

Anticipated acquisition by Just Eat of Hungryhouse

Summary of final report

16 November 2017

1. On 19 May 2017, the Competition and Markets Authority (CMA), in exercise of its duty under section 33(1) of the Enterprise Act 2002 (the Act), referred the anticipated acquisition by JUST EAT plc (Just Eat) of Hungryhouse Holdings Limited (altogether the merger) for further investigation and report by a group of CMA panel members (the inquiry group). Throughout this report, where relevant, we refer to Just Eat and Hungryhouse Holdings Limited and its subsidiaries (Hungryhouse) collectively as the Parties.
2. Just Eat is a UK based corporate group which has been listed on the London Stock Exchange since 2014. In the UK, it provides a food ordering marketplace that facilitates transactions between final consumers and restaurants willing to offer home delivery services. It currently offers such services in 15 countries and in the year ended 31 December 2016, reported a global turnover of £375.7 million. Its UK business contributed 63% of group revenues.
3. Hungryhouse also supplies a food ordering marketplace in the UK and is a wholly owned subsidiary of Delivery Hero AG (Delivery Hero), a company listed on the Frankfurt Stock Exchange since 30 June 2017 and with operations in more than 40 countries. In the year ended 31 December 2016, Hungryhouse reported revenues of £29.1 million in the UK.
4. The Parties operate within the broad restaurant food ordering and delivery industry, comprising suppliers that can be categorised into three main types, depending on the business model they have adopted, namely: food ordering marketplaces, ordering and logistics specialists, and vertically-integrated food chains.
 - (a) Food ordering marketplaces, including Just Eat and Hungryhouse, provide consumers with access to multiple restaurants, and restaurants with access to multiple consumers, on a single online platform.

- (b) Ordering and logistics specialists are similar to food ordering marketplaces, but in addition, they manage the delivery function on behalf of restaurants (unlike food ordering marketplaces). This category includes suppliers such as Roofoods Limited (known as Deliveroo), Uber London Limited (Uber, via its UberEATS service) and Amazon Online UK Limited (Amazon, via its Amazon Restaurants service).
- (c) Vertically-integrated food chains are restaurant chains which take ownership of the order management, cooking and delivery of the food. This category includes suppliers such as Domino's Pizza Group plc (Domino's), Papa John's GB Ltd (Papa John's) and Yum! III (UK) Limited (under the brand Pizza Hut Delivery) (Yum!).

Throughout this report, where relevant, we refer to food ordering marketplaces and ordering and logistics services as online food platforms.

5. The restaurant food ordering and delivery industry is rapidly changing: in the last few years, the supply of food ordering marketplaces has become more concentrated through acquisitions and company closures, while significant investment has been made in ordering and logistics specialists, which have consequently experienced rapid growth first in London and more recently in other parts of the UK. We found that suppliers' planning horizon typically focused on the next 12 months. There is much uncertainty relating to both the business models and growth trajectory of certain suppliers and how the industry will evolve in the longer term.
6. Following a lengthy negotiation process which had taken a number of months, the Parties entered into a share purchase agreement (SPA) on 15 December 2016. Under the SPA, Just Eat will purchase 100% of Hungryhouse's share capital from Delivery Hero for a consideration of £200 million, subject to an adjustment. The Parties' combined share of orders (in volume terms) in the supply of online food platforms in the UK is over 80% (with an increment of less than 10%). We are therefore satisfied that this merger, if completed, will create a relevant merger situation.
7. In order to identify the relevant market within which to examine the competitive effects of the merger, we first defined the product market before examining issues relating to geographic market definition.
 - (a) The assessment of the relevant product market starts with the products of the merging parties: both Just Eat and Hungryhouse supply food ordering marketplaces and related services to two distinct and unrelated groups of customers: restaurants and consumers, where the willingness of restaurants to list on the Parties' platform depends on the participation of

consumers on the platform, and vice versa. As such, the Parties' products can be described as two-sided.

(b) We sought to identify the most significant alternatives available to the two categories of customers of the Parties (ie restaurants and consumers), using four sources of evidence: a survey of consumers and restaurants which we carried out in June/July 2017, an econometric analysis, a review of internal documents of the Parties and views expressed by third parties (competitors and industry observers). We considered the substitutability between food ordering marketplaces and (i) ordering and logistics specialists; (ii) direct ordering by consumers from restaurants (through their websites, by telephone or on-site); and (iii) vertically-integrated food chains. The evidence indicated that ordering and logistics specialists were sufficiently close substitutes to the Parties' services to be in the same product market. We did not consider that direct ordering channels or vertically-integrated food chains were sufficiently close substitutes to the Parties' services that they should be considered within the relevant product market, because the services they offered were not sufficiently comparable to those of the Parties, both from a restaurant and from a consumer perspective.

(c) In order to define the geographic market, we considered a number of factors. Looking at the supply side, some factors point towards a national market, including pricing and marketing activities (eg TV commercials), which are mainly determined at the national level, as well as the scalability of the Parties' food ordering marketplaces. We have also found evidence indicating that local variations in competitive conditions are important, on both the supply and the demand sides. For instance, demand for the Parties' services is inherently local, with consumers ordering from restaurants that deliver to their address and restaurants listing on the Parties' platforms in order to tap into local consumer demand.

8. We therefore conclude that the relevant market in which to assess the competitive effects of the merger is the supply of online food platforms in the UK, recognising that there are local aspects to the competitive constraints faced by the Parties in different parts of the country, which are taken into account within the assessment of the competitive effects of the merger.
9. We considered what would have happened to Hungryhouse in the absence of the merger (the counterfactual), and in particular whether Hungryhouse would inevitably have exited from the market. In order to make this assessment, we obtained evidence from Hungryhouse on: its historical financial performance, activities it undertook to restructure the business, financial forecasts and the

wider corporate context in which Hungryhouse operated. Based on this evidence, we conclude that, in a time horizon of 12 months, the most likely counterfactual and therefore the appropriate starting point for our analysis of the competitive effects of the merger is the situation in which Hungryhouse continues to operate in the UK.

10. We next turned to the assessment of the effects of the merger on competition. We first examined the nature of competition before the merger, and in particular the dimensions along which suppliers of online food platforms compete, namely: the services they offer, pricing, marketing and customer acquisition channels and innovation. We then explored the implications of customer behaviour on each side of the platform for the nature of competition between platforms and assessed the degree of differentiation between the platforms, whether restaurants and consumers display single- or multi-homing behaviour¹ (ie whether they tend to use one or several online food platforms), and the relative sizes of the Parties' platforms.
11. The evidence indicates that Just Eat and Hungryhouse's food ordering marketplaces are not particularly differentiated from a consumer perspective, although the number of restaurants listed on, and the value of orders placed on Just Eat, is many times larger than that on Hungryhouse. The homing behaviour of consumers and restaurants is such that we expect competition between the Parties to be mainly focused on the consumer side, while we would expect there to be stronger competition on the restaurant side between each of the Parties and the other competitors, than between the Parties themselves.
12. Against this background, we considered whether, following the merger, there would be a loss of competition in the supply of online food platforms which could potentially lead to harm on either the consumer or the restaurant side of the market, or both.
13. As part of this assessment, we obtained evidence on the competitive positions of the Parties and other suppliers of online food platforms in the UK. We also sought the views of customers on the overall offerings of suppliers, including the Parties, and examined in more detail evidence relating to the strength of the constraint the Parties impose on each other; the constraint third parties impose on each of the Parties; and the constraint imposed by direct ordering.
14. In reaching a view on the likely effects of the merger, the evidence is far from one-sided. Our main findings are that:

¹ See paragraph 5.2.20 of the [CMA's Merger Assessment Guidelines](#).

- (a) While our survey evidence shows that both consumers and restaurants perceive Just Eat and Hungryhouse as close competitors, the documentary evidence we have obtained and econometric analysis we have conducted indicate that in practice Hungryhouse is imposing a limited competitive constraint on Just Eat.
- (b) Hungryhouse has been loss making for a number of years and there is some uncertainty as to its future profitability and how long Delivery Hero would have continued to support it if its financial performance did not improve.
- (c) Although in the course of 2016, Hungryhouse was developing a number of initiatives to improve its competitiveness and performance, it had only partially implemented some of them by the time the SPA was signed. Based on the evidence that we obtained, we could not satisfy ourselves that any of these initiatives would be successful, if implemented as planned. Although it is conceivable that Hungryhouse would have attempted to compete more aggressively in 2017, we were not convinced that this would have been sufficient to improve Hungryhouse's weak position materially in this increasingly competitive market.
- (d) The restaurant food ordering and delivery industry is dynamic and evolving. While Just Eat is currently in a strong position, it is being challenged by well-funded competitors, with strong brands and technological and logistics experience and expertise. Deliveroo's own projections indicate that by the end of 2017, it will have increased its share of supply from 5-10% to 10-20%, and the ordering and logistics specialists' projections indicate that together they will account for a 20-30% share of supply.
- (e) These ordering and logistics specialists pose a greater competitive constraint on Just Eat than Hungryhouse does in those areas where they are present. This is shown by Just Eat's internal documents and supported by our econometric analysis, which shows that in the areas in which Deliveroo is present, Deliveroo has been exerting a stronger constraint on Just Eat than Hungryhouse in the period since April 2015. This constraint is likely to grow as ordering and logistics specialists expand their geographic reach, their restaurant coverage and their consumer numbers.
- (f) In areas where neither Deliveroo nor UberEATS operates, Hungryhouse is particularly weak, as shown by our analysis of its share of orders made on its and Just Eat's online food platforms. In addition, consumers have the ability to order directly from takeaway restaurants, either on the

phone, through their websites or by walking in. Our survey evidence provides evidence of a constraint from direct ordering; while the extent of this constraint may vary across local areas, we did not find any evidence to support the proposition that Hungryhouse currently posed (or was likely to impose in the future) a stronger competitive constraint on Just Eat compared to direct ordering in those local areas where neither Deliveroo nor UberEATS operates.

15. In view of the above, we conclude that the anticipated acquisition by Just Eat of Hungryhouse may not be expected to result in a substantial lessening of competition (SLC) within any market or markets in the United Kingdom (UK) for goods or services.