

LADBROKES/CORAL MERGER INQUIRY

Summary of hearing with William Hill plc on 3 February 2016

Background

1. William Hill plc (WH) stated that it had operations in nine countries and that, in the 2014 financial year, it generated, overall, a revenue of £1.6 billion. WH's noted that it had both retail operations, with over 2,360 licensed betting offices (LBOs) within the UK, and online operations. WH submitted that it was the main retail bookmaker by number of LBOs in the UK.

Main trends in the gambling industry

2. WH stated that there have been no significant changes in terms of competitive dynamics of the retail channel in the UK. In particular, WH submitted that, despite the increase of Betfred's scale with the acquisition of Tote and the relatively recent entry of Paddy Power, the main three bookmakers remained the same and their offer was very similar.
3. WH noted that the relative importance of the different betting and gaming products had changed. In particular, WH explained that, whilst around 25 years ago horse racing and greyhound racing represented, respectively, around 80% and 10 to 15% of bookmakers' businesses, the importance of these products had decreased following the introduction of fixed odds betting terminals (FOBTs) around the year 2000, with the gaming machine business currently representing around 40 to 60% of retail bookmakers' businesses.
4. WH also submitted that there had been a reduction in the number of independent bookmakers over the last 10 to 15 years, as some independent LBOs chains had been acquired by the main bookmakers (eg Coral) and some had closed.
5. WH considered the retail channel overall to be financially fragile due to a number of cost and regulatory pressures. WH quoted a study commissioned by ABB which estimated that a significant number of LBOs would likely close over the next years. WH submitted that the LBOs of independent bookmakers would likely be the most at risk.

6. In this regard, WH stated that any increase in media costs, horse racing levy, gaming machines stakes and prizes or other taxes could have an impact on the business of independent bookmakers and might jeopardise their business.
7. WH stated that gross win margins in the retail channel had not changed significantly over the last years, as they were result-driven (not affected by cost) and explained that this was different from net margins which had reduced, for instance as a result of the increase in costs.
8. WH stated that the competitive constraints that bookmakers faced in the retail channel had not changed significantly over time, despite a variation in the number of LBOs.

Local and national parameters of competition

9. WH regarded the competitive pressures in the retail channel as being more local than national, as customer behaviour was be driven by:
 - (a) the location of an LBO;
 - (b) the quality of the service and staff; and
 - (c) the overall 'environment' of its local operations.
10. WH considered convenience to be a more important factor in customers' choice of an LBO than price. By way of illustration, WH noted that the proximity to a pub may have a major influence on local competition.
11. WH submitted that:
 - (a) its offer in each LBO was set nationally and that managers had no autonomy to offer concessions locally; and
 - (b) staffing decisions may be taken locally but not necessarily at the level of the LBO manager.
12. WH submitted that it would respond to local competitive pressures by improving the quality of staff at specific LBOs. Refurbishment of LBOs generally followed a cycle that was mainly based on the date of the last refurbishment. WH explained that it would be unusual to depart from its standard refurbishment plan, although this did occur on occasion.
13. WH said that it tended not to change its offer (either by investing in concessions or store refurbishments) in response to the opening of a new store by one of its competitors. Instead, its focus was to look overall at new

licensing opportunities rather than reacting defensively to local competition of other LBOs.

14. WH also explained that its decision to offer concessions locally or refurbish an LBO in the more competitive areas was never taken at local level. Although it used to have a more local approach to its offer, it moved to a model whereby decisions on the competitive parameters of its offer were taken centrally rather than locally. However, WH noted that decisions that were taken centrally were often based on a number of local considerations.
15. WH stated that the level of competition in each local area was assessed by reference to market shares and other factors that might affect the local dynamics (opening of a competing LBO). WH identified [X] LBOs as being particularly competitive.

Competitors and competitive constraints

16. WH submitted that its offer was not very different from the offer of other bookmakers and that all bookmakers offered very similar margins.
17. WH stated that its major competitors would be Ladbrokes, Coral and Betfred and, perhaps to a lesser extent, independents bookmakers.
18. WH further submitted that small independent bookmakers, given their lack of scale, would not be able to operate across the breadth of sports offered by WH. WH also explained that such independent bookmakers could not manage risk in the same way as the main bookmakers.
19. WH explained that it did not monitor prices of its competitors, but that it did monitor their market shares.

Innovation

20. WH stated that most of the changes in the gambling industry were driven by regulatory changes rather than significant innovation and that, over time, it was not possible to identify any competitor as being particularly innovative. WH mentioned the introduction of Irish Lottery as one of its innovations and that Ladbrokes was probably thinking about introducing self-service betting terminals (**SSBTs**) earlier than its competitors. WH noted that it did not consider the merger between Ladbrokes and Coral to have a significant impact on innovation in the industry.

Impact of the growth of the online channel

21. WH stated that the emergence and growth of the online channel had not had a significant impact on its business and the retail channel in general. In this regard, WH submitted that:
- (a) the emergence and growth of the online channel has not led to:
 - (i) a reduction of WH's gross margins; or
 - (ii) a change in WH's strategy for the retail channel;
 - (b) the number of LBOs in the UK overall had not significantly changed;
 - (c) the gap between WH's gross win margins in retail and online had not changed over time;
 - (d) the net margin in the retail channel was significantly lower than in the online channel;
 - (e) the online channel was more competitive than the retail channel and start-up costs in the online channel were lower for an operator of scale;
 - (f) the social element of customers experience in a LBO was an important differentiating element from the online channel;
 - (g) despite some switching of customers from the retail to the online channel, WH had been able to maintain a viable and healthy retail business based on opening new LBOs in competitive locations;
 - (h) the crossover between the online and retail channels was relatively small (11 to 16%), although the propensity of retail-only customers to bet online might increase over a 5- to 10-year horizon as a younger generation replaced the current retail-only customers;
 - (i) WH was less concerned with the impact of the online channel on its retail business than with the potential loss of customers to other bookmakers with a broader range of products;
 - (j) initiatives such as the omni-channel programmes or SSBTs were service offerings that, for example, allowed technology-constrained retail outlets to offer greater product breadth via the online feeds and helped to ensure consistency of offering across WH's retail and online business. However, while the level of competition in each local area affected how these initiatives were rolled-out, this would not be determinative of WH's decision to pursue these initiatives.

22. WH noted, in particular, that there were important differences in the way customers used the retail and the online channel, such as:
- (a) differences in the peak gambling times (eg whilst betting in the online channel would tend to peak at the start of a race or match, retail betting would tend to peak during lunch hours); and
 - (b) the possibility of gambling anonymously and making payments in cash in the retail channel, whilst anonymous transactions were not possible in the online channel.

Playtech's relationship with Ladbrokes

23. [✂]

24. [✂]

Greyhound operations

25. WH regarded its greyhound tracks in Newcastle and Sunderland as not competing with any other greyhound tracks in the North East and stated that the main constraint on prices at these greyhound tracks were alternative forms of entertainment.
26. WH stated that the merger would give the merged entity significant voting rights within the Bookmakers Afternoon Greyhound Service (**BAGS**) board and would change its power structure. WH noted that this may be a theoretical concern and mentioned the possibility that BAGS might begin to operate under different conventions and under new governance structures, including that there might be a change in the way greyhound racing media rights were procured by BAGS to the benefit of the merged entity's greyhound tracks.

Entry and expansion

27. WH submitted that in managing its network of stores and deciding whether to expand or not sets its own development plan identifying the most suitable locations, based on where it considered there to be good opportunities, in view of different factors such as proximity of other LBOs and other nearby facilities. However, WH noted that retail bookmakers could converge in their interest in similar locations.
28. WH also explained that the smaller the scale of the estate, the more opportunities a bookmaker would have to expand its network of LBOs.

29. WH further stated that the merged entity would not be better placed than other large retail bookmaker to successfully open a new LBO in a suitable location.

Effects of the merger

30. WH stated that the main competitive impact of the merger would be at a local level as opposed to at a national level.
31. WH further submitted that, whilst the merged entity would have a significant market position in the retail channel, it would have a relatively small market position in the online channel. WH explained that by combining Coral's strong online offer and Ladbrokes' well-known brand, the merger would likely generate important synergies in the online channel.
32. WH submitted that it was difficult to be sure of the broader impact of the merger on its retail business, but that the merger might increase the competitive threat that WH faced at the local level.