COMPETITION COMMISSION

GLOBAL RADIO HOLDINGS LIMITED/GMG RADIO HOLDINGS LIMITED COMPLETED MERGER INQUIRY

Summary of hearing with Orion Media on 20 November 2012

Background

1. Orion Media told us that it was the fifth largest commercial radio company in the UK and operated eight radio stations in the East and West Midlands, operated on five multiplexes and offered simulcasts of its eight stations on DAB.

2. Orion was initially formed in 2009 as an investment group to buy stations from GCap. They did so as the previous owners, Global Radio, had to divest some of its stations in the Midlands as part of the OFT remedies following its acquisition of Chrysalis.

3. Year-end revenues at September 2011 was £15.5m, which was split 45 per cent national and regional advertising and 55 per cent local revenue respectively.

4. Orion told us that it had offices and studios in Birmingham, Wolverhampton, Worcester and Nottingham. Local advertising was sold by an in-house team of about 50 people with national and regional advertising sold by Global.

5. Orion said there was a drive by other radio groups to network considerable amounts of their output and share programming. Orion now sought to focus on more regionalised programming and that it was half-way through re-branding its radio stations (BRMB, Beacon, Mercia and Wyvern) as Free Radio in part to more effectively compete with the Capital network.

Advertising

6. Orion told us that it had seen a decline in its national revenues of [✂] in the West Midlands over the last two years at a time when national revenues overall for the industry had risen by 5 per cent. Orion believed that the fall in national advertising revenue was as a result of the growth of Global's Capital network. However, we were told that growth in Orion's local advertising had covered the decline at a national level.

7. We were told that when Orion bought stations from Global it had inherited nationally traded advertising rates [✂].

8. Orion said it originally wanted to grow its licences in the West Midlands while retaining the existing heritage brands but decided that maintaining the brands was not practical as national advertisers, when not buying from the Capital network, were only buying from BRMB in Birmingham.

9. Orion said that it had become a much more efficient sales outfit following an investment in several areas and aimed to retain 90 per cent of its business by offering a professional service, expertise and offering compelling solutions for advertisers.

10. Orion told us it was becoming more difficult for RAJAR to measure and report on radio output on different platforms because some stations broadcasted different outputs on multiple strands. For example, Heart's broadcast on Sky might be subtly

different to its broadcast on FM but the listener may not record accurately on what platform he or she was listening.

11. Orion told us that the East and West Midlands were dramatically different in terms of the national revenue that Global provided them from its advertising sales. The performance diminution in the west was attributed by Orion to the re-branding exercise by Global which meant Orion stations were taken out of what had previously been an essential part of the network bought by advertisers in the West Midlands. Orion said that [✂] of its local business came directly from clients while [✂] was coming through smaller agencies based in Birmingham or Nottingham.

12. Orion said that, as a result of the hard work it carried out with Global to make the Free Radio network more high profile for advertisers, it had seen an increase in the percentage of campaigns that bought both the Capital network and all of the Free Radio stations.

13. Orion suggested that one result of the merger on local advertising in the West Midlands might be the potential for more aggressive bundling of three powerful stations with deep penetration in each of the demographics from 16 to 60 years of age.

14. Orion said the East Midlands were less competitive as there were fewer players and that in general terms press advertising was no longer seen as such a competitive market due to the decline in its readership and general circulation.

15. Orion told us sponsorship and promotion (S&P) was becoming a lot more important as it represented 15 per cent of its total revenue. Orion said it was also concerned with campaigns being booked on one national network, therefore being unable to run on another station. This limited the possibility of other networks running the same promotion, whereas 10 to 15 years ago an advertiser could run a campaign on several local stations.

Merger

16. Orion further told us that it believed that Global would have continued to sell GMG's national advertising had the merger not happened.

17. Orion thought the merger would considerably change its local market position and that a shift by advertising agencies to network stations [✂] and that other major radio companies would consolidate in response to the merger.

18. Orion believed that GMG would have been able to sell its stations to other radio groups had Global not acquired them and noted that there would likely have also been issues with potential market dominance with any of the other bidders

19. Orion had made a bid for the assets of between [✂] based on standard operating profits and discounted cash flow.

20. Orion said it was concerned about Global's potential to, over time, move Smooth's demographic to a younger audience and become more mainstream as a result. Orion said that, as the Heart licences were considerably more successful than the Real licences in terms of their national advertising yield, if the Real licences were rebranded as Heart there would be a dramatic change in the revenue those licences would take out of the national marketplace

21. Orion believed that the merger would not have an impact on the way in which RAJAR operated as its structure did not allow for Global to become the dominant voice of commercial radio.

22. Orion speculated that part of the Global strategy was to acquire stations targeting a range of demographics and enable Global to more easily retain its audiences as they moved through its broadcast offerings as their listening habits and preferences changed.