Competition & Markets Authority

LADBROKES/CORAL MERGER INQUIRY

Summary of hearing with the Racing Post on 10 February 2016

Main trends in the gambling industry

1. The Racing Post submitted that:

   (a) there has been a decline in the number of licensed betting offices (**LBOs**) in the recent years;

   (b) the number of LBOs of the main national bookmakers (Ladbrokes, Coral. William Hill, Betfred) has been stable or, in some cases, increased;

   (c) independent bookmakers have been under significant cost pressures (eg Chisholm recently publicly stated that the increased costs of media rights for horse racing was one of the reasons for the decline in the number of independent bookmakers); and

   (d) independent bookmakers would not have the online channel to fall back on to absorb an increase in costs.

2. The Racing Post explained that:

   (a) the yield attributable to gaming machines represented half of the LBOs business and that any measures that might be taken to reduce gaming machines' profitability would lead to closure of LBOs; and

   (b) in terms of the over-the-counter traditional betting, the traditional sports of horse racing and greyhounds have become less popular, whilst football betting has increased its popularity.

The online and retail channels

3. The Racing Post submitted that:

   (a) there has been a migration of customers between the retail and online channels;

   (b) this trend was likely to continue in the future; and

(c) the retail operations of the main national bookmakers were still profitable, in particular as a result of the profits generated by the gaming machines.

4. The Racing Post also noted the recent consolidation in the gambling industry, with Paddy Power merging with the online operator Betfair; the merger between GVC and Bwin; and the merger between Unibet and Stan James.

5. The Racing Post considered the recent consolidation in the gambling industry to be driven by taxation issues and the importance of scale, which was important for bookmakers to invest in better technology and marketing both in the retail and online channels.

Competition in the retail channel

6. The Racing Post stated that:

(a) William Hill was the biggest retail bookmaker, followed by Ladbrokes; and

(b) with the merger, the merged entity would become the biggest retail bookmaker.

7. The Racing Post's understanding was that the odds and the promotions offered by the main national bookmakers were set centrally and applied across the entirety of their estates.

Perceived rationale for the merger

8. The Racing Post thought that the merger was driven by the emergence and growth of the online channel and that the merger might force William Hill to also grow through the acquisition of another bookmaker.

Customer behaviour – main factors on customers' choice

9. The Racing Post explained that customers' choices for a certain bookmaker was driven by various reasons: whilst some customers would be more price sensitive and would look around for the best price, other customers would value convenience, brand and the social aspect of an LBO.

10. The Racing Post stated that:

(a) differentiation from other retail bookmakers' offers was important to attract customers in the retail channel; and

(b) customers in the online channel valued a good quality website, which would explain why Ladbrokes had not been successful with its online offer.

Whether and to what extent the merger will affect the sale and purchase of media rights of horse and greyhound racing

11. The Racing Post stated that:

    (a) the acquisition of media rights by bookmakers had become the biggest income stream from the horse racing industry and that this source of revenue was increasingly important to horse track operators; and

    (b) it was important for media rights sellers to have a high number of LBOs to sell theirs rights to, although streaming had become increasingly important.

12. The Racing Post also noted that:

    (a) the entry of Turf TV as acquirer of horse racing media rights marked a significant change in the industry which led to an increase in media right prices;

    (b) the future of Turf TV became uncertain when, last year, 34 courses from the Racecourse Media Group (including Ascot, Cheltenham, Newmarket, York, Aintree) signed up a to new deal with SIS to run from 2018 to 2023; and

    (c) there were other discussions currently ongoing relating to the acquisition of media rights, including from the Arena Racing Company which ran 15 tracks and might decide to sell its rights directly to bookmakers.

13. The Racing Post thought that the merged entity would have considerable buyer power when negotiating media rights, as a decision by the merged entity not to purchase media rights from some racecourses would have an effect on prices.

Main drivers of innovation in the gambling industry

14. The Racing Post stated that one of the most popular innovations in the gambling industry was the recent introduction of ‘Cash Out’ to give customers the opportunity to close their betting position before the actual conclusion of the match they were betting on. The Racing Post noted that this innovation was adopted across the industry.

Regulatory framework – impact of recent changes

15. The Racing Post stated that:

    (a) fixed odds betting terminals (FOBTs) have been heavily criticised, resulting in increasing pressure for regulatory change; and

    (b) bookmakers have been proactive and adopted measures to counter this criticism in terms of better education and warnings on the use of FOBTs.

16. In particular, the Racing Post mentioned that:

    (a) the Scottish Parliament was considering to limit the stakes and number at FOBTs as well as the number of LBOs;

    (b) the Local Government Association was seeking further powers to stop the opening of new LBOs;

    (c) the government, in its triennial review, was expected to examine the stakes and prizes for FOBTs across all the industry;

    (d) the Campaign for Fairer Gambling has been calling for stakes on FOBTs to be reduced from £100 to £2;

    (e) the horse racing industry was pressing for bookmakers' profits generated in the online channel to be accounted for the purpose of the horserace betting levy, whilst bookmakers were asking in exchange for a reduction of the rate of this levy.

Barriers to entry and expansion

17. The Racing Post stated that:

    (a) there had been no recent entry in the retail channel in the UK; and

    (b) BoyleSports (an Irish-based firm) had expressed an interest in entering the UK market.

18. With regards to expansion, the Racing Post thought that competitors or private equity firms would be interested in purchasing any LBOs that the merged entity might have to divest.

Impact of the merger

19. The Racing Post stated that the impact of the merger on customers would depend on:

(a) whether a dual-brand strategy would be adopted by the merged entity in the long term; and

(b) how many LBOs the merged entity might need to divest and the purchaser of these LBOs.