DETERMINATION OF MERGER NOTIFICATION M/16/047 – DALATA HOTEL GROUP/DOUBLE TREE BY HILTON HOTEL

Section 21 of the Competition Act 2002

Proposed acquisition by Dalata Hotel Group p.l.c. of the entire issued share capital of DT Sussex Road Operations Limited

Dated 2 November 2016

Introduction

1. On 30 September 2016, in accordance with section 18(1) of the Competition Act 2002, as amended (the "Act"), the Competition and Consumer Protection Commission (the "Commission") received a notification of a proposed transaction whereby DHGL Limited ("DHGL"), a wholly-owned subsidiary of Dalata Hotel Group p.l.c. ("Dalata"), would acquire the entire issued share capital of DT Sussex Road Operations Limited ("DT Sussex"), which holds a lease in respect of the hotel known as the DoubleTree by Hilton Hotel Dublin-Burlington Road ("Hilton Dublin-Burlington").

The Proposed Transaction

2. The proposed transaction is to be implemented pursuant to a share and purchase agreement ("SPA") between Bernie Investment S.à.r.l.(the "Vendor"), Bre/Europe 6Q S.à.r.l.[1] and DHGL dated 30 September 2016, whereby DHGL would acquire the entire issued share capital of DT Sussex.

3. DT Sussex has the right to operate and manage the business of the Hilton Dublin-Burlington pursuant to a lease agreement with Sussex Road Nominees Limited[2]. The Hilton Dublin-Burlington is currently operated subject to a hotel management agreement between DT Sussex and Maple Hotels Management Company Limited dated 28 March 2013 (the "Hotel Management Agreement").

[1] Bre/Europe 6Q S.à.r.l. is a Luxembourg-registered company which acts as the guarantor under the SPA.
[2] Sussex Road Nominees Limited, which is indirectly controlled by Bernie Investment S.à.r.l., is the legal owner of the Hilton Dublin-Burlington. […].

4. Pursuant to the implementation of the proposed transaction, Dalata will acquire the entire issued share capital of DT Sussex, and therefore the right to operate and manage the Hilton Dublin-Burlington. Prior to or immediately upon completion of the proposed transaction, the Hotel Management Agreement will be terminated. [3]

The Undertakings Involved

The Acquirer - Dalata

5. DHGL, which is a wholly-owned subsidiary of Dalata, acts as the holding company for the operations of Dalata and its group companies[4]. Dalata is an Irish incorporated public limited company[5], which is listed on the Irish Stock Exchange and the London Stock Exchange. Dalata is involved in owning hotels and managing hotels owned by other parties, and has a portfolio of 40 three and four star hotels (owned, leased and/or managed) across the State and the UK. Dalata operates 31 hotels in the State, of which 15 hotels are owned by Dalata, 10 hotels are leased by Dalata and 6 hotels are managed by Dalata under management agreements.

6. Dalata operates the Clayton and the Maldron Hotels brands across the State and the UK. Of Dalata's hotels in the State, 12 are operated under the Maldron brand and 7 are operated under the Clayton brand.

7. In Dublin, Dalata owns: (i) 3 Clayton Hotels (at Ballsbridge, Dublin Airport and Leopardstown); (ii) 3 Maldron Hotels (at Newlands Cross, Parnell Square and Pearse Street); and (iii) the Tara Towers hotel in Sandymount.

8. In addition, in Dublin, Dalata operates: (i) 3 Maldron Hotels (at Dublin Airport, Smithfield and Tallaght); (ii) 1 Clayton Hotel (at Cardiff Lane), and (iii) the Ballsbridge Hotel and the

[3] On 30 September 2016, the Commission was notified of a separate but related transaction (reference number M/16/046) whereby DEKA Immobilien Investment GmbH ("Deka") would acquire the fee simple in the Hilton Dublin-Burlington from Sussex Road Nominees Limited (as legal owner) and from BNY Mellon Trust Company (Ireland) Limited (as trustee for and on behalf of the beneficial owner) such that the ownership of the Hilton Dublin-Burlington would vest in Deka. The parties intend that the purchase by Deka of the fee simple would complete simultaneously with the proposed acquisition by Dalata of the entire issued share capital of DT Sussex. On completion, Deka would grant a new lease to DHG Burlington Road Ltd (a subsidiary of Dalata) in respect of the Hilton Dublin-Burlington (the new lease would remain in place, subject to the lease held by DT Sussex, with DHG Burlington Road Ltd stepping into the shoes of the existing landlord).

[4] [...].

[5] Headquartered in Sandyford, Dublin.

Gibson Hotel under separate lease agreements. In Dublin, Dalata also manages the Belvedere Hotel and the Clarion Hotel Liffey Valley under management agreements.

9. For the financial year ended 31 December 2015, Dalata's worldwide turnover was approximately €225.7 million, of which approximately € […] million was generated in the State.

The Target- Hilton Burlington Dublin

10. DT Sussex is a wholly-owned subsidiary of the Vendor. DT Sussex's sole business is the operation of the Hilton Dublin-Burlington, a four star hotel with 501 bedrooms, which is located at Upper Leeson Street, Dublin 4. DT Sussex has outsourced the management of the Hilton Dublin-Burlington to Maple Hotels Management Company Limited pursuant to the Hotel Management Agreement.

11. The Vendor is a Luxembourg-registered company owned by a number of investment funds which are managed by the Blackstone Group L.P.

12. For the financial year ended 31 December 2015, DT Sussex's worldwide turnover was approximately €29.5 million, all of which was generated in the State.

Rationale for the Proposed Transaction

13. The parties state in the notification:

> *"It is an integral part of the Purchaser's strategy to acquire hotel assets and the Hotel which forms part of the Proposed Transaction will complement the Purchaser's existing hotel offerings. The Vendor wishes to exit its investment in the Hotel and realise the value of its investment."*[6]

Third Party Submissions

14. No submission was received.

Competitive Analysis

[6] Page 5, section 2.7 of the notification.

Horizontal Overlap

15. There is a horizontal overlap between the activities of the parties within the State. Both Dalata and DT Sussex are involved in the supply of hotel accommodation. For the reasons given below, the Commission considers that the horizontal overlap is not significant and that, post-transaction, Dalata will continue to face competition for the supply of hotel accommodation in the State and within Dublin.

Product Market Definition

16. The Commission defines markets to the extent necessary depending on the particular circumstances of a given case. In this instance, it is not necessary for the Commission to define precise relevant markets because the precise product market definition adopted will not materially alter the Commission's assessment of the competitive impact of the proposed transaction.

17. The parties argued that:

a. It is unnecessary for the Commission to reach a firm view on the definition of the relevant product market in this instance as, regardless of how the market is delineated, the proposed transaction will not give rise to a significant lessening of competition in the State, or

b. Should the Commission choose to reach a definitive conclusion on the definition of the relevant product market the appropriate product market is the supply of four star hotel accommodation. [7]

18. In previous cases in the hotel sector, the Commission has left the precise product market open[8] while recognising the possibility of distinct markets for the supply of three star and four star hotel accommodation or, alternatively, a combined market for the supply of three and four star hotel accommodation. The Commission considers that there are no reasons to depart from that view in this instance. For the purposes of reviewing the competitive effects of the proposed transaction, the Commission

[7] Notification, page 28.

[8] M/14/040 –Dalata/Moran/Bewlet's; M/14/036- Dalata/Clayton Hotel.

assessed its impact by reference to the supply of four star hotel accommodation, given that the Hilton Dublin-Burlington is a four star hotel.

Geographic Market Definition

19. The European Commission in its previous decisions has noted that the relevant geographic market may be both national and local for hotel accommodation.[9] In this instance, the choice of geographic market will not materially alter the competitive impact of the proposed transaction in the State. Consequently, the Commission considers that the issue of the appropriate geographic market can be left open in this instance. However, for the purposes of reviewing the proposed transaction, the Commission considered the relevant geographic market to be a local market based on the area within which the Hilton Dublin-Burlington is located, i.e, Dublin City.

Competitive Effects

Dublin City

20. Within a geographic market comprising Dublin City, for the supply of four star hotel accommodation, measured by number of rooms:

a. Dalata has a market share of 26.7%;

b. The Hilton Dublin-Burlington has a market share of 4.97%.[10]

21. The Commission's "Guidelines for Merger Analysis" states that the *"combined market share of the merging parties, when compared with their respective market shares pre-merger, can provide an indication of the change in market power resulting from the merger."* Although, post-transaction, the merged entity's market share in Dublin City would be approximately 31%, the overall increase in market concentration arising from the proposed transaction is limited. [11]

[9] Comp/M.6058-Bankof Scotland/Barclays Bank/Kew Green Hotel; Com/M.4816-Blackstone/Hilton; Com/M.4624-EQT/Scandic. Comp/M.3858-Lehman Brothers/SCG/Starwood/Le Meridien

[10] Notification, page 31.

[11] Notification, page 32 provides that "[…].

22. An estimated post-transaction market share of 31% does not in and of itself imply a substantial lessening of competition for the supply of four star hotel accommodation in Dublin City. Post-transaction, there will continue to be approximately 7,000 four star hotel bedrooms available in Dublin City which are owned and operated by competing hotel groups such as Tifco Hotel Group, Rezidor Hotel Group ,Tetrarch Capital and Irish Holdings.

23. In addition, there will continue to be other options which are available to those seeking accommodation in Dublin City, including B&Bs, hostels and other non-hotel providers of accommodation, as well as Airbnb which might be expected to exercise some competitive constraint on the merged entity.

24. The Commission therefore considers that the merged entity will continue to face competition for the supply of four star hotel accommodation within Dublin City post-transaction.

25. While the Commission recognises that Dalata has acquired 21 hotels since June 2014 in both the State and the UK, it considers that consumers' ability to switch between competing hotel accommodation providers acts as a competitive constraint on all hotel accommodation providers. In particular, the Commission recognises that consumers have increased access to on-line information (e.g., on-line pricing and rating information) which facilitates consumer switching[12]. The Commission considers that the availability of on-line information in relation to hotel accommodation, and the extent to which on-line information provides competitive constraint on hotel accommodation providers, will remain unchanged by the implementation of the proposed transaction.

26. The incentive for hotel accommodation providers to compete also depends on the anticipated entry into the market of potential competitors, which would further increase the switching options for consumers. The parties submitted that there will be further expansion in relation to the supply of hotel accommodation in Dublin City and referred to the CBRE Irish Real Estate Market Outlook 2016, which states that:

[12] See M/14/037-Dalata/Pillo Hotel; M/14/035 Dalata/ White's Hotel.

> "*According to our research, more than 7,300 rooms could potentially be added to Dublin's hotel market although most of the new rooms will not be delivered until 2018 or beyond*".[13]

On the basis of the information available to it, the Commission considers that potential entrants into the market for the supply of four star hotel accommodation in Dublin City also pose a competitive constraint on the merged entity in the new future.

Vertical Issues

27. The proposed transaction does not give rise to any vertical competition concerns.

Conclusion

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

Ancillary Restraints

29. No ancillary restraints were notified.

[13] See CBRE Irish Real Estate Market Outlook 2016, page 28.

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 DHGL Limited ("DHGL"), a wholly-owned subsidiary of Dalata Hotel Group p.l.c. ("Dalata"), would acquire the entire issued share capital of DT Sussex Road Operations Limited ("DT Sussex"), 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

Patrick Kenny
Member
Competition and Consumer Protection Commission