

Anticipated acquisition by Inspired Entertainment Inc. Of certain business owned by Novomatic (UK) Limited

Decision on relevant merger situation and substantial lessening of competition

ME/6824/19

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SUMMARY

1. Inspired Entertainment Inc (**Inspired**) has agreed to acquire from Novomatic UK Ltd (**Novomatic UK**) certain Novomatic UK businesses, including Astra Games Ltd (**Astra**) (excluding its casino business, which will be retained by Novomatic UK), Bell Fruit Group Ltd, Gamestec Leisure Limited, Harlequin Gaming Limited, Playnation Limited (**Playnation**) and Novomatic UK's 60% interest in Innov8 Gaming Limited (collectively, **the Target**). Inspired and the Target are together referred to as the **Parties**.
2. Inspired is a global business-to-business gaming technology company supplying virtual sports and server-based gaming products to regulated lottery, betting and gaming operators worldwide.
3. Novomatic UK is a wholly-owned subsidiary of Novomatic AG.¹ The Target is mainly present in the manufacture and distribution of category B3 and category C gaming machines and develops gaming content for various types of gaming machines in the UK.² Novomatic UK will retain part of its business in the UK, including Astra's casino business, some B3 machines and its adult gaming centres (**AGCs**) and family entertainment centres (the **Retained**

¹ Novomatic AG is an integrated global gaming technology and entertainment group that develops, manufactures and sells gaming products, lottery technologies and networked system solutions for domestic and international gaming and betting markets.

² See definition of the different categories of gaming machines in paragraph 34 below.

Business). The Target and the Retained Business are together referred to as **Novomatic**.

4. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of Inspired and the Target is an enterprise; that these enterprises will cease to be distinct as a result of the Merger; and that the turnover test is met. Accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
5. The Parties overlap in the manufacturing of gaming machines.³ There are different types of machine that are split into different categories. The Parties overlap in the supply of B3 gaming machines.⁴ Inspired's main focus is on the supply of B3 gaming machines to licensed betting offices (**LBOs**) and the Target's main focus is on the supply of B3 gaming machines to AGCs and bingo halls (**Bingo Halls**). The Parties also overlap in the supply of maintenance and servicing of Self- Service Betting Terminals (**SSBTs**) and in the supply of gaming content in the UK.
6. The CMA has considered the effects arising from the overlap of the Parties (ie horizontal effects) in relation to: (i) the manufacturing and supply (hereinafter **supply**) of category B3 in the UK as a whole and in relation to each type of customer separately; and (ii) the supply of maintenance and servicing of SSBTs in the UK.
7. With regard to the horizontal unilateral effects of the Merger in the supply of B3 gaming machines in the UK, the CMA has found that:
 - (a) The Parties' combined share (by new installed gaming machines) in the supply of B3 gaming machines to AGCs and Bingo Halls in the UK, between 2016-2018, was less than 30%, both to AGCs and Bingo Halls combined and separately. The Retained Business will remain an effective competitor in the supply of B3 gaming machines to AGCs and Bingo Halls. As a result, the number of independent competitors competing to supply AGCs and Bingo Halls will remain the same post-Merger. After the Merger, the Parties will have a similar share of supply to Novomatic pre-Merger, even taking into account Inspired's likely expansion within this segment. Scientific Games and Blueprint will continue to effectively constrain the Parties in the supply of B3 machines to these customers

³ Novomatic is also an operator/distributor of gaming machines but Inspired has a very limited presence at operator level (less than 0-5% of its revenue in the UK).

⁴ The CMA has assessed the Merger with reference to the supply of B2 now B3 gaming machines in the UK based on evidence that B2 machines have effectively become B3 machines following the Triennial Review of 2019 (see paragraph 37 below).

after the Merger. Therefore, the Parties will be sufficiently constrained by the Retained Business and by the other significant suppliers of B3 gaming machines to AGCs and Bingo Halls.

- (b) The Parties currently do not overlap in the supply of B3 machines to LBOs and the Target is not likely to expand its presence in the supply of B3 gaming machines to LBOs in a way that could be regarded as timely.
 - (c) No concerns arise in a broader frame of reference (supply of B3 gaming machines overall) given that no concerns arise in each customer segment.
8. As a result, the CMA concluded that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects in relation to both the supply of B3 gaming machines in the UK overall and to each customer segment (AGCs, Bingo Halls and LBOs) separately.
 9. With regard to the horizontal effects of the Merger in the supply of maintenance and servicing to SSBTs in the UK, the CMA has found that although there are currently only four competitors, the Parties are not close competitors and other alternatives could become available in near-term, given that barriers to entry are low. Therefore, the CMA has concluded that the Merger does not give rise to a realistic prospect of an SLC in the supply of maintenance and servicing to SSBTs in the UK.
 10. The CMA has also considered the possibility of Inspired foreclosing rival gaming content providers after the Merger, by refusing them access to the Parties gaming machines (vertical effects). The CMA has found evidence that, although it cannot be excluded that Inspired may have the ability to foreclose some content providers as a result of the Merger, Inspired will not have the incentive to engage in a foreclosure strategy of its rival gaming content providers, given that the losses of this strategy would outweigh any potential gains. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC, as a result of vertical effects, in relation to the supply of gaming content in the UK.
 11. As a result, 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 United Kingdom.
 12. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

13. Inspired is a global business-to-business gaming technology company supplying virtual sports and server-based gaming products to regulated lottery, betting and gaming operators worldwide. Inspired's total turnover in the last financial year (ending 30 September 2018) was £107.3 million, of which £[X] million was generated in the UK.⁵ Inspired achieved turnover of £[X] million from the supply of gaming machines in the UK in 2018. In 2018, Inspired predominantly supplied B2 gaming machines directly to LBOs (over 80-90% of its gaming machine revenues). Inspired additionally supplied B3 gaming machines to Bingo Halls (directly) and AGCs (indirectly via an operator, Playnation, which is part of the Target). Inspired typically supplies machines on a revenue-sharing basis.
14. Novomatic UK, is a wholly-owned subsidiary of Novomatic AG. Novomatic UK, through its subsidiaries, manufactures and distributes gaming machines in the UK and develops gaming content. In the last financial year (ending 30 September 2018), the Target achieved turnover of approximately £[X]million in the UK. The Target achieved turnover of £ [X]million from the manufacturing of gaming machines in the UK in 2018. Similarly, to Inspired, the Target supplies B3 gaming machines to Bingo Halls and AGCs, either by way of direct sale or revenue sharing arrangement. The Target also manufactures category B4, C and D machines (which Inspired does not) and serves a number of customer groups which Inspired does not serve, such as pub chains or family entertainment centres. In 2018, the Target's B3 gaming machines generated £[X]million. The Target business also includes Playnation, an operator that distributes gaming machines (including Inspired gaming machines).

Transaction

15. Inspired and Novomatic UK entered into a Share Purchase Agreement on 11 June 2019 whereby Inspired acquired the entire issued share capital of a number of wholly-owned subsidiaries of Novomatic UK, as mentioned in paragraph 1 above (the **SPA**).
16. Novomatic AG will continue to own the Retained Business. The Retained Business consists of B1 machines that are part of Astra's casino business (90-100% of revenues for the Retained Business in 2018) and B3 machines that have been supplied into the UK by Novomatic's Austrian subsidiaries.

⁵ Merger Notice (MN), page 25.

The Retained Business will also include Novomatic UK's subsidiaries - Luxury Leisure Holding Limited and Talarius Limited - that operate 226 AGCs and seven family entertainment centres in the UK.

Rationale for the Merger

17. Inspired submitted that the rationale for the Merger was that it would enable it to diversify its UK business in light of the impact of the Triennial Review⁶ and extend its current presence in category B3 gaming machines into segments where it does not currently participate or participates only to a limited extent.⁷ Further, Inspired submitted that the Merger would put its UK business on a solid commercial footing to compete against much larger global rivals and provide cost synergies of around \$12-13 million per annum.⁸
18. From the perspective of the Retained Business, the Merger would allow the Retained Business to focus on the more efficient use of centralised design, development and production resources. It would allow Novomatic AG, via the Retained Business, to focus on the Novomatic Games brand, which Novomatic submitted is well-known in arcade gaming centres.⁹

Price

19. The final price agreed by Inspired and Novomatic UK for the Target was \$121 million,¹⁰ which [REDACTED] Target.¹¹
20. The CMA found evidence that to account for any adjustments required, the Parties initially agreed a [REDACTED] set purchase price of around \$[REDACTED]
21. In December 2018, Novomatic explained [REDACTED] and its position that no [REDACTED].
22. Following further negotiations, the Parties agreed, in order to properly reflect that the Retained Business would compete with Inspired in future,[REDACTED].
23. The CMA considers that the evidence above regarding the negotiations about the purchase price for the Target suggests that the expected ongoing competition from the Retained Business has been reflected in the final purchase price that Inspired agreed to pay for the Target.

⁶ See paragraph 37 below. As of the 1 April 2019 category B2 gaming machines maximum stake was reduced from £100 to £2 in line with category B3 gaming terminals.

⁷ See the [REDACTED]. This is supported by Inspired's internal documents. See, for instance, [REDACTED]

⁸ See the [REDACTED]

⁹ See [REDACTED]

¹⁰ Around £106 million.

¹¹ See [REDACTED]

Procedure

24. The Merger was considered at a Case Review Meeting.¹²

Jurisdiction

25. Each of Inspired and the Target is an enterprise. As a result of the Merger, these enterprises will cease to be distinct.
26. The UK turnover of the Target exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied.
27. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 26 July 2019 and the statutory 40 working day deadline for a decision is therefore 20 September 2019.

Counterfactual

28. 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.¹³
29. The Parties submitted that the appropriate counterfactual against which to assess the Merger is the current competitive conditions.
30. During its investigation, the CMA found evidence to indicate that, absent the Merger, it is realistic that Inspired would have actively sought to expand its presence in the supply of gaming machines to AGC's and Bingo Halls (see paragraphs 122 to 127 below).
31. This scenario is more competitive than the prevailing conditions of competition. Consistent with its standard practice,¹⁴ the CMA has assessed the impact of the Merger against a more competitive counterfactual in which

¹² See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, from paragraph 7.34.

¹³ See [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).

¹⁴ See [Mergers: Guidance on the CMA's jurisdiction and procedure](#), paragraph 4.3.5

Inspired would have sought to increase its sales of category B3 gaming machines to AGCs and Bingo Halls absent the Merger.

32. The CMA has also considered whether the Target would have actively sought to expand its presence in the supply of B3 gaming machines to LBOs. For the reasons explained below in paragraphs 129 to 134, the CMA has found that it is not realistic that the Target would have expanded into the supply of B3 gaming machines to LBOs absent the Merger. Therefore, with regard to the Target business, the CMA assessed the impact of the Merger against the prevailing conditions of competition.

Background

33. The gambling industry is regulated by the Gambling Commission, a public body set up under the Gambling Act 2005 (the **Gambling Act**) to regulate commercial gambling in Great Britain in partnership with licensing authorities.¹⁵
34. Gaming machines¹⁶ are split into different categories by the Gambling Act. These categories of gaming machine are defined by the maximum stake and maximum prize and can be made available to different types of premises, subject to limits on the number of machines allowed in each premise. Premises can be casinos, LBOs, AGCs, Bingo Halls, pubs and family entertainment centres.
35. The main categories are: (i) B1, only found in casinos; (ii) B2, typically found in LBOs; (iii) B3, primarily found in AGCs and Bingo Halls; (iv) B4, primarily found in members' clubs; (v) category C, predominantly found in the pub sector, AGCs and family entertainment centres; and (vi) category D, primarily found in family entertainment centres.
36. Category B3 gaming machines allow a maximum stake of £2, with a maximum prize of £500 and are primarily found in AGCs and Bingo Halls.
37. Category B2 machines used to have a maximum stake of £100 and were primarily used in LBOs. However, as a result of the Triennial Review, from 1 April 2019 category B2 gaming machines' maximum stake was reduced from £100 to £2 in line with category B3 gaming terminals. This means that B2

¹⁵ In Northern Ireland, with the exception of the National Lottery, the gambling industry is regulated by Betting, Gaming, Lotteries & Amusements (NI) Order 1985 ('the 1985 Order').

¹⁶ The Gambling Commission's website states that gaming machines are 'a machine that is designed or adapted for use by individuals to gamble' and 'fall into categories depending on maximum stake and prize available'.

machines have effectively become B3 machines, as both categories of machines are currently subject to the same maximum stake.

38. Customers can purchase gaming machines and the maintenance and servicing of these machines in a variety of ways. Large customers, referred to by the Parties as 'house accounts', typically purchase gaming machines directly from the original manufacturer. Manufacturers may then also provide maintenance and servicing of the installed base of gaming machines to these customers. Alternatively, manufacturers may sell machines to distributors. Distributors will then sell machines directly to customers or to smaller operators. Operators offer a managed service to customers whereby they install and service gaming machines.¹⁷ Manufacturers may sell machines directly to larger operators.
39. A variety of different pricing models are used. In some instances, a complete machine will be sold outright alongside a compendium of games. In other instances, the machine is supplied for a one-off fee with ongoing platform and content support provided for a fee. Finally, a customer may rent the machine, paying for the platform and content on an ongoing basis.¹⁸

Overlapping activities

40. As explained above, the primary overlap between the Parties occurs in the manufacturing of B3 gaming machines in the UK, with the Parties focusing on different customer categories.
41. The Parties also overlap in the supply of gaming content. Although Inspired only offers the gaming content it develops in its own gaming machines, the Parties compete in the supply of standalone gaming content because customers can directly source content from third parties, separately from cabinets.
42. Finally, the Parties overlap in the supply of maintenance and servicing to Self-Service Betting Terminals (SSBT). The only customer of these services is Best Gaming Technology (BGT), which supplies SSBTs directly to LBO customers. The revenue of Inspired and the Target generated from the supply of these services in 2018 was, respectively, £[X] million and £[X] million.

¹⁷ MN, page 4.

¹⁸ MN, page 56.

Frame of reference

43. 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 ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.¹⁹

Supply of gaming machines

Product scope

Parties' submissions

44. The Parties told the CMA that it is appropriate to distinguish between the supply of different categories of machines. The Parties submitted that B2 and B3 machines should be considered as part of the same market since, following the Triennial Review, category B2 gaming machines have become obsolete and have been converted to category B3 gaming machines.²⁰
45. The Parties, therefore, identified as a relevant product frame of reference the supply of category B3 gaming machines (including former B2 machines).²¹

Past decisions

46. In *AGL/Danoptra*,²² the CMA's predecessor (the OFT) left open the exact definition of the product frame of reference and assessed the effects of the merger both in the manufacture and supply of all gaming machines and, separately, in each of the categories of gaming machines where the merging parties overlapped. The OFT also considered a possible segmentation by customer type (casinos, LBOs, AGCs, bingo halls, pubs and family entertainment centres (FEC)). However, the OFT left open a possible distinction by customer segment.²³

¹⁹See [Merger Assessment Guidelines](#), paragraph 5.2.2.

²⁰ MN, page 10.

²¹ MN, page 30.

²² ME/5413/12 *Anticipated acquisition by Astra Games Limited of certain gaming machine and related businesses from the Danoptra Group* (2012).

²³ Although the OFT left open a possible distinction by customer segment it assessed the impact of the Merger by further segmenting category C gaming machines between those supplied to the pub sector and the non-pub

CMA assessment

47. In this case, the CMA has considered the manufacture and supply of B3 machines (including B2 machines),²⁴ in which the Parties overlap, as its starting point. The CMA then considered whether it would be appropriate to include other categories of machines in the product frame of reference, and whether the supply of B3 machines should be segmented by customer type. Finally, the CMA considered whether different distribution channels would affect the product frame of reference.
- *Demand-side substitution*
48. The Parties submitted that there is limited demand-side substitution between different types of machines as, due to the Gambling Act, the categories of gaming machines available to any type of premises are generally limited by regulatory constraints. In addition, the Parties submit that customers typically opt for the highest category of gaming machines allowed on their premises as these tend to reflect the performance of the asset, as measured by machine turnover.²⁵
49. The CMA investigation confirmed that there is limited demand-side substitution between the different categories of gaming machines. The Gambling Act clearly limits the extent to which premises can substitute between different categories of machines, for example a pub cannot substitute a category C machine for a category B machine because a pub is not licenced to host category B machines.
50. Furthermore, the CMA found evidence²⁶ that customers generally stock the highest category of machines permitted under the Gambling Act (since higher categories of machine provide a higher financial return to the premises). For example, Bingo Halls and AGCs are allowed a maximum of 20% of their highest category of machines (B3) on their premises. Gambling Commission data shows that 19% and 20% of gaming machines in AGCs and Bingo Halls respectively are B3 machines.

sector. For all other categories of machines, the OFT came to the view that segmentation by category of machine adequately captures any distinction under customer segmentation for these other categories of gaming machines.

²⁴ Hereinafter the references to category B3 gaming machines include both category B2 and B3 gaming machines.

²⁵ MN, page 31, and third-party calls.

²⁶ Third party calls.

- *Supply-side substitution*

51. The boundaries of the relevant product market are generally determined by reference to demand-side substitution alone. The CMA received mixed evidence with respect to supply side substitution.
52. With respect to switching capacity to other categories of gaming machines, the Parties submitted that the cost of entry for the manufacture of gaming machines in general is not significant, which could suggest that the cost of Inspired supplying another product category would be low.²⁷ Indeed, Inspired's [REDACTED] suggested to the CMA, [REDACTED], that entering another gaming machine category would not be particularly difficult [REDACTED] Inspired.²⁸
53. The CMA also received evidence indicating that supply-side substitution is limited. First, there are differences in the competitor sets across different categories of games. Second, there are differences in the customer sets, and distribution channels across categories of games. Third, some third parties provided evidence to the CMA that pointed to challenges in switching supply to a new category of gaming machines.²⁹

Conclusion

54. The CMA has found that there is limited demand-side substitution and that, although there may be some degree of supply-side substitution, it is not sufficient to consider all categories of gaming machines as part of the same product frame of reference.

- *Segmentation by customer type*

55. The CMA has considered whether the supply of B3 gaming machines by manufacturers should be segmented by customer type. The Parties submitted that it is not necessary for the CMA to come to a firm conclusion on whether different customer segments form distinct product frames of reference if differences in the supply to different customer types are considered in the competition assessment.

²⁷ MN, page 54.

²⁸ See [REDACTED]

²⁹ One competitor indicated that, even though software changes would be minimal, the '*main challenge would be to replace existing suppliers*' (see third party questionnaire). Another competitor indicated that, while switching supply from one category of machine to another is not a significant challenge from a technical perspective, distribution may be a challenge: 'access to an operator to supply a particular gaming machine category is important' (see third party questionnaire).

56. The CMA has received evidence that some suppliers are particularly active in supplying certain customer segments. Through the course of its investigation, the CMA has learned from third parties³⁰ that Inspired has historically focused on the LBO segment, and the CMA has received evidence that LBOs have different requirements from other customer segments.³¹
57. However, other evidence suggests that there may be some degree of supply-side substitution between different customer segments. Inspired currently supplies all LBO, AGCs and Bingo Halls and it is likely that it could have expanded its presence in the supply of B3 machines to AGCs and Bingo Halls following the Triennial Review (see paragraph 122-127). Other competitors similarly supply multiple customer segments.
58. The CMA notes that, prior to the Triennial Review, LBOs purchased a different category of gaming machine (B2) than AGCs and Bingo Halls. Following the Triennial Review, what were previously two separate markets started to converge, suggesting that some apparent differences between LBOs and other B3 customers may become less relevant over time.
59. The CMA did not have to conclude on whether it is appropriate to distinguish between different customer segments in the supply of B3 gaming machines, because no competition concerns arise on any plausible basis.

- *Distribution channels*

60. The CMA recognises that Target only sells its own B3 machines to customers, but that the Target, through its operator Playnation, sells third party gaming machines (including Inspired gaming machines).
61. The CMA understands that gaming machine manufacturers may either employ a large sales force and sell to a large range of customers, or employ a limited sales force, and sell directly only to certain large accounts, while selling through an operator or distributor to smaller customers. As a result, Inspired (and other similar gaming machine manufacturers) are not competing directly with operators or distributors to supply downstream customers. The CMA has, therefore, considered a single frame of reference for the manufacture and supply (hereinafter **supply**) of B3 machines.

Conclusion on the product frame of reference

³⁰ Third party calls and third-party questionnaire responses.

³¹ For instance, evidence from a third party indicates that LBOs tend to have blended content on their machines, whilst machines in AGC tend to have less games per machine.

62. The CMA has found that it is appropriate to assess the effects of the Merger by reference to manufacture of B3 gaming machines. The CMA did not have to conclude on whether it is appropriate to segment the manufacture of B3 gaming machines by customer type, as no competition concerns arise on any plausible basis. The CMA assessed the effects of the Merger both in relation to the supply of B3 gaming machines overall and the supply of these machines to each customer type separately.

Geographic frame of reference

63. In *AGL/Danoptra*, the OFT has identified the geographic scope of the markets for the supply of gaming machines as being national, ie UK-wide.³²
64. Although the Gambling Commission's regulations apply across Great Britain, evidence submitted by the Parties and third parties indicates that the main industry participants are active across the UK and that most customers purchase gaming machines at the national level.
65. On this basis, the CMA currently considers that it is appropriate to assess the effects of the Merger in the supply of B3 gaming machines at the UK level.

Supply of maintenance and servicing to SSBT

66. The Parties have submitted that it is appropriate to define the supply of maintenance and servicing to SSBT in the UK as a separate frame of reference.
67. The CMA has found that, from the demand-side, the supply of maintenance and servicing to SSBT is different from the supply of maintenance and servicing to gaming machines, mainly because the different features of SSBTs and gaming machines mean that SSBT require a different level of service.
68. For the same reasons as set out above in paragraphs 63 to 65 with respect to the supply of gaming machines, the CMA currently considers that it is appropriate to assess the effects of the Merger in the supply of maintenance and servicing to SSBTs at the UK level.
69. Therefore, the CMA has considered the supply of maintenance and servicing to SSBTs in the UK as a separate frame of reference.

³² ME/5413/12 *Anticipated acquisition by Astra Games Limited of certain gaming machine and related businesses from the Danoptra Group* (2012).

Supply of gaming content

70. As explained above, both Inspired and Novomatic develop gaming content. Furthermore, as described further below, the Parties identified the development and supply of gaming content in the UK as a relevant product frame of reference.
71. The CMA has not received any evidence or submissions from third parties indicating that it would be appropriate to consider further segmentation (eg by type of content) within the supply of gaming content. Evidence gathered by the CMA suggests that most suppliers of gaming content are active in supplying content across multiple categories of gaming machines.
72. The CMA has not received evidence or submissions from third parties indicating that it would be appropriate to consider a wider geographic frame of reference than the UK. The use of a UK geographic frame of reference is consistent with the need for content to be consistent across the UK.

Conclusion on frame of reference

73. For the reasons set out above, the CMA has considered the impact of the Merger in the following frames of reference:
- (a) the supply of gaming machines in the UK;
 - (b) the supply of maintenance and servicing to SSBTs in the UK; and
 - (c) the supply of gaming content in the UK.

COMPETITIVE ASSESSMENT

Horizontal unilateral effects

74. 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.³³ 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:

³³See [Merger Assessment Guidelines](#), from paragraph 5.4.1.

- (a) horizontal unilateral effects in the supply of B3 gaming machines in the UK; and
- (b) horizontal unilateral effects in supply of maintenance and servicing of SSBTs in the UK.

75. The Parties also overlap in the supply of gaming content. However: (i) the activities of the Parties in the standalone content provision of gaming content are limited; (ii) the Parties' combined share in the supply of gaming content in the UK is lower than 10-20%, with a small increment brought about by the Merger; (iii) the Parties will face competition from various other gaming content suppliers; (iv) Inspired does not supply gaming content to third parties; and (iv) no third parties raised horizontal effects concerns about the impact of the Merger on gaming content. Accordingly, the CMA does not believe the Merger raises *prima facie* horizontal competition concerns in relation to the supply of gaming content in the UK and has not examined these horizontal effects of the Merger further in this decision.

Horizontal unilateral effects in the supply of B3 gaming machines in the UK

76. Given the differences in the extent to which different suppliers serve different customer segments for B3 gaming machines, the CMA has assessed the effects of the Merger on the supply of B3 gaming machines in the UK both overall and in relation to specific customer segments. In its assessment the CMA has considered evidence regarding:

- (a) shares of supply;
- (b) the effects of the Merger in the supply of B3 gaming machines to AGCs and Bingo Halls including, in particular, the competitive constraint from the Retained Business; and
- (c) the effects of the Merger in the supply of B3 gaming machines to LBOs, in particular the potential for entry of the Target into the LBO segment.

Shares of supply

77. During its investigation, the CMA has gathered three different types of share of supply estimates:

- (a) shares of supply estimated based on the 2018 revenues of the Parties and their main competitors ('revenue shares');

- (b) shares of supply in terms of the stock of installed gaming machines attributed to each competitor in the UK, independent of the year in which a gaming machine was manufactured ('shares of installed base'); and
 - (c) shares of supply for installations of new gaming machines over the period 2016-2018³⁴ ('shares of new installations').
78. The Parties submit that shares of new installations provide the best indication of rivalry in the market. Specifically, they submit that 2018 revenue shares and shares of installed base would overstate Inspired's and Scientific Games' competitive strength.³⁵ This is because:
- (a) Inspired's and Scientific Games' ongoing revenues are largely from their installed base and revenue data does not fully reflect the different sales models used (eg revenue-sharing compared to outright sales);
 - (b) revenue shares and shares of installed base do not take into account the anticipated decline in revenues in the LBO sector (in which Scientific Games and Inspired are particularly focussed) post-Triennial Review; and
 - (c) revenue shares include third-party gaming content.
79. In relation to these submissions, the CMA considers that:
- (a) The evidence indicates that third-party gaming content is a relevant part of a gaming machine manufacturer's competitive offering. Therefore, the CMA disagrees that the inclusion of third-party content in revenue shares is a reason to dismiss them.³⁶
 - (b) Any historic market shares will also fail to account for the impact of the Triennial Review on the LBO segment, although possibly to different degrees,³⁷ so this criticism applies to all three measures.
80. Overall the CMA considers that shares of new installations over a period of three years are the most appropriate indicator of rivalry between suppliers to supply a given customer segment in the circumstances of this case given that:
- (a) the revenues from legacy installed base are excluded; and

³⁴ The CMA considered new installations over a three-year period given the significant variation in the number of new machines installed from one year to the next.

³⁵ See [redacted]

³⁶ A large proportion [redacted] of gaming content on Inspired's machines is sourced from third-parties. See [redacted].

³⁷ For example, one might expect revenues from LBO sales and new installation to LBOs to be affected immediately whilst any changes in the installed base at LBOs may take longer to materialise.

(b) a three-year period allows for the ‘lumpiness’ of supply of new machines (eg where a supplier provides an unusually large number of machines one year followed by an unusually low number the next year).

81. However, shares of supply by new installations across all customer segments have limitations since the profitability of a machine varies significantly across customer segments so that comparisons across customer segments do not accurately reflect the relative competitive strength of different suppliers. For example, LBOs are only allowed four betting terminals per shop and average revenue per LBO gaming machine is significantly higher than average revenue for other B3 gaming machines. Therefore, adding together installations from LBOs and AGCs/Bingo Halls would significantly understate the competitive strength of LBO manufacturers, that is Inspired and Scientific Games (see Table 5)
82. The CMA has relied on shares of supply both in the supply of B3 gaming machines overall and to specific customer segments.

Shares of supply of B3 gaming machines

83. Table 1 indicates that Scientific Games will be, post-Merger, the largest manufacturer of B3 gaming machines in the UK with a 40-50% share of supply in years 2016 to 2018, followed by the Parties combined, Blueprint, and the Retained Business with shares of supply of 20-30%, 10-20% and 10-20% respectively. Table 1 suggests that Reflex is a very small manufacturer with a 0-5% share of supply.
84. For B3 games, as a whole, the increment to the Parties’ share of supply is 5-10% and the Parties’ share of supply post-Merger will be similar (20-30%) to Novomatic’s (ie the Target’s and Retained Business’) share of supply pre-Merger (20-30%).

Table 1: Shares of supply for manufacturing of B3 gaming machines in the UK, by new installations in 2016 to 2018

Competitor	New machines installed	Share (%)
Inspired	[REDACTED]	10-20%
Target	[REDACTED]	5-10%
Combined	[REDACTED]	20-30%
Scientific Games	[REDACTED]	40-50%
Blueprint	[REDACTED]	10-20%
Retained Business	[REDACTED]	10-20%
Reflex	[REDACTED]	0-5%

Source: CMA analysis based on Party and third-party data.

Shares of supply by customer segment

- Supply of B3 gaming machines to AGCs and Bingo Halls combined

85. Table 2 shows that Scientific Games will be, post-Merger, the largest supplier of B3 gaming machines to both AGCs and Bingo Halls in the UK with a 30-40% share of new installations between 2016 and 2018. Blueprint is the second largest supplier followed by the Retained Business and the Parties' combined with shares of supply of 20-30%, 10-20% and 10-20% respectively. Reflex is a very small manufacturer with a 0-5% share of supply.
86. The CMA notes that Novomatic's pre-Merger (Novomatic and Retained Business) share of supply to customers in this segment is larger (30-40%) than the Parties' combined share of supply post-Merger (10-20%).

Table 2: Shares of supply for manufacturing of B3 gaming machines to AGCs and Bingo Halls in the UK, by new installations in 2016 to 2018

Competitor	New machines installed	Share (%)
Inspired	[REDACTED]	5-10%
Target	[REDACTED]	10-20%
Combined	[REDACTED]	10-20%
Scientific Games	[REDACTED]	30-40%
Blueprint	[REDACTED]	20-30%
Retained Business	[REDACTED]	10-20%
Reflex	[REDACTED]	0-5%

Source: CMA analysis based on Party and third-party data.

- Supply of B3 gaming machines to AGCs

87. Table 3 shows that post-Merger Scientific Games will be the largest supplier of B3 gaming machines to AGCs in the UK with a 30-40% share of new installations between 2016 and 2018. The Retained Business is the second largest supplier followed by the Parties' combined and Blueprint with 20-30%, 20-30% and 20-30% shares of supply respectively. Reflex is a very small manufacturer with a 0-5% share of supply.
88. The CMA notes that Novomatic's pre-Merger share of supply to customers in this segment is larger (30-40%) than the Parties' combined share of supply post-Merger (20-30%).

Table 3: Shares of supply for manufacturing of B3 gaming machines to AGCs in the UK, by new installations in 2016 to 2018

Competitor	New machines installed	Share (%)
Inspired	[REDACTED]	5-10%
Target	[REDACTED]	10-20%
Combined	[REDACTED]	20-30%
Scientific Games	[REDACTED]	30-40%
Blueprint	[REDACTED]	20-30%
Retained Business	[REDACTED]	20-30%
Reflex	[REDACTED]	0-5%

Source: CMA analysis based on Party and third-party data.

Supply of B3 gaming machines to Bingo Halls

89. Table 4 shows that the combined shares of supply of B3 gaming machines to Bingo Halls in the UK is very low (0-5%). Indeed, Table 4 indicates that post-Merger:

- (a) Scientific Games and Blueprint will be the only two large suppliers of B3 gaming machines to Bingo Halls in the UK with, respectively, 60-70% and 20-30% share of new installations between 2016 and 2018.
- (b) Reflex, the Parties' combined and the Retained Business will all be very small manufacturers with shares of supply of 0-5%, 0-5% and 0-5% respectively.

Table 4: Shares of supply for manufacturing of B3 gaming machines to Bingo Halls in the UK, by new installations in 2016 to 2018

Competitor	New machines installed	Share (%)
Inspired	[REDACTED]	0-5%
Target	[REDACTED]	0-5%
Combined	[REDACTED]	0-5%
Scientific Games	[REDACTED]	60-70%
Blueprint	[REDACTED]	20-30%
Retained Business	[REDACTED]	0-5%
Reflex	[REDACTED]	0-5%

Source: CMA analysis based on Party and third-party data.

- *Supply of B3 gaming machines to LBOs*

90. Table 5 shows that Scientific Games and Inspired are the only two manufacturers of B3 gaming machines to LBOs in the UK with shares of supply of 60-70% and 30-40% respectively. Neither the Target, nor the Retained Business are currently active in the supply of B3 gaming machines to LBOs.

Table 5: Shares of supply for manufacturing of B3 gaming machines to LBOs in the UK, by new installations in 2016 to 2018

Competitor	New machines installed	Share (%)
Inspired	[REDACTED]	30-40%
Target	[REDACTED]	0%
Combined	[REDACTED]	30-40%
Scientific Games	[REDACTED]	60-70%

Source: CMA analysis based on Party and third-party data.

Summary of shares of supply

91. The shares of supply set out above show that:

- (a) There are currently four suppliers of B3 gaming machines who are active in the UK and who supply material volumes of machines: Scientific Games, Blueprint, Inspired and Novomatic (the Target and the Retained Business). Scientific Games is the largest supplier across all customer segments.
- (b) Suppliers currently serve different customer segments and the Parties overlap particularly in relation to AGCs and to a lesser extent in Bingo Halls. The Parties currently do not overlap in the supply of category B3 machines to LBOs. In the supply of category B3 machines to AGCs, Novomatic's pre-Merger share of supply is greater than the combined share of supply of the Parties after the Merger. Scientific Games and Blueprint also have significant shares of supply in supplying AGCs and Bingo Halls.

Supply of B3 gaming machines to AGCs and Bingo Halls

92. As described above, the Parties overlap in the supply of B3 gaming machines to AGCs and Bingo Halls. The CMA notes that, prior to the Merger, Novomatic had a share of supply in this segment of 30-40% and Inspired had a share of supply of 5-10%. Following the Merger, the Retained Business would have a share of supply of 20-30% and Inspired would have a share of supply of 20-30%. To assess the effect of the Merger on the supply of B3 gaming machines to AGCs and Bingo Halls, the CMA started by considering whether the Retained Business is likely to be an effective competitor to the Parties in the supply of B3 gaming machines to AGCs and Bingo Halls after the Merger. To this end, the CMA analysed (i) the ability of the Retained Business to compete effectively with the Merging Parties post-Merger (ii) the incentive of the Retained Business to do so, and (iii) the extent to which the Retained Business will constrain the Parties.
93. The CMA then considered the competitive constraints imposed by other suppliers of B3 gaming machines to AGCs and Bingo Halls.
94. The CMA also assessed the likelihood of Inspired expanding its presence in the supply of B3 gaming machines to AGCs and Bingo Halls and the potential impact of that expansion on competition.

Competitive constraint imposed by the Retained Business

- *Parties' submissions*

95. The Parties submitted that the number of independent competitors will remain the same post-Merger, given that the Retained Business will remain in the

market (see paragraph 98). The Parties also submitted that Novomatic pre-merger has a higher share in the supply of AGCs and Bingo Halls than the Merging Parties combined post-Merger.³⁸

96. In particular Novomatic UK submitted that:³⁹

- (a) It has a short and medium-term plan to continue to compete in the UK following the Merger, including in the supply of B3 gaming machines to AGCs, and has an infrastructure already established to achieve these plans.⁴⁰
- (b) The Retained Business will continue to be supported by the Novomatic Group (with an established technology/R&D platform) post-Merger and has a material existing 'stake' in the B3 market, which it is seeking to develop.
- (c) The Retained Business's offering is similar to Inspired's server-based gaming model.
- (d) The Merger will therefore not reduce the number of independent B3 machine manufacturers servicing customers (venue owners) in the UK market and will not result in a realistic prospect of an SLC in this segment.

Competitive constraint imposed by the Retained Business

- *Retained Business' ability to compete*

97. The CMA's view is that the Retained Business will have the ability to compete effectively post-Merger in the supply of B3 gaming machines to AGCs and Bingo Halls for the reasons set out below.

98. First, the Retained Business is already supplying machines into the UK:

- (a) The Retained Business is currently the third-largest supplier of B3 gaming machines to AGCs and Bingo Halls after Scientific Games and Blueprint, with a share of supply of 10-20% (see Table 2 above) and its gaming machines are largely imported from Austria.⁴¹
- (b) The Retained Business is the largest supplier of gaming machines to Luxury Leisure Talarius (LLT) - the largest AGC retailer in the country,

³⁸ See [REDACTED]

³⁹ See [REDACTED]

⁴⁰ See [REDACTED]

⁴¹ See [REDACTED]

which the Retained Business owns⁴² and supplies these B3 gaming machines not only to LLT's AGCs, but also to independent AGC customers.

99. Second, the Retained Business will operate [REDACTED]⁴³ [REDACTED]⁴⁴ A Novomatic internal document indicates that [REDACTED].⁴⁵
100. Third, Novomatic AG has submitted evidence showing that its machines are high-performing machines [REDACTED] which will, therefore, be attractive to customers⁴⁶. Furthermore, Novomatic AG has key capabilities to be able to compete, including a research and development capacity outside the UK, and is [REDACTED]. For instance [REDACTED]⁴⁷.
101. Fourth, the outcome of the price negotiations, [REDACTED] (see paragraphs 19 to 23 above) is consistent with Inspired being concerned about the Retained Business' ability to compete in the UK following the Merger and such concerns are reflected in an Inspired internal document.⁴⁸
102. Finally, there are no [REDACTED] Merger.
- *Retained Business' incentive to compete*
103. The CMA's view is that Retained Business would have an incentive to compete effectively post-merger for the following reasons.
104. First, Novomatic's internal documents indicate that the Retained Business will compete in supplying B3 gaming machines to AGCs and Bingo Halls post-merger⁴⁹, that the Retained Business will have an incentive to compete post-merger and that it is already acting on this incentive. For instance, Novomatic UK's business plan states [REDACTED]⁵⁰.
105. Second, Novomatic (the Target and the Retained Business) has taken several actions which are consistent with the Retained Business having an incentive to compete to supply B3 gaming machines in the UK following the Merger. For example:

⁴² See [REDACTED]

⁴³ See [REDACTED]

⁴⁴ See [REDACTED]

⁴⁵ See [REDACTED]

⁴⁶ See [REDACTED]

⁴⁷ See [REDACTED]

⁴⁸ See [REDACTED]

⁴⁹ See [REDACTED]

⁵⁰ See [REDACTED]

- (a) Novomatic submitted evidence showing that the Retained Business is developing new B3 products to replace the Target's products see[REDACTED]; and
- (b) Novomatic [REDACTED]⁵¹ has recently explored supplying B3 gaming machines to an LBO customer in the UK.

106. As noted above, the Retained Business is already taking steps to compete in the UK, supporting the conclusion that it has an incentive to do so. If the Retained Business were not to compete post-merger then it would simply continue to hold its current stock of B1 and B3 gaming machines. However, Novomatic could have included these assets within the scope of the business it sold to Inspired (i.e. the Target). Therefore, Novomatic's decision to specifically retain these aspects of its business rather than seeking to divest the entire business to Inspired is consistent with its intention to continue to compete in the supply of B3 gaming machines post-Merger.

- *Extent to which the Retained Business will constrain the Parties*

107. For the reasons explained above, the CMA currently considers that the Retained Business would have the ability and incentive to compete with the Parties post-Merger. For the reasons described below the CMA also considers that the Retained Business will continue to impose an effective competitive constraint on the Parties post-Merger.

108. First, the CMA has considered the Parties' internal documents and third-party responses. In doing so, the CMA notes that Novomatic is currently competing in the UK both through the Target and through the Retained Business, and therefore it is not clear whether references in internal documents or by third parties are specific to the Target or to the Retained Business. However, as described above, a significant proportion of Novomatic's recent UK activity is considered to be attributable to the Retained Business and Novomatic has provided evidence that the Retained Business' gaming machines [REDACTED]. Therefore, the CMA considers that evidence from the Parties' internal documents and from third parties regarding Novomatic's current competitive constraint is likely to include competition from the Retained Business.

109. The Parties' internal documents indicate that Novomatic has been an important competitor to Inspired in the supply of B3 gaming machines, in particular to AGCs. For example:

⁵¹ [REDACTED]

- (a) Inspired perceived Novomatic [REDACTED]⁵².
- (b) One Inspired internal document notes the [REDACTED].⁵³ This document notes further that Novomatic '[REDACTED]⁵⁴. Finally, the document identifies [REDACTED]⁵⁵.
- (c) Inspired perceives Novomatic as the second largest supplier in supplying B3 gaming machines to AGCs and Bingo Halls, with a 20-30% share of installed base.⁵⁶
- (d) Some of Novomatic's internal documents[REDACTED].⁵⁷

110. As noted in paragraph 110, Novomatic AG is currently competing in the UK both through the Target and through the Retained Business and, therefore, it is not clear whether references in internal documents (including in the documents mentioned above) are specific to the Target or to the Retained Business. However, there are only a limited number of internal documents that mention[REDACTED]⁵⁸. Furthermore, while the [REDACTED]and [REDACTED]⁵⁹. This is consistent with competition from the Retained Business having a significant effect post-Merger.

111. Third party evidence also shows that Inspired and Novomatic (including the Retained Business) competed in the supply of B3 gaming machines and AGCs.⁶⁰ Furthermore, most customers and competitors were unconcerned about the horizontal aspects of the Merger and one Bingo customer thought that the merger would be beneficial for competition.

112. Second, as described above, Inspired's internal documents express concerns regarding competition from the Retained Business post-Merger [REDACTED]. This is consistent with competition from the Retained Business having a significant effect post-Merger (e.g. if this was not the case there would be no need to negotiate an adjustment to the transaction price).

113. Third, as the shares of supply discussed in Table 2 show, the Retained Business will have a larger share of supply to AGCs and Bingo Halls post-Merger than Inspired does pre-Merger. The evidence indicates that Inspired

⁵² See '[REDACTED]

⁵³ See '[REDACTED]

⁵⁴ See '[REDACTED]

⁵⁵ See [REDACTED]

⁵⁶ See [REDACTED]

⁵⁷ See, for instance [REDACTED]

⁵⁸ See [REDACTED]

⁵⁹ See [REDACTED]

⁶⁰ All of the Parties' competitors that responded to the CMA's questionnaires indicated Novomatic as a competitor in the supply of B3 gaming machines to AGCs and Bingo Halls. Two of these competitors mentioned Inspired as a competitor in the supply of B3 gaming machines to AGCs and Bingo Halls customer and one AGC customer purchased B3 gaming machines from both Parties. Another AGC customer mentioned that while they currently source Novomatic machines, they are not particularly aware of Inspired machines.

was considered to be an effective competitor to supply AGCs and Bingo Halls Pre-Merger (see for example paragraphs 111 and 110). Therefore, it is likely that the Retained Business will compete effectively post-Merger.

114. On the basis of the evidence above, the CMA has found that part of competitive constraint that Novomatic imposed on Inspired Pre-Merger will continue to be exerted by the Retained Business after the Merger.

Competitive constraints from other suppliers

115. The Parties submitted that they will continue to face strong competition from other suppliers of gaming machines to AGCs and Bingo Halls, primarily from Scientific Games, Blueprint and Reflex.⁶¹
116. The CMA has found that Scientific Games and Blueprint will continue to impose a significant competitive constraint on the Parties.
117. Blueprint is a large competitor with shares of supply of 20-30% and 20-30% in the supply of B3 gaming machines to AGCs and Bingo Halls respectively. Inspired's internal documents indicate that [REDACTED]. The documents [REDACTED]⁶². This is consistent with an internal document from Novomatic, [REDACTED]⁶³. Blueprint was recently awarded a significant Motorway Service Area contract (the [REDACTED]) that was previously supplied by Playnation. Third party evidence also shows that Blueprint competes in the supply of B3 gaming machines and AGCs⁶⁴.
118. Scientific Games is the largest supplier of B3 gaming machines to both Bingo Halls and AGCs (with shares of supply of 60-70% and 30-40% respectively). Inspired's internal documents suggest that Inspired perceives [REDACTED]⁶⁵. Novomatic's internal documents [REDACTED]⁶⁶. Third-party evidence also shows that Scientific Games competes in the supply of B3 gaming machines and AGCs⁶⁷.

⁶¹ MN, pages 53 and 54.

⁶² See [REDACTED]

⁶³ See [REDACTED]

⁶⁴ Two competitors mentioned Blueprint as their rival in supplying B3 machines to AGCs and Bingo Halls. Both Bingo customers which we sent questionnaires to source B3 machines from Blueprint. Both AGC customers which we contacted indicated that they purchase category B3 machines from Blueprint (while one does to a small extent, the other indicated that Blueprint has the best games).

⁶⁵ See [REDACTED]

⁶⁶ See [REDACTED]

⁶⁷ Two competitors mentioned Scientific Games as one of their competitors in supplying B3 machines to Bingo Halls and AGCs. Both Bingo customers which we sent questionnaires to source B3 machines from Scientific Games. While one AGC customer did not source B3 gaming machines from SG, the other one purchased most of its B3 gaming machines from Scientific Games.

119. Therefore, the CMA considers that as well as the Retained Business, the Parties will continue to be constrained by Blueprint and Scientific Games following the Merger.

Likelihood of Inspired's expansion in the supply of B3 gaming machines to AGCs

120. The CMA received evidence on Inspired potentially expanding absent the merger. Therefore, the CMA considered the implications of any possible expansion by Inspired for its assessment.
121. Inspired indicated that it could have grown by supplying [redacted] to AGCs and Bingo Halls absent the merger.⁶⁸ This is also consistent with some of Inspired's internal documents.⁶⁹
122. The CMA has therefore found that, absent the Merger, it is likely that Inspired would have expanded its presence in the supply of B3 gaming machines to AGCs and Bingo Halls.
123. However, the CMA concludes that, even taking into account Inspired's expansion in this segment, no competitive concerns arise from the Merger in the supply of B3 gaming machines to AGCs and Bingo Halls.
124. Specifically, the CMA has considered the implications of Inspired [redacted] share of supply:
- (a) Table 2 indicates that post-Merger, without taking into account Inspired's expansion, there would be four large manufacturers of B3 gaming machines to AGCs and Bingo Halls: Scientific Games, Blueprint, Retained Business and the Merging Parties combined, which would each hold shares of supply of 30-40%, 20-30%, 10-20% and 10-20% respectively.
 - (b) If Inspired were to grow by [redacted] machines a year, there would similarly be four large manufacturers of B3 gaming machines to AGCs and Bingo Halls: Scientific Games, Novomatic, Blueprint and Inspired, holding shares of supply of 30-40%, 20-30%, 10-20% and 10-20% respectively⁷⁰.
125. Therefore, the CMA considers that, even if Inspired had expanded its supply of B3 gaming machines to AGCs and Bingo Halls, there would not be a

⁶⁸ See [redacted]

⁶⁹ For instance, [redacted]

⁷⁰ See [redacted]

⁷⁰ This is assuming that Inspired would be taking share from everyone in proportion to their share of supply. The CMA's conclusion does not change under an alternative assumption that Inspired would expand by growing the market size.

material difference in competition between suppliers in the counterfactual and competition between suppliers post-Merger. In both cases, there would be four significant suppliers competing to supply customers with shares of supply that are broadly similar under either scenario.

Conclusion on the effects of the Merger in the supply of B3 gaming machines to AGCs and Bingo Halls in the UK

126. The CMA has found that the Parties' combined share (by new installed gaming machines) in the supply of B3 gaming machines to AGCs and Bingo Halls in the UK between 2016-2018, is less than 20-30%, both to AGCs and Bingo Halls combined and separately. The Retained Business will remain an effective competitor in the supply of B3 gaming machines to AGCs and Bingo Halls. The number of independent competitors will remain the same post-Merger and the Parties, after the Merger, will have a similar share of supply to Novomatic pre-Merger, even taking into account Inspired's likely expansion in this segment. Scientific Games and Blueprint will continue to effectively constrain the Parties in the supply of B3 machines to these customers after the Merger. Therefore, the Parties will be sufficiently constrained by the Retained Business and by the other significant suppliers of B3 gaming machines to AGCs and Bingo Halls, Blueprint and Scientific Games. As a result, the CMA concluded 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 B3 gaming machines to AGCs and Bingo Halls.

Supply of B3 gaming machines to LBOs

127. The Parties do not currently overlap in the supply of B3 gaming machines to LBOs and Inspired is currently one of only two players in this customer segment, together with Scientific Games (see Table 5)⁷¹.

Potential for entry of the Target into the LBO segment

128. The CMA has considered whether the Target, as part of the Novomatic group, would have expanded to supply B3 gaming machines to LBOs absent the Merger and therefore whether the Parties would have competed more closely in supplying B3 gaming machines absent the Merger. Prior to the transaction, [redacted].

⁷¹ The CMA notes that while the Target currently supplies gaming content to LBOs, it is not active in providing gaming machines to that segment.

129. Therefore, any competitive constraint from the Target on Inspired to supply LBO customers will not be lost as a result of the Merger since the Target was not likely to expand its presence in the supply of B3 gaming machines to LBOs.
130. Consequently, the CMA concluded 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 B3 gaming machines to LBOs in the UK. The CMA did not have to conclude on whether the Retained Business is likely to expand its presence to the supply of B3 machines to LBOs in a timely manner.
131. As the CMA has found that no concerns arise in each customer segment, the Merger also does not give rise to competition concerns in relation to a broader frame of reference (supply of B3 game machines as a whole)⁷².

Conclusion on horizontal unilateral effects in the supply of B3 gaming machines

132. For the reasons set out above, the CMA has 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 both the supply of B3 gaming machines in the UK overall and to each customer segment (AGCs, Bingo Halls and LBOs) separately.

Horizontal unilateral effects in supply of maintenance and servicing to SSBT

Parties' submissions

133. The Parties submit that the Merger will not substantially lessen competition in supply of maintenance services to SSBTs because:⁷³
- (a) the Parties are not close competitors;
 - (b) there are a significant number of potential suppliers of SSBT service and maintenance in the UK, because the supply of these services does not require a specialist skillset; and⁷⁴.
 - (c) the size of the market for the supply of SSBT service is de minimis (less than £5 million).

⁷² The CMA also notes that the shares of supply of the Parties in the supply of B3 gaming machines (overall) is lower than 20-30% and that the Parties focus on different type of customers.

⁷³ See [REDACTED] CMA Issues Letter of 5 September 2019, paragraph 6.1.

⁷⁴ See Inspired has submitted evidence to the CMA that [REDACTED]

CMA's assessment

134. The Parties estimated that the combined share of the Parties' in the supply of maintenance services to SSBTs was 70-80% by number of SSBTs serviced, with a 5-10% increment from Inspired's activities. The only other active competitor would be Scientific Games.
135. Scientific Games currently only provides service and maintenance of SSBTs to William Hill⁷⁵. [REDACTED] the current suppliers of maintenance services to SSBTs are:
- (a) Inspired [REDACTED]
 - (b) the Target (via Gamestec), [REDACTED] and
 - (c) Zintech, in Northern Ireland.
136. Thus, the Merger involves the combination of two out of three suppliers of maintenance and servicing of SSBTs in the UK.
137. However, the Parties submit that [REDACTED]⁷⁶. This indicates that the Parties are not close competitors.
138. [REDACTED].
139. This is consistent with the Parties' submission that any engineering firm with access to personnel could carry out this service in respect of these services.
140. Finally, no LBO operator raised concerns with respect to supply of maintenance and servicing to SSBTs.

Conclusion on horizontal unilateral effects

141. The CMA has found that, although there are currently only four competitors in the market, the Parties are not close competitors in the supply of maintenance and servicing to SSBTs in the UK and other alternatives could become available in the near future given that the barriers to entry are low. Therefore, the CMA has concluded that the Merger does not give rise to a realistic prospect of an SLC as a result of supply of maintenance and servicing to SSBTs in the UK.

⁷⁵ See page 52 of the MN.

⁷⁶ See [REDACTED] to Issue Letter of 5 September.

Vertical effects

142. 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.
143. In the present case, the CMA has considered the possibility of Inspired foreclosing⁷⁷ rival gaming content providers after the Merger. In particular, Novomatic currently makes gaming content which is installed on its own and third-party machines. Inspired currently produces some of the gaming content used on its machines and it also uses third-party gaming content on its machines. Inspired allows customers to procure third-party gaming content for use on Inspired's gaming machines. As such, Inspired's gaming machines are a route to market for other content providers who compete with Novomatic and Inspired to supply their games to end customers.
144. The CMA's approach to assessing vertical theories of harm is to analyse (i) Inspired's ability to foreclose its competitors in the supply of gaming content after the Merger, (ii) its incentive to do so, and (ii) the overall effect of the strategy on competition.⁷⁸ This is discussed below.

Parties' submissions

145. The Parties' submitted that after the Merger, Inspired will have neither the ability nor the incentive to foreclose competing third party gaming content providers, mainly because there are other alternative routes to market for rival gaming providers and because a foreclosure strategy would not be profitable, given the importance of rival's content to Inspired's offering⁷⁹.

Ability

146. In considering whether Inspired would have the ability to foreclose rival gaming content providers after the Merger, the CMA has considered whether either Party is currently an important route to market for third-party gaming content providers.
147. Some third parties indicated that Inspired was an important customer for gaming content providers in the UK. One gaming content supplier indicated that Inspired is a '*very important client*' and represents a large proportion of its

⁷⁷ In relation to this theory of harm 'foreclosure' means either foreclosure of a rival or to substantially competitively weaken a rival.

⁷⁸ [Merger Assessment Guidelines](#), paragraph 5.6.6.

⁷⁹ See []

UK revenue. [REDACTED] Another gaming content supplier highlighted that post-Merger it will likely be unable to sell its gaming content to Inspired, which would affect its ability to provide third-party content more generally [REDACTED].

148. However, the CMA has found that [REDACTED] of Inspired's third-party gaming content (weighted by revenue) is produced by content providers that are controlled by Gauselmann (Blueprint and Reeltime)⁸⁰ or Scientific Games. As described above, both Gauselmann (as Blueprint) and Scientific Games are significant manufacturers of B3 gaming machines and, therefore, neither are reliant on Inspired to offer B3 gaming content to customers.

149. William Hill is the only other gaming content provider which accounts for a significant proportion of the gaming content on Inspired's gaming machines.⁸¹ William Hill does not manufacture its own gaming machines and therefore the CMA cannot exclude that the Parties could have the ability to foreclose William Hill following the Merger.

150. The CMA notes, however, that Inspired may also be unable to foreclose access to a large share of its installed base for contractual reasons. For example, [REDACTED]. Additionally, [REDACTED].

[REDACTED]. The same applies to [REDACTED] LBO customers - who do not currently prescribe gaming content (e.g. Betfred) - might be able to react if Inspired stopped to supply certain high performing games.

151. Therefore, the CMA considers that it is unlikely that the Merger would provide Inspired with the ability to put in place such a foreclosure strategy because its main content providers will have alternative routes to market and will be able to continue to compete with Inspired in gaming content provision post-Merger.

152. However, the CMA did not have to conclude on Inspired's ability to foreclose its rivals in the supply of gaming content because, as explained below, the CMA has found that Inspired will not have the incentive to engage in such foreclosure strategy as a result of the Merger.

Incentive

153. To assess Inspired's incentives to foreclose competing gaming content providers after the Merger, the CMA considered the relative costs and benefits to Inspired of any foreclosure. In this case, the principal benefit to Inspired of any foreclosure would be the increase in profits from the increased

⁸⁰ Gauselman owns a 51% interest in Reel Time.

⁸¹ Moreover, 20-30% of revenues come from William Hill.

sale of its own gaming content (in particular by replacing third party gaming content on Inspired's gaming machines with gaming content produced by the Target).⁸² The principal cost would be that the change in content could lead customers to switch away from Inspired's gaming machines to access their preferred content.

154. The CMA's view is that the benefit of foreclosing rival gaming content providers is likely to be low for the following reasons.
155. First, the CMA notes that the value of this potential benefit is likely to be modest. Indeed, Inspired purchased only £[redacted] of gaming content in 2018 from third-parties other than the Target and William Hill (which, as discussed in paragraphs 150 and 153 above is unlikely to be foreclosed)⁸³. This compares with Inspired's 2018 UK revenues from manufacturing of B3 gaming machines of £[redacted] million.
156. The CMA's view is that the cost of foreclosing rival gaming content providers is likely to be high for the following reasons.
157. First, evidence from the Parties and third-parties indicates that the gaming content available is an important factor for customers' choice of gaming machine. This suggests that the partial or total elimination of third-party content from Inspired's machines may lead to a significant reduction of revenues on its machines, as customers would no longer use Inspired's machines if their favourite games became unavailable.
158. Second, the evidence indicates that the Target's games [redacted]. Indeed, of the Top 20 performing games on Inspired's machines, [redacted] was provided by the Target.⁸⁴ Therefore, the cost of a potential foreclosure strategy is not significantly reduced as a result of the Merger.
159. Finally, the CMA notes that Inspired would be unlikely to have an incentive to foreclose William Hill, which accounts for a material share [redacted] of Inspired's purchases. This is because William Hill is [redacted]. Therefore, any foreclosure strategy targeted at William Hill (which sells less than £[redacted] million of gaming content to Inspired) could be very costly due to the potential for retaliation.
160. For the reasons set out above, the CMA believes that Inspired will not have the incentive to engage in foreclosure of rival gaming content providers as a result of the Merger.

⁸² Inspired could also try to replace rival gaming content with its own content. However, this effect is not specific to this merger (i.e. Inspired could have done this absent the merger).

⁸³ See [redacted]

⁸⁴ See [redacted] to the Issue Letter of 5 September.

Conclusion on vertical effects

161. For the reasons set out above, although the CMA cannot exclude that Inspired may have the ability to foreclose some content providers, the CMA has found that Inspired will not have the incentive to engage in a foreclosure strategy of its rival gaming content providers as a result of the Merger, given that the losses of this strategy would outweigh any potential gains. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of vertical effects in relation to the supply of gaming content in the UK.

Barriers to entry and expansion

162. 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 SLC. In assessing whether entry or expansion might prevent an SLC, the CMA considers whether such entry or expansion would be timely, likely and sufficient.⁸⁵
163. However, 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

164. The CMA contacted suppliers, customers and competitors of the Parties and the Gambling Commission.
165. Third party comments have been taken into account where appropriate in the competitive assessment above.

Decision

166. 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 United Kingdom.
167. The Merger will therefore **not be referred** under section 33(1) of the Act.

Colin Raftery
Senior Director, Mergers

⁸⁵ See [Merger Assessment Guidelines](#), from paragraph 5.8.1.

