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Mr Martin Cave
Inquiry Chair - Ladbrokes/Coral Merger Inquiry
Competition and Markets Authority
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Your reference

Our reference

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13 June 2016

By email and Post

Dear Mr Cave

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

This letter sets out Boylesports' comments on the CMA's provisional findings.

Boylesports

BoyleSports is a leading LBO (retail) and online betting operator based in the Republic of Ireland. The business 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% market 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.

LBOs and brand competition at the national level

BoyleSports agrees with the CMA's findings that while the long-term effects of online sports betting on the LBO market are material, it is not a sufficiently powerful constraint to mitigate the immediate impact of a substantial lessening of competition: it is therefore appropriate to treat the LBO market as a discrete market in competition terms.

However, Boylesports considers that the CMA has given too much weight to local competition issues and insufficient weight to national competition. Notwithstanding that the top four companies account for 88% of the market, the CMA has concluded that the only potential loss of competition at a national level as a result of the merger may be the potential loss of innovation that might occur as a result of a loss of competition in some local areas. Boylesports wishes to emphasise that there is a substantial lessening of competition at a national level quite apart from the reduction of competition at a local level. Like competition between supermarkets, competition between LBOs occurs both nationally (e.g. through marketing and sponsorship) and at the local level and rectifying increases in local concentration is, on its own, insufficient to remedy the detriment to competition.

BoyleSports believes that there are three areas where the Ladbrokes/Coral transaction affects national competition:

1. increased consolidation reduces price competition on 'LBO-specific' product at the national level (since prices are overwhelmingly nationally set and nationally benchmarked);

2. increased omni-channel activity is likely to widen the performance gap even further between national brand performance and independent performance, further driving consolidation;

3. the GB market has already seen the number of LBOs reduce by 3.3% in just three years, with independent shops number halving in just six years, to less than 9% of the total; divestment into existing GB operators is likely to accelerate this national trend, lessening competition in multiple local markets as closures and consolidation continues.

As explained below, BoyleSports believes that the best way to mitigate these concerns about the lessening of competition at the national level is for the CMA to use the divestment process to create a strong challenger brand with proven capabilities and national scale.

The relationship with online betting

The relationship between online and LBO betting in Great Britain has a direct bearing on overall competition:

1. A significant proportion of the British LBO sector's revenue footprint (over 48%) is derived from products which have minimal online sales ; a strong local and national competitive LBO dynamic is therefore necessary to protect customers from price increases. As a consequence, divestments which preserve or increase levels of LBO consolidation could significantly increase the risk of price increases to customers within the LBO sector regardless of online competition.

2. A large (c. 2.5m) and increasing number of GB betting customers are 'omni-channel' (using retail and online); a divestment which preserves or accelerates sector consolidation limits the choices available to those customers, significantly lessening omni-channel brand/operator competition for a large customer segment.

It is worth elaborating on these two points, which BoyleSports believes is key to understanding how the merger and its remedies will impact the British LBO and betting market going forward.

First, on pricing competition from online products, while price competition from online channels is significant (discussed below), many products within the LBO environment are specific to the LBO betting environment and have limited (to no) online exposure; especially, for example:

- **greyhound racing** (c. 8% of total LBO revenue; overall GB greyhound revenue is derived 87% from LBOs, 13% online, despite overall British betting turnover being evenly divided between LBO and online);

- **B2 gaming machine** product (c. 33% of total LBO revenue; over 99% revenue from LBOs. Online offers roulette - the key product - but not in cash form and therefore not directly comparable; casinos are not sufficiently numerous to offer land based competition); and

- **football coupons** (c. 7% of total LBO revenue; overall GB football coupon revenue c. 70% from LBOs, c. 30% remote, despite football overall being 67% remote).

These three products together represent 48% of total LBO revenue. In each case, where online price competition is low due to customer preferences and/or the regulatory framework. Given this, BoyleSports is concerned that any divestiture which preserves or increases the already significant consolidation in the LBO industry (87% LBOs by number are owned by the top four brands; in the face of overall market contraction and particularly the contraction of independent LBOs) will cause consumers to be materially disadvantaged.

On the other hand, if the divestment were to create a significant new entrant (as the CMA's proposed divestment would do, if sold to a single buyer), it could create a national market share of c 4.5% by number of shops – a material starting market share for a fifth national brand and LBO-specific product price competition would much more likely be preserved.

Second, all major British LBO operators are attempting to actively migrate their retail customers to their online operations via various 'omni-channel' strategies (eg, see the recent financial announcements of William Hill, Ladbrokes, Coral, Paddy Power Betfair). In an increasingly omni-channel consumer environment (wider than sportsbetting), the ability to control and leverage a material number of shops at a national level is likely to become increasingly important. This is because a nationally distributed estate of shops provides both a brand presence and a transactional presence across channels: operators without this cannot effectively deploy an omni-channel offer to a material proportion of their customer base (since customers will have either an online-only choice, or the choice of a very small number of retail-online brands).

It is also important to state omni-channel competitiveness is not only a question of consumer prices (where an online presence provides mitigation to lower retail competition), but also the ability to use loyalty schemes and transact through cash, which is integrated between online and retail channels. These are very popular among customers; e.g., 35% of Coral's "Connect" omni-channel customers regularly use shops to deposit and withdraw online (they are also worth roughly double the value of non-Connect customers in revenue terms). This is a very significant proportion of the customer-base and it requires a national shop presence to deliver effectively: Coral described this as *"...a key differentiator for Coral.co.uk compared to online-only operators"* in its recent H1 results. In other words, the 'omni-channel' customer segment is large, discrete and would be materially impacted by a significant lessening of retail competition at local or national level.

As mentioned, a divestment which does not create a new entrant would not address the detriment to national competition, preserving and increasing a low level of consumer choice which could over time begin to disadvantage customers who wish to combine and online and retail experience (at 33% of retail and 50% of online customers, this triangulates at c. 2.5m already 'omni-channel' customers in GB: this is a significant and growing number). Conversely, the creation of a new entrant would ensure vibrant and sustainable supply-side competition for this significant and growing customer segment.

Competition between LBOs at the local level

BoyleSports agrees that proximity and clustering are key drivers of local competition for LBOs and sees the CMA's provisional local market identification methodology as appropriate. Of particular importance within the divestment process is to ensure that local competition is preserved and that divestment does not reduce local competition by switching ownership to operators who are already present in the local market. Given the clustered nature of many local LBO markets in GB, this is likely to impact a material number of the 659 local markets identified.

BoyleSports believes that while piece meal divestments to existing operators that are not present in the local area might be possible, this approach has three disadvantages:

- by involving several buyers, the complexities and risks of the divestment are increased, potentially jeopardising the requirement to have the divestment 'substantially completed' prior to approval;
- by dividing up the divested estate, the opportunity to create a material new entrant to ensure continued national competition will be lost; BoyleSports believes that a national market share of under 3% will be insufficient to create a new national brand (please see BoyleSports' submission on Remedies of 6 June 2016);
- by allowing existing operators to acquire material parts of the divested LBOs, it is likely that operators' decisions as to which LBOs to bid for will be based on local issues (such as 'cherry picking') which do nothing to address the national loss of competition).

BoyleSports believes that these substantial competitive risks can only be properly addressed by creating a fifth national competitor of sufficient scale to preserve and enhance existing competitive dynamics.

Loss of innovation

BoyleSports notes the CMA's view that there has been a lack of innovation within the British LBO market and largely agrees with its findings. BoyleSports believes that this lack of innovation is at least in part because of the levels of cash flow generated from gaming machines, which require very little operator intervention against betting products and rely to a much greater extent on its suppliers for innovation.

As an Irish LBO operator, BoyleSports is focussed on betting, which remains the primary purpose of British LBOs (despite now being only c. 45% of revenue, with mix moving increasingly towards gaming). It also notes that B2 gaming content (33% revenue; 55% revenue from machines overall) face considerable regulatory pressure. These two issues – Primary Purpose and machine regulation, combined with continued channel shift, are likely to combine in the short to medium term to make betting innovation crucial to the long-term survival of British LBOs. BoyleSports believes that these issues need to be taken into consideration by the CMA as part of the findings which drive the divestment process, given that a local divestment needs to be sustainable.

By focussing on betting, BoyleSports believes that – were it to acquire the LBOs to be divested - it is uniquely placed to provide an innovative, strong and sustainable British competitor, which will improve the competitive landscape of LBOs. Conversely, an acquisition that relies solely on operating synergies and machine revenue would not only continue the pattern of poor innovation, but could also be very fragile in terms of visible market changes: making the divestment unsustainable in its aim to mitigate a substantial lessening of competition over time.

Market entry or expansion as a mitigator of competition issues

The CMA has very sensibly stated that any acquirer must be 'qualified' in order to ensure credible long-term competition in operational as well as financial terms. BoyleSports wholly agrees with this approach. However, this appears to have led to the conclusion that a new entrant is unlikely. BoyleSports disagrees with this. The Irish betting market is very similar to the UK on a number of levels:

- 800 shops equates to 1 per every 6,000 people, vs. one per every 7,000 in GB: LBOs are a key part of Irish betting, with similar density;
- The betting product and content are very similar, revolving around horseracing, greyhounds and football (indeed, GB horseracing has a bigger turnover footprint in Ireland than Irish racing and the same content providers are used on similar commercial terms);
- The competitive landscape is very similar, with Ladbrokes and Paddy Power being BoyleSports key competitors (William Hill exited the market by selling its shops to BoyleSports);
- The revenue, operating costs and operating structure are also very similar; and
- Paddy Power has proved that an Irish operator can successfully enter the UK, providing a strong brand and a differentiated product.

These points, which BoyleSports would be delighted to discuss in more detail, mean that BoyleSports can be considered a qualified operator as well as a new entrant.

Divestment to a strong operator which is also a new market entrant is, in BoyleSports view, not just the best way but the only way to ensure that local divestment does not lead to a Substantial Lessening of Competition over time at either the local or the national level.

As mentioned above, Boylesports would be delighted to discuss with the CMA its comments on the CMA's provisional findings.

Yours sincerely

SAM SZLEZINGER
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