

Anticipated acquisition by GVC Holdings plc of Ladbrokes Coral Group plc

Decision on relevant merger situation and substantial lessening of competition

ME/6728-17

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 21 March 2018. Full text of the decision published on 6 April 2018.

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

SUMMARY

1. GVC Holdings plc (**GVC**) has agreed to acquire Ladbrokes Coral Group plc (**Ladbrokes Coral**) (the **Merger**). GVC and Ladbrokes Coral 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 will cease to be distinct as a result of the Merger, that the turnover test is met and that, accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. The Parties overlap in the supply of online gambling services to customers in the United Kingdom (UK). These services can be subdivided into two main categories: (i) online betting and (ii) online gaming.¹GVC provides gambling services only online. Ladbrokes Coral is active both online and through a network of betting shops.
4. GVC also provides business to business (B2B) services through its subsidiary Cozy Games. Cozy Games provides a bingo platform to other gambling service

¹ For a definition of online betting and online gambling, see paragraphs 27.

providers which compete with the Parties downstream in the provision of online games.

5. The CMA assessed the impact of the Merger in:
 - (i) the supply of online betting services in the UK; and
 - (ii) the supply of online gaming services in the UK.
6. The CMA also assessed the impact of the Merger on a more granular basis, ie looking at the provision of: (i) betting services for individual sports; and (ii) individual games.²
7. In its competitive assessment, the CMA considered whether, as a result of horizontal unilateral effects, the Merger may lead to a substantial lessening of competition (SLC) in the supply of online betting and gaming services in the UK.
8. With regard to online betting, the combined share of the Parties is below 15% and the Merger leads to only a small increment, irrespective of whether a broad frame of reference for the provision of online betting services is adopted or a narrower approach is taken that looks at betting on particular sports (or categories of sports). The CMA's investigation found that the Parties are not close competitors and there are several alternative firms which will continue to constrain the Parties post-Merger.
9. With regard to online gaming, the combined share of the Parties is also below 15%, with an increment of less than 5%. Even by reference to the supply of specific online games, such as casino, poker, bingo and/or slots, the Parties' combined share of supply is below 25% and the Merger leads to a small increment. The CMA's investigation found that the Parties are not each other's closest competitor and there are many alternative firms which will continue to constrain the Parties post-Merger.
10. The CMA therefore believes that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of either online betting services or online gaming services in the UK.
11. The CMA also assessed whether, as a result of the Merger, GVC would have the ability to foreclose its competitors by refusing to supply, or by increasing the price/reducing the quality of, Cozy Games' offering. The CMA found that, due to the small size of Cozy Games and the number of alternative operators in the market, GVC would not have the ability to foreclose its competitors. Therefore,

² Such as casino, poker, bingo and slots.

the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of vertical effects.

12. The Merger will therefore not be referred under section 33(1) of the Enterprise Act 2002 (the Act).

ASSESSMENT

Parties

13. GVC is a multinational betting and gaming group. In the UK, GVC offers online betting and gaming services to end customers under a number of brands.³ GVC also provides B2B services through its subsidiary Cozy Games. Cozy Games provides software, platform and ancillary services to online gaming websites, in particular for bingo.
14. The net revenues of GVC in 2016 were approximately £716 million worldwide, of which approximately £57 million was generated in the UK.
15. Ladbrokes Coral is a multinational betting and gaming company. In the UK, Ladbrokes Coral offers betting and gaming services to end customers both online and through retail stores under a number of brands.⁴ It also owns and operates the Betdaq betting exchange.
16. The net revenues of Ladbrokes Coral in 2016 were approximately £2,352 million worldwide, of which approximately [X] million was generated in the UK.

Transaction

17. On 22 December 2017, the boards of GVC and Ladbrokes Coral announced the terms of a recommended acquisition under which GVC would acquire the entire issued and to be issued share capital of Ladbrokes Coral (the Transaction). The Transaction is subject to the City Code of Takeovers and will be implemented by way of a court-sanctioned scheme of arrangement under Part 26 of the Companies Act.
18. The Parties informed the CMA that the Merger is being reviewed by the competition authority of Malta and the Austrian competition authority c identified no competition concerns with the Merger.

³GVC brands in the UK include bwin, Sportingbet, Party Casino, Party Poker, Party Bingo, Foxy Casino, Foxy Bingo.

⁴Ladbrokes Coral brands in the UK include Galabingo, Galacasino, Coral, Ladbrokes and Betdaq. Ladbrokes Coral also owns and operates four greyhound tracks and holds a 23.4% interest in Satellite Information Services (Holdings) Limited.

19. The Parties explained that the rationale for the Merger was to achieve a diversified and complementary international presence with geographic breadth and an enhanced multichannel offering, with a balance of online and retail distribution channels. The Merger would also lead to an increase in net revenue from geographic markets which are more highly regulated. This rationale was supported by analyst reports.⁵

Jurisdiction

20. As a result of the Merger, the enterprises of GVC and Ladbrokes Coral will cease to be distinct.
21. The turnover test in section 23(1)(b) of the Act is satisfied as the UK turnover of Ladbrokes Coral exceeds £70 million.
22. The CMA therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
23. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 8 February 2018 and the statutory 40 working day deadline for a decision is therefore 6 April 2018.

Counterfactual

24. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers the CMA generally adopts the prevailing 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.⁶
25. 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.

⁵ Eg Annex 7 [Davy Research](#), Annex 29 [Berenberg](#), Annex 37 [Alpha Value](#).

⁶ [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).

26. Therefore, the CMA believes the prevailing conditions of competition to be the relevant counterfactual for the assessment of the Merger.

Background

27. Betting involves the staking of money on the outcome of a specific event (mostly sporting events).⁷ The industry distinguishes between pool betting, where the size of the winnings is determined by reference to the aggregate of the stakes paid and the number of winners, and fixed odds betting, where the winnings are fixed according to odds set in advance. Within fixed odds betting, the odds are either determined by the bookmaker (eg sportsbook betting) or derived from a betting exchange, where customers set their own odds and bet against each other (exchange betting). The Parties overlap in the provision of online sportsbook betting only.
28. Gaming involves playing a game with some element of chance for a prize. Most games are played against a random number generator (eg slots, bingo and casino games), except for poker where customers play against each other.
29. The Gambling Act 2005 set out a comprehensive regime for the regulation of gambling. It also created the Gambling Commission as a unified regulator for commercial gambling.⁸
30. The Gambling (Licensing and Advertising) Act 2014 (the 2014 Act) requires any operator advertising remote gambling or providing online gambling facilities in Great Britain to have an operating licence from the Gambling Commission. The 2014 Act also prohibits unlicensed operators from promoting their products in Great Britain.

Frame of reference

31. 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 merging parties from outside the relevant market, segmentation within the relevant market, or other

⁷ Under the Gambling Act 2005, betting is defined as ‘making or accepting a bet on: (a) the outcome of a race, competition or other event or process; (b) the likelihood of anything occurring or not occurring; or (c) whether anything is or is not true’. Accordingly, it includes betting on sporting and non-sporting events and numbers betting.

⁸ Betting offices were first legalised by the Betting and Gaming Act 1960, although tight controls on their operation were initially imposed. A number of deregulatory measures were subsequently passed before the Gambling Act 2005 came into force.

ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.⁹

32. In identifying the relevant frame of reference the CMA pays particular regard to demand side factors (the behaviour of customers and its effects). However, the CMA also considers supply-side factors (the capabilities and reactions of suppliers in the short term) and other market characteristics.

Product scope

33. The Parties overlap in the provision of online gambling services to UK customers. Both firms operate a number of brands which focus on either online betting or online gaming.
34. The Parties overlap, in particular, in the provision of online fixed-odds sportsbook betting (GVC only offers sportsbook betting, while Ladbrokes Coral offers exchange betting as well); and a variety of casino games, poker, slots and bingo.

Parties' submission

35. The Parties submitted that the narrowest plausible product frames of reference were: (i) online betting; and (ii) online gaming. They stated that offline gambling was not a close substitute to online gambling. They also did not consider any narrower frames of reference to be plausible as, for both betting and gaming, there is both demand-side and supply-side substitution between the different forms of these activities. However, the Parties did provide data on narrower sub-segments by specific sporting categories and for online casino, online poker, online bingo-led,¹⁰ and online bingo.

Online vs in-store

36. As mentioned above, the Parties overlap in the provision of online services only. Unlike Ladbrokes Coral, GVC is not active through licenced betting offices (ie in-store retail) in the UK.
37. In Ladbrokes/Coral, the CMA distinguished between the supply of gambling services through online and in-store channels and found that they were separate product markets.¹¹

⁹ [Merger Assessment Guidelines](#), paragraph 5.2.2.

¹⁰ See paragraph 76.

¹¹ [Ladbrokes and Coral](#), A report on the anticipated merger between Ladbrokes plc and certain businesses of Gala Coral Group Limited, 26 July 2016, paragraph 6.79.

38. The Parties submitted, and third parties confirmed, that, for many customers, there is limited demand-side substitution between online and in-store gambling as these channels have different product characteristics. The Parties said that the customer demographics are different between online and in-store.
39. The CMA did not receive any evidence which indicated that the approach adopted by the CMA in the Ladbrokes/Coral decision was not appropriate in the present case.
40. Therefore, the CMA assessed the effects of the Merger by reference to online supply only, without including in-store retail within the same frame of reference.

Betting vs gaming

41. In previous decisions,¹² the CMA and its predecessors distinguished between betting and gaming, mainly based on there being limited demand-side substitutability.¹³
42. The CMA found no evidence to suggest that it was appropriate to depart from the approach adopted previously in the present case.
43. Therefore, the CMA assessed the effects of the Merger by reference to the provision of online betting and online gaming services separately.

Narrower frames of reference

Categories of online betting

44. The Parties only overlap in the provision of online fixed-odds sportsbook betting. The CMA's investigation in PaddyPower/Betfair suggested that there is limited demand-side substitution between online sportsbook betting and exchange betting.¹⁴
45. With regard to betting on specific events, third parties told the CMA that, while many customers have a primary sport they bet on, usually one in which they have acquired some expertise or that they particularly enjoy following, customers will still bet on other sports or events as well.

¹² Lightcatch/Tote, 19 January 2012, paragraph 15 and PaddyPower/Betfair, 11 December 2015, paragraph 33.

¹³ In Ladbrokes/Coral the CMA considered a wider market for the supply of gambling products in licensed betting offices without distinguishing between betting and gaming. This decision, as set out above (paragraph 36), focused on the provision of retail (ie in-store) gambling services.

¹⁴ Paddy Power/Betfair, paragraphs 34.

46. From a supply-side perspective, the CMA's investigation found that the cost of widening an existing online fixed-odds betting operation to cover additional sports or events was limited.¹⁵ The CMA found that the majority of online betting providers offer odds across a wide range of sports and events.
47. Although the CMA considered the possible online betting category segmentations in its competitive assessment, it was not necessary for the CMA to reach a conclusion on the precise appropriate product frame of reference in this regard since, as set out below, the CMA found that no competition concerns arise on any plausible basis.

Categories of online gaming

48. The CMA found that, while the range of games that can be played online is vast, most games consist of betting against a random number generator and so are likely to be substitutable.¹⁶ The CMA noted that an exception was poker, where substitution into other forms of gaming may be less likely. Third parties told the CMA that some poker players considered poker to be a skill-based game and these players would, therefore, be less likely to play other online games.
49. The Parties' internal documents¹⁷ and third party comments showed that bingo has very specific demographics, which suggests that these customers may be less likely to consider other games as substitutes. However, based on third party comments and industry reports,¹⁸ the CMA found that bingo players would also play slots. The CMA noted that slot games are often positioned alongside bingo by online providers.
50. From a supply-side perspective, the CMA found that most operators offer a wide range of games, and that it was not difficult to develop these either in-house or to buy them from third parties on a revenue-share basis.
51. Although the CMA considered the possible online gaming category segmentations in its competitive assessment, it was not necessary for the CMA to reach a conclusion on the precise appropriate product frame of reference in this regard since, as set out below, the CMA found that no competition concerns arise on any plausible basis.

¹⁵ For example, including hiring a team of analysts with expertise in the sector, or buying in such services from a third-party provider.

¹⁶ Gambling Commission statistics show that 64.5% of remote gaming is from 'slots'.

¹⁷ Annex 79 and Annex 95 to the Merger Notice.

¹⁸ Regulus Report

Conclusion on product scope

52. The CMA assessed the impact of Merger in the supply of: (i) online betting; and (ii) online gaming. The CMA also considered the provision of: (i) betting services for individual sports; and (ii) individual games; however, it was not necessary for the CMA to reach a conclusion on the precise appropriate product frame of reference in these areas since, as set out below, the CMA found that no competition concerns arise on any plausible basis.

Geographic scope

53. The Parties submitted that competition for the supply of online betting and online gaming services takes place on a national basis.
54. In PaddyPower/Betfair, the CMA found that all operators supplying customers in the UK must have a UK licence, though it did not need to reach a definitive conclusion on the appropriate geographic frame of reference in that case.¹⁹
55. In the present case, third parties confirmed that online gambling providers need to hold a licence from the Gambling Commission to operate in the UK. In addition, competitors mentioned the need to establish brand awareness and trustworthiness within the UK to provide online gambling services to UK customers.
56. For these reasons, the CMA assessed the effects of the Merger in the UK.

Conclusion on frame of reference

57. For the reasons set out above, the CMA assessed the impact of the Merger in the following frames of reference:
- (a) the supply of online betting services in the UK; and
 - (b) the supply of online gaming services in the UK.
58. The CMA also assessed the impact of the Merger on a more granular basis, ie looking at the provision of: (i) betting services for individual sports; and (ii) individual games.

¹⁹ PaddyPower Betfair, paragraph 44.

Competitive assessment

Horizontal unilateral effects

59. 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 to degrade quality on its own and without needing to coordinate with its rivals.²⁰ Horizontal unilateral effects are more likely when the merging parties are close competitors.
60. 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 horizontal unilateral effects in the supply of either online betting or online gaming in the UK.
61. The CMA considered for each frame of reference: (a) shares of supply; (b) the closeness of competition between the Parties; and (c) alternative competitive constraints.

Supply of online betting

Shares of supply

62. The Parties submitted²¹ share of supply estimates on the basis of net gambling revenue (**NGR**)²² using data from Regulus Partners.²³ This data indicates that the Parties have a combined share of supply in online betting in the UK of [10%-20%], with a small increment of [less than 1%].

²⁰ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

²¹ [REDACTED].

²² NGR refers to Net Gaming Revenue, which is defined as the gross bets total, less the pay-out from any transaction with a visitor, or in which a visitor is credited, less returns, bonuses and chargebacks. NGR is used in third party reports and the Parties believe it is equivalent to gross gambling yield (**GGY**). GGY is the metric used by the Gambling Commission. <http://www.gamblingcommission.gov.uk/for-gambling-businesses/Apply-for-a-licence/How-to-calculate-your-gross-gambling-yield-GGY.aspx>

²³ The Parties submitted that NGR “takes into account the costs of promotional discounts awarded to customers and therefore more accurately reflects the Parties' market position”.

Table 1 Estimated shares of supply of online betting in the UK²⁴

GVC	[less than 1]%
Ladbrokes	[10-20]%
Merged Entity	[10-20]%
PaddyPower Betfair	[20-30]%
Bet365	[20-30]%
WilliamHill	[10-20]%
Sky Betting & Gaming	[10-20]%
Betway	[0-5]%
Betfred	[0-5]%
BetVictor	[0-5]%
Others	[5-10]%

Source: Regulus Report and Parties internal data

63. The CMA cross referenced this data with data from the Gambling Commission and found that the estimated shares of supply were consistent. In addition, a third party report also positioned Ladbrokes Coral as the fifth largest online betting provider in the UK, while not mentioning GVC.
64. The CMA found that, if it were to restrict the frame of reference to online sportsbook betting only, the shares of supply of the Parties would be broadly the same as for all online betting (as shown above).
65. The CMA also analysed data provided by the Gambling Commission which broke down GGY²⁵ for all online betting into individual sports.²⁶ This analysis showed that: (i) the Parties' combined share of supply in individual sports is below 20% in all cases, other than dogs betting where it is still below 25%; and (ii) GVC has a very small share of supply in all segments, with the maximum increment resulting from the Merger being [0-5]% (in cricket).
66. The CMA believes that the share of supply data shown above is not indicative of competition concerns in relation to online betting arising from the Merger.

²⁴ Regulus Report. These figures include telephone betting. The Parties submitted that telephone betting only constitutes a small part of the remote gambling market.

²⁵ GGY stands for Gross Gambling Yield which can broadly be defined as the amounts staked by customers minus winnings paid to them.

²⁶ Individual sports include football, horses, tennis, dogs, cricket, golf, virtual sports.

Closeness of competition

67. The Parties submitted that they are not close competitors in the supply of online betting to customers in the UK, as they have different product and geographic focusses:
- (a) Ladbrokes Coral focusses on in-store betting, where GVC is not active;
 - (b) GVC is primarily active outside the UK;
 - (c) within online betting, GVC focusses on football and tennis, while Ladbrokes Coral focusses on horse racing.
68. The CMA found that GVC's internal documents identified a number of competitors, without referring to Ladbrokes Coral as a particularly close competitor.²⁷ LadbrokesCoral's internal documents also did not refer to GVC as a close competitor in online betting.
69. Third parties told the CMA that they did not consider GVC and Ladbrokes Coral to be particularly close competitors in online betting due to the different size of their businesses in the UK and the different focus of their offering. Third parties also said that the offers of most online betting providers in the UK were not significantly differentiated.
70. The CMA considered whether, absent the Merger, GVC and Ladbrokes Coral might become closer competitors in the supply of online betting in the UK, but it found no evidence from either internal documents or third party submissions to indicate that would be the case.
71. The CMA believes this evidence is consistent with the share of supply data above in showing that GVC and Ladbrokes Coral are not close competitors in the supply of online betting services in the UK.

Competitive constraints

72. The Parties submitted that they will continue to face strong competition in the supply of online betting services in the UK from a range of competitors post-Merger. A third party analyst report provided to the CMA by the Parties named a number of competitors to the Parties.
73. Third parties told the CMA that there are several other large online betting providers with similar offers to the Parties and that customers usually hold

²⁷ Annex 003, Annex 28.

accounts with more than one provider. Third parties did not identify any aspect of the Parties' offering which other online betting providers could not offer.

74. On the basis of this evidence, the CMA believes that the merged entity will continue to face a strong competitive constraint from other online betting providers.

Conclusion on horizontal unilateral effects in the supply of online betting

75. Based on the low combined shares of supply, and low increment, the lack of closeness of competition, and a sufficient constraint from a range of alternative online betting providers, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of online betting services in the UK.

Supply of online gaming

Shares of supply

76. The Parties submitted share of supply estimates on the basis of NGR, using data from Regulus Partners. This data indicates that the Parties have a combined share of supply in online gaming in the UK of [10-20]%, with a small increment of [0-5]%.

Table 2: Estimated shares of supply of online gaming in the UK (2016)

GVC	[0-5]%
Ladbrokes Coral	[10-20]%
Merged Entity	[10-20]%
William Hill	[5-10]%
JackpotJoy	[5-10]%
PaddyPower Betfair	[5-10]%
Sky Betting & Gaming	[5-10]%
888	[5-10]%
Rank	[0-5]%
Bet 365	[0-5]%
Stride	[0-5]%
Stars Group	[0-5]%
Apollo entertainment	[0-5]%
Tombola	[0-5]%
Betfred	[0-5]%
BGO	[0-5]%
Imprial -E Club	[0-5]%
Sun Bingo	[0-5]%
Betway	[0-5]%
32Red	[0-5]%
BetVictor	[0-5]%
Others	[20-30]%

Source: Regulus Report and Parties' internal data

- *Shares of supply by individual online game*

77. The CMA also examined the Parties' share of supply estimates by individual online game.

Table 3: Parties's shares of supply (NGR), 2016

Operator	Casino	Poker	Bingo	Bingo-led
GVC	[0-5]%	[0-10]%	–	[0-5]%
Ladbrokes Coral	[10-20]%	[5-10]%	[20-30]%	[10-20]%
Combined entity	[10-20]%	[10-20]%	[20-30]%	[10-20]%

Source: Regulus Report and Parties' internal data

78. The Parties' biggest combined share of supply is in bingo, where the merged entity will have a [20-30]% market share, however with no increment. In all other segments, the Parties' combined share of supply is below 20%.
79. The Parties and third parties told the CMA that bingo sites frequently derive revenue from 'slots' on side-bars next to their bingo offering (**bingo-led revenue**) and that the NGR from bingo alone can be negative (ie it can be used as a loss-leader). Given that share of supply estimates for bingo alone, based on NGR, might therefore be misleading, the CMA also considered 'bingo-led' shares as an additional measure of the strength of the Parties' bingo offer.
80. The CMA believes that the share of supply data shown above is not indicative of competition concerns in relation to online gaming arising from the Merger.

Closeness of competition

81. The Parties submitted that they are not particularly close competitors in the supply of online gaming to customers in the UK and that there is a high number of other suppliers of online gaming.
82. Internal documents provided by the Parties showed that they both monitor a wide variety of competitors, and that Ladbrokes Coral does not monitor GVC regularly.
83. Third parties told the CMA that, while the Parties are alternative providers of online gaming services, they are not particularly close competitors. Third parties said that the Parties have different geographic focuses, with GVC having strong brands in continental Europe, while Ladbrokes Coral is focused on the UK. Some third parties highlighted that Ladbrokes Coral had a background in betting while GVC's background was mostly in gaming.
84. Third party evidence also indicated that the Parties are not each other's closest competitor in any individual game.
85. The CMA considered whether, absent the Merger, GVC and Ladbrokes Coral might become closer competitors in the supply of online gaming in the UK, but it found no evidence from either internal documents or third party submissions to indicate that would be the case.
86. The CMA believes this evidence is consistent with the share of supply data above in showing that GVC and Ladbrokes Coral are not each other's closest competitor in the supply of online gaming services in the UK.

Competitive constraints

87. The Parties submitted that they will continue to face strong competition in the supply of online gaming services in the UK from a range of competitors post-Merger. A third party analyst report provided to the CMA by the Parties named a number of competitors to the Parties, including Betfred and Bet365.
88. Third parties told the CMA that there are many alternative providers offering a wide range of games online. Third parties did not identify any aspect of the Parties' offering which other online gaming providers could not offer.
89. In relation to bingo, third parties said that there are several large providers of online bingo, including Tombola, Jackpotjoy and Rank, and many smaller providers. Third parties said that smaller providers often used platforms to pool their players with those of other sites. One third party submitted that the optimal number of bingo players was only a few hundred, suggesting that even smaller bingo suppliers can effectively constrain the Parties.
90. On the basis of this evidence, the CMA believes that the merged entity will continue to face a strong competitive constraint from other online gaming providers.

Conclusion on horizontal unilateral effects in the supply of online gaming.

91. Based on the low combined shares of supply, and low increment, the lack of closeness of competition, and a sufficient constraint from a range of alternative online gaming providers, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of online gaming services in the UK.

Vertical effects

92. Vertical effects may arise when a merger involves firms at different levels of the supply chain. Vertical mergers may be competitively benign or even efficiency-enhancing, but in certain circumstances can weaken rivalry, for example when they result in foreclosure of the merged firm's competitors. The CMA only regards such foreclosure to be anticompetitive where it results in an SLC in the foreclosed market(s), not merely where it disadvantages one or more competitor.²⁸

²⁸ In relation to this theory of harm 'foreclosure' means either foreclosure of a rival or to substantially competitively weaken a rival.

93. In the present case, the CMA has considered whether vertical unilateral effects in the supply of online gambling software and services might arise. This might be the case as GVC, through its subsidiary Cozy Games, sells software, platform and ancillary services to online gaming providers which compete with the Parties downstream.²⁹
94. In the present case, given that the CMA has found no horizontal concerns at the downstream retail level, vertical unilateral effects would be most likely to occur through input foreclosure, whereby the merged entity might use its position upstream to worsen or cease its offer to downstream rivals in order to benefit its newly expanded downstream business.
95. The CMA's approach to assessing vertical theories of harm is to analyse (a) the ability of the merged entity to foreclose its competitors, (b) the incentive of it to do so, and (c) the overall effect of the strategy on competition.³⁰

Ability

96. Through Cozy Games, GVC supplies a number of smaller providers with services that allow these companies to provide online bingo on a 'white label' basis.
97. The Parties submitted that their share in the provision of services to online gaming providers (or narrower online bingo providers) is not higher than [0-5] %.
98. Third parties, including customers of Cozy Games, told the CMA that there are several other companies providing these services, including major companies such as Playtech, Gamsys, Microgaming and 888.
99. On the basis of this evidence, the CMA does not believe that there is a realistic prospect that the merged entity would have the ability to foreclose downstream competitors.
100. Since the CMA has concluded that the Merger will not provide the merged entity with sufficient ability to foreclose, the CMA has not assessed the impact of the Merger on its incentive to foreclose or the effect of a foreclosure strategy on competition.

²⁹ Services provided by Cozy Games include licensed services, gaming platforms, website development, hosting, wallet and banking.

³⁰ [Merger Assessment Guidelines](#), paragraph 5.6.6.

Conclusion on vertical effects

101. For the reasons set out above, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of vertical unilateral effects in relation to the supply of online (B2B) gambling software and services.

Barriers to entry and expansion

102. Entry, or the expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no SLC.³¹

103. In the present case, the CMA has not had to conclude on barriers to entry or expansion as the Merger does not give rise to competition concerns on any basis.

Third party views

104. The CMA contacted customers and competitors of the Parties. The only concerns the CMA received during its investigation were not merger specific.

105. Third party comments have been taken into account where appropriate in the competitive assessment above.

Decision

106. Consequently, the CMA does not believe that it is or may be the case that the Merger may be expected to result in an SLC within a market or markets in the UK.

107. The Merger will therefore not be referred under section 33(1) of the Act.

Andrew Wright
Director Merger
Competition and Markets Authority
21 March 2018

³¹ [Merger Assessment Guidelines](#), from paragraph 5.8.1.