market was Great Britain.
21. In establishing relevant product and geographic markets, we will:
- (a) consider the extent to which different types of greyhound meetings may form distinct product markets; and
 - (b) estimate the catchment area of the greyhound tracks in terms of the distance that racegoers are willing to travel to a greyhound meeting.

Assessment of the competitive effects of the Merger

Counterfactual

22. We will assess the potential effects of the Merger on competition compared with the competitive conditions in the counterfactual situation (ie the competitive situation that would likely prevail absent the Merger).
23. As part of our assessment of the counterfactual, we will consider what would have been likely to have happened had the Parties not agreed to the Merger and what would have been the likely conditions of competition in the foreseeable future.
24. In making our assessment, we will consider possible alternative scenarios and decide upon the appropriate counterfactual situation based on the facts available to us and the extent to which events or circumstances and their consequences are foreseeable.¹⁰

⁹ The Parties consider that the operation of horse racecourses is analogous to the operation of greyhound tracks.

¹⁰ [Merger Assessment Guidelines](#), paragraph 4.3.2.

Theories of harm to be investigated by the CMA

25. Theories of harm describe the possible ways in which an SLC may be expected to result from a merger, and provide the framework for our analysis of the competitive effects of a merger. We have set out below the theories of harm that we are currently minded to investigate. However, we may revise our theories of harm as our inquiry progresses. The identification of a theory of harm does not preclude an SLC being identified on another basis following further work by us, or the receipt of additional evidence. We welcome views on all the theories of harm set out below.

Theory of harm 1: Loss of a current competitor at the local level

26. As a result of the Merger, the Merged Entity would face less competition in the local areas where the Parties currently both have at least one LBO.
27. We will assess whether, as a result of the loss of competition at the local level, the Merged Entity would have the ability and incentive to increase the prices of its products and/or deteriorate other parameters of its offering (service, quality or range)¹¹ in the local areas where the Parties currently overlap.
28. In general, for this theory of harm to be substantiated, the following three conditions must be met:
- (a) The merging firms must be close competitors.
 - (b) The Parties must have the ability and incentive to vary at least some aspects of their offering in response to differences in local competition.
 - (c) Other competitors do not sufficiently constrain the Merged Entity, such that it is profitable for the Merged Entity to raise prices.
29. We will consider whether the above conditions are met in local areas where both Parties have LBOs in close proximity. To identify the areas that might be problematic, we will investigate which factors drive the Parties' decisions in relation to their PQRS offering at a local level.
30. As part of our assessment, we will investigate:
- (a) the degree to which LBO operators have differentiated offerings (eg in terms of branding, product range, quality of service or shop environment),

¹¹ Price, quality, range and service are referred to as PQRS. Hereinafter, the term 'price' is used as shorthand for all parameters of competition unless otherwise specified.

such that customers might consider some of the operators to be closer competitors than others; and

- (b) whether independent LBO operators exert the same level of competitive constraint on the Parties as the large national chains.
31. Our competitive assessment for this theory of harm will also incorporate the findings from our assessment of the relevant market, and in particular:
- (a) the extent to which LBOs are constrained by online betting and gaming operators; and
 - (b) the extent to which other gaming venues compete with LBOs for gaming customers.
32. Should we find that gaming customers have a broader range of options than betting customers, we will examine the interaction between these two sets of customers and the extent to which the behaviour of gaming customers may indirectly 'protect' betting customers from the effect of a potential SLC. This may be the case if: (i) gaming customers generate a large share of the Parties' profits; (ii) the parameters of competition that are varied locally by the Parties affect both betting and gaming customers without distinction; and (iii) gaming customers have close alternatives to LBOs in the local area concerned.
33. Should we find competition concerns in certain local areas, we will consider whether the likelihood of entry by other competitors in these areas may alleviate competition issues. Our assessment of the likelihood of new entry will be informed by the costs and timescales associated with the opening of new LBOs, the regulatory environment in which LBOs operate, and the history of new entry in those or similar areas.

Theory of harm 2: Loss of potential competition

34. We will also examine whether the Merger may be expected to result in an SLC as a result of a loss of potential competition in areas where the Parties might have opened new LBOs and competed against each other.
35. First, we will consider the effect of the Merger in any areas where each of the Parties' respective pipeline LBOs (ie LBOs which the Parties, according to existing plans, would have opened in the next 12 months or so) overlap with either an existing LBO or a pipeline LBO of the other party.
36. Second, we will consider the effect of the Merger on how the Merged Entity plans to manage and develop its network of LBOs. In the normal course of

their business, the Parties reconfigure and/or optimise their network of LBOs, for instance by opening, closing or relocating LBOs. From a dynamic perspective, the Merger might lead to a loss of potential competition by eliminating the rivalry between the Parties' respective networks of LBOs at a local level even beyond the LBOs they had already planned to open or relocate in the next 12 months or so.

37. We consider that the following conditions would have to be met cumulatively for this theory of harm to be substantiated:
- (a) absent the Merger, the Parties would have opened LBOs in a significant number of local areas where the other party is present (or in local areas where the other party would have also opened LBOs), thereby creating new overlap areas;
 - (b) such LBO openings through entry or expansion into new overlap areas absent the Merger would have led to substantially greater competition; and
 - (c) such entry or expansion by the Parties into new overlap areas would be substantially more likely than entry or expansion into those areas by other competitors.
38. We will investigate if the Merger meets these conditions, in particular by reviewing the history of new shop openings by the Parties, the Parties' future plans to develop their networks of LBOs absent the Merger, the expansion plans of the Parties' main competitors and the overall growth trends in the industry.

Theory of harm 3: Loss of competition at the national level

Impact of the merger at national level through aggregation of local effects

39. In general, as stated in the CMA's commentary on retail mergers,¹² the CMA's starting point is to recognise that consumers shop in local retail outlets, within a given travel time from their home or work, and that competition between retailers takes place at the local level. As such, any loss of competition between retailers at the national level is likely to arise as a result of the aggregated loss of competition in the various areas in which the two retailers operate.

¹² Commentary on retail mergers, March 2011, paragraph 3.7.

40. This theory of harm therefore largely derives from our assessment of the local effects of the Merger, and the effect of the Merger nationally will depend on:
- (a) the extent of overlap between the Parties' LBOs in aggregate and as a proportion of their overall business; and
 - (b) the approach taken by the Parties to set and modify the aspects of their offerings that are common across all of their LBOs.
41. We will investigate whether decisions relating to PQRS of the Parties' offerings that are taken centrally and applied uniformly across the estates are driven by local parameters of competition. As part of our assessment will examine to what extent such decisions reflect local competitive interaction throughout the Parties' estates, or whether they are influenced by factors that reflect national dynamics of competition.

Loss of innovation

42. We will further assess whether the Merger might lead to less innovation and choice in the supply of betting and/or gaming products. The Merger might have a dampening effect on innovation (over and above that generated by the aggregation of local overlaps) if innovation is stimulated or facilitated by having a plurality of different players at the national level.
43. In assessing whether this theory of harm is substantiated we will consider, in particular:
- (a) the importance of the Parties' and third parties' roles in driving the innovation process in the industry;
 - (b) the main drivers of innovation; and
 - (c) the extent to which, after the Merger, the Merged Entity would have the incentive to innovate.

Theory of harm 4: Loss of competition in the operation of greyhound tracks – the racegoers side

44. There are currently 25 greyhound racing tracks licensed by the Greyhound Board of Great Britain in the UK. As mentioned above, the Parties own two greyhound tracks each: Coral owns a track at Romford (Essex) and another at Hove (Sussex); while Ladbrokes owns a track at Crayford (Kent), and another at Monmore Green (near Wolverhampton).

45. We will assess if the Merger, by eliminating competition between the greyhound racing tracks owned by the Parties, is likely to create an incentive for the Merged Entity to increase prices¹³ at the Parties' racing tracks.
46. We will investigate the extent to which the catchment area of the Parties' greyhound tracks overlap and the closeness of competition between the Parties. We will also assess the main constraints on the Parties for the supply of greyhound meetings to racegoers in those areas.

Theory of harm 5: Loss of competition in the operation of greyhound tracks – the supply of media rights

47. As a result of the Merger, the Merged Entity will have a higher share in the supply of media rights for greyhound racing events in Great Britain.
48. We will assess if the Merger might create an incentive for the Parties to increase the price charged for media rights for these greyhound racing events as a result of the loss of competition in the supply of these rights.
49. In particular, we will investigate if greyhound races are differentiated in terms of their importance for media rights purchasers and if the Parties are close competitors for the provision of media rights for greyhound races.
50. In addition, following the Merger, the Merged Entity would have an increased shareholding and/or share of voting rights in certain media rights purchasers.
51. There are three primary purchasers of media rights for greyhound races in Great Britain: BAGS, SIS and Greyhound TV. SIS and Greyhound TV directly broadcast the races they purchase to LBOs, whereas BAGS sells the rights it purchases to SIS, which then broadcasts those races to LBOs.¹⁴
52. The Parties have interests in some of the purchasing bodies, and therefore the potential loss of competition might be compounded if the Merged Entity could influence the tendering process for the purchase of media rights from greyhound tracks.
53. One third party has raised this theory of harm in relation to the Merged Entity's voting rights in BAGS.

¹³ The dimensions of the Parties' offering that might be affected are: the admission fees, the price and quality of catering, the quality of the facilities, and the quality of the fixtures.

¹⁴ Media rights are sold to these purchasers in two different ways: (i) in the majority of cases, the media rights purchasers tender for a certain amount of race meetings to be organised by greyhound track operators; and (ii) in a limited number of cases, greyhound track operators organise certain greyhound meetings on their own initiative and then offer the media rights to these races to prospective purchasers.

54. We will therefore investigate if the Merged Entity will have the ability and incentive to influence the decisions of media rights purchasers to acquire the media rights of the greyhound meetings organised by the Merged Entity, to the detriment of the greyhound meetings organised by other greyhound tracks operators.

Theories of harm the CMA is not currently minded to pursue

55. We identified other possible theories of harm from the information currently available, including third party submissions.
56. However, for the reasons set out below and subject to any further third party submissions in response to this issues statement and/or further evidence submitted in the course of the investigation, we are not currently minded to investigate these theories of harm further. We do, however, welcome reasoned submissions third parties may wish to make in this regard.

Input foreclosure in relation to Playtech's software as a result of its shareholding in Ladbrokes

57. Playtech is a technology company which provides both Parties and other betting and gaming operators with betting and gaming software and services.
58. On 28 July 2015, Playtech increased its shareholding in Ladbrokes to 98,589,095 shares, equivalent to 9.71% of Ladbrokes' issued share capital.¹⁵ Playtech also intends to subscribe for additional shares in the Merged Entity at completion.¹⁶
59. A third party raised the concern that, as a result of its increased shareholding in the Merged Entity, Playtech might have an incentive to favour the Merged Entity in the supply of betting and gaming software and services at the expense of other betting and gaming operators that currently also use that software.
60. We consider that a potential foreclosure strategy by Playtech limiting other betting and gaming operators' access to its betting and gaming software could only be plausible if the following conditions were met cumulatively:

¹⁵ [Interactive Investor website](#).

¹⁶ Conditional upon completion of the Merger, Ladbrokes and Playtech agreed to accelerate the determination of amounts due by Ladbrokes to Playtech under the marketing services agreement between them. The sum agreed was £75 million, of which £40 million shall be satisfied by way of the issue of shares in the Merged Entity.

- (a) Playtech would have the ability to harm the Merged Entity's competitors (ie other betting and gaming operators) by virtue of increasing prices or refusing to supply them with an important input for their business.
 - (b) Playtech would also have the incentive to do so, given that any foreclosure strategy would also be associated with costs to Playtech.
- 61. We are not currently minded to investigate this theory of harm further, as it would appear that, irrespective of whether Playtech may have the ability to completely or partially foreclose other betting and gaming operators, Playtech currently has no incentive to do so and its increased shareholding in Ladbrokes does not appear likely to change its incentives. More specifically, based on the increased dividend revenue Playtech would achieve from an increased shareholding in Ladbrokes and the revenue it achieves from UK-based licensees other than the Parties, it would appear unlikely that an increased shareholding (and increased dividends flowing from that shareholding) would provide Playtech with a sufficient incentive to engage in a foreclosure strategy in favour of the Merged Entity and to the detriment of its other UK customers.

Increased buyer power in the market for media rights

- 62. Betting operators acquire (directly or indirectly from racecourses and greyhound track operators) the media rights to broadcast events from these venues in their LBOs and/or on their online platforms.
- 63. Two third parties submitted that the increase in the number of LBOs owned by the Merged Entity may give the Merged Entity buyer power in the acquisition of media rights for horse races and/or greyhound meetings, enabling it to reduce the price paid for these rights or offering worse commercial conditions to the media rights owners.
- 64. However, even if the Merged Entity had greater buyer power in the market for media rights, it is not clear that this would translate into consumer harm. In principle, it would not appear to be in the Parties' interest to lower their purchasing prices to the point where some race courses would have to close and the Parties would therefore end up with less content to broadcast in their LBOs (given that broadcasting the content of marginal race courses is profitable even at pre-merger purchasing prices).
- 65. For the Merger to raise competition concerns on the basis of increased buyer power, the Merged Entity would need to have:
 - (a) an incentive to reduce the amount it purchases to reduce the price it pays;

- (b) sufficient market power downstream to increase the price it charges customers as a result of selling a reduced quantity.”¹⁷
66. We, therefore, are not currently minded to investigate this theory of harm further, because
- (a) as media rights owners tend to negotiate bilaterally with each betting operator for the sale of their media rights, the Merged Entity would have no incentive to reduce the quantity purchased in order to reduce the price; and
- (b) at the downstream level, there is no indication that customers would bet more per race if they were presented with fewer races.
67. Against this background, even if the Merger were to lead to increased buyer power in the market for media rights, that would not appear to translate into harm for betting customers.:

Online betting and gaming

68. Both Parties offer online betting and gaming products.
69. In theory, the loss of competition in the supply of betting and gaming products online resulting from the Merger could result in providing the Parties with the ability and incentive to increase the price and/or decrease the quality of their online betting and/or gaming offering.
70. However, we are not currently minded to investigate this theory of harm further, in particular for the following reasons:
- (a) the Parties’ online operations compete with a large number of online gambling sites in the UK;
- (b) the combined estimated share of supply of the Parties in the supply of online betting and gaming products in the UK will be less than 15% with an increment of less than 5%; and
- (c) two competitors of the Parties in the supply of online betting and gaming products – Paddy Power and Betfair – have recently merged and the CMA has cleared that merger, having concluded that Paddy Power and Betfair face sufficient competitive constraints from a number of alternative online betting and gaming operators.

¹⁷ [Mergers Assessment Guidelines](#), paragraph 5.4.20.

71. This theory of harm would in any event only be investigated separately from theory of harm 1 should we consider the online and retail channels as two separate markets.

Countervailing factors

72. We will consider whether there are countervailing factors which are likely to prevent or mitigate any SLC that we may find. In particular, we intend to consider whether entry or expansion by effective competitors could be expected to be timely, likely and sufficient to prevent any SLC. To do this, we will in particular:
- (a) look at the history of actual entry, expansion and exit by the Parties and by their competitors (including any repositioning of their offering) and review any future plans;
 - (b) assess the availability of suitable retail premises in local areas;
 - (c) consider whether economies of scale and scope are important; and
 - (d) examine other factors which might inhibit entry or the expansion of existing competitors into the relevant local areas.
73. We will investigate whether the Merged Entity will be subject to any countervailing buyer power, in the supply of greyhound racing media rights.
74. We will also examine any evidence available to us in relation to efficiencies arising from the Merger. In particular, we will examine whether there are Merger-specific rivalry enhancing efficiencies that can be expected to mean that the Merger would not result in an SLC. We are not currently aware of any other potential countervailing factors.

Possible remedies and relevant customer benefits

75. Should we provisionally conclude that the Merger may be expected to result in an SLC in one or more markets, we will consider whether, and if so what, remedies might be appropriate, and will issue a further statement.
76. In any consideration of possible remedies, we may in particular have regard to their effect on any relevant customer benefits that might be expected to arise as a result of the Merger and, if so, what these benefits are likely to be and which customers would benefit.

Responses to the issues statement

77. Any party wishing to respond to this issues statement should do so in writing, by no later than **5pm on 18 February 2016**. Please email ladbrokes.coral@cma.gsi.gov.uk or write to:

**Project Manager
Ladbrokes/Coral merger inquiry
Competition and Markets Authority
Victoria House
Southampton Row
LONDON
WC1B 4AD**