



DETERMINATION OF MERGER NOTIFICATION M/15/059 - PADDY POWER/BETFAIR

Section 21 of the Competition Act 2002

Proposed merger of Paddy Power plc and Betfair Group plc

Dated 15 January 2016

Introduction

1. On 20 October 2015, in accordance with section 18(1) of the Competition Act 2002, as amended¹ (“the Act”), the Competition and Consumer Protection Commission (the “Commission”) received a notification of a proposed transaction whereby Paddy Power plc (“Paddy Power”) would merge with Betfair Group plc (“Betfair”).
2. On 8 September 2015, Paddy Power and Betfair announced that they had reached agreement on the terms of a recommended all-share merger of Paddy Power and Betfair, to be implemented by way of a scheme of arrangement of Betfair. On the same day, the parties entered into a cooperation agreement relating to the proposed transaction. The merged entity will be called Paddy Power Betfair plc. The proposed transaction will result in the shareholders of Paddy Power owning 52% of Paddy Power Betfair plc and the shareholders of Betfair owning 48% of Paddy Power Betfair plc.

The Undertakings Involved

Paddy Power

3. Paddy Power is a public limited company incorporated in the State and listed on the Irish and London stock exchanges. Paddy Power is an international multi-channel betting and gaming company that offers betting, casino games, poker and bingo to consumers in regulated jurisdictions through the internet, by telephone and in 598 licensed betting offices (“LBOs”) located in the United Kingdom and in the State. Paddy Power provides online interactive betting services through the websites paddypower.com, paddypower.it, sportsbet.com.au and iasbet.com.au. Paddy Power owns and operates over 257 LBOs in the State. Paddy Power also provides business-to-consumer services (principally in the United Kingdom, the State, Australia and Italy) and business-to-business services to the Paris Mutuel Urbain (the state-controlled betting provider) in France, the British Columbia Lottery Corporation in Canada, and a private operator (Nike) in Slovakia. Paddy Power holds gambling licences in the United

¹ It should be noted that the Competition and Consumer Protection Act 2014 made a number of important amendments to the merger review regime set out in the Competition Act 2002.



Kingdom, the State, Italy, Australia, the Isle of Man, Alderney, the United States, Greece and Canada.

4. For the financial year ending 31 December 2014, Paddy Power's worldwide turnover was €[...], of which €[...] was generated in the State.

Betfair

5. Betfair is a public limited company, headquartered in London in the United Kingdom and listed on the London Stock Exchange. Betfair is an international online gambling operator which launched in the United Kingdom in 2000. Betfair's business includes an exchange, which offers online person-to-person betting where customers come together in order to bet at odds set by themselves or offered by other customers.² Betfair also operates a fixed-odds online sportsbook which it launched in the State and the United Kingdom in January 2013. Betfair also offers a wide range of online gaming services, including casino games, bingo, slots, poker and exchange games. Betfair does not own or operate any LBOs. Betfair holds gambling licences in the United Kingdom, the State, Gibraltar, Malta, Spain, Italy, the United States, Bulgaria, Denmark, Romania and Germany.
6. For the financial year ending 30 April 2015, Betfair's worldwide turnover was €[...], of which €[...] was generated in the State.³

Rationale for the Proposed Transaction

7. The parties state in the notification:

"The transaction will combine two complementary businesses, resulting in a group that can compete more effectively in the global marketplace and offer better products and services to its broad customer base. In particular: Paddy Power Betfair will be able to compete across a wider range of geographies. This will contribute to more intensified competition in global gambling services and allow the combined entity to compete effectively with providers such as [...] that have significantly deeper pockets and global reach; Paddy Power Betfair will have complementary products, channels and capabilities which will allow Paddy Power Betfair to offer a wider range and more innovative products and services to existing and new customers. Again, this will increase global competition for the acquisition and retention of customers; Paddy Power Betfair will have greater scope to grow in Australia, the United States and Continental Europe, allowing it to move ahead more quickly with the introduction of new products, games and services for customers in those countries; a dual brand strategy across Europe will enable Paddy Power Betfair to utilise more effectively their distinctive and complementary brands by marketing services and providing relevant promotions/offers to customers across the

² See paragraph 19 below for more about online betting exchanges.

³ Based on Sterling to Euro exchange rate of £1 sterling = €1.37 euro on 30 April 2015.



entire spectrum of gamblers; and Paddy Power Betfair will be able to take advantage of cost synergies from efficiencies, allowing for greater investment in product innovation and development.”

Preliminary Investigation (“Phase 1”)

Contacts with the Undertakings Involved

8. On 20 October 2015, in addition to the notification, an economic report by RBB Economics, commissioned on behalf of the parties, was submitted to the Commission (“The RBB Report”).⁴
9. On 30 November 2015, the Commission served a Requirement for Further Information on each of Paddy Power and Betfair pursuant to section 20(2) of the Act. This adjusted the deadline within which the Commission had to conclude its assessment of the proposed transaction in Phase 1.
10. Upon receipt of the responses to the Requirements for Further Information from each of Paddy Power and Betfair, the “appropriate date” (as defined in section 19(6)(b)(i) of the Act) became 4 December 2015.⁵
11. During its investigation, the Commission requested and received, on an on-going basis, further information and clarifications from the notifying parties.

Third Party Submissions

12. No third party submission was received by the Commission during its investigation.

Market Enquiries

13. During its investigation, the Commission drew up a questionnaire to be answered by four competitors of the merging parties currently active in the provision of online gambling services in the State. These competitors were identified from a list of the parties’ top 5 competitors in the State provided to the Commission in the notification. The Commission received a full response from all four competitors and, in each case, followed up with telephone calls to explore the responses in greater detail.

Consumer Survey

14. The Commission engaged Behaviour & Attitudes Marketing Research (“B&A”) to undertake an online consumer survey with respect to the online betting industry. A representative sample of consumers who bet online and hold two or more accounts was contacted in November/December 2015. On 18 December 2015, the Commission received a final written report from B&A. The results are reported in detail below.

Industry Background – Online Gambling

⁴ RBB Economics, “Assessment of Closeness of Competition”, 20 October 2015.

⁵ The “appropriate date” is the date from which the time limits for making both Phase 1 and Phase 2 determinations begin to run.



15. The online gambling industry comprises online betting services and online gaming services.

Online Betting

16. Online betting involves the staking of money on the outcome of an event or process (e.g., a camogie match). Winnings are paid according to the “odds” (i.e., the ratio of the amount that could be won to the stake) at which the bet was placed. Every bet requires someone to “back” the bet (i.e., take a position that the anticipated event will happen) and someone to “lay” the bet (i.e., take a position that the anticipated event will not happen).
17. There are two broad types of online betting:
 - Fixed-odds betting; and
 - Exchange betting.
18. Fixed-odds for an event are calculated by assessing both the likelihood of an event occurring and competition between bookmakers to offer better odds to attract more customers. Customers then choose whether or not to place a bet at the odds on offer. The gross revenue earned by the gambling operator is the difference between the total amount staked by customers and the amount paid back in winnings.
19. A betting exchange is an online marketplace where customers set their own odds and bet directly against each other. Customers can place bets that an outcome will happen (as is the case for fixed-odds betting), or take the other side of a bet by offering odds on an outcome not happening.⁶ Betting exchange operators generate revenue by charging winning customers a commission.
20. Some online betting exchange operators, including Betfair, sell live online betting exchange data to other online gambling operators who use this exchange data to inform their own fixed-odds pricing.

Online Gaming

21. Gaming refers to games played for money or another prize in casinos or online.⁷ The range of games that can be played is vast but the most popular games include casino games (e.g., roulette, blackjack, etc.), bingo, slots and poker. Most online gaming products involve betting through bespoke interfaces against the outcome of a random number generator and are commonly produced by third party developers and licensed to gambling operators. Certain games, such as poker, are played directly against other customers.

Competitive Analysis

⁶ This is referred to as “lay betting”.

⁷ Gaming is not available in LBOs in the State.



22. There is a horizontal overlap between the parties' activities with respect to the provision of online betting and online gaming services in the State.⁸ There is also a potential vertical relationship between the parties since Betfair currently sells live betting exchange data to online betting service providers.

Relevant Product and Geographic Market

Views of the Undertakings Involved

23. With respect to the relevant product market, the notification states the following:

“There are strong demand-side and supply-side factors that would suggest a single product market for gambling services (i.e., including both betting and gaming). In any event, it does not matter whether betting and gaming are deemed to comprise one or two separate product markets.”

“Betting services are broadly offered and operated in two ways: sportsbook betting and betting exchange. ... For the purposes of analysing this transaction, it does not matter whether exchanges and sportsbooks are thought to comprise one or separate product markets. Paddy Power does not operate an exchange, so there would be no horizontal overlap between the parties in this regard if exchanges were considered separately. Whether the CCPC considers sportsbooks alone or considers exchanges and sportsbooks together, the combined entity will continue to be constrained post-merger by both ‘traditional’ sportsbook operators and exchange operators (including Ladbrokes/Betdaq, Matchbook and Smarkets). Therefore, the CCPC does not need to come to a final conclusion on whether exchanges and sportsbooks are in the same market since the transaction does not raise a realistic prospect of an SLC on any basis.”

“The online games segment is predominantly comprised of: (i) casino games (e.g. blackjack and roulette), (ii) bingo, (iii) slots and (iv) poker. ... Although the parties consider that all gaming is in the same market, the CCPC does not need to reach a final conclusion on this, as the transaction does not raise a realistic prospect of an SLC on any basis.”

24. With respect to the relevant geographic market, the notification states the following:

“The parties consider that the narrowest plausible frame of reference for considering the competitive effects of the

⁸ There is no horizontal overlap between the parties' activities with respect to the provision of betting services in LBOs in the State since Betfair does not own or operate any LBOs.



transaction in online gambling is at least Ireland and the UK.”

Views of the Commission

25. The Commission defines markets to the extent necessary depending on the particular circumstances of a given case. In this instance, the Commission does not need to come to a definitive view on whether the provision of online fixed-odds betting services is in the same product market as the provision of online exchange betting services because the precise product market definition will not materially alter the Commission’s assessment of the competitive impact of the notified transaction. The parties’ activities in relation to online betting only overlap in the provision of online fixed-odds betting services. There is no horizontal overlap between the parties’ activities in the provision of online exchange betting services since Paddy Power does not own or operate an online betting exchange. In order to determine whether the proposed transaction might result in a substantial lessening of competition, the Commission assessed its impact on competition in the following two alternative potential online betting product markets, namely:
- the provision of online betting services (encompassing both online fixed-odds betting and online exchange betting); and
 - the provision of online fixed-odds betting services.
26. The Commission also does not need to come to a definitive view on whether the provision of online gaming services is in the same product market as the provision of online betting services since its conclusion on the likely competitive impact of the proposed transaction will be unaffected whether the relevant product market is defined narrowly (e.g., the provision of online gaming services) or more broadly to encompass the provision of both online gaming services and online betting services. In order, however, to determine whether the proposed transaction might result in a substantial lessening of competition, the Commission assessed its impact on competition by reference to the narrowest possible relevant product market, namely the provision of online gaming services.
27. Similarly, the Commission does not need to come to a definitive view on the precise geographic market definition for any of the potential product markets identified above since its conclusion on the competitive impact of the proposed transaction will be unaffected whether the relevant geographic market is defined as national or is defined wider to encompass both the State and the United Kingdom. In order, however, to determine whether the proposed transaction might result in a substantial lessening of competition, the Commission assessed its impact on competition by reference to the narrowest possible relevant geographic market, namely the State.
28. In conclusion, for the purpose of its competitive assessment, the Commission examined the competitive impact of the proposed transaction in the following three potential markets:
- the provision of online betting services (encompassing both online fixed-odds betting and online exchange betting) in the State;



- the provision of online fixed-odds betting services in the State; and
- the provision of online gaming services in the State.

29. Below, the Commission sets out in detail its assessment of the competitive impact of the proposed transaction in each of the three potential markets listed above.

The Provision of Online Betting Services (encompassing both online fixed-odds betting and online exchange betting) in the State

Market Structure

30. Paragraph 3.1 of the Commission’s Guidelines for Merger Analysis⁹ states the following:

“A central element in assessing the competitive impact of a merger is identifying its effect on market structure.”

31. Market structure can be characterised by the number and size distribution of firms. The initial impact of any merger or acquisition is felt on market structure as two firms pre-acquisition become one firm post-acquisition.

32. Table 1 below presents the parties’ estimates of market share data over the period 2011-2014 for the provision of online betting services in the State.¹⁰ Based on the parties’ estimates, the total size of the potential market for online betting in the State was Stg£[...] in 2014, a significant increase from Stg£[...] in 2011.

Table 1: The Provision of Online Betting Services, by Value (Stg£) %, 2011-2014, the State

	2011	2012	2013	2014
Paddy Power	[35-40]%	[35-40]%	[35-40]%	[30-35]%
Betfair	[10-15]%	[10-15]%	[5-10]%	[5-10]%
Bet365	[15-20]%	[15-20]%	[20-25]%	[25-30]%
BoyleSports	[10-15]%	[10-15]%	[10-15]%	[10-15]%
Ladbrokes	[5-10]%	[5-10]%	[5-10]%	[5-10]%
William Hill	[0-5]%	[0-5]%	[0-5]%	[5-10]%
SkyBet	[0-5]%	[0-5]%	[0-5]%	[0-5]%
Others	[0-5]%	[5-10]%	[5-10]%	[5-10]%
Total (Stg£, millions)	[...]	[...]	[...]	[...]

Source: The Parties

33. Paddy Power is the clear market leader with a [30-35]% share of the online betting market in the State in 2014. Its market share, however, declined from [35-40]% to [30-35]% between 2013 and 2014. Most online betting service providers have either lost share or experienced stable shares over the period 2011-2014. There are, however,

⁹ Guidelines for Merger Analysis adopted by the Commission on 31 October 2014 (the “Guidelines for Merger Analysis”). See http://www.ccpc.ie/sites/default/files/CCPC%20Merger%20Guidelines_1.pdf

¹⁰ The parties’ share estimates are based on net gambling revenue (“NGR”) which represents the total amount staked (i.e., the total amount of money received from customers from online betting) less winnings and other costs.



two exceptions: Bet365 and “Others”. The former has almost doubled its share of the online betting market in the State over the period 2011-2014, while the combined share of the latter has grown steadily over this period from [5-10]% to [5-10]%.

34. Market concentration refers to the degree to which production/supply in a particular product market is concentrated in the hands of a few large firms. The most commonly used measure of concentration is the Herfindahl-Hirschman Index (“HHI”), which is defined as the sum of the squares of the market shares of all firms participating in the market. According to paragraph 3.10 of the Commission’s Guidelines for Merger Analysis¹¹, any market with a HHI greater than 2,000 is highly concentrated while a change in the pre-merger HHI compared to the post-merger HHI of less than 150 is “unlikely to cause concern” (paragraph 3.10). Therefore, if the post-merger HHI is above 2,000 and the change in the HHI is greater than 150, this indicates that firms in that market may be able to exercise market power.
35. Based on the market shares set out in Table 1 above, the provision of online betting services in the State is highly concentrated. The HHI post-merger would be over 2,500 while the change in the HHI would be almost 500.¹² The HHI calculations therefore indicate that the proposed transaction may potentially raise competition concerns. This does not necessarily mean that the proposed transaction is likely to result in a substantial lessening of competition; rather, it means that the Commission should intensify its analysis of the competitive impact of the proposed transaction.¹³

Competitive Effects Analysis

36. In this section, the Commission examines the competitive effects of the proposed transaction in the potential market for the provision of online betting services in the State.

Views of the Undertakings Involved

37. The notification by the parties states the following:

“The online gambling sector is highly competitive across all parameters of competition, including in relation to technology, branding, product offering, innovation, pricing, promotions and customer service. The transaction will not change this. A number of larger providers with scale and established brand presence on an international level will remain post-merger, together with a large number of other providers. The parties are not closest competitors and other competitors will continue to exert significant constraints on the merged entity. Online gambling is a highly transparent market, there are no barriers to customer switching and customers not only

¹¹ See http://www.ccpc.ie/sites/default/files/CCPC%20Merger%20Guidelines_1.pdf

¹² This assumes “Others” as one entity for the purpose of calculating the HHI. Even if market shares were available for all online betting service providers active in the State, the post-merger HHI would still be in excess of 2000 (this is because the merged entity will have a 41% share and Bet365 will have 28%) and the increment would be in excess of 250.

¹³ Paragraph 3.11 of the Guidelines for Merger Analysis.



typically have multiple accounts but can easily, and do, shop around to find the best odds. Online gambling has experienced strong growth in recent years and the sector is characterised by intense competition through innovation, which is driven at the global level. Barriers to entry and expansion are low as demonstrated by the examples of recent new entry and [...]’s ability to nearly double its share in Ireland over the past four years.”

38. The RBB Report states the following:

“Paddy Power assesses churn data in the normal course of business, e.g. to gauge the extent to which it needs to improve certain aspects of its offer to retain customers or to re-engage customers that have become inactive. ... Churn in this context means that customers have become “inactive” with Paddy Power (i.e. stopped using their Paddy Power account within the last 3 months) for the purpose of sports betting. ... Where customers either opened an account with another company to place sports bets, or went back to another company to place sports bets with them instead, they were further asked which provider they used most for their sports bets. ... Based on churn data for the online sports betting segment in Ireland [for the period January 2014-February 2015], competitors are ranked as follows: [...]. Betfair, according to this measure, is not the closest competitor to Paddy Power. While it is second on the list, it is a considerable distance behind [...], and (relatively speaking) only a little ahead of [...]. In sum, churn data for sports betting in Ireland indicate that post-merger, four important competitors will remain: the most important pre-merger competitor ([...]), as well as [...].”

39. The RBB Report also states the following:

“As part of the normal course of business, Paddy Power surveys its customers using the online channel to understand how they perceive Paddy Power vis-à-vis other competitors. Paddy Power then uses data from these surveys to identify a customer’s ranking of each competitor based on their perceived use of each brand relative to other brands they use in betting and gaming. [...] ... Based on results in April 2015 [for the period January 2014-April 2015], Paddy Power’s Irish customers spent the highest proportion of their wallet ([...]) betting with Paddy Power, followed by the following competitors, ranked from highest to lowest: [...]. The data therefore suggest that Bet365 provides the strongest competitive constraint on Paddy Power in Ireland. Also, whilst [...] is



ranked second (on an upper bound measure), [...] all capture a material share of spend."

Views of the Commission

40. Assessing the competitive effects of the proposed transaction requires the identification of any relevant theories of harm (i.e., how the proposed transaction could result in a substantial lessening of competition) and an analysis of those theories of harm through an evaluation of the available evidence.
41. The applicable theory of harm on which the Commission's investigation focused in the present case was unilateral effects which, as explained in paragraph 4.8 of the "Guidelines for Merger Analysis", occur when "a merger results in the merged entity having the ability and the incentive to raise prices at its own initiative and without coordinating with its competitors."
42. The Commission considers that the merged entity will not have the ability to unilaterally raise the price of its online betting services in the State post-transaction.¹⁴ This view is based on the evidence set out below.

Closeness of Competition

43. The exercise of unilateral effects, while not limited to, usually involves a merger of sellers of differentiated products who previously competed on the basis of price and depends largely on the closeness of the merging firms' products. The merged entity will only have the incentive to exercise market power and increase price if it would be profitable to do so. In order for this to occur, the Paddy Power and Betfair brands should be close competitors to each other in the provision of online betting services in the State such that a price rise by Paddy Power will result in a sufficient diversion of sales revenue to Betfair (and *vice versa*). In other words, the price rise should lead to a limited diversion of sales revenue to other competitors.
44. For the reasons set out below, the Commission considers that Paddy Power and Betfair are not sufficiently close competitors in the provision of online betting services in the State such that post-transaction the merged entity will find it profitable to raise prices (or otherwise harm consumers).

Views of Competitors

45. The Commission issued a questionnaire to four competitors of the merging parties who are currently active in the provision of online betting services in the State. All four competitors expressed the view that the online betting industry in the State is very competitive. Competitor 1 expressed the following view:

"Online betting customers are not tied in to any particular operator and so can move freely between them on a bet by bet basis should they wish. This makes the industry very competitive. ... We anticipate the proposed merger would

¹⁴ Increased prices by the merged entity could come about through lower fixed-odds on events, higher commissions for betting exchange customers, and/or less attractive promotions (e.g., fewer free bets, etc).



have little impact on our business (while there are still a large number of competitors)."

46. Competitor 2 expressed the following view:

"Customers will continue to have a wide selection of choice in the online marketplace."

47. Competitor 3 expressed the following view:

"The merged entity is likely to be an even stronger constraint on the businesses of competitor bookmakers operating in both online and retail."

48. Competitor 4 expressed the following view:

"The online betting sector is relatively large and diverse, and as such we do not believe the merger will give rise to a material impact on supply of online betting services."

Internal Documentation

49. Numerous internal documents provided to the Commission by both parties clearly indicate that the parties perceive themselves to be competing not only with each other but also with a number of other large online betting service providers in the State.

50. For example, a document provided to the Commission by Paddy Power entitled "Paddy Power Monthly Competitor Report – July 2015" contains the following statement:

"Primary Competitors: [...]"

51. Similarly, a document provided to the Commission by Betfair entitled "Competitor Product Offering Monitoring" dated August 2015 contains a list of different betting products offered by the following online competitors: [...].

B&A Consumer Survey

52. The online consumer survey carried out by B&A on behalf of the Commission found that:

- Of the respondents who stated that they would switch spend away from Paddy Power if the price of online sportsbook betting at Paddy Power increased by 10% while the price of all forms of gambling at all other gambling operators remained the same, 71% stated that they would switch some of their spend to BoyleSports; 65% to Ladbrokes; 64% to Betfair; 62% to Bet365; 48% to William Hill; 47% to Betfred; 46% to Coral; and 45% to Sky Bet.
- Of the respondents who stated that they would switch spend away from Betfair if the price of online sportsbook betting and online exchange betting at Betfair increased by 10% while the price of all forms of gambling at all other gambling operators remained the same, 75% stated that they would switch some of their



spend to BoyleSports; 70% to Ladbrokes; 70% to Bet365; 65% to Paddy Power; 63% to Betfred; 60% to Coral; 49% to Sky Bet; and 40% to William Hill.

53. The results of the B&A consumer survey clearly indicate that while Paddy Power and Betfair compete with each other in the provision of online betting services in the State, they also compete closely with a number of other online betting service providers in the State including: BoyleSports, Ladbrokes, Bet365, Betfred, William Hill, Coral, and Sky Bet.

Branding and Marketing

54. Although clearly competitors in the provision of online betting services in the State, Paddy Power and Betfair are, to some extent, distinct brands aimed at somewhat different customer segments.¹⁵
55. Betfair is predominantly known for its online betting exchange which is aimed at the more sophisticated and serious customer.¹⁶ For example, Competitor 1 expressed the view to the Commission that Betfair is “*by far the biggest online exchange*” in the State and Competitor 3 noted that Betfair is “*the most significant provider of online betting exchange services in the State.*”
56. In contrast, Paddy Power does not offer an online betting exchange and markets itself to customers as a “fun” online fixed-odds betting services provider through its humorous and irreverent advertising campaigns.¹⁷
57. It is significant that, according to information provided to the Commission by Paddy Power, when Betfair launched its online fixed-odds betting service in the State in January 2013, this did not significantly change the degree of competition between Paddy Power and Betfair. Paddy Power’s response dated 4 December 2015 to the Commission’s Requirement for Further Information issued on 30 November 2015 contains the following statement:

“[...]”

Commission’s View on Closeness of Competition

58. The Commission considers that the evidence described above, including the evidence in the RBB Report (detailed in paragraphs 38 and 39 above), clearly indicates that Paddy Power and Betfair, although competitors in the provision of online betting services in the State, both face competition from a number of other large online betting service providers including: BoyleSports, Ladbrokes, Bet365, William Hill, Coral, and Sky Bet.
59. Given the ease and speed with which customers can (a) open online betting accounts;¹⁸ (b) compare prices (i.e., odds) and promotions online;¹⁹ and, (c) switch their spend

¹⁵ As detailed in paragraph 7 above, this is the main rationale for the proposed transaction.

¹⁶ Betfair only started to provide online fixed-odds betting services in the State in January 2013. [...] % of NGR generated by Betfair from the provision of online betting services in the State for the financial year ending 30 April 2015 came from exchange betting.

¹⁷ An internal document provided to the Commission by Betfair entitled “Betfair Internal Analysis” dated July 2015 details the results of a survey in which Betfair customers were asked to select descriptions of different gambling operators. [...]

¹⁸ The parties state in the notification that customers, on average, have more than three different online betting accounts.

¹⁹ Examples of price comparison websites include Oddschecker, Bestbetting and At The Races.



between different online betting service providers, any attempt by the merged entity to raise its prices (or otherwise harm competition) post-merger is likely to lead to customers switching their spend to rival online betting service providers such as BoyleSports, Ladbrokes, Bet365, William Hill, Coral, and Sky Bet.

60. In light of the above, the Commission considers that the proposed transaction will not substantially lessen competition in the potential market for the provision of online betting services (encompassing both online fixed-odds betting and online exchange betting) in the State.

The Provision of Online Fixed-odds Betting Services in the State

61. The Commission also assessed the likely competitive impact of the proposed merger in the potential narrow market for the provision of online fixed-odds betting services in the State.²⁰
62. Table 2 below presents estimated market share data over the period 2013-2014 for the provision of online fixed-odds betting services in the State.²¹ The total estimated size of the potential market for online fixed-odds betting in the State was Stg£[...] in 2014, a significant increase from Stg£[...] in 2013.

Table 2: The Provision of Online Fixed-odds Betting Services, by Value (Stg£) %, 2011-2014, the State

	2013	2014
Paddy Power	[40-45]%	[35-40]%
Betfair	[0-5]%	[0-5]%
Bet365	[25-30]%	[30-35]%
BoyleSports	[10-15]%	[10-15]%
Ladbrokes	[0-5]%	[0-5]%
William Hill	[0-5]%	[5-10]%
SkyBet	[0-5]%	[0-5]%
Others	[5-10]%	[10-15]%
Total (Stg£, millions)	[...]	[...]

Source: Information provided by the Parties and third parties.

63. Paddy Power is the market leader with a [35-40]% share of the fixed-odds online betting market in the State, albeit with a decline from [40-45]% in 2013. Bet365, on the other hand, has increased its market share from [25-30]% to [30-35]% between 2013 and 2014.
64. Given that Betfair only launched its online fixed-odds betting service in the State in January 2013, it is unsurprising that it has a minimal market share of only [0-5]%. The

²⁰ There is no horizontal overlap between the parties in the provision of online betting exchange services in the State since Paddy Power does not offer an online betting exchange.

²¹ The market share estimates are based on information provided by the parties in the notification and by third parties. It was not possible for the Commission to calculate market share estimates for 2011-2012 as third parties were unable to provide the relevant data.



percentage increment in market share in the provision of online fixed-odds betting services in the State following the proposed merger will therefore be very small.

65. More significantly, the merged entity will face competition in the State post-merger from a number of other large online fixed-odds betting service providers including: BoyleSports, Ladbrokes, Bet365, William Hill, Coral, and Sky Bet. On this basis, the Commission considers that the merged entity will not have the ability to unilaterally raise the price of its online fixed-odds betting services in the State post-transaction.
66. The Commission therefore considers that the proposed transaction will not substantially lessen competition in the potential market for the provision of online fixed-odds betting services in the State.

The Provision of Online Gaming Services in the State

Market Structure

67. Table 3 below presents the parties' estimates of market share data over the period 2011-2014 for the provision of online gaming services in the State.²² Based on the parties' estimates, the total size of the potential market for online gaming in the State was Stg£[...] in 2014. Unlike online betting in the State, the size of the online gaming market has experienced modest growth over the period 2012-2014.

Table 3: The Provision of Online Gaming Services, by Value (Stg£) %, 2011-2014, the State

	2011	2012	2013	2014
Paddy Power	[25-30]%	[25-30]%	[30-35]%	[20-25]%
Betfair	[0-5]%	[0-5]%	[0-5]%	[0-5]%
Bet365	[5-10]%	[5-10]%	[10-15]%	[10-15]%
BoyleSports	[20-25]%	[15-20]%	[10-15]%	[10-15]%
Ladbrokes	[15-20]%	[15-20]%	[10-15]%	[10-15]%
William Hill	[5-10]%	[5-10]%	[5-10]%	[5-10]%
SkyBet	[5-10]%	[5-10]%	[5-10]%	[5-10]%
Others	[10-15]%	[15-20]%	[15-20]%	[20-25]%
Total (Stg£, millions)	[...]	[...]	[...]	[...]

Source: The Parties

68. Paddy Power is the clear market leader with a [20-25]% share of the online gaming market in the State in 2014. Its share of the segment, however, declined from [30-35]% to [20-25]% between 2013 and 2014. As with online betting, most online gaming providers have either lost share or experienced stable shares over the period 2011-2014. There are, however, once again, two exceptions: Bet365 and "Others". Bet365 has steadily grown its share of the online gaming market in the State over the period 2011-2014. The combined share of "Others" is much higher in the online gaming market

²² The parties' share estimates are based on NGR figures.



in the State than in the online betting market, doubling in size from [10-15]% to [20-25]% over the period 2011-2014.

Competitive Effects Analysis

69. In this section, the Commission examines the competitive effects of the proposed transaction in the potential market for the provision of online gaming services in the State.

Views of the Undertakings Involved

70. The notification by the parties states the following:

“As with their overall online gambling propositions, Betfair and Paddy Power are not closest, or even particularly close, competitors in gaming. Both companies monitor and react to a broad range of competitors, including each other. Their internal documents reveal no particular focus on one another for any aspect of their competitive offering.”

71. The RBB Report states the following:

“Based on results in July 2015 [for the period January 2014-July 2015], Paddy Power’s Irish customers spent the highest proportion of their wallet ([...])% on Paddy Power games, followed by the following competitors, ranked from highest to lowest: [...]. This analysis indicates that [...] have the largest and second largest non-Paddy Power share of spend respectively. [...] is joint third-placed, alongside [...], whilst [...] account for almost the same share as [...]. In other words, the evidence is in line with the view that Paddy Power is more strongly constrained by other competitors, particularly [...], with [...] being just one competitor among a large group of similarly placed rivals.”

Views of the Commission

72. The Commission considers that the merged entity will not have the ability to unilaterally raise the price of its online gaming services post-transaction. This view is based on the following evidence.
73. First, the merged entity’s increment in market share following the proposed transaction will be small since Betfair has, according to the parties’ estimates, only a [0-5]% share of online gaming in the State. This was confirmed by Competitor 2 who expressed the following view to the Commission:

“Betfair’s casino/gaming offering is not prevalent in the Irish market.”



74. Second, all four competitors contacted by the Commission expressed the view that the online gaming industry in the State is very competitive.
75. Third, internal documents provided to the Commission by both parties clearly indicate that the parties perceive themselves to be competing with a number of other large online gaming providers in the State. For example, a document provided to the Commission by Paddy Power entitled “Paddy Power Product Development Monthly Competitor Update – January 2015” contains a discussion of the gaming products offered by the following online competitors: Betfair, SkyBet, Bet365, Coral, Ladbrokes, and William Hill.
76. Based on the evidence described above, including the evidence in the RBB Report (detailed in paragraph 71 above), the Commission considers that any attempt by the merged entity to raise its prices (or otherwise harm competition) post-merger is likely to lead to customers switching their spend to rival online gaming operators in the State such as Ladbrokes, Bet365, William Hill, BoyleSports, Coral, and Sky Bet.
77. In light of the above, the Commission considers that the proposed transaction will not substantially lessen competition in the potential market for the provision of online gaming services in the State.

Vertical Overlap – The Provision of Live Betting Exchange Data to Online Betting Service Providers in the State

78. There is a potential vertical relationship between the parties since Betfair currently supplies live betting exchange data to online betting service providers who use this data to inform their decisions when setting prices for fixed-odds events. By way of background, Betfair provided the following information to the Commission in a submission dated 4 December 2015:

“By charging a fee for live exchange data via an Application Programming Interface (API), which enables third parties to have access to the exchange’s data and functionality, Betfair sought to discourage extensive screen scraping whilst also generating some modest additional value for the business.”

79. Betfair currently supplies live betting exchange data to [...] online betting service providers in the State.²³ Paddy Power purchased live betting exchange data from Betfair between [...] and [...] before deciding [...].
80. The Commission considered whether the merged entity may have the ability to foreclose rival fixed-odds betting service providers from the market by, for example, withholding live betting exchange data. One competitor expressed a concern to the Commission about the possibility of the merged entity restricting access to Betfair’s live betting exchange data.
81. The Commission considers that the merged entity will not have the ability to foreclose rival fixed-odds betting service providers from the market by restricting access to live

²³ [...]



betting exchange data. Betfair's live betting exchange data is not an essential input for an online fixed-odds betting service provider. This is evidenced by the fact that many online betting service providers currently active in the State (including large operators such as Paddy Power, Ladbrokes,²⁴ William Hill and BoyleSports²⁵) do not purchase live betting exchange data from Betfair.

82. In addition, there are alternative sources of betting data available to online fixed-odds betting service provider other than Betfair's live betting exchange data, including:

- Other betting exchanges such as Betdaq, Matchbook, and Smarkets;²⁶
- Odds comparison websites such as Oddschecker, Bestbetting and At The Races;
- "Screen-scraping" odds from the websites of other betting service providers; and
- Business-to-business intermediaries such as Betradar, Sporting Index, and TXODDS.

83. For the reasons given above, the Commission considers that access to Betfair's live betting exchange data is not essential for an online betting service provider to compete effectively in the provision of online betting services in the State. The Commission therefore considers that the merged entity will not have the ability to foreclose rival online betting service providers in the State by restricting access to Betfair's live betting exchange data.

84. In light of the above, the Commission considers that the proposed transaction will not substantially lessen competition in any market for goods or services in the State.

Ancillary Restraints

85. No ancillary restraints were notified.

²⁴ Ladbrokes operates its own online betting exchange, Betdaq, which it acquired in February 2013.

²⁵ [...]

²⁶ It is likely, however, that Betfair's live betting exchange data is more informative than that of rival online betting exchanges since Betfair is the biggest online betting exchange in the State. Competitor 3 expressed the view to the Commission that Betfair is "significantly larger in size and liquidity" than rival betting exchanges. Competitor 4 expressed the view that rival betting exchanges do not "have the same level of depth and coverage." [...]



Determination

The Competition and Consumer Protection Commission, in accordance with section 21(2)(a) of the Competition Act 2002, has determined that, in its opinion, the result of the proposed transaction whereby Paddy Power plc would merge with Betfair Group plc will not be to substantially lessen competition in any market for goods or services in the State, and accordingly, that the acquisition may be put into effect.

For the Competition and Consumer Protection Commission

Gerald FitzGerald
Member
Competition and Consumer Protection Commission