



DLA Piper UK LLP
3 Noble Street
London
EC2V 7EE
United Kingdom
DX 33866 Finsbury Square
T +44 20 7796 6812
F +44 (0) 20 7796 6666
W www.dlapiper.com

Mr Martin Cave
Inquiry Chair - Ladbrokes/Coral Merger Inquiry
Competition and Markets Authority
Victoria House
Southampton Row
London
WC1B 4AD

Your reference

Our reference

SES/TAC
UKM/76496905.1

6 June 2016

Dear Mr Cave

ANTICIPATED MERGER BETWEEN LADBROKES PLC AND CERTAIN BUSINESS OF GALA CORAL GROUP LTD - POTENTIAL REMEDIES

This letter responds to the CMA's Notice of Possible Remedies which it published as part of its investigation into this anticipated merger on behalf of Boylesports, a leading LBO and online betting operator based in the Republic of Ireland. As explained below, Boylesports is potentially interested in acquiring LBOs to be divested by Ladbrokes and Gala Coral Group as a consequence of the CMA's inquiry.

BoylesSports is privately owned, with over thirty years of trading history in the betting market. The group operates over 200 shops, making it the second largest bookmaker in Ireland with a 20% share, as well as a strong online presence. The Irish betting market is highly competitive, with BoyleSports competing directly with Paddy Power (c. 260 shops) and Ladbrokes (c. 150 shops). BoyleSports is therefore an LBO operator of material scale and proven track record, competing with strong operators who also operate in the UK. Boylesports also has an online offering.

Structural remedies

BoyleSports notes the CMA's stated preference for structural, rather than behavioural, remedies, especially in the case of the Ladbrokes – Coral merger. As an operator of LBOs in the highly competitive Irish market, BoyleSports recognises that any attempt to impose restrictions upon on the products or pricing of all or part of the estates would significantly lessen the ability of the LBOs to evolve and compete within their local markets. This would especially apply if competing operators were to be aware of any restrictions and use them to gain a competitive advantage. Behavioural remedies could therefore substantially increase the risk of market distortion and lessen overall market competition. Behavioural remedies are also difficult to monitor and enforce. BoyleSports therefore agrees with the CMA that a structural remedy through the divestment of betting shops is the strongest option for delivering the stated objectives.

Benefits of a Single purchaser

Boylesports believes that, to the extent possible, Ladbrokes/Coral should be required to seek a single purchaser for all of the divestment betting shops. This is for two reasons. First, as well as the local dimension, there is a national dimension to

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UK switchboard
+44 (0)8700 111 111



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competition. Unless properly remedied by the CMA, that loss of competition will manifest itself in a deterioration in odds and overall service quality, to the detriment of consumers. The best way to ensure that there is no national loss of competition is for the shops to be sold as block to a single buyer. Second, while the CMA has said that any divestment should be 'substantially completed' prior to final approval of the merger, a sale to a single buyer prior to the final approval of the merger would eliminate the risk of the more difficult shops to sell remaining unsold and leading to a 'rump' estate for which it is impossible to achieve a divestment.

Purchaser criteria

BoyleSports believes the following criteria should be applied with regard to the potential acquirer :

- The acquirer will need to have proven experience of competing directly with strong betting brands in the shop environment; operators proven only in local 'clusters' are unlikely to be able to generate even the local market share needed to survive (as evidenced by the CMA's findings on customer behaviour around independents vs. national brands).
- The acquirer will need to have its own trading, IT, support, marketing and management capabilities in order to support the offer; the cost of providing such services will be substantial on a central basis, and very significant relative to the scale of the divestment without existing assets to leverage (again, this substantially mitigates the viability of the shops being acquired by a 'new' entrant or piecemeal divestments).
- The acquirer will need experience in running a betting brand, preferably with an existing brand and a betting shops estate to deploy; while c. 350-400 shops is a material number, it is not enough on its own - to establish a challenger brand, given that it represents less than 5% of British LBOs.
- The acquirer will need experience of running an estate on a national scale, given that the shops are likely to be spread across the country rather than in more easy to manage clusters
- The acquirer will need material online betting capabilities, given, as the CMA notes, the slow but material shift occurring to online forms of betting and the likely critical importance of an 'omni-channel' strategy in creating a sustainable GB betting shop estate in the near future

Taking these scale considerations as a whole, BoyleSports believes that the minimum size requirements of the combined entity to be a credible competitor would be an estate of c. 500 shops across the UK and Ireland. Anything lower would be incapable of achieving the economies of scale necessary from a brand, trading and operations management perspective to be considered a 'national' challenger.

The creation of a sub-scale brand would result in a large but weak 'independent,' unable to compete with the national operators, and therefore progressively less able to apply competitive pressure over time. It should be noted that the reduction of British independents due to these competitive pressures can be clearly seen from Gambling

Commission statistics, with independent LBOs broadly having halved from nearly 1,500 in 2009 to fewer than 800 now, a remarkable contraction in a period of just six years (It should be noted that Paddy Power does not fall in this category as it is a national brand across the UK and Ireland despite having only c. 340 shops in Great Britain, demonstrating that it is possible to operate on a cross-border, national scale).

The selection of the shops to be divested

Given the need to create a credible competitor to maintain levels of local competition, BoyleSports believes that there are significant risks in allowing the vendor to select the shops to be divested. From a competitive and financial standpoint, there will be a natural tendency to seek to divest the weakest shops in a given local area, especially if those shops are barely profitable, ensuring that the loss of their contribution will not significantly alter the profitability of the combined estate. While this would suit the vendor, it will not create a strong local or national competitor. Further, given the economic and regulatory risks attached to LBOs in Great Britain, BoyleSports believes that an estate of at least 'average' quality is required to ensure medium-term survival, and therefore further to ensure that the CMA's objectives are met for the medium term.

In order to mitigate or remove this risk, BoyleSports suggests a quality ranking mechanism should be put in place by the CMA, reflecting especially:

- Long-term revenue (amount and trends)
- Long-term profitability (amount and trends)
- Slip volumes (amount and trends)
- Cash flow dependency on gaming machines
- Relative performance to the other locally competing shops within the merged estate

This mechanism can weight shops in terms of quality and then the CMA can ensure that the bottom quartile is not allowed to be offered for divestment, or at least is not disproportionately represented, in order to protect the overall quality of the divestment.

If such a process is not possible in a timely fashion, BoyleSports would recommend a process where data on all 659 shops potentially to be divested is available to be examined by potential acquirers in a data room. This data access may need to be subject to appropriate confidentiality/use restrictions, especially where a potential acquirer might already be locally active. Potential acquirers could then assemble their bids for the LBOs to be divested based upon this data and submit to the CMA how they will be run in a sustainable and competitive manner. In this way the CMA's long-term objectives would be met, rather than creating a short-term divestment that inevitably leads to closures and therefore simply postpones the substantial lessening of competition.

Data for each shop would include:

- Revenue, costs and profitability on a per shop basis, including long-term trends
- Product mix
- Bet volumes
- Material product dependency (especially B2 content given regulatory risk)
- Size and layout
- Details of any lease commitments and any other contractual obligations
- Staffing requirements
- Value of any fixtures and fittings (to the acquirer)
- Details of any architectural, planning or connectivity (satellite/broadband) issues
- Details on exposure to high value customers
- Local competitive environment
- Shop and local safety and security
- Value of the shop from a brand presence and online perspective

BoyleSports believes that the number of potential acquirers is limited by both appetite and capability, especially given the CMA's very sensible requirement that they be 'qualified' (and also subject to a competition review to ensure that any divestments do not create local competition issues). The benefit of this approach is that qualified acquirers would understand the assets and operations well, so that a long period of due diligence should not be necessary. From a contractual completion standpoint, most suppliers are consolidated, while most expertise should be in-house, meaning the transfer of assets and operations should not be time consuming. The one potentially important exception to this (without further due diligence) is leaseholds, which are likely to be across a large number of landlords for the divesting estate. Some thought will therefore need to be given as to how this process can be made as efficient as possible (eg, vendor guarantees). Subject to the last point, BoyleSports does not believe a period longer than four months should be necessary for the divestment to take place.

The Boylesports proposition

Finally, BoyleSports believes that it is in a unique position to improve the competitive landscape of the British LBO market to the benefit of the GB consumer. This falls into three areas, which Boylesports would be very pleased to discuss further with the CMA:

Pricing

- BoyleSports operates in the highly competitive Irish market, where price competition and offers are more pronounced than in the UK; BoyleSports will bring this more attractive consumer pricing across the UK (evidenced by the impact that Paddy Power has had in its highly targeted markets)

Consumer Choice

- BoyleSports operates in a market where fixed odds betting terminals are restricted. This means that focus is entirely on the betting product; this has created an environment where customer service and customer choice are much more critical success factors than in Great Britain, a discipline BoyleSports would bring to the UK market

Innovation

- BoyleSports intends to become a major operator in the UK, but levels of market consolidation have prevented an entry of the required scale; BoyleSports sees significant product and customer-focussed innovation opportunities in a market that has delivered little in the last decade, and will invest material sums in UK shop and omni-channel innovation

Finally, Boylesports looks forward to engaging with the CMA during the divestment process. If the CMA would like to discuss this letter with Boylesports, it would be happy to do so.

Yours sincerely

SAM SZLEZINGER
Partner/Sub-Group Head (Competition)
DLA PIPER UK LLP