

Completed acquisition by The Stars Group Inc of the Sky Betting & Gaming group

Decision on relevant merger situation and substantial lessening of competition

ME/6758/18

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 11 October 2018. Full text of the decision published on 5 November 2018.

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

SUMMARY

1. On 10 July 2018, The Stars Group Inc. (**Stars**), through its subsidiary Stars Group Holdings (UK) Limited (**Stars UK**), acquired the Sky Betting & Gaming group (**SkyBet**) (the **Merger**). Stars and SkyBet are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of Stars and SkyBet is an enterprise; that these enterprises have ceased to be distinct as a result of the Merger; and that the turnover test is met. The four-month period for a decision 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 overlap in the supply of online gambling services to customers in the United Kingdom (**UK**). Except for online poker, Stars has a marginal presence in online gambling in the UK. The CMA has therefore focused its assessment on the supply of online poker services in the UK.
4. The CMA considered whether the Merger may lead to a substantial lessening of competition (**SLC**) because of horizontal unilateral effects in the supply of online poker services in the UK. The Parties have substantial shares of supply in online poker (either [40-50]% or [60-70]% depending on the data source

used), although the increment in share brought about by the Merger is moderate.¹ The evidence shows, however, that the Parties are not close competitors and sufficient competitive constraints will remain post-Merger. In summary:

- (a) The Parties do not compete closely for customers. They have different customer bases and mostly compete for customers with different preferences: Stars focuses on serious poker players, while SkyBet focuses on casual and recreational players.ⁱ
 - (b) The Parties' poker services are differentiated. Stars offers a larger international player pool and a wider variety of games, game variants, tournaments and prizes compared to SkyBet.
 - (c) The merged entity will face strong competitive constraints post-Merger from a range of established players which, while smaller in online poker at present, would be well-placed to accommodate any increase in demand from the Parties' customers. These include (i) large international players such as 888 and GVC Ladbrokes Coral (who compete for all types of customer), and (ii) other strong competitors, such as William Hill, bet365 and PaddyPower Betfair (who tend to compete for casual and recreational players).
5. The CMA accordingly believes that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects.
 6. The Merger will therefore **not be referred** under section 22(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

7. Stars is a publicly listed Canadian group that primarily provides online gaming and interactive entertainment services on a global scale. Via its subsidiary iBus Media, Stars also provides a limited selection of online affiliate marketing services in the UK. Stars has worldwide turnover of £[~~2~~] million in 2017, with £[~~2~~] million generated in the UK.²

¹ See paragraph 44 onwards for a discussion of the shares of supply.

² Turnover figures for both Stars and SkyBet are recorded on a **NGR** (Net Gaming Revenue) basis, which is revenues net of customer winnings and promotional activities and bonuses. This is an industry-standard measurement of revenues.

8. SkyBet is controlled by Cyan Blue Topco Limited (**CBTL**), a private company incorporated in Jersey. SkyBet provides online and mobile betting and gaming services primarily in the UK.³ It also operates Oddschecker, a UK odds comparison services website. SkyBet has worldwide turnover of £516 million in the financial year ending 30 June 2017, with £[] million generated in the UK.⁴

Transaction

9. On 10 July 2018, Stars, through its fully-owned subsidiary Stars UK, paid \$4.7 billion to acquire the entire issued share capital of CBTL under a sale and purchase agreement dated 21 April 2018.
10. The Parties state the rationale of the Merger is to bring together two complementary businesses: Stars focuses on online poker, while SkyBet focuses on sports betting. The Parties consider the Merger will give Stars greater exposure to the UK regulated market, while providing a platform for SkyBet to expand internationally, especially at a time when certain international jurisdictions (such as the United States), are moving towards legalising and regulating sports betting.

Jurisdiction

11. Each of Stars and SkyBet is an enterprise. As a result of the Merger, these enterprises have ceased to be distinct.
12. The UK turnover of SkyBet exceeds £70 million. The turnover test in section 23(1)(b) of the Act is satisfied.
13. The Merger completed on 10 July 2018. The four-month deadline for a decision under section 24 of the Act is 9 November 2018.
14. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
15. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 23 August 2018. The statutory 40 working day deadline for a decision is therefore 18 October 2018.

³ SkyBet also provides licensed services in some other jurisdictions, namely Germany, Italy, and Ireland.

⁴ The Parties also provided turnover figures on a Gross Gaming Revenue basis (net of customer winnings only). On this basis, Stars has worldwide turnover of £[] million in 2017, with £[] million generated in the UK, and SkyBet has worldwide turnover of £[] million in the financial year ending 30 June 2017, with £[] million generated in the UK.

Counterfactual

16. 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, absent 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.⁵
17. In this case, no evidence supports a different counterfactual. The Parties and third parties have not put forward arguments in this respect. Therefore, the CMA believes the pre-Merger conditions of competition to be the relevant counterfactual.

Frame of reference

18. Market definition provides a framework for assessing the competitive effects of a merger. It 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. There can be constraints on merging 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.⁶
19. The Parties overlap in the supply of online gambling services to UK customers. Gambling includes both betting and gaming activities. Betting involves staking money on the outcome of a specific event (mostly sporting events). Gaming involves playing a game with some element of chance to possibly win 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.
20. The Gambling Act 2005 sets out the regime for regulating gambling in the UK. It created the Gambling Commission as a unified regulator for commercial gambling. The Gambling (Licensing and Advertising) Act 2014 requires any operator advertising remote gambling or providing online gambling facilities in Great Britain to have an operating licence from the Gambling Commission.

⁵ [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).

⁶ [Merger Assessment Guidelines](#), paragraph 5.2.2.

21. Gambling services can be offered both online and offline, ie through licensed betting offices (**LBOs**). Neither Stars nor SkyBet operate any LBOs, although both run offline poker tournaments. Given the very limited number of offline poker tournaments the Parties offer,⁷ these services are not considered further in this decision.
22. The Parties also operate gambling-related businesses. SkyBet operates Oddschecker, an odds comparison site that allows customers to compare odds in the market. Stars operates iBus Media, which sells advertising space on various online gambling websites, and offers limited odds comparison services. The CMA did not find evidence of competition concerns in relation to these gambling-related services given their small size⁸ and the number of alternative providers available.⁹ No third parties raised concerns in relation to these services. The CMA has accordingly not considered them further in this decision.

Product scope

23. Stars primarily focuses on providing online gaming and interactive entertainment services. Online poker accounts for most of its revenues. Stars provides online poker in the UK through two brands – *PokerStars* and *Full Tilt*. It also provides online casino games through its *PokerStars Casino* brand, and betting services through its *BetStars* brand.
24. SkyBet is primarily active in online betting – particularly sports betting – through its *SkyBet* brand. It also operates online casino services through its *Sky Vegas* (focused on slots) and *Sky Casino* (focused on table games such as roulette and blackjack) brands, online bingo through *Sky Bingo*, and online poker through *Sky Poker*.
25. The Parties submitted the product frame of reference is online gambling. They argued that almost all online gambling providers compete across the spectrum of online gambling services and the different services are substitutable because they offer entertainment and the scope to win money. The Parties consider that the narrowest plausible product frames of reference are (i) online betting, and (ii) online gaming services.

⁷ The Parties sponsored only 12 out of nearly 1,500 licensed offline poker tournaments held between January and March 2018 in the UK.

⁸ iBus Media generated only c. £[] in 2017, and Oddschecker has an estimated share of supply of UK odds comparison websites of [10-20] %.

⁹ Additionally, both iBus Media and Oddschecker operate a business model that relies on offering their services to, or linking with, multiple other providers, which gives a lack of incentive to foreclose other providers.

Betting vs gaming

26. In previous decisions, the CMA and its predecessors distinguished between betting and gaming, mainly based on limited demand-side substitutability.¹⁰
27. On the demand side, the Parties submitted that many customers divide their gambling spend between different gambling services. The Parties' internal documents also suggest that offering both betting and gaming allows providers to generate cross-selling opportunities. The CMA does not consider this evidence alone indicates that betting and gaming are demand substitutes.¹¹ An individual consumer may wish to bet on some occasions and game on others.
28. On the supply side, although most providers offer both online betting and gaming, shares of supply and market structure vary significantly across different segments, indicating that competitive conditions are different. In their internal assessments, the Parties monitor competitive conditions, customer views, and acquisition channels for different product types separately. They also have separate commercial strategies for their betting and gaming products.
29. The CMA has not found evidence justifying a departure from the precedents referred to in paragraph 26 above. It has therefore considered online betting and gaming services separately.
30. Given Stars' limited presence in online betting (with a share of supply of [0-5]%) and customers' lack of awareness of its betting service,¹² the CMA considers that competition concerns would not arise within online betting as a whole and has focused its assessment of the Merger in online gaming.

Types of online gaming

31. The Parties argued that any further segmentation within online gaming by game type would be artificial and inappropriate. They submitted that:

¹⁰ *GVC/Ladbrokes Coral* (2017), paragraph 43, *PaddyPower/Betfair* (2015), paragraph 33 and *Lightcatch/Tote* (2012), paragraph 15. In *Ladbrokes/Coral* (2016), the CMA considered a wider market for the supply of gambling products in LBOs without distinguishing between betting and gaming. This decision focused on the provision of retail (in LBOs) gambling services, see *Ladbrokes/Coral*, paragraphs 6.88 – 6.93.

¹¹ Indeed, the Parties' stated rationale for the Merger is that it brings together two complementary, not substitutable, businesses – Stars' online gaming and SkyBet's online betting.

¹² An internal document submitted by the Parties showed that only [x%] of UK customers were aware of the *BetStars* brand, as opposed to [x%] of UK customers that were aware of SkyBet (with similar or higher levels of awareness for a variety of other competitors).

- (a) There is no meaningful distinction between games: all offer a form of entertainment with scope to win money. Although certain customers favour certain games, many play a variety of different games.
- (b) Almost all online gambling providers offer a wide range of online games. Customers can easily switch between these using a single e-wallet. There are limited barriers to supply-side substitutability in terms of software or other costs.
32. The Parties overlap primarily in the supply of online poker (as described in paragraph 44 below). The CMA therefore assessed whether there was a separate product frame of reference for the supply of online poker.
33. As to precedent, the CMA considered different types of online games in *GVC/Ladbrokes Coral*. It found that most games were likely to be substitutable, except for poker. Poker was distinguished because some poker players considered poker a skill-based game, and these players were less likely to play other games.¹³ In the present case, the CMA examined evidence to understand whether other online games (such as casino or bingo) provided a substitute for online poker.
34. On the demand side, the evidence shows that customers often have preferences for different types of game they wish to play, including around the level of social interaction and complexity. First, a Mintel report on online gambling suggests that poker offers the largest social element, followed by football pools and casino games, with slots and instant-win games being considered much less social.¹⁴ Second, poker is considered to require specific skills and knowledge to play, as opposed to slots, which are less complex.¹⁵
35. On the supply side, the CMA found that although some providers offer a variety of games, several providers operate only in the casino segment,¹⁶ and a number of specialised providers focus on a particular segment. For example, Stars is the biggest provider of online poker services in the UK, but has a limited presence in other games; Tombola is the biggest provider of online bingo games in the UK, but has only a marginal presence in the online

¹³ *GVC/Ladbrokes Coral* (2017), paragraph 48. The CMA did not conclude on whether there was a separate frame of reference for poker given no competition concerns arose.

¹⁴ In poker, customers play against each other. In most other games (eg slots, bingo and casino), customers play against a random number generator.

¹⁵ Mintel report on Online Gaming and Betting, UK November 2016, which included a survey asking customers whether they felt they needed skill to win at various online gambling activities. The Parties also submitted that *'the ability to win [poker] in the long-term is based on skill'* (RFI 1 Response, 18 June).

¹⁶ In 2017, only one third of online casino operators were also active in online bingo, and only a quarter were active in online poker.

casino segment. The Parties also monitor different online game types separately in their internal documents.

36. Accordingly, the available evidence indicates that conditions for competition between online poker and other types of online game are different and the CMA has not aggregated different games based on supply-side substitutability.¹⁷
37. The CMA has therefore assessed the Merger in the supply of online poker services, where the Parties have a material overlap. Given the Parties' minor presence in online casino and bingo, the CMA did not consider these other types of games further, as no competition concerns would arise on any plausible basis.

Conclusion on product scope

38. For the reasons set out above, the CMA has considered the impact of the Merger in the supply of online poker services. It was not necessary, however, for the CMA to conclude on the precise product frame of reference because no competition concerns arise on any plausible basis.

Geographic scope

39. Online gambling providers need to hold a licence from the Gambling Commission to serve customers in the UK. The Parties submit, however, that they are subject to international competitive constraints due to the development of online gambling. They state that several online gambling operators, including Stars, operate on a multi-jurisdictional basis, where they offer a single product for a global audience.
40. In both *GVC/Ladbrokes Coral* and *PaddyPower/Betfair*, the CMA considered the geographic frame of reference to be the UK.¹⁸ Different regulatory requirements exist across different jurisdictions, with the Gambling Commission responsible for regulating commercial gambling in Great Britain.¹⁹
41. Consistent with previous decisions, the CMA has considered the impact of the Merger in the UK. It was not necessary, however, for the CMA to conclude on

¹⁷ [Merger Assessment Guidelines](#), paragraph 5.2.17.

¹⁸ [GVC/Ladbrokes Coral](#), paragraph 56 and [PaddyPower/Betfair](#), paragraph 44.

¹⁹ For Northern Ireland, The Department for Social Development regulates both offline and online gambling activities.

the precise geographic frame of reference because no competition concerns arise on any plausible basis.

Conclusion on frame of reference

42. For the reasons set out above, the CMA has considered the impact of the Merger in the supply of online poker services in the UK.

Competitive assessment

Horizontal unilateral effects

43. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint. This allows 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. 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 online poker services in the UK.

Shares of supply

44. The Parties submitted share of supply estimates based on Net Gaming Revenue (**NGR**) using data from Regulus Partners.²¹ This data indicates that the Parties have a combined share of supply of [40-50]%, with the Merger bringing about an increment of [5-10]%. The CMA also contacted the Gambling Commission and obtained revenue data collected by the Gambling Commission based on Gross Gambling Yield (**GGY**).²² This data indicates that the Parties have a combined share of supply of [60-70]%, with the Merger bringing about an increment of [10-20]%.

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

²¹ Regulus Partners is an independent consultancy specialising in gambling and related industries. See footnote 2 for an explanation of NGR.

²² Gross Gambling Yield is defined as the amount retained by operators after the payment of winnings but before the deductions of the costs of the operation.

Table 1: Estimated shares of supply of online poker services in the UK (2017)

Provider	Share of supply (Regulus Partners)	Share of supply (Gambling Commission) (GB only)²³
Stars	[40-50]%	[40-50]%
SkyBet	[5-10]%	[10-20]%
Combined	[40-50]%	[60-70]%
GVC / Ladbrokes Coral (includes PartyPoker)	[20-30]%	[10-20]%
888	[10-20]%	[10-20]%
PaddyPower Betfair	[5-10]%	[0-5]%
William Hill	[0-5]%	[0-5]%
Bet365	[0-5]%	[0-5]%
Other	[5-10]%	[5-10]%
Total market size	£109m	£111m

Source: Regulus Partners data provided by the Parties, and Gambling Commission data provided to the CMA

45. The Parties submitted that [REDACTED]²⁴.
46. The CMA discussed the collection and limitations of both data sources with the Gambling Commission and Regulus Partners. The CMA has not needed to decide which data source is likely to be more reliable, instead taking both into account, because the variance between the two sources does not have a material impact on the competitive assessment (for the reasons explained below).
47. The Parties' shares of supply set out above are substantial under either estimate. As explained below, however, the CMA has placed limited weight on the shares of supply in its competitive assessment, in particular given the differentiated nature of the online poker services provided by the Parties and the competitive constraints that will remain post-Merger.

Closeness of competition

48. The Parties submitted that they are not close competitors in the supply of online poker services in the UK. They argued as follows:
- (a) The poker offerings of Stars and SkyBet are different. Stars offers a significantly wider range of poker games and variants than SkyBet. And Stars generates almost all its revenue from poker game types that SkyBet does not offer.

²³ The CMA consider that GB-wide data is representative of the UK as a whole.

²⁴ **GGR**, Gross Gaming Revenue is revenues net of customer winnings only. See footnote 22 for an explanation of GGY.

- (b) Stars and SkyBet acquire customers through different channels. Stars competes to win poker customers directly. SkyBet focuses on sports betting customers to whom it then cross-sells poker services. Accordingly, competition for new customers between the Parties is ‘*very limited.*’
- (c) Stars and SkyBet target different customers. SkyBet has a younger customer base, as well as customers who only occasionally play poker (poker generates less than [X] % of SkyBet’s UK revenues). By contrast, Stars predominantly targets customers who mainly play poker.
- (d) Stars offers a global product with an international pool of players. It makes decisions for its products on a global basis. SkyBet, on the other hand, is primarily a UK-based business.

Difference in poker offerings

- 49. The Parties provided data on the range and revenues of the poker games and variants they offer. SkyBet generates most of its revenue from cash (or ring) games, which account for a small proportion of Stars’ revenue. Stars generates nearly half its revenue from game types not offered by SkyBet (namely Zoom and Spin & Go game modes).²⁵ Stars also offers over ten times the number of game variants compared to SkyBet.
- 50. The Parties submitted that the range and availability of games is one of the main parameters of competition for online poker, and this was supported by responses to the CMA’s merger investigation. The Parties’ internal documents also included customer surveys showing that Stars’ customers use its poker products for quality-related factors, such as better tournaments, prizes, and a larger player base. SkyBet’s poker customers, by contrast, value its British brand, its community spirit, and use of Sterling currency.²⁶
- 51. The CMA believes that this product differentiation indicates that the Parties may not be competing particularly closely for all customers of online poker services. The CMA recognises, however, that the range of games offered may not be a major consideration for all customers, and is only one aspect of the competition between online poker providers.

²⁵ Within the game types the Parties overlap in, the Parties’ revenues appear to be generated from different types of Sit & Go or Multi-table tournament games, further indicating differences between the Parties’ focuses.

²⁶ These factors are noted in customer surveys provided by the Parties (*SBG Annex 002-011, SBG Annex 002-012 and Annual Sky Poker Customer Report (MPC) 2018.*)

Customer acquisition channels

52. The Parties provided evidence on customer acquisition channels. The evidence showed that in 2018, [X] % of Stars' poker players joined the Stars platform as poker customers. By contrast, only [X] % of SkyBet's poker players joined as poker customers, with the remaining players joining SkyBet through its betting, casino or bingo platforms.
53. Internal documents provided by SkyBet showed that nearly half its poker customers heard about *Sky Poker* through SkyBet's other betting or gaming platforms. Nearly half of *Sky Poker's* customers commented that the connection to SkyBet encouraged them to join *Sky Poker*. By comparison, Stars competes for new customers directly based on the strengths of its poker offering: a Stars internal document indicates that it gains '*poker market share through brand advertising, product innovation, local relevance, creativity and grassroots activities.*'²⁷
54. Responses to the CMA's merger investigation confirmed differences in the Parties' customer acquisition channels. Competitors noted that Stars gains poker customers through its advertising, marketing activities and product innovations, which attract both professional and casual players. By contrast, competitors mentioned that SkyBet attracts new poker customers through the strength of the *Sky* brand and noted that SkyBet attracts casual players who are likely to be interested in casino or betting.
55. The CMA believes that the Parties acquire customers differently based on their relative strengths: SkyBet relies on its strong, UK brand and complementary offerings in sports betting and online gaming; and Stars relies on its strong poker offering, including a large player pool, a range of games, prizes, and tournaments. This means that for some customers, the Parties will not represent close competitors, and that competition for new customers may be limited.

Competition for customers

56. The CMA analysed the extent to which the Parties compete for similar customers based on the Parties' existing customer base, gambling preferences, e-wallet data, the Parties' internal documents, outage data, and responses to the CMA's merger investigation.
57. First, the Parties tend to target customers in different age groups. Most of SkyBet's customers are aged between 18 and 34, while most of Stars'

²⁷ 'Internal Documents - q - 27 July 2018', page 28.

customers are between 36 and 55. Additionally, a higher proportion of SkyBet's poker customers ([X]%) use mobile devices to play compared to Stars' customers ([X]%).²⁸

58. Second, the Parties' customers have different gambling preferences. SkyBet's customers are much more likely to play a range of different games and engage in sports betting than Stars' customers. This is evidenced by the following: (i) just [X]% of SkyBet's customers engage only in poker, compared to [X]% of Stars' customers;²⁹ (ii) a SkyBet customer survey showed that [X]% of new poker customers cite betting as their favourite gambling activity, with only [X]% favouring poker;³⁰ and (iii) customer surveys from the Parties indicate that only [X]% of Stars' global customers played poker primarily for fun (as opposed to make money), compared to [X]% of *Sky Poker* customers.
59. Third, e-wallet data shows that the Parties' customers have different gambling preferences and strategies:
- (a) Around [X]% of SkyBet's poker customers spend more than 95% of their e-wallet funds on poker (instead of betting, casino or bingo). By contrast, around [X]% of Stars' poker customers spend more than 95% of their e-wallet funds on poker. Accordingly, most of SkyBet's customers use only a small proportion of their total e-wallet funds to play poker, but most of Stars' customers use the vast majority of their e-wallet funds on poker.
 - (b) Most of SkyBet's poker revenue comes from the [X]% of poker customers with a share of e-wallet of 5% or less. By contrast, nearly half of Stars' poker revenue comes from customers with a share of e-wallet of 95% or more. This suggests that on average bets placed on SkyBet tend to be smaller than those on Stars.
60. Fourth, Stars' internal documents do not monitor or mention SkyBet. SkyBet's poker documents show that it does monitor Stars, as well as a range of other companies.³¹ The CMA considers that this evidence is consistent with Stars being the leading provider of online poker services, but SkyBet not offering a particularly strong constraint on Stars.

²⁸ This is supported by the Gambling Commission, who commented that significantly more of SkyBet's overall revenue is derived from mobile activity compared to Stars' revenue.

²⁹ A different source of evidence provided by the Parties estimated that [X]% of Stars' poker players, compared to [X]% of SkyBet's poker players, also engaged in other gambling activities (betting, casino or bingo) within the same month at least once during a six-month period.

³⁰ The CMA notes that a SkyBet survey of its active (as opposed to new) poker players showed that [X]% of customers viewed poker as their favourite gambling activity, with [X]% favouring betting.

³¹ The majority of SkyBet's internal documents focus on its other gambling activities (such as sports betting).

61. Fifth, the Parties analysed the volume and revenue impact of temporary outages that occurred on their poker platforms to assess whether they compete closely for customers. An increase in customer numbers or revenues for one Party when the other Party's poker platform was unavailable could indicate that the Parties are close competitors for online poker. The CMA notes that there are several significant limitations with the analysis submitted by the Parties,³² which necessarily limits the weight that can be placed on it. The analysis, which indicates a low level of diversion between the Parties, is however consistent with the other evidence described in this decision that the Parties are not close competitors.
62. Sixth, third parties that responded to the CMA's merger investigation tended to state that Stars and SkyBet target different customers: SkyBet targets recreational or casual players, who primarily join from SkyBet's betting platform. By contrast, Stars aims its poker product at a more diverse customer base, including both skilled and recreational poker players.
63. Based on the evidence above, the CMA believes that the Parties offer online poker services to customers with different preferences. Stars focuses on serious poker players, while SkyBet focuses on casual and recreational players who prefer sports betting as their primary gambling activity.ⁱⁱ

Stars as a global provider

64. The Parties submitted that having a large pool of players (**player liquidity**) is a key competitive parameter in online poker. This is because poker is played peer-to-peer: greater player liquidity allows a provider to offer a larger variety of games, game variants and tournaments, as well as reducing player waiting time. Third parties corroborated the Parties' submissions in this regard.
65. Stars operates a pool of around [X] million poker players from around 170 countries. UK players account for only [X]% of players (and [X]% of Stars' revenue). By contrast, SkyBet's poker network derives almost all its revenues from the UK.
66. Stars provided the CMA with an overview of its decision-making process and examples of recent significant product changes. Stars makes decisions on marketing spend and regulatory compliance on a country-specific basis. But Stars decides the key aspects of its product offering – including game availability, scheduling of tournaments, stakes, prices, bonuses, and rewards

³² These include: the underlying assumptions used; the fact that different results are seen across individual outages; that the results vary significantly by different sensitivity tests used; and that there were a limited number of unplanned outages to analyse.

– with respect to its global pool of players and these decisions do not vary across jurisdictions. Internal documents provided by Stars were consistent with Stars monitoring competition internationally.

67. Given that UK players account for only a small proportion of Stars' international revenue and player base, the CMA believes that adding SkyBet's poker business – which is substantially smaller than Stars' UK business (see Table 1) – would not alter Stars' incentives regarding the key aspects of its poker offering, which are set internationally.³³

Conclusion on closeness of competition

68. In conclusion, a wide range of evidence indicates that the Parties do not compete closely in the supply of online poker services in the UK. This includes evidence that Stars offers an international poker product with a much wider range of games, tournaments and prizes than SkyBet's UK-focused poker product, and that the Parties focus on different types of customer and acquire customers through different channels.
69. The CMA therefore believes that the Parties are not close competitors in the supply of online poker services in the UK. The Parties do, however, compete to some extent and so the CMA has considered the remaining competitive constraints by assessing the availability and strength of alternative online poker providers.

Competitive constraints

70. The Parties submitted that there are several alternatives available to customers. For Stars, there are other large international providers who place an emphasis on poker, such as GVC Ladbrokes Coral (who operate PartyPoker) or 888. For SkyBet, in addition to poker-focused operators, there are a range of UK sports betting providers, such as William Hill or bet365.

Alternative providers

71. 888 and GVC Ladbrokes Coral (with estimated shares of supply of [10-20]% or [10-20]% and [10-20]% or [20-30]% respectively) appear to have a similar offering to Stars and target serious poker players, and are therefore likely to exert a significant competitive constraint. Stars submitted that [REDACTED]% of its

³³ The CMA also considered whether, if Stars discontinued the operation of SkyBet's poker network, competitive concerns could arise as a result of the reduction in poker networks. However, the CMA found that a range of poker networks would remain post-Merger. Given the small size of Sky's poker network, the addition of SkyBet's customers onto the international Stars network would not significantly enhance its player liquidity.

customers also use [REDACTED] poker platform and [REDACTED]% use [REDACTED]. By contrast, only [REDACTED] % of Stars' customers also play with SkyBet. The Parties' internal documents corroborate that [REDACTED] and [REDACTED] are closer competitors to Stars than SkyBet, with Stars' internal documents monitoring these competitors' poker activities closely (and not mentioning or monitoring SkyBet).

72. Competitor responses received by the CMA also showed that 888 and GVC Ladbrokes Coral were important competitors to Stars. Almost all respondents ranked at least one of these two competitors second or third in importance in online poker (with Stars listed first by all respondents). Competitors noted that GVC Ladbrokes Coral has invested and improved its brand perception and grown its market share consistently in the last four years, and that 888 is very active in marketing and has good player liquidity.
73. In addition to 888 and GVC Ladbrokes Coral, several other large international gambling operators supply online poker services in the UK, including PaddyPower Betfair, bet365, and William Hill. These players compete, alongside SkyBet, with Stars for casual and recreational customers. Stars' internal documents showed that not an insignificant proportion of Stars' customers also play poker with well-known betting brands, which tend to target recreational poker players. For example, [REDACTED]% of Stars customers play with [REDACTED]; [REDACTED]% with [REDACTED]; [REDACTED]% play with [REDACTED]; and [REDACTED]% play with [REDACTED], [REDACTED], and SkyBet. Competitor responses frequently listed these competitors as being important in online poker alongside 888 and GVC Ladbrokes Coral, indicating they also provide at least some constraint to Stars.
74. SkyBet's internal documents tend to monitor a wide range of competitors, including betting-focused providers (such as [REDACTED], [REDACTED] and [REDACTED]), as well as [REDACTED] and Stars. Customer surveys provided by SkyBet show that *Sky Poker* account holders also use poker products from a range of competitors.³⁴
75. Competitor responses received by the CMA tend to support the position that the betting-focused providers – such as bet365, William Hill, and PaddyPower Betfair – are the closest competitors to SkyBet, due to the nature of their sports betting activities. Moreover, these competitors can compete in terms of player liquidity – a key parameter in attracting and retaining customers – by joining a poker network, such those offered by Playtech (iPoker), Microgaming, and IGT. These networks allow players to be pooled from different providers onto one network and thus increase the appeal of the individual poker offerings of these providers. Combining the poker providers

³⁴ For example, [REDACTED]% of *Sky Poker* account holders also have an account with *PokerStars*, [REDACTED]% with [REDACTED], [REDACTED]% with [REDACTED], [REDACTED]% with [REDACTED], Full Tilt (operated by Stars) and [REDACTED], [REDACTED]% with [REDACTED] and [REDACTED]% with [REDACTED], [REDACTED] and [REDACTED], and [REDACTED]% also have an account with [REDACTED].

using the iPoker network would give a share of supply of at least [20-30]%, making the iPoker network the second largest poker network after Stars.

Conclusion on competitive constraints

76. The CMA believes that sufficient competitive constraints will remain post-Merger. There are several large, international online poker service providers remaining in the UK, including some focused on online poker and some focused on recreational players. Additionally, smaller betting-focused competitors, such as bet365, William Hill and PaddyPower Betfair, are important constraints on SkyBet.

Conclusion on horizontal unilateral effects

77. For the reasons set out above, the CMA believes that, although the Parties have a substantial share of supply of online poker services, they do not compete closely for customers and sufficient competitive constraints will remain post-Merger.
78. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of online poker services in the UK.

Third-party views

79. The CMA contacted competitors of the Parties as well as related service providers, such as providers of business-to-business online gambling software. The CMA also contacted the Gambling Commission. The CMA has taken third-party comments into account where relevant above.
80. Although most competitors were not concerned about the Merger in respect to the supply of online poker services in the UK, a few competitors raised concerns that the Merger could allow Stars to leverage its increased share of supply in online poker to increase its share in sports betting (and *vice versa*).
81. The CMA recognises that, post-Merger, the Parties might have a more attractive online poker and sports betting offering. But the CMA does not believe that the Merger will provide the Parties with the ability and incentive to foreclose competitors (either in sports betting or in the supply of online poker services). First, a variety of the Parties' rivals can and do offer both betting and poker to customers and are therefore able to match the Parties' combined offering. The Parties are not particularly significant players across online betting as a whole (with a combined share of only [10-20]%), with two rivals in online betting continuing to have a significantly larger presence than the

Parties post-Merger.³⁵ Second, external reports, the Parties' internal documents and responses to the merger investigation indicate that a significant proportion of the Parties' customers multi-home with different gambling providers, and are unlikely to use the Parties' platforms to the exclusion of those of rivals (ie because customers do not have a material incentive to single source).³⁶ The CMA therefore believes that the Merger does not give rise to a realistic prospect of conglomerate effects concerns.

Decision

82. Consequently, the CMA does not believe that it is or may be the case that the Merger has resulted, or may be expected to result, in a realistic prospect of an SLC within a market or markets in the United Kingdom.
83. The Merger will therefore **not be referred** under section 22(1) of the Act.

Colin Raftery
Senior Director, Mergers
Competition and Markets Authority
11 October 2018

ⁱ The CMA's assessment is based on past internal documents and is in no way a statement of the future strategies of the combined entity. Stars have stated publicly they intend to pursue recreational players in the future.

ⁱⁱ See Endnote i above.

³⁵ The Parties combined share of supply in online casino is only [5-10]% and in online bingo is [0-5]% (share of supply estimated provided by the Parties based on Regulus Partners data).

³⁶ SkyBet poker customer surveys show that around half of SkyBet poker customers also have a poker account with Stars, a similar proportion with [X], and around a quarter with [X]. SkyBet betting customer surveys show that its betting customers also have accounts with other providers, including [X], [X], [X] and [X].