COMPLETED ACQUISITION BY NOVO INVEST GmbH ACTING THROUGH NOVOMATIC UK LTD OF TALARIUS LIMITED

Decision on relevant merger situation and substantial lessening of competition

ME/6637/16

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 28 October 2016. Full text of the decision published on 8 November 2016.

Please note that [✂] indicates figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.

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SUMMARY

1. On 24 June 2016, Novomatic UK Ltd (**Novomatic**) acquired Talarius Limited (**Talarius**) (the **Merger**). Novomatic and Talarius are together referred to as the **Parties**.

2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that the Parties' enterprises have ceased to be distinct and that the share of supply test is met. The four-month period for a decision, as extended, has not yet expired. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.

3. The Parties operate a total of 264 Adult Gaming Centres (**AGCs**)[1] in Great Britain and overlap in the supply of gaming products to the public through AGCs in 15 local areas (Barnsley, Bolton, Chesterfield, Clapham, Crewe, Darlington, Dartford, Grimsby, Leeds, Middlesbrough, Rotherham, Sheffield, Stevenage, Slough and Sunderland)[2]. The CMA considered whether casinos, licensed betting offices (**LBOs**), bingo halls, family entertainment centres (**FECs**) and pubs (collectively, referred to as **Alternative Gaming Venues**)[3] should be considered to be in the same frame of reference as AGCs. The CMA concluded that the available evidence does not support widening the product frame of reference to include all Alternative Gaming Venues, since consumers appear to value a variety of attributes in AGCs, including the range and types of gaming machines and games that are available, the atmosphere of the venue, and non-gaming services that are offered.

4. In line with the recent decisional practice of the CMA, the Parties submitted that 400 metres would be the appropriate starting point for the analysis of retail gaming, ie the supply of gaming products to the public in retail locations. The evidence available to the CMA indicated that typically consumers do not travel long distances to visit an AGC, and the Parties recognised that competition generally takes place very locally.

5. The CMA therefore assessed the impact of the Merger in the following frames of reference: the supply of gaming products through AGCs at the local level, using a 400 metres radius catchment area as a starting point and, where

[1] An AGC is a gaming venue that makes gaming machines available to the public under the licence defined in s. 150(1)(c) and s. 172(1) of the Gaming Act 2005, c. 19, as amended by the Categories of Gaming Machine Regulations 2007, Regulation 6 and by the Gambling Act 2005 (Gaming Machines in Adult Gaming Centres and Bingo Premises) Order 2011, art. 2. See the Appendix for a further discussion of different types of gaming venues.
[2] In these local areas, the Parties' premises are within a 1600 metre radius of each other.
[3] See the discussion of the different types of gaming venues in the competitive assessment from paragraph 65 below.

relevant, taking into consideration possible competitive constraints within an 800 metre radius.

6. The CMA considered each of the 15 local areas[4] where the Parties' AGC operations overlap. Novomatic has more than one AGC in three of these local areas – Middlesbrough, Darlington and Grimsby – with a total of 18 catchment areas around Novomatic AGCs. The CMA believes that there is no realistic prospect of a substantial lessening of competition (**SLC**) in 13 of these local areas[5] due to the significant constraints imposed by other AGCs, LBOs and/or bingo halls.

7. However, in respect of five local areas – Chesterfield, Clapham, Dartford, Darlington, around Northgate, and Grimsby, around Freeman Street – the CMA believes that after the merger an insufficient number of AGCs, LBOs and bingo halls remain to sufficiently constrain Novomatic. And that as a result, aspects of the Parties' offering, including but not limited to the range of gaming machines, the quality of their service, and their use of concessions may deteriorate post-Merger.

8. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of gaming products through AGCs in five local areas: Chesterfield, Clapham, Dartford, Darlington (around Northgate) and Grimsby (around Freeman Street).

9. The CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of vertical effects. Although the Novomatic may have the ability to foreclose access of competing gaming venues to the gaming machines it supplies (input foreclosure), it does not have the incentive to do so as the incentives of Novomatic will not change substantially as a result of the Merger. Novomatic would not capture sufficient displaced consumers for that strategy to be profitable and other suppliers of gaming machines and distributors of Novomatic gaming machines remain available.

10. Novomatic does not have the ability to foreclose upstream rival manufacturers, by choosing to stop acquiring gaming machines from these other manufacturers, mainly because the current suppliers of gaming machines would be able to find other customers for their products.

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[4] Grimsby is split into two areas for the purposes of the competitive analysis: one area around the Novomatic AGC in Victoria Street and the other around the Novomatic AGC in Freeman Street.
[5] Leeds, Sunderland, Middlesbrough (in both catchment areas around Newsport Road and Grange Road), Sheffield, Slough, Crewe, Bolton, Barnsley, Stevenage, Rotherham and Grimsby (around Victoria Street) and Darlington (around Tubwell Row).

11. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (**the Act**). Novomatic has until 4 November 2016 to offer an undertaking to the CMA that might be accepted by the CMA. If no such undertaking is offered, then the CMA will refer the Merger pursuant to sections 22(1) and 34ZA(2) of the Act.

ASSESSMENT

Parties

12. Novomatic is the holding company for the UK activities of Novomatic AG, an Austrian company privately held by Professor Johann Graf through Novo Invest GmbH. Novomatic is active in the production, marketing and distribution of gaming machines, and the operation of AGCs and other licensed gaming venues in the UK. Novomatic operates AGCs under different brands, including Nobles and Admiral.[6] The turnover of Novomatic in the UK for the year ended 31 December 2015 was £ [✂] million, with turnover generated by its 95 AGCs and six FECs and bingo halls of £ [✂] million for the same period.

13. Talarius, through its subsidiary RAL Ltd, owned 169 AGCs in Great-Britain, operating under the brand Quicksilver. The UK turnover of Talarius in the financial year ended 11 June 2015 was £ [✂] million.

Transaction

14. Novomatic acquired the entire share capital of Talarius from European Gaming Ltd for a consideration of £ [✂] million on 24 June 2016.

Jurisdiction

15. As a result of the Merger, the enterprises of Novomatic and Talarius have ceased to be distinct.

16. The Parties overlap in the supply of gaming products to the public through AGCs in Great Britain. Novomatic submitted that the Parties have a combined share of supply, in terms of Gross Gambling Yield (**GGY**),[7] in the AGC sector in Great Britain of [30-40]% (increment [20-30]%). The CMA therefore believes that the share of supply test in section 23 of the Act is met.

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[6] The other brands under which Novomatic operates its gaming venues are: Sun Valley Amusements; Reel Star; Newton's Amusements; Shoppers Pride Amusements; Playland Amusements; Harrisons Amusements; Old Town Amusements; Family Amusements; and Moreton Amusements.
[7] Under the Gambling Commission's standardised definitions, the Gross Gambling Yield ('GGY') is the amount retained by operators after the payment of winnings, but before the deduction of the costs of the operation.

17. The CMA also believes that the share of supply test is satisfied on a local basis in a number of areas including Slough[8] where the Parties represent two of the three AGC operators identified by the Parties. The CMA also believes that the jurisdictional test is satisfied through the aggregation of the areas in which the Parties operate, which together constitute a substantial part of the UK.[9]

18. The Merger completed on 24 June 2016 and was first made public on 27 June 2016. The four-month deadline for a decision under section 24 of the Act is 31 October 2016. This period includes an extension of seven calendar days, under section 25(2) of the Act.

19. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.

20. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 6 September 2016 and the statutory 40 working day deadline for a decision is therefore 31 October 2016.

Counterfactual

21. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For completed mergers the CMA generally adopts the pre-merger conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.[10]

22. In this case, there is no evidence supporting a different counterfactual, and the Parties and third parties have not put forward arguments in this respect.

23. Therefore, the CMA believes the pre-Merger conditions of competition to be the relevant counterfactual with the exception of Stevenage, where Novomatic had already decided to move its venue to a location previously owned by a competitor prior to the merger, and Rotherham, where Talarius had already decided to close one of its venues prior to the merger. Since these decisions

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[8] In *Tesco/Co-Op* (2007) the Competition Commission found that the Borough of Slough represents a 'substantial part of the United Kingdom' for the purposes of section 23(3) of the Act.
[9] See Mergers: Guidance on the CMA's jurisdiction and procedure paragraph 4.62.
[10] *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.5. The *Merger Assessment Guidelines* have been adopted by the CMA (see *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, Annex D).

were taken prior to the merger (although implemented subsequently) the CMA has incorporated them into the counterfactual.

24. The CMA also took into account in its assessment openings and closures of AGCs operated by competitors that occurred after the Merger.

Background

25. The Gambling Act 2005 regulates gaming machines and specifies the numbers and categories of these gaming machines allowed on any licensed betting and gaming premises by reference to the type of licence held by such premises.

26. Gaming machine categories (from A to D)[11] are determined by reference to the maximum stake and the maximum prize, and in the case of each category, subject to limits on the number of gaming machines allowed in each premises.

27. B2 gaming machines are permitted to accept a maximum stake of £100[12] and the maximum payout is £500. For B3 gaming machines the maximum stake is £2 and the maximum payout is £500. For category C gaming machines the maximum stake is £1 and the maximum payout is £100. For D gaming machines the maximum stake is £1 and the maximum payout is £50.

28. An LBO licence authorises the holder to make available for use up to four gaming machines, each of which must be either Category B2, B3, B4, C or D machines. In practice, the vast majority of LBOs only provide gaming machines offering both Category B2 and B3 content.

29. An AGC licence authorises the holder to make available a number of Category B3 or B4 gaming machines not exceeding 20% of the total number of gaming machines available on the premises. There is no limit to the number of Category C or D gaming machines permitted by an AGC licence.

30. A bingo hall licence also authorises the holder to make available a number of Category B3 or B4 gaming machines not exceeding 20% of the total number of gaming machines available on the premises. There is no limit to the number of Category C or D gaming machines permitted by a bingo hall licence.

31. Depending on the size of the casino, a casino licence authorises large casinos to make available up to 150 gaming machines (of categories B1, B2, B3, B4, C, or D) provided that there is at least one gaming table for every five gaming machines. Smaller casinos are authorised to make available up to 80 gaming

[11] Gaming Machine Regulations 2007 (as amended). See Annex for a list of the categories.
[12] No more than £50 can be staked without either staff intervention or the use of account-based play.

machines (of categories B1, B2, B3, B4, C, or D) provided that the number of gaming tables is at least half of the number of gaming machines,

32. The different types of gaming venues and categories of gaming machines are discussed further in the Annex to this decision.

33. Table 1 below, based on Gambling Commission data, shows the average GGY generated by each category of gaming machine in each type of venue. For the purpose of this Table, the revenue from a given machine was allocated to the highest category of game that can be played on that machine.[13]

Table 1: Average annual GGY in each type of gaming venue by category of machine

Average GGY per venue (£)	Casino	Betting	Bingo	AGC	FEC	Average for all types of venue, weighted by number of gaming machines
B1	1,113,129	-	-	-	-	1,113,129
B2	107,891	192,633	-	-	-	191,242
B3	204	89	290,401	111,008	-	164,393
B4	-	-	902	119	-	350
C	-	6	178,698	77,033	11,815	95,095
D	-	-	27,362	15,563	192,808	40,918
Aggregated categories[14]	-	505	11,018	17,628	25,068	18,776
Total	1,221,224	193,232	508,381	221,344	229,692	227,881

Source: Gambling Commission data and CMA analysis

Frame of reference

34. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merger parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.[15]

[13] Gaming machines typically offer customers the option of playing more than one game, and these games may have different maximum stakes and prizes, and therefore fall in different categories.
[14] The 'Aggregated categories' row contains revenue for which the company did not specify the category of machine.
[15] *Merger Assessment Guidelines*, paragraph 5.2.2.

35. The CMA's approach to market definition is to start with the narrowest plausible candidate frame of reference and see if this can be widened on the basis of demand- and supply-side substitutability factors.[16] The CMA considers that the supply of gaming products through AGCs is an appropriate starting point for assessing the frame of reference.

Product scope

36. The Parties overlap in the supply of gaming machine services to the public through AGCs[17] in Great Britain.

37. Novomatic submitted that the market definition should be wider to include all venues that offer similar gaming machines to those found in AGCs and that are reported within the Gambling Commission's statistics. This would include the Alternative Gaming Venues.

38. In the recent Ladbrokes/Coral phase 2 report, the CMA concluded that AGCs were not a part of the relevant product market for LBOs.[18] This was based to a large extent on the relatively low diversion rates found from LBOs to AGC competitors. However, this finding does not preclude a relatively high diversion rate from AGCs to other gaming venues. Given that there are many more LBOs than AGCs,[19] and that LBOs offer not only gaming but also betting products, it is plausible that there might be an asymmetric constraint between these different types of gaming venues.

39. Nevertheless, the CMA believes that the available evidence does not support widening the product frame of reference to include all Alternative Gaming Venues. Consumers appear to value a variety of attributes in AGCs, including the range and types of gaming machines and games that are available, the atmosphere of the venue, and the non-gaming services offered.

40. The evidence, which is discussed in greater detail in the discussion of competitive effects below (paragraphs 0 to 100), indicates that many consumers do not consider Alternative Gaming Venues as sufficiently close

[16] *Merger Assessment Guidelines*, paragraph 5.2.
[17] The CMA considered whether its candidate frame of reference should distinguish between different categories of gaming machine (eg the supply of category B3 gaming products through AGCs). However, the evidence available to the CMA indicates that customers often switch from one type of gaming machine to another, such that there appears to be a degree of demand-side substitution between types of machines within a venue. Moreover, the CMA has received evidence that consumers consider attributes of gaming venues other than the availability of a particular gaming machine when choosing a venue. On this basis, it is appropriate to use AGCs as the starting point for an assessment of the product frame of reference and then to consider potential substitution to other venues, rather than to consider substitution only on the basis of the availability and features of categories of gaming machines.
[18] Ladbrokes/Coral final report 2016, paragraph. 6.80-6.87.
[19] The most recent Gambling Commission statistics show that there are 1429 AGCs and 8809 LBOs currently trading. Cf. Novomatic submission dated 22 July 2016, p3.

substitutes for AGCs to be included in the same product frame of reference as each venue type is differentiated from AGCs in important respects, including attributes that some consumers appear to value in AGCs (eg high numbers of gaming machines and overall atmosphere). While the boundaries of the relevant product market are generally determined by reference to demand substitution alone,[20] the CMA may widen the scope of the market where there is evidence of supply-side substitution. In this respect, the evidence available to the CMA shows that currently LBOs, bingo halls and AGCs all tend to specialise in their respective area of venue expertise. There is no company with a substantial presence in more than one of these three sectors. Further, the CMA has received no evidence indicating that owners of LBOs have converted these venues into AGCs. The CMA received limited evidence from third parties to suggest that widening the product scope was justified.

41. The games which are offered through an AGC are also available online, which consumers can play through computers or mobile devices. Therefore, the CMA also considered whether online gaming is likely to provide a sufficient constraint to be included in the product frame of reference. The CMA did not consider there to be sufficient evidence to support the inclusion, but discusses the potential constraint from online gaming further below (paragraphs 120 to 123).

Conclusion on product scope

42. The CMA believes that there is insufficient evidence that the supply of gaming products in Alternative Gaming Venues or online gaming should be included in the product scope. Therefore, the CMA has considered the impact of the Merger in the supply of gaming products through AGCs. However, the CMA considers the potential competitive constraints from Alternative Gaming Venues and online gaming further in its discussion below on competitive effects.

Geographic scope

Local dimension

43. As explained below, some competitive parameters of the Parties' offering are determined by reference to local conditions of competition (eg concessions, number and type of gaming machines available in each AGC, opening hours, level of staffing and location).

[20] *Merger Assessment Guidelines,* paragraph 5.2.17.

44. The Parties submitted that the analysis in Ladbrokes/Coral is applicable to the AGC sector as well. Therefore, they suggested that '400 metres would be the appropriate starting point for the analysis of retail gaming'.

45. Novomatic submitted that while the Parties operate a total of 264 AGCs in Great Britain, the Parties overlap in 15 areas: Barnsley, Bolton, Chesterfield, Clapham, Crewe, Darlington, Dartford, Grimsby, Leeds, Middlesbrough, Rotherham, Sheffield, Stevenage, Slough and Sunderland, where there are AGCs of both Parties within a 1600 metre radius.[21]

46. The CMA's starting point is the recognition that consumers gamble in AGCs within a given travel time from their point of origin and that from a consumer's perspective competition between AGCs depends on the distance that they are prepared to travel to alternative AGCs.

47. Consumers are unlikely to travel long distances to visit an AGC due to the nature of the service offered, and this is corroborated by survey evidence we have seen.[22] The Parties also recognised that competition generally takes place locally and that the proximity of an AGC to another gaming venue, whether an AGC or another type of venue, is an important dimension of competition. This is discussed further in the competitive assessment section.

48. In the Ladbrokes/Coral Phase 2 report, the CMA considered the geographic frame of reference to be the area within 400 metres radius of the LBO upon which the analysis was focused. The CMA also took into account all competition within an 800 metre radius.[23]

49. The CMA has, on a cautious basis, adopted a similar approach in identifying the geographic frame of reference applying to AGCs. We consider that it is unlikely, given the nature of the product, that consumers would consider travelling considerably further than 800 metres, and have not seen any evidence of this being the case.

50. Nevertheless, in determining whether the transaction gives rise to a realistic prospect of an SLC the CMA has not applied these reference distances (of 400 and 800 metres) in a mechanistic way. The CMA also considered specific geographic features of the local areas which may influence consumers' choice of venue, and the extent of the geographic market, such as whether alternative venues are located within shopping areas or are divided by major roads or other physical barriers. Furthermore, in its competitive assessment

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[21] As discussed further below, in Clapham the Parties noted that customers may be more willing to travel further given the well-developed public transport links.
[22] [✂].
[23] Ladbrokes/Coral final report, paragraphs 7.81 and 8.44, inter alia.

the CMA took into account that the constraint of competing AGCs diminishes as distance increases.

National dimension

51. There are parameters of the Parties' offering that are determined centrally and applied uniformly across the Parties' estates (eg Return to Player (**RTP**), and promotions such as Cash Match).

52. Even though these parameters of competition may reflect an aggregation of local constraints, the Parties provided evidence that these are not 'flexed' at the local level and are instead set centrally and applied uniformly across the Parties' estates.

53. In the present Merger, the CMA will not assess further the effects of the Merger at the national level, given that the Talarius AGCs overlap with Novomatic AGCs in a small proportion of all the areas across Great Britain in which Novomatic operates.

Conclusion on frame of reference

54. For the reasons set out above, the CMA has considered the impact of the Merger in the following frames of reference: the supply of gaming products through AGCs at the local level in the 15 overlap areas referred to above at paragraph 45, using a 400 metre radius catchment area as a starting point and, where relevant, taking into consideration possible competitive constraints within an 800 metre radius.

Competitive assessment

Horizontal unilateral effects

55. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or degrade quality on its own and without needing to coordinate with its rivals.[24] Horizontal unilateral effects are more likely when the merger parties are close competitors.

56. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to unilateral

[24] *Merger Assessment Guidelines*, from paragraph 5.4.1.

horizontal effects in the supply of gaming products through AGCs in the 15 local areas outlined above.

57. The unilateral effects arising from the Merger may lead to a worsening of the parameters of the Parties' offering that are flexed locally, including the range of their gaming machines, opening hours, the quality of their service and their use of concessions.

58. In its assessment of unilateral effects in each local area, the CMA took into account:

(a) the closeness of competition within the relevant catchment areas taking into account both fascia count and venue count; and

(b) the competitive constraints from alternative suppliers.

59. The CMA decided that, given the relatively small number of overlap areas to be assessed in this Merger, it was not necessary to use any filtering methodology. The CMA assessed the particular conditions of competition of each overlap area individually.

Shares of supply

60. In terms of the Parties' shares of supply in the supply of gaming products through AGCs, the local areas under consideration, taking an 800 metre catchment area can be grouped together as follows:

(a) The Parties are the only AGCs in Chesterfield, Clapham, Darlington, Dartford, Grimsby, Rotherham, and Stevenage.[25]

(b) In Barnsley, Crewe and Slough, the Parties each have one venue. There is one third-party AGC.

(c) In Sheffield, the Parties each have one venue. There is one third-party AGC and an additional third-party AGC is expected to open shortly.

(d) In Middlesbrough, Talarius has one venue and Novomatic has two. There are two third-party AGCs.

(e) In Bolton, the Parties each have one venue. There is a third-party that owns two AGCs.

[25] The Parties own one AGC each in Chesterfield, Clapham, Dartford, and Stevenage. In Darlington, Novomatic owns two venues and Talarius one, In Rotherham Talarius owns two AGCs, although prior to the Merger one was earmarked to be closed, and Novomatic one, and in Grimsby the Parties own two AGCs each.

(f) In Leeds, Talarius has two venues and Novomatic has one. There are three third-party AGCs.

(g) In Sunderland, the Parties each have one venue. There are three third-party AGCs.

Closeness of competition

61. In order to assess how closely the parties compete, the CMA has considered, within its assessment:

(a) Similarity in the Parties' service proposition;

(b) Evidence from internal documents; and

(c) Third party views on closeness of competition.

The Parties' service proposition

62. In some important respects, the Parties' service proposition is fixed by law. Under relevant legislation, the Parties are limited to gaming machines of category B3 and below, and generally B3/B4 gaming machines may not exceed four per venue or 20% of the total number of gaming machines in each venue, whichever is the greater. While there is evidence that Talarius has invested less in their AGCs in recent years relative to Novomatic, the evidence available to the CMA suggests that the look and feel of the Parties' AGCs are reasonably similar[26] and that they have a similarly wide range of games available to consumers.

Internal documents and third party submissions

63. Consumer survey evidence submitted by Novomatic shows no material differences between each Party's customer base in terms of demographics, socio-economic background or gambling habits. This research was not specifically conducted in the local areas of interest in this case, but the CMA considers that it indicates that AGCs compete with each other, particularly on a local basis. Responses to the CMA's market testing also indicate that AGCs present in the same local area are each other's closest competitors. Given the evidence on the similarity between the parties' offerings (in terms of range and number of machines and games offered, type of environment), the Parties may be expected to compete with each other when in close proximity. Given that the Parties compete locally in only a limited part of their estates, the CMA

[26] [✄].

does not place weight on the absence of explicit references to the other Merger Party in the internal documents that were submitted to the CMA.

Conclusion

64. The CMA believes that the parties are likely to compete closely with each other in the identified local areas of overlap and are likely to compete more intensely the closer they are geographically.

Competitive constraints from alternative suppliers

65. Unilateral effects are more likely where consumers have fewer choices of alternative supplier. The CMA assessed the competitive constraint on the combined entity from both other AGCs, and Alternative Gaming Venues. In its assessment the CMA took into account for AGCs and each Alternative Gaming Venue: (i) the number and type of gaming machines and games offered in each of these gaming venues, in light of the legal limits; (ii) the profile of their customers; (iii) their service proposition and social elements associated with gaming in each of these gaming venues.

AGCs

- *Number of gaming machines and type of games*

66. AGCs have a decreasing proportion of overall machine numbers and GGY earned from gaming machines. The proportion of gaming machines within Arcades has decreased from 46% of the total number of gaming machines in 2008/09 to 30% in 2014/15. The proportion of gaming GGY earned by AGCs has decreased from 21% in 2008/09 to 12% in 2014/15.

67. This reflects, in part, the fact that, since 2008/09, the total number of machines in AGCs has decreased from 72,293 to 49,801, a reduction of 22,492 or 31%. The reduction in machine numbers is mirrored in the reduction in GGY in AGCs, which has reduced from £398m in 2008/09 to £310 million in 2014/015, a reduction of £88 million or 22%.

68. The Gambling Commission’s data in Table 1 shows that AGCs receive almost half of their revenue from Category C and D gaming machines, a category for which only bingo halls appear to offer a substitute.

69. In eight of the 15 local areas considered, there are one or more third-party AGCs, in addition to the Parties’ venues. These AGCs are typically similar to the Parties’ venues in terms of size, numbers of category B3 and C gaming machines, atmosphere, location and customer base. Therefore, the CMA

believes that in any given local area it is appropriate to start by assuming that, for a given distance, third-party AGCs exert a similar competitive constraint as the Parties do on each other.

70. However, in some local areas there is evidence that the third-party AGCs are substantially smaller than the Parties' venues, or have substantially fewer B3 gaming machines, or are constrained by their location or a significant lack of investment and modernisation. In those instances, the CMA has treated them as a weaker competitive constraint.

- *Type of customers*

71. The Parties submitted consumer surveys previously conducted:

(a) Talarius submitted: (i) a Loyalty Card Holders Survey conducted in August 2013 (ii) a Loyalty Card Holders Survey conducted in September 2014 (iii) a face to face survey and 'panel survey' of Talarius customers conducted in April 2016, which focused mostly on drivers of customer satisfaction[27] and (iv) a panel survey conducted in August 2013, which covered gambling customers in general, not only Talarius customers.[28]

(b) Novomatic submitted a survey conducted in August 2014 on the importance of the brand of the venue and the existing reputation of the brands used by Novomatic.

72. The results of these surveys indicate that the customers of AGCs are in the large majority [✂] and more than [✂] % are in the [✂] age range. This survey evidence also indicates that more than [✂] % of the respondents reported a household income of less than £ [✂].

73. The 2013 and 2014 Talarius Loyalty Card Holders surveys indicate that customers spend in average around [✂] hours in a Talarius AGC, [✂] the most popular time for visiting an AGC.

- *Service proposition*

74. Novomatic's internal documents and survey evidence highlight the importance of [✂] as important factors for customers satisfaction.

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[27] [✂].
[28] [✂].

75. In the survey conducted by Novomatic in 2014, customers ranked highest [✂] when customers were asked which product characteristics they considered most important.

76. This indicates a strong social aspect associated with gambling in AGCs.

Bingo halls

- *Number of gaming machines and type of games*

77. The proportion of revenue generated by gaming machines in bingo halls increased significantly (from 19,212 in 2008 to 55,157 in 2014/2015), in particular after regulatory changes in 2012, which allowed bingo halls to operate up to 20% of the gaming machine estate as category B3 machines, from the previous maximum of eight B3 machines.

78. The proportion of the total bingo halls GGY generated from gaming machines increased from 30% in 2008/2009 to 46% in 2014/2015.[29]

79. The CMA notes that bingo halls offer C and D gaming machines which is not typically the case with other gaming venues, particularly LBOs. Moreover, bingo halls in high street locations may be former AGCs that have switched to an alternative licence for regulatory reasons.[30] The CMA understands that bingo halls may provide similar gaming machines and games as are available in AGCs.

- *Type of customers*

80. Third party evidence indicates that bingo halls and AGCs have different types of customers, and that customers whose primary intention is playing a gaming machine tend to favour AGCs. A third party submitted that many customers visit bingo halls to play bingo and often limit their playing of gaming machines to periods between bingo sessions while, in contrast, AGC customers visited AGCs purely to play gaming machines.

81. Moreover, survey evidence[31] indicates that only 12% of respondent bingo hall visitors had played a non-bingo game on a slot machine in the previous 12

[29] Ipsos MORI | Bingo Research - Problem Gambling in Licensed Bingo Premises - Final Report, 2016.
[30] The CMA has not received any evidence that this has occurred with the bingo halls in the local areas of interest here.
[31] Mintel (March 2016), Casinos and Bingo, p46.

months. In a survey conducted by Mintel of all people who said they played gaming machines, only 20% said they had done so in a bingo hall.[32]

- *Service proposition*

82. In terms of service proposition, third party evidence indicates that both AGCs and bingo halls provide opportunities to gamble in a social setting.

83. Third parties submitted many customers come in groups or interact with other customers while they play, and the beverages and other consumptions that customers say they value in AGCs are also available in bingo halls.

84. As stated in the Mintel Report 'Casinos and Bingo'[33] bingo halls have a strong social side and that a less intense, more relaxed experience is important for their competitive strength.

85. With regard to location, bingo halls are often not located on the High Street or in town centre shopping areas where AGCs are typically found, but slightly further away. This is because they typically require larger premises.[34]

- *Closeness of competition between the Parties' AGCs and bingo halls*

86. Bingo halls are found in ten of the 15 local overlap areas. Specifically, there are bingo halls within 400 metres of a Novomatic centroid[35] in Barnsley, Crewe, Darlington, Leeds, Rotherham, Sheffield, Stevenage, and Sunderland and between 400 metres and 800 metres from the centroid in Chesterfield and Grimsby. Therefore, the competitive constraint that they may apply is only relevant to these areas.

87. The Parties submitted that bingo halls provide an effective alternative to AGCs. Some of their internal documents indicate [✂]. In one instance, the Parties have also taken steps to [✂].[36]

88. The CMA considers the evidence to be mixed on the constraint provided by bingo halls on AGCs. Whilst AGCs and bingo halls are increasingly similar in terms of their number of gaming machines and games offered in their premises and have a common social aspect to their offer proposition, the main purpose for a customer visiting a bingo halls and an AGC is different. On the

[32] Mintel (June 2015), Gambling Review, p60.
[33] Mintel (March 2016), Casinos and Bingo.
[34] Novomatic referred the CMA to newspaper reports about plans by Rank to open more than 100 smaller convenience-style bingo halls in High Street locations (see Rank plots 'convenience' bingo chain after abandoning William Hill takeover). However, the CMA considers that these plans are not sufficiently progressed for us to be able to take them into account.
[35] A centroid is an individual venue on which a particular catchment area was centred.
[36] [✂].

basis of the evidence, the CMA believes that bingo halls impose a moderate or partial degree of competitive constraint, but that this constraint is likely to be less than that of another AGC. Therefore, on a cautious basis, the CMA has treated bingo halls as providing a competitive constraint of 50% of an AGC.

LBOs

89. The CMA examined a variety of evidence on the extent of constraint an LBO would impose on AGCs given that LBOs offer gaming machines and are often in close proximity to AGCs.

- *Number of gaming machines and type of games*

90. There is substantial evidence of the growth of use of gaming machines in LBOs. Since 2008/09 the total number of machines within LBOs increased from 31,979 to 34,685. Over the same period, the increase in GGY generated from gaming machines in LBOs increased from 39% to 54%.

91. As mentioned above, LBOs are allowed to offer all of the same gaming machines as AGCs and bingo halls, while the reverse is not true, as only LBOs can offer B2 gaming machines (see paragraphs 28, 29, and 30 above).

92. Gambling Commission data shows that LBOs typically focus on the highest category of machine that they are permitted to offer, ie B2 gaming machines (see Table 1). These gaming machines have proven to be very popular and offer higher stakes and higher money prizes than are available in AGCs.

93. B2 gaming machines are often able to offer lower category games as well and that about 40% of the revenue of B2 gaming machines in LBOs actually comes from customers playing B3 games, however, it is normally recorded as B2 gaming revenue for regulatory reasons.[37] In this regard, the Parties submitted and provided internal documents indicating that [✂].

94. The CMA has also considered whether the legal rule that limits LBOs to four gaming machines might cause them to be less of a competitive constraint on AGCs.

95. While a machine in an LBO may hold many games, including B2, B3 and C games, there are typically fewer games available than in an AGC, and it is clear that LBOs have fewer gaming machines, in particular gaming machines

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[37] [✂].

offering B3 games. Internal documents submitted by the Parties indicate that [✂].

96. As a result of the fewer gaming machines in LBOs, a gaming machine with the game a customer wants to play may not be available in an LBO during busy periods. Third party responses from LBOs indicate that utilisation rates were typically high enough for all four gaming machines to be fully occupied from time to time. However, these responses suggested that the typical gaming session in an LBO is less than 10 minutes, and that their customers would generally wait for a gaming machine to become available rather than go to another venue.

- *Type of customers*

97. AGC and LBO customers have very similar demographics. However, there are some differences between the type of customers that visit AGCs and LBOs. The reasons that consumers visit LBOs tends to be either betting, or betting and playing gaming machines whilst there.[38] Survey evidence indicates that only a relatively small proportion of consumers will visit an LBO with the primary purpose of playing gaming machines.[39] The difference in the primary purpose of most consumers' visits to LBOs and AGCs may limit the extent to which consumers switch between these two types of venue. This is reflected in Talarius' survey evidence[40] showing that [✂].

98. Furthermore, consumer survey evidence submitted by Talarius covering its existing customers shows that gaming machine sessions in AGCs are typically [✂] than what the CMA understands to be the case for LBOs. Third parties explained that: (i) AGC customers will typically play for a longer period of time but stake less per spin; and that (ii) AGC customers are less likely to enjoy the types of games typically offered on B2 gaming machines in LBOs. This evidence indicates that there is a difference between the players who play B2 gaming machines in LBOs and the players who play B3 gaming machines in AGCs.

- *Service proposition*

99. The look and feel of LBOs is usually quite different from an AGC. Survey data provided to the CMA suggests [✂]. The same level of privacy may not be available in many LBOs. The CMA was informed by third parties that many

[38] [✂], [✂].
[39] [✂], [✂].
[40] Ibid, [✂].

consumers value the sociability of an AGC venue, including the complimentary drinks and seating that are provided.

100. The Parties recognise that [✂][41] and Novomatic has [✂]. Some of the evidence provided by the Parties and third parties to the CMA suggests that LBOs do not provide a similar offering in this regard and this may sufficiently differentiate them so as to limit the competitive constraint they place on AGCs. However, the CMA also took into account evidence submitted by the Parties that some LBOs operators are changing their offering to become more similar to AGCs.

101. As mentioned above, AGC customers tend to play for longer periods than LBO customers. Therefore, LBOs appear less attractive for customers seeking longer playing sessions, particularly if there are other customers waiting to use a gaming machine.

102. LBOs and AGCs tend to be located in close proximity, in similar High Street locations.

- *Closeness of competition between the Parties' AGCs and LBOs*

103. The Parties submitted that the LBOs in each of the local overlap areas are close competitors to AGCs. They have provided evidence that AGCs [✂]. The Parties' internal documents also make reference to LBOs, and campaigns which indicate that the Parties may compete with LBOs for some customers.

104. The Parties' internal documents indicate that:

(a) Novomatic [✂];

(b) Novomatic [✂];

(c) Novomatic [✂];

(d) Novomatic [✂];

(e) Novomatic's [✂];

(f) Talarius [✂];

(g) Talarius has at times [✂].

105. The Parties also provided extracts of trade press and other reports which imply a trend towards a lessening of the differences between the LBOs' and

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[41] [✂].

AGCs' offerings regarding gaming machines.[42] These documents show that LBOs are likely to expand their focus on lower odds gaming, including through the offer of B3 games.

106. The CMA considers the evidence to be mixed on the constraint provided by LBOs on AGCs. Despite the increase in the gaming machines offered by LBOs, the type of games offered in LBOs and AGCs and overall atmospheres differ to some extent and the customers' main purpose to visit an LBO is betting. On the other hand, evidence submitted by the Parties indicate that the Parties [✂].

107. On the basis of this evidence, the CMA believes that LBOs impose a moderate degree of competitive constraint, but that this constraint is likely to be less than would be exerted by another AGC. Therefore, on a cautious basis, the CMA has treated LBOs as providing a competitive constraint of 50% of an AGC.

Casinos

108. Casinos are found in four of the 15 local overlap areas.

- *Number of gaming machines and type of games*

109. Gaming machine income has increased from £104 million in 2008/09 to £180 million in 2014/15, an increase of 73%. In the same period, the number of gaming machines has increased from 2,527 to 2,833, an increase of 12%.

110. Only Casinos offer gaming machines with the highest level of prizes (B1 gaming machines). The vast majority of Casino machines are therefore reported as B1 gaming machines although they may also offer B2 and B3 on the same gaming machine within the game library.

- *Type of customers*

111. Data of the Mintel Report 'Casinos and Bingo' indicate that casino customers tend to be younger than AGC customers and that casino visitors are focused primarily on the gaming table and the bar, and to a much less extent on gaming machines. The Mintel Report includes survey evidence showing that only 29% of respondent casino visitors had played a slot machine during a visit in the previous 12 months.[43]

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[42] Mintel (June 2015), Gambling Review: '…bookmakers are already working hard to develop lower-stake and prize B3 alternatives'.
[43] Mintel (March 2016), Casinos and Bingo, p43.

- *Service proposition*

112. Third parties typically ranked casinos as a relatively weak constraint. The reason for this is likely to be that casinos are primarily considered a destination for different types of gambling, and for gambling in a different atmosphere than the Parties typically provide.

- *Closeness of competition between AGCs and casinos*

113. The Parties submitted that casinos are an alternative for customers if the AGC is in close proximity to a casino. Although the Parties [✂], the Parties have not submitted other evidence indicating that they perceive casinos as close competitors.

114. On the basis of this evidence, the CMA believes that casinos do not provide a relevant competitive constraint on the Parties.

Pubs

115. The Parties submitted that the presence of pubs and clubs impose a competitive constraint on the AGCs in their proximity.

116. Pubs can only have category C or D gaming machines.[44]

117. Third parties typically ranked pubs as a weaker constraint than any other type of venue. The reason for this is that the primary purpose of visiting a pub is to drink and socialise, and potentially engage in gaming, rather than solely visiting to play the gaming machines. This is also reflected in the fact that pubs are able to maintain a significantly lower RTP. If pubs competed with other gaming venues for gaming customers, the CMA would expect the difference to be much smaller.

118. On the basis of this evidence, the CMA believes that pubs do not impose a relevant competitive constraint on the Parties.

Family Entertainment Centres

119. The CMA has not assessed the strength of the constraint imposed on AGCs by FECs as there are no FECs within the local overlap areas.

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[44] Cf. the recent ruling holding that the Gambling Commission was entitled to refuse pub chain Greene King an operator licence for bingo games. Gambling Commission v. Greene King, [2016] UT 0050 (AAC).

Online gaming

120. The Parties submit that there is a significant constraint from online gaming. They provided evidence showing that, in the year to September 2015, remote slot betting generated £1.418 billion of GGY in the UK. The Parties suggested that the rise of online gaming is among the key causes of the recent decline in the number of AGCs.[45] Moreover, they provided evidence showing that the same games are often available online – including on mobile platforms – and on gaming machines in the Parties' retail venues and evidence showing that many of its customers consider online gaming a viable alternative.

121. Talarius submitted a survey where [✂] respondents said they had an online gaming account with another betting/gaming company.[46] However, it is not clear from that survey if and how consumers typically divide their spending between online and offline. Even if a high proportion of those consumers using online slot machine games also use AGCs, this does not necessarily mean that these consumers see these two channels as close substitutes. Rather, they may see these services as complementary.

122. The CMA has not been provided with very much evidence to show directly the constraints that online gaming may place on AGCs, or that, even if some broad constraint exists, this would be sufficient to ensure effective competition in a local area following a substantial increase in concentration in that area. While the online channel offers consumers privacy, it does not offer many of the other product qualities consumers say they value about the AGC gaming offer, particularly the social aspect.

123. Therefore, the CMA considers, on a cautious basis, that online gaming does not impose a significant constraint on AGCs.

Conclusion

124. For the above reasons the CMA believes that bingo halls and LBOs may provide a moderate degree of competitive constraint on the AGCs of the Parties, while casinos, pubs and online gaming do not.

Local Areas

125. The CMA, as a starting point for its analysis and on a cautious basis, considered that the strength of the constraint exerted by LBOs and bingo halls

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[45] [✂].
[46] [✂].

is equivalent to approximately half the constraint exerted by other AGCs, subject to the specificities of particular local areas and gaming venues.

126. The CMA has also taken into account a number of factors in each local area when considering the constraint provided by alternative suppliers of gaming products. These factors include, proximity, size, range and number of gaming machines, and location, including the question whether any potential competitors are within each other's line of sight. The CMA has also been mindful of whether there may be any obstacles to the flow of pedestrians through the local area, which may serve to define the relevant geographic market in the minds of consumers.

127. The CMA has grouped the assessment of each of the local areas into three based on the reduction in the number of AGC fascias within 800 metres post-merger: (i) areas with more than three AGC fascias, after the Merger; (ii) areas in which the Merger reduced the number of AGCs fascias from three to two; and (iii) areas in which the Merger reduced the number of AGCs fascias from two to one. In doing so, the CMA has applied the geographic scope described above using the Novomatic venues as centroids in each overlap area. Where there are differences in the number of competitors dependent on which of the Parties' centroids are used, this is explained in the analysis below.

128. The Table below summarises the situation in each local area, using each of the Novomatic AGCs as a centroids. It shows the total number of potential competitors of each type within the wider geographic market, ie within 800 metres.

Table 2: Venue count (within 800 metres) for each Novomatic venue[47]

Area	Talarius	Novomatic	Other AGCs	Bingo	LBOs
Leeds	2	1	3	1	8
Sunderland	1	1	3	1	8
Middlesbrough – Newport Road	1	2	2	0	9
Middlesbrough – Grange Road	1	2	2	0	11
Sheffield	1	1	1	1	5
Slough	1	1	1	0	7
Crewe	1	1	1	0[i]	6
Bolton	1	1	2	0	7
Barnsley	1	1	1	0[i]	7
Stevenage	1	1	0	1	5

[47] Based on distance data provided by Novomatic.

Rotherham	1	1	0	1	5
Grimsby – Victoria Street	1	1	0	1	6
Grimsby – Freeman Street	1	1	0	1	4
Dartford	1	1	0	0	5
Darlington – Tubwell	1	2	0	1	7
Darlington – Northgate	1	2	0	1	8
Clapham	1	1	0	0	7
Chesterfield	1	1	0	1	5

Note: If there is more than one Novomatic venue in a given area, the results are shown for each of them. N.B. in that case the Talarius and third-party venues shown may not be the same for each centroid.

129. In line with best practice, as set out most recently in the 2011 CC/OFT Commentary on retail mergers, we re-centered our catchment areas on the Talarius venues in order verify that this would not materially change the picture.[48]

Table 3: Venue count (within 800m) for each Talarius venue

Area	Talarius	Novomatic	Other AGCs	Bingo	LBOs
Leeds – The Headrow	2	1	3	1	8
Leeds – Ludgate Hill	2	1	3	1	6
Sunderland	1	1	3	1	8
Middlesbrough	1	2	2	0	8
Sheffield	1	1	1	1	5
Slough	1	1	1	1	8
Crewe	1	1	1	0[i]	5
Bolton	1	1	2	0	7
Barnsley	1	1	1	0	7
Stevenage	1	1	0	1	5
Rotherham	1	1	0	1	5
Grimsby – Victoria Street	1	1	0	1	6
Grimsby – Freeman Street	1	1	0	1	4
Dartford	1	1	0	0	4
Darlington	1	2	0	1	7
Clapham	1	1	0	0	7
Chesterfield	1	1	0	1	5

130. The CMA sets out its consideration of each local area in greater detail below. In the more detailed analysis of each local area, the CMA has not assessed

[48] See CC/OFT (March 2011), Commentary on retail mergers, paragraphs. 2.7 to 2.8.

mechanistically the catchment area around each Novomatic and Talarius AGCs separately, but considered the competitive conditions in each local area as a whole.

Areas with more than three AGC fascias after the Merger

Leeds

131. Novomatic and Talarius operate one and two AGCs in Leeds, respectively. The Parties AGCs compete with three AGCs and nine LBOs. The closest Novomatic and Talarius AGCs are 61 metres away.

132. The Merger reduced the number of AGC fascia from five to four. As Talarius owns two AGC venues in Leeds, the Merger resulted in three of the five AGC venues being owned by Novomatic. Applying the weight set out in paragraph 101, and including the other gaming venues found in Leeds, there are six ‘effective’ competitors in this local area.

133. The CMA found that, after the Merger, Novomatic is sufficiently constrained by the competing AGCs and Alternative Gaming Venues in this local area: there would be at least seven Alternative Gaming Venues within 800 metres of each of the Parties AGCs.

134. Therefore, the CMA believes that that the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs, in the Leeds area.

Sunderland

135. Each of the Parties operate one AGC in Sunderland. The Parties AGCs compete with three AGCs of different fascia and eight LBOs. The closest Novomatic and Talarius AGCs are 160 metres away.

136. The Merger reduced the number of AGC fascia and venues from five to four. However, applying the weight set out in paragraph 107, this is equivalent to a total of seven ‘effective’ competitors in this local area.

137. The CMA found that, after the Merger, Novomatic is sufficiently constrained by the competing AGCs and LBOs in this local area.

138. Therefore, the CMA believes that that the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs, in the Sunderland area.

Middlesbrough

139. Novomatic has two and Talarius one AGC in this area. The Novomatic AGCs are in Newport Road and Grange Road. In both catchment areas around Novomatic AGCs, the Parties AGCs compete with two AGCs of different fascia, namely Dunes, and Regal Amusements. The Merger reduced the number of AGC fascia from four to three in each of the Novomatic AGC's catchment areas. As Novomatic owns two AGC venues in Middlesbrough, the Merger resulted in three of the five AGC venues being owned by Novomatic

140. The two Novomatic AGCs are 212 metres and 251 metres, respectively, away from the Talarius AGC. In both cases there is an alternative AGC near the Novomatic venue. However, we understand that the competing AGCs have relatively few B3 gaming machines, suggesting that they are a weaker constraint at least for those consumers who prefer such gaming machines.

141. There are six LBOs in the core shopping area where the Parties' venues are located, out of a total of at least eight LBOs located within 800 metres of each of the Parties' venues.

142. Applying the weight set out in paragraph 107 to these LBOs, this equates to at least a total of five 'effective' competitors in the core shopping area where the Parties' venues are located, even taking into account the relative weak constraint exerted by the AGCs operating in this local area.

143. The CMA believes that, taking into account the remaining competitor AGC and competitive constraint imposed by the LBOs, the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs, in Middlesbrough, both around Newsport Road and Grange Road.

Areas with two AGC fascias after the Merger

Sheffield

144. The Parties operate one venue each in Sheffield. The Parties AGCs compete with another AGC, Golden Touch, in this local area.

145. The Parties informed the CMA that another AGC is expected to open in this local area in the near future.

146. The Talarius AGC is 253 metres from the Novomatic AGC. Although the existing competing AGC is substantially smaller than the Parties' venues, it is located between the Parties' venues, about 25 metres from the Talarius venue. The new AGC that is due to open will be located next door to the Talarius venue.

147. The CMA notes that within the immediate area around the Parties' AGCs (ie around Haymarket and Fitzalan Square) there are also five LBOs.

148. Applying the weight set out in paragraph 107 to these LBOs, this equates to a total of 3.5 'effective' competitors in the core shopping area where the Parties' venues are located.

149. There is an additional LBO[49] within 800 metres from the Novomatic venue, but due to their distance, and the fact that they are located across a main road, the CMA does not believe that they exert a significant competitive constraint on the Parties.

150. The CMA believes that the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs in the Sheffield area, given the competitive constraint imposed by the competing AGC and the five LBOs mentioned above. In particular, the existing competing AGC is located in between the two Parties and that the new AGC is expected to open next door, albeit around a corner, to the Talarius AGC and that there are a number of LBOs in close proximity to each Party's AGC.

Slough

151. The Parties operate one AGC each in Slough. There is an alternative AGC in this local area, namely Palace Amusements.

152. The Talarius AGC is 253 metres away from the Novomatic AGC. The competing AGC is the closest competing gaming venue to the Novomatic AGC. Moreover, it is located between the Novomatic and the Talarius venues, and is similar in size to the Parties' venues. The Merger reduced the number of AGC fascia from three to two, with Novomatic owning two of the three AGCs in this area.

153. The CMA notes that within the immediate area around the Parties' AGCs in Slough there are six LBOs.

154. Applying the weight set out in paragraph 107 to these LBOs, this equates to a total of four 'effective' competitors in the immediate area around the Parties' venues.

155. The CMA believes that, when taking into account the remaining competing AGC and the competitive constraint imposed by the LBOs operating in this

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[49] 676 metres from the Novomatic venue.

local area, the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs, in the Slough area.

Crewe

156. The Parties operate one AGC each in Crewe. There is a competing AGC in this local area, namely Reel Time Amusements in Market Street.

157. The Talarius AGC is 56 metres away from the Novomatic AGC. In Crewe, the competing AGC is also located between the Parties' venues. The CMA understands that this AGC is similar in size to the Parties' venues in Crewe. Therefore, the Merger reduced the number of AGC fascia from three to two, with Novomatic owning two of the three AGCs in this local area.

158. The CMA understands that within the area around the Parties' venues there are five LBOs and a bingo hall, with three of these LBOs located between the Parties' AGCs.

159. Applying the weight set out in paragraphs 88 and 107 to these Alternative Gaming Venues, this equates to a total of four 'effective' competitors in the area around the Parties' venues.

160. The CMA believes that, given the competitive constraint imposed on the Parties' AGCs by the remaining competitor AGC and by the Alternative Gaming venues operating in this local area, the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs, in the Crewe area.

Bolton

161. The Parties operate one AGC each in Bolton. The Talarius AGC is 60 metres away from the Novomatic AGC. The Merger reduced the number of AGC fascia from three to two, with Novomatic owning all the AGCs.

162. In the immediate vicinity of the Parties' AGCs, there are three LBOs.

163. Further to the north, still in the shopping area around Bolton Town Hall, are two Shaw's Amusements AGCs, at a distance of about 250 metres to 300 metres from the Parties' venues. The CMA considers that these AGCs are similar in size to the Parties' venues in Bolton. In the area immediately around the Shaw's Amusements venues there are four further LBOs. There is also a bingo hall at about 300 metres from the Parties' venues.

164. Applying the weight set out in paragraphs 88 and 107 to these Alternative Gaming Venues, this equates to a total of 4.5 ‘effective’ competitors in the immediate area around the Parties’ venues.

165. The CMA believes that, when taking into account the remaining competitor AGC fascia and the competitive constraint imposed by the LBOs in this local area, the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs in the Bolton area.

Barnsley

166. The Parties operate one AGC each in Barnsley. The Talarius AGC is 171 metres away from the Novomatic AGC. The CMA believes that within the area around the Parties’ venues, there is a competing AGC, namely Storey’s Amusements in Peel Square. However, this AGC is substantially smaller than the Parties’ venues in Barnsley. Therefore, the CMA believes that it is appropriate to apply a lower weight to this AGC than it otherwise would.

167. Within this local area there are seven LBOs and a bingo hall.

168. Applying the weight set out in paragraphs 88 and 107 to these Alternative Gaming Venues and assigning a lower weight to the remaining AGC, this equates to a total of 4.5 ‘effective’ competitors in the immediate area around the Parties’ venues.

169. The CMA believes that when taking into account the remaining competing AGC and competitive constraint imposed by the LBOs and bingo hall in this local area, the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs, in the Barnsley area.

Areas with one AGC fascia after the Merger

Stevenage

170. The Parties operate one AGC each in Stevenage. The Parties submitted that in Stevenage, Palace Amusements in Queensway had recently been acquired by Novomatic. The Merger reduced the number of AGC fascia from two to one, with Novomatic owning all the AGCs in Stevenage.

171. On the basis of the Parties’ submission, the Talarius AGC is 79 metres away from the Novomatic AGC.[50]In the area immediately surrounding Town Square

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[50] There is some uncertainty about the location of the Talarius venue in Stevenage, as the company’s own website as well as some of the Parties’ submissions indicate that it is much further away. However, since the

there are four LBOs, three of which are in Town Square, very close to the Talarius venue, and one of which is somewhat further away, in a side street. There is also a bingo hall in Town Square and an LBO further to the north.

172. Applying the weight set out in paragraphs 88 and 107 to these Alternative Gaming Venues, this equates to a total of three ‘effective’ competitors in the immediate area around the Parties’ venues, taking into account the particularly significant competitive constraint exerted by the proximity of the three LBOs to the Parties’ AGCs.

173. The CMA believes that, when taking into account the competitive constraint imposed by the LBOs and bingo hall operating in this local area, which are in close proximity to the Parties’ venues, the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs in the Stevenage area.

Rotherham

174. The Parties submitted that Talarius currently operates two AGC venues, one of which was earmarked for closure prior to the Merger inquiry. The Talarius AGC that will remain open is 107 metres away from the Novomatic AGC. The Merger reduced the number of AGC fascia from two to one, with Novomatic owning all the AGCs.

175. There are three LBOs located in Bridgegate and Frederick Street, between the Parties’ venues in Rotherham. In the area around the Parties AGCs, there are also two LBOs and a bingo hall.

176. Applying the weight set out in paragraphs 88 and 107 to these Alternative Gaming Venues, this equates to a total of three ‘effective’ competitors in the area around the Parties’ venues.

177. The CMA believes that, when taking into account the competitive constraint imposed by the LBOs and bingo hall in this local area, the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs in the Rotherham area.

Merger does not give rise to a realistic prospect of an SLC regardless of where exactly this venue is located, the CMA considered for the purpose of its competitive assessment that the Parties’ AGCs are 79 metres away.

Grimsby

178. Both Parties operate two AGC venues in Grimsby. The CMA has assessed two separate overlap areas in Grimsby, one in the Victoria Street area the other in Freeman Street area.

179. The Merger reduced the number of AGC fascia from two to one in each of these local overlap areas.

- *Victoria Street*

180. In the area around Victoria Street, the Parties' venues are 202 metres away from each other. Immediately next door to the Novomatic venue there is a Ladbrokes LBO. The Merger reduced the number of AGC fascia from two to one, with Novomatic owning all the AGCs.

181. There are three further LBOs in the area around Victoria Street and a bingo hall relatively close to the Parties' Victoria Street venues.

182. Applying the weight set out in paragraphs 88 and 107 to these Alternative Gaming Venues, this equates to a total of 2.5 'effective' competitors in the area around the Parties' venues. Moreover, the CMA notes the particularly significant competitive constraint that is likely to be exerted by the Ladbrokes LBO in the proximity of Novomatic's AGC.

183. The CMA believes that, when taking into account the overall competitive constraint imposed by the LBOs and bingo hall in this local area, the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs in the Grimsby area around Victoria Street.

- *Freeman Street*

184. In the area around Freeman Street, the Parties' venues are 246 metres away from each other. There are only two LBOs in this area and no other gaming venues within 400 metres. Therefore, the Merger reduced the number of AGC fascia from two to one, with Novomatic owning all the AGCs.

185. There are also two LBOs and a bingo hall within 400 metres and 800 metres of the Novomatic AGC in Freeman Street. The CMA considers that this is a significant additional distance for a consumer on foot, having considered: (i) the characteristics of the local area, including the relative location of these Alternative Gaming Venues, and (ii) the evidence it has seen on the consumers' limited willingness to travel. This evidence indicates that these Alternative Gaming Venues are not located in the area where a consumer would naturally be walking or consider when looking for an Alternative Gaming

Venue. Therefore, the CMA does not believe that these venues impose a sufficient competitive constraint on the Parties' AGCs.

186. Applying the weight set out in paragraphs 88 and 107 to these Alternative Gaming Venues, this equates to a total of 1.5 'effective' competitors in the area around the Parties' venues, given the limited competitive constraint imposed by the Alternative Gaming Venues located further away from the Parties' venues.

187. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC in the supply of gaming products through AGCs in the Grimsby area around Freeman Street, as the two LBOs in this local area may not pose a sufficient competitive constraint on the Parties after the Merger.

Dartford

188. Each of the Parties operate one AGC in Dartford, and that there were no other AGCs in this area. Therefore, the Merger reduced the number of AGC fascia from two to one, with Novomatic owning all the AGCs.

189. The Talarius AGC is very close to the Novomatic AGC (64 metres away). Furthermore, there are only four LBOs and no other gaming venues within the immediate area of the High Street, where the Parties' AGCs are located.

190. Applying the weight set out in paragraph 107 to those LBOs, this equates to a total of two 'effective' competitors in the area around the Parties' venues.

191. Therefore, the CMA believes that the Merger gives rise to a realistic prospect of an SLC in the supply of gaming products through AGCs in the Dartford area, as the four LBOs in the local area may not pose a sufficient competitive constraint and the Parties' AGCs are located very close to each other.

Darlington

192. Novomatic owns two AGCs, one in Northgate and one in Tubwell Row, and Talarius owns one AGC in Darlington. Therefore, the Merger reduced the number of AGC fascia from two to one, with Novomatic owning all the AGCs.

193. The Talarius AGC is 112 metres and 200 metres away from the Northgate and Tubwell Row Novomatic AGCs, respectively.

194. Within the area around the Parties' venues, there are four LBOs and a bingo hall, all within 400 metres of the Parties' venues.

- *Tubwell Row*

195. These alternative gaming venues provide a sufficient competitive constraint on the Novomatic venue in Tubwell Row.

196. Applying the weight set out in paragraphs 88 and 107 to the Alternative Gaming Venues mentioned above, this equates to a total of 2.5 'effective' competitors in the area within 400 metres around the Novomatic AGC in Tubwell Row.

197. The CMA, therefore, believes that the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs in the Darlington area around Tubwell.

- *Northgate*

198. However, while these gaming venues may provide a sufficient competitive constraint on the Novomatic venue in Tubwell Row, the Novomatic AGC in Northgate and the Talarius AGC are very close to each other, and relatively distant from the other gaming venues in the area.

199. None of the Alternative Gaming Venues are within 200 metres of the Novomatic Northgate AGC or the Talarius AGC, or are within the consumer's line of sight from these venues.

200. While there is an additional Betfred LBO some 400 metres away further to the north, the CMA believes that consumers are unlikely to cross the Northgate roundabout and travel this distance in sufficient numbers for this LBO to provide a significant competitive constraint.

201. Applying the weight set out in paragraphs 88 and 107 to these Alternative Gaming Venues, this equates to a total of less than two 'effective' competitors in the area within 400 metres around the Novomatic AGC in Northgate.

202. Therefore, the CMA considers that, in response to a hypothetical worsening to these AGCs offering, the Northgate Novomatic's customers would be significantly more inclined to switch to the Talarius AGC and vice versa, than to switch to one of the Alternative Gaming Venues in this local area.

203. Therefore, the CMA believes that the Merger gives rise to a realistic prospect of an SLC in the supply of gaming products through AGCs in the Darlington area around Northgate, as the four LBOs are unlikely to pose a sufficient competitive constraint on Novomatic AGCs in this local area.[ii]

Clapham

204. The Parties have one AGC each in Clapham. The Merger reduced the number of AGC fascia in the area from two to one, with Novomatic owning all the AGCs in the area.

205. The CMA considers that the Parties have provided insufficient evidence to support their claim that their customers would use public transport to travel to a gaming venue outside Clapham in sufficient numbers, such that those gaming venues would provide a competitive constraint.

206. The CMA believes that the Parties' AGC's immediate competition in Clapham is limited to the area immediately south of Clapham Junction railway station. Specifically, based on the evidence available to it, the CMA believes that consumers are unlikely to travel more than about 400 metres from the main road crossing in Clapham.

207. The Novomatic AGC is located on the south side of St John's Hill and the Talarius venue is 94 metres away further to the south, in St John's Road. Further away on that road there is a Betfred LBO. There are three further LBOs – a Paddy Power, a Ladbrokes, and a William Hill – on the north side of the main road, within close proximity of the Parties' venues albeit on the other side of a busy crossing.

208. Applying the weight set out in paragraph 107 to these LBOs, this equates to a total of less than two 'effective' competitors in the area around the Parties' venues, given that the Parties' AGCs are close to each other and three of the four LBOs in the vicinity are not easily accessible from the Parties' AGCs.

209. Therefore, the CMA believes that the Merger gives rise to a realistic prospect of an SLC in the supply of gaming products through AGCs in the Clapham area, as the four LBOs in the local area are unlikely to pose a sufficient competitive constraint on the Parties' AGCs.

Chesterfield

210. The Parties have one AGC each in Chesterfield. The Merger reduced the number of AGC fascia from two to one, with Novomatic owning all the AGCs.

211. The CMA believes that the immediate geographic market in Chesterfield, ie the area where consumers of AGCs would typically travel to shop and to gamble, is limited to the area bounded to the south and east by Markham Road and the A61, and to the West by the area around Town Hall and the Old Magistrates Court.

212. Within this area, the Talarius AGC is 96 metres away from the Novomatic AGC. There are four LBOs, two of which belong to William Hill.

213. The evidence available to the CMA does not indicate that the LBO and the bingo hall in the area around Foljambe Road provide a significant competitive constraint on the Parties' AGCs in Chesterfield. This is because of the natural limits of the shopping area and because these Alternative Gaming Venues are both around 600 metres away from the Parties' AGCs.

214. Applying the weight set out in paragraph 107 to the LBOs, this equates to a total of two 'effective' competitors in the immediate area around the Parties' venues.

215. Therefore, the CMA believes that the Merger gives rise to a realistic prospect of an SLC in the supply of gaming products through AGCs in the Chesterfield area, as the four LBOs in the local area are unlikely to pose a sufficient competitive constraint on the Parties' AGCs.

Conclusion on horizontal unilateral effects

216. For the reasons explained above, the CMA considers that, given the significant constraints imposed by other AGCs, LBOs and bingo halls, the Merger does not give rise to a realistic prospect of an SLC in the supply of gaming products through AGCs in the following local areas:

(a) Leeds

(b) Sunderland

(c) Middlesbrough

(d) Sheffield

(e) Slough

(f) Crewe

(g) Bolton

(h) Barnsley

(i) Stevenage

(j) Rotherham

(k) Darlington (around Tubwell Row)

(l) Grimsby (around Victoria Street).

217. However, for the reasons set out above, the CMA believes that the Merger raises competition concerns in the supply of gaming products through AGCs in five local areas, in which the Merger reduces the number of AGC fascias from two to one and in which there is an insufficient number of LBOs and bingo halls to sufficiently constrain Novomatic after the Merger:

(a) Grimsby (around Freeman Street);

(b) Dartford;

(c) Darlington (around Northgate);

(d) Clapham; and

(e) Chesterfield.

218. As a result of the Merger, aspects of the Parties' offering in these areas, including, but not limited to, the range of their gaming machines, the quality of their service, and their use of promotions may deteriorate post-Merger.

219. Accordingly, the CMA has found that the Merger, absent any countervailing factors, raises significant competition concerns as a result of horizontal unilateral effects in relation to the supply of gaming products through AGCs in these five local areas.

Vertical effects

220. Vertical effects may arise when a merger involves firms at different levels of the supply chain, for example a merger between an upstream supplier and a downstream customer or a downstream competitor of the supplier's customers.

221. In the present case, since Novomatic is a major supplier of gaming machines and games, the CMA considered whether the transaction gave rise to a realistic prospect of an SLC as a result of one or more vertical effects.

222. The CMA's approach to assessing vertical theories of harm is to analyse (a) the ability of the merged entity to foreclose competitors, (b) the incentive for it to do so, and (c) the overall effect of the strategy on competition.[51] This is discussed below.

[51] *Merger Assessment Guidelines*, paragraph 5.6.6.

Input foreclosure

223. The CMA assessed whether the merged entity could stop supplying some or all of its gaming machines to its downstream rivals, ie to other gaming venues, or supply them only at a significantly higher price or poorer quality, thereby reducing the range of gaming machines available for rival gaming venues.[52]

Ability and incentives

224. Gaming machines are a key input for AGCs. Novomatic has a large share in the supply of categories B1 and C gaming machines,[53] where Talarius is not active. Category C gaming machines are primarily available through AGCs, Bingo Halls, FECs, and pubs. There are many other suppliers of gaming machines available, particularly in the B3 category, which are popular in AGCs. Novomatic [✂] accounted [✂] of sales in that category.

225. AGCs and bingo halls typically stock a wide range of gaming machines and games, while LBOs offer a range of games within a given machine. Gaming venues typically purchase from a large number of gaming manufacturers, depending on their view of which gaming machines are most likely to be profitable and their view of the mix of gaming machines and games that is likely to appeal to their customers.

226. The CMA received some evidence that some of the gaming machines supplied by Novomatic are particularly popular and therefore important for gaming venues as they attract significant footfall. Furthermore, Novomatic submitted to the CMA that it does provide some content exclusively to certain LBO chains, reflecting the buyer power of these customers.

227. Although the CMA cannot exclude that Novomatic may have the ability to engage in an input foreclosure strategy after the Merger, the CMA found that Merger will not give Novomatic the incentive to do so for the reasons set out below.

228. The CMA does not believe that significant numbers of consumers would switch venues if certain newly released games were no longer available in a specific gaming venue, because there are not enough end customers with strong preferences for a particular type of game. The evidence also shows that habit is important in the gaming sector. It takes substantial effort to convince consumers to switch to another gaming venue.[54] Therefore, the gain associated with engaging in input foreclosure is likely to be relatively small,

[52] *Merger Assessment Guidelines*, paragraphs 5.6.9 et seq.
[53] [✂]% and [✂]% respectively.
[54] [✂].

particularly in the short term. This is particularly the case given Novomatic's [✂] share of supply of B3 gaming machines in the UK. Clearly, rival venues could source alternative gaming machines from a variety of other suppliers and this would further weaken the incentive to engage in input foreclosure.

229. Novomatic is also unable to discriminate locally for large LBO and AGC chains. For example, if the Parties did seek to foreclose all AGC customers on a national basis, by reducing their supply of Novomatic gaming machines, there is no realistic prospect that the Parties would be able to recoup the foregone revenues. This is because there are many local areas in which the Parties do not have an AGC, or where there are many other gaming venues present. Therefore, even if the reduction in supply of Novomatic gaming machines led some customers to consider leaving their usual gaming venues, the Parties would not be able to capture sufficient displaced customers to make the foreclosure strategy profitable, given that customers are likely only to substitute venues on a local basis.

230. Moreover, even rivals with a small number of gaming venues would continue to be able to obtain Novomatic gaming machines from independent distributors, instead of going to Novomatic directly. Although Novomatic does distribute its own gaming machines through Gamestec, there are a number of competing distributors for Novomatic gaming machines available to gaming venues.[55] In addition, there is some evidence that it would be possible to source Novomatic gaming machines second-hand, although this may not assist in securing newly launched games.

231. For the reasons set out above, based on the evidence it has received, the CMA does not believe that Novomatic has the incentive to engage in an input foreclosure strategy as a result of the Merger.

Customer foreclosure

232. The CMA assessed whether the merged entity's AGCs would refuse to buy gaming machines manufactured by its upstream competitors, thereby diverting customers to its own gaming machines while reducing the ability of competitors to take advantage of economies of scale.

Ability and incentive

233. Post-merger, the Parties will control [10-20]% of all AGCs in Great Britain, and [0-5]% of all Alternative Gaming Venues. The Parties' AGCs have a history of

[55] Note, however, that gaming venues might not be able to obtain the same credit terms as they receive from the manufacturers.

buying games from rival manufacturers and AGCs need to meet the preferences of their customers.

234. The CMA also notes that many manufacturers are international companies supplying EEA/globally and would not exit the production of games if no longer stocked by the Parties' AGCs. In particular, there is at least one other vertically integrated company, which may have an incentive to retaliate in kind, which could be harmful to the Novomatic's own manufacturing business.

235. Therefore, the CMA believes that Novomatic does not have the ability to engage in a customer foreclosure strategy as a result of the Merger.

236. Since the CMA has concluded that the Merger will not provide Novomatic with sufficient ability to foreclose (input and customer foreclosure), the CMA has not further assessed the incentive and effect of a foreclosure strategy on competition.

Conclusion on vertical effects

237. Accordingly the CMA found that the Merger does not give rise to a realistic prospect of a substantial lessening of competition as a result of vertical effects in relation to the supply of gaming products to the public in AGCs.

Barriers to entry and expansion

238. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no substantial lessening of competition. In assessing whether entry or expansion might prevent a substantial lessening of competition, the CMA considers whether such entry or expansion would be timely, likely and sufficient.[56] In terms of timeliness, the CMA's guidelines indicate that the CMA will look for entry to occur within two years.[57]

239. The evidence received by the CMA from third parties does not indicate that entry or expansion will be timely, likely or sufficient to mitigate any SLC arising in the areas identified above.

240. Similarly, the evidence submitted by the Parties on pending planning applications made by other gaming venues did not include plans in the areas where the CMA found that the Merger may give rise to an SLC above.

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[56] *Merger Assessment Guidelines*, from paragraph 5.8.1.
[57] *Merger Assessment Guidelines*, paragraph 5.8.11.

241. Therefore, the CMA believes that entry or expansion would not be sufficiently timely or likely to prevent a realistic prospect of an SLC as a result of the Merger in the areas identified above.

Third party views

242. The CMA contacted suppliers and competitors of the Parties, as well as certain relevant public authorities. Third-party comments have been taken into account where appropriate in the competitive assessment above. Some competitors raised concerns about potential vertical effects, which were also discussed above. No other third parties raised concerns about the Merger.

Decision

243. Consequently, the CMA believes that it is or may be the case that the Merger has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom.

244. The CMA therefore believes that it is under a duty to refer under section 22(1) of the Act. However, the duty to refer is not exercised[58] whilst the CMA is considering whether to accept undertakings[59] instead of making such a reference. Novomatic has until 4 November 2016 [60] to offer an undertaking to the CMA.[61] The CMA will refer the Merger for a phase 2 investigation[62] if Novomatic does not offer an undertaking by this date; if Novomatic indicates before this date that it does not wish to offer an undertaking; or if the CMA decides[63] by 11 November 2016 that there are no reasonable grounds for believing that it might accept the undertaking offered by Novomatic, or a modified version of it.

245. The statutory four-month period mentioned in section 24 of the Act in which the CMA must reach a decision on reference in this case expires on 31 October 2016. For the avoidance of doubt, the CMA hereby gives Novomatic UK Ltd notice pursuant to section 25(4) of the Act that it is extending the four-month period mentioned in section 24 of the Act. This extension comes into force on the date of receipt of this notice by Novomatic UK Ltd and will end with the earliest of the following events: the giving of the undertakings concerned; the expiry of the period of 10 working days beginning with the first day after the receipt by the CMA of a notice from Novomatic stating that it

[58] Section 22(3)(b) of the Act.
[59] Section 73 of the Act.
[60] Section 73A(1) of the Act.
[61] Section 73(2) of the Act.
[62] Sections 22(1) and 34ZA(2) of the Act.
[63] Section 73A(2) of the Act.

does not intend to give the undertakings; or the cancellation by the CMA of the extension.

Sheldon Mills
Senior Director, Mergers
Competition and Markets Authority
28 October 2016

Annex: Categorisation of gaming machines and venues

Categories of gaming machines

1. The most common categorisation of gaming machines follows the legal framework set out in the Gaming Act 2005 and the Categories of Gaming Machines Regulations, as most recently amended following the 2014 Gambling review.[64]

Table A1: Overview of categories of gaming machines

Category of machine	Maximum stake	Maximum prize	Allowed premises
A	Unlimited – No category A gaming machines are currently permitted		
B1	£5	£10,000	casinos
B2	£100	£500	LBOs and casinos
B3	£2	£500	AGCs, bingo halls, and all of the above
B3A	£2	£500	Members' club or Miners' welfare institute only
B4	£2	£400	All of the above
C	£1	£100	Family Entertainment Centres ('FEC'), pubs, and all of the above.
D - non-money prize (crane grab gaming machines only)	£1	£50	Travelling fairs and all of the above.
D - money prize	10p	£5	All of the above
D - combined money and non-money prize	10p	£8 (of which no more than £5	All of the above

[64] Cf. the Categories of Gaming Machine (Amendment) Regulations 2014, SI 2014, no. 45. This table is adapted from Table 1 in Annex 1 to Appendix B to the Ladbrokes/Coral final report.

		may be a money prize)	
D - combined money and non-money prize (coin pusher or penny falls gaming machines only)	20p	£20 (of which no more than £10 may be a money prize)	All of the above

2. In applying this categorisation, it is important to note that a particular gaming machine may offer games that fall in more than one category. In that case, under regulatory reporting requirements the entirety of the machine's revenue is attributed to the highest category of game available on the device.

Categories of gaming venues

3. As the previous table shows, under the statutory regime of the Gambling Act 2005, different types of venues are allowed to have different categories of gaming machines. Moreover, they are allowed to have different numbers and percentages of them. The specifics are set out in the following table.[65]

Table A2: Overview of types of licences

Type of licence	Number of gaming machines
casino (large casino)	Up to 150 gaming machines (of categories B1, B2, B3, B4, C, or D) provided that this is no more than five times the number of gaming tables used in the casino.
casino (small casino)	Up to 80 gaming machines (of categories B1, B2, B3, B4, C, or D) provided that this is no more than twice the number of gaming tables used in the casino.
LBO	Up to 4 gaming machines (of categories B2, B3, B4, C, or D).
bingo hall	A number of Category B3 or B4 gaming machines not exceeding 20% of the total number of gaming machines available on the premises. No limit to the number of Category C or D gaming machines.
AGC	A number of Category B3 or B4 gaming machines not exceeding 20% of the total number of gaming machines available on the premises. No limit to the number of Category C or D gaming machines.
FEC	Any number of category C or D gaming machines.

4. In order to understand recent trends in the sector, it is important to note that under the Gambling Act 2005 as originally enacted, both AGCs and bingo

[65] This table is adapted from Table 2 in Annex 1 to Appendix B to the Ladbrokes/Coral final report.

halls were allowed four Category B3 and B4 gaming machines.[66] In 2009, bingo halls but not AGCs were permitted to have eight Category B3 and B4 gaming machines, leading a number of AGCs to convert, at least on paper, to bingo halls.[67] More recently both AGCs and bingo halls were given a limit that was defined as a percentage of the total number of gaming machines available.[68]

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[i] Table 2 should read:

- As referenced at paragraph 158, there is a bingo hall within 800 metres of the Novomatic/Talarius venue in Crewe.
- As referenced at paragraph 167, there is a bingo hall within 800 metres of the Novomatic venue in Barnsley.

[ii] For the avoidance of doubt and as referenced in paragraphs 198 to 202, the CMA considered the presence of the various LBOs and the bingo hall (ie the Alternative Gaming Venues), in its assessment of the Northgate area of Darlington. However, as the bingo hall is more than 400 metres away from the AGC of Talarius it was not included in the CMA's final assessment in paragraph 203.

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[66] Cf. s. 172(1) and s. 172(7) of the Gaming Act.
[67] The Gambling Act 2005 (Gaming Machines in Bingo Premises) Order 2009, SI 2009, No. 324.
[68] The Gambling Act 2005 (Gaming Machines in AGCs and Bingo Premises) Order 2011, SI 2011, No. 1710.