

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

Submitted by Customer B

In 1997 Ladbrokes acquired Corals. The Competition Commission after a thorough investigation decided this takeover was not in the public interest.

http://webarchive.nationalarchives.gov.uk/20111202195250/http://competition-commission.org.uk/rep_pub/reports/1998/fulltext/418c4.pdf

In 1997 had the takeover of Corals been allowed, Ladbrokes would have had 30% of the betting shops in Great Britain. If this proposed merger is allowed the Ladbroke-Coral combine will control 45% of the GBs LBOs. If 30% market share was too much in 1997 then surely 45% is far too much in 2016 -and ironically there are more betting shops now.

So what has changed in the last 19 years (that makes them think they can get away with it this time)?

Four things:

- 1) A dramatic decline in Independent bookmakers.
- 2) The rapid rise of internet gambling.
- 3) The introduction of the Fixed Odds Betting Terminal (FOBTs) into betting shops.
- 4) The loss of market dominance and resulting catastrophic drop in Ladbrokes share price from £3 in Jan 1998 to £1.12 today.

Addressing these 4 points:

1) Independent bookmakers

In 1997 there were 3,847 independents out of a total of 8,790 LBOs. Today only 933 remain out of a total of 8,999. An independent could always compete with a national company as they were far more flexible with regard to local competition; the staff were generally better trained and stayed loyal. Since the late 1960s there has been a steady erosion of competition, especially from the independent sector, with most small to medium chains being taken over by the big companies. Apart from Ladbrokes, Hills and Corals, only two companies have grown to become substantial forces within the off course market, Done Bros. (now called Betfred) and Paddy Power. If it were not for these two and their innovative management there would be no competition between Ladbrokes, Hills and Coral, just a virtual cartel. These three would to all intents and purposes be identical apart from the colour schemes of their shops, as they were in the 1970s, 1980s and 1990s.

2) Internet Gambling

Yes the growth in this area has been huge. However there are still a great number of people who prefer cash betting. For many reasons, cash betting is anonymous (wives and husbands don't always

need to know), a bank account is not needed, many do not have bank accounts in their own name, some would not trust internet betting, some maybe older people do not use the internet for anything.

The table below is taken from the Gambling Commission's web site. It shows Gross Gambling Yield (GGY another term for gross profit) from remote betting to be roughly 40% of the non-remote sector. Note: remote betting includes telephone betting. Still behind the UK betting shop market then.

GGY (£m)	Apr 2010- Mar 2011	Apr 2011- Mar 2012	Apr 2012- Mar 2013	Apr 2013- Mar 2014	Apr 2014- Mar 2015
Non-remote sector	4,772.33	4,964.06	5,220.07	5,331.94	5,444.40
Arcades	392.00	381.06	357.90	377.46	371.66
Betting	2,957.32	3,029.56	3,199.58	3,171.02	3,249.42
Bingo	625.58	680.64	701.18	672.39	662.28
Casinos	797.43	872.80	961.41	1,111.06	1,161.05
	653.06	710.19	932.61	1,134.66	753.53 ¹
Remote betting, bingo and casino gambling					1,451.51 ²
National Lottery (remote and non-remote)	2,840.20	3,123.90	3,279.50	3,099.80	3,232.10
Lotteries (remote and non-remote)	170.12	233.36	284.17	306.83	361.62

Unfortunately no turnover figures are provided. It appears from the number of internet betting companies that there is plenty of competition. This only true to a limited degree. There has been a concerted attempt to buy turnover through free bets and low margin betting or even over-broke betting. This cannot last forever. The internet betting companies will consolidate further (Ladbrokes and Corals are already trying to!). The number of internet betting companies is diminishing through mergers and acquisitions, for example Betfair bought Blue Square and Unibet acquired Stan James's internet business. Foreign companies such as Bwin and Unibet have a different history and prefer bigger margins so will change the experience for UK customers. Also any internet betting client who shows the slightest sign of shrewdness is either denied a bet or has tiny maximum stakes imposed.

Therefore if you disallow this merger you will not only help maintain the competitiveness of the UK LBOs but also the internet betting market.

¹The figure represented reflects seven months data under the Gambling Act 2005 from 1 April 2014 to 31 October 2014.

²The figure represented reflects five months data under the Gambling (Licensing and Advertising) Act from 1 November to 31 March 2015.

3) Fixed Odds Betting Terminals

These machines became viable after turnover tax was replaced by gross profits tax.

Since the gross profits tax was introduced bookmakers have been most reluctant to mention turnover with regard to FOBTs, possibly to conceal the true scale of money gambled through these machines. Turnover is obviously important. The bookmaker offers products with a built in profit margin, their business plans will have turnover targets and therefore profit targets. LBO operators prefer to use cash in-cash out figures. However unlike a casino, the winnings from each spin on an FOBT in an LBO are not returned to the customer, but are added to the customer's balance so the customer needs to decide when to cash in. This leads to recycling of winnings which makes the most popular game roulette so profitable. The advantage to the house (or betting shop) is approximately 2.8% for a single spin on roulette and the margin is 1% for each game of blackjack. There are other games which the percentage is greater; however roulette remains the most played game.

Ladbrokes profits from FOBTs now exceed £1,000 per machine per week. It is therefore very easy to estimate turnover using the profit margin percentage. If all this profit was generated from roulette it would require a turnover of £36,000 per machine per week. A profit of £1,000 from blackjack would require a weekly turnover of £100,000. Assuming only 75% of the profits comes from roulette and blackjack then one LBO with 4 machines would turnover in excess of £5,500,000 per year (including turnover from higher margin games). Scale this up for 2,200 shops and Ladbrokes annual FOBT turnover must be in the region of £12 billion. Add this to Corals turnover and the merged company will have control of over £22,000,000,000 of FOBT turnover. With Ladbroke-Coral grabbing 45% of the LBO market and less competition, introducing higher margin games would surely follow. A tiny increase of ½% to the gross margin would result in an increase in profit of £110 million. Is this in the public interest?

4) Ladbrokes

Once the world leader in betting but now a shadow of its former self. Who is to blame for this? Obviously the higher management. The present management seem to think the only solution is to create a monster that it hopes will crush the competition by its sheer size.

Which leads to Counterfactual possibilities.

If this merger is prevented, what will happen to Ladbrokes and Coral? Possibly nothing at all, they will not fail. Possibly the value of both companies will fall. If the value falls substantially, maybe this will enable either or both companies to be taken over by better run companies and rebuilt with innovation and new ideas as has happened with the relatively new players Betfred and Paddy Power.

A few comments on the issues statement of 4/02/15

17. My experience in betting shops in xxxxxxxxxxxxxxxxxxxx is that there is no local competition with regard to fixed odds betting, i.e. ante post and early prices. Early prices will be the same throughout the country for each company. Some companies will take larger stakes in different areas, in central London I am told bigger bets may be placed. If this is so, then the backers in the rest of the country are discriminated against.

18. The operation of Greyhound tracks. Mostly irrelevant apart from BAGS. The merged company will own 4 tracks all of which will be shown in betting shops via SIS with 3 or 4 race meetings from each track a week. This coupled with Ladbrokes and Corals involvement with BAGS and 49's and Ladbrokes shareholding in SIS might to some seem just too incestuous. Greyhound racing shown by BAGS tends to produce higher profit margins than horseracing. 130% over-rounds are not uncommon, whereas a 6 horse race in the UK would be less than 120%.

<http://www.gbgb.org.uk/Results.aspx>

19,20 and 21. The parties' submission about racegoers. BAGS greyhound tracks are sparsely attended during the weekday morning and afternoon meetings, as these races are organised mainly for the betting industry.

Finally

I couldn't find anything about this possible merger on the Gambling Commission's website; however the opinions of Sharon White of Ofcom apply here as well as to telecommunications:

<http://blogs.lse.ac.uk/mediapolicyproject/2015/10/07/consumers-and-consolidation-sharon-white-of-ofcom/>

'This is an urgent question. Once competition slips away, it is hard to re-establish especially where barriers to entry for new firms are high.'

'*Competition*, not consolidation, drives investment and delivers low prices.'

Thank you

I hope this submission will be of some interest to the panel and I will be more than happy to expand these points via email, telephone or in person.

Customer B