



DETERMINATION OF MERGER NOTIFICATION M/16/006 - DALATA / CAVERNFORDE / VIZMOL

Section 21 of the Competition Act 2002

Proposed acquisition of the entire issued share capital of Cavernford Designated Activity Company and Vizmol Limited by Dalata Hotel Group p.l.c.

Dated 8 March 2016

Introduction

1. On 29 January 2016, in accordance with section 18(1) of the Competition Act 2002, as amended (“the 2002 Act”), the Competition and Consumer Protection Commission (“the Commission”) received a notification of a proposed transaction whereby Dalata Hotel Group p.l.c. (“Dalata”), through its wholly-owned subsidiary DHGL Limited (“DHGL”), would acquire the entire issued share capital of (i) Cavernford Designated Activity Company (“Cavernford”) and its wholly-owned subsidiaries, Kasterlee UK Limited (“Kasterlee”), Sparrowdale Limited (“Sparrow”) and Galsay Limited (“Galsay”),¹ from Stagedale Designated Activity Company (“Stagedale”) and (ii) Vizmol Limited (“Vizmol”) and its wholly-owned subsidiary, Merzolt Limited (“Merzolt”), from Thicketglade Designated Activity Company (“Thicketglade”).

The Proposed Transaction

2. The proposed transaction is to be implemented pursuant to a share purchase agreement (“SPA”), dated 28 January 2016, between DHGL, Thicketglade, Stagedale and five other named parties.²
3. After the completion of the proposed transaction Dalata will operate, within the State, the Clarion Hotel Cork (“Clarion Cork”)³, the Clarion Hotel, Limerick (“Clarion Limerick”) and the Gibson Hotel Dublin (“Gibson Dublin”) and, within the UK, the Croydon Park Hotel (“Croydon Park London”).⁴

¹ Galsay is a wholly-owned subsidiary of Sparrow, which is, in turn, a wholly owned subsidiary of Cavernford.

² Frank Whelehan, Josephine Whelehan, Andrew O’Neill, Antionette Lambe and Chesway Limited are named in the SPA as covenantors.

³ Dalata states, in correspondence to the Commission dated 17 February 2016, that Dalata currently holds the freehold interest in the Clarion Cork but does not, and will not following completion of the proposed transaction, own or hold any freehold interest in any of the other hotels included in the proposed transaction. Rather, pursuant to the proposed transaction Dalata would be acquiring the right to operate each of the Target Hotels pursuant to a leasehold interest or a management agreement.

⁴ [...]. Notification page 1. For more information on the Choice Hotel Group worldwide and in the State see <<https://www.choicehotels.com/about>> and <<http://www.choicehotels.ie>>.



4. In particular, DHGL would acquire the entire issued share capital of:
 - (a) Merzolt, which currently owns the trade, assets and the lessee's interest in the lease for the Clarion Cork and the Clarion Limerick,
 - (b) Galsay, which currently owns the trade, assets and the lessee's interest in the lease for the Gibson Dublin, and its immediate parent company Sparrow, and
 - (c) Kasterlee, which currently owns the trade, assets and lessee's interest in the lease for the Croydon Park London.⁵
5. DHGL would also acquire the right, under an existing management agreement,⁶ to operate the Clarion Hotel Liffey Valley ("Clarion Liffey Valley").⁷
6. In summary, after the completion of the proposed transaction, Dalata will operate the five hotels described in paragraph 10 (collectively, the "Target Hotels)."

The Undertakings Involved

The Acquirer - Dalata

7. Dalata, a public limited company headquartered in Sandyford, Dublin, is the holding company of the Dalata group of companies. Dalata is involved, through various wholly-owned subsidiaries, including DHGL, in the hotel sector in the State and the UK.⁸ Dalata owns the Clayton and Maldron hotel brands and operates most, but not all, of its portfolio of hotels under those brands.
8. Within the State, Dalata, through various wholly-owned subsidiaries, operates a total of 31 hotels. Dalata owns 12 of these hotels: seven in Dublin, two in each of Galway and Wexford and one in Cork. Dalata operates 19 hotels owned by other parties in various locations in the State. Of these, 9 are operated on the basis of long term lease contracts (typically of 25 years' duration or more) and 10 are operated on the basis of short term management contracts (typically of 12 months' duration).⁹

⁵ In this context, "trade" means the trading income derived from operating a hotel.

⁶ Dalata states, in correspondence with the Commission dated 17 February 2016 that, it will acquire the hotel management agreement currently in place with the owner of the Clarion Hotel Liffey Valley, Kingsoak Taverns Limited (In Receivership), which is acting through its receiver Kieran Wallace.

⁷ The parties state that: [...]. Notification page 1. [...].

⁸ Dalata, through various wholly-owned subsidiaries, owns and operates the following hotels outside the State: Clayton Hotel Chiswick, London; the Clayton Crown Hotel, London; the Clayton Hotel Leeds; the Clayton Hotel Belfast; the Clayton Hotel Manchester Airport and the Maldron Hotel Derry. Dalata, through various wholly-owned subsidiaries, also operates the Clayton Hotel Cardiff in Wales under a long term lease and the Maldron Hotel Belfast under a management agreement.

⁹ Five of these hotels are operated under management contracts with receivers. For more information on Dalata see <<http://dalatahotelgroup.com>>.



9. For the financial year ended 31 December 2014, Dalata's worldwide turnover was approximately €79.1 million, of which approximately €72.7 million was generated in the State.

The Target Hotels

10. The Target Hotels which would be operated by Dalata after completion of the proposed transaction are:
- (a) The Clarion Cork - a four star¹⁰ hotel with 191 rooms and facilities which include a gym, a sauna, a steam room, a jacuzzi and a conference and events centre with 7 meeting rooms which can cater for up to 350 delegates.
 - (b) The Clarion Limerick - a four star hotel with 158 rooms and facilities which include a health and fitness centre, a restaurant and a conference centre which can accommodate up to 240 people.
 - (c) Gibson Dublin – a four star hotel with 252 rooms and facilities which include a bar, a restaurant, a gym and a conference area which can cater for up to 300 delegates.
 - (d) Clarion Liffey Valley - a four star hotel with 292 rooms and facilities which include a restaurant, a health and fitness centre and 12 conference rooms which can accommodate up to 390 delegates
 - (e) Croydon Park London - a four star hotel with 211 rooms and facilities which include a bar, a brasserie, a leisure centre and meeting rooms which can host up to 220 delegates.
11. For the financial year ended 31 December 2015, the combined worldwide turnover of the Target Hotels was approximately €[...] million, of which €[...] million was generated in the State.

The Vendors

12. Stagedale¹¹ and Thicketglade,¹² both of which are private limited companies incorporated in the State, are involved in the operation of hotels. In addition to the operation of the Target Hotels Stagedale and Thicketglade are involved, within the State, in the operation of Carton House Hotel, Co. Kildare; the Blarney

¹⁰ The 4 star rating identified by the parties corresponds to the Failte Ireland Hotel Classification Scheme ("Hotel Scheme") and, ultimately, the requirement that hotels operating in the State must be registered with Failte Ireland. The Hotel Scheme identifies types of facilities and services required to obtain different star ratings. See <http://www.failteireland.ie/Failteireland/media/WebsiteStructure/Documents/2_Develop_Your_Business/4_Quality_Assurance/Hotel-Classification-Matrix.pdf>.

¹¹ Stagedale is ultimately owned and controlled by Josephine Whelehan.

¹² Thicketglade is a wholly-owned subsidiary of Chesway Limited, a private limited company incorporated in the State. Chesway Limited is ultimately owned and controlled by Josephine Whelehan.



Hotel and Golf Resort, Co. Cork; the Woodstock Hotel, Ennis, Co. Clare; and the Waterside House Hotel, Co. Dublin.

Rationale for the Proposed Acquisition

13. As stated in the notification:

“It is an integral part of the Purchaser's strategy to acquire hotel assets and these hotels complement the Purchaser's existing hotels. From the Vendor Group's perspective, it is intended to use the sale proceeds from the Proposed Transaction to reinvest in the Group's retained hotel business and to exploit suitable opportunities for further expansion.”¹³

Third Party Submissions

14. No submission was received.

Competitive Analysis

Horizontal Overlap

15. There is a horizontal overlap in the activities of the parties within the State. Both Dalata and the Target Hotels are involved in the supply of hotel accommodation. The horizontal overlap is not significant and, as described below the merged entity will continue to face competition for the supply of hotel accommodation within a national market and within local markets.

Market Definition

16. The Commission defines markets to the extent necessary depending on the particular circumstances of a given case. While there are differences in the quality and range of services supplied by different hotels and also differences in relationships between hotel owners and hotel operators, it is not clear in this instance that these differences necessarily imply distinctly separate markets.

17. In previous cases in the hotel sector, the Commission has left the precise product market open while recognising the possibility of distinct markets for the supply of 3 star and 4 star hotel accommodation or, alternatively, a combined market for the supply of 3 and 4 star hotel accommodation.¹⁴ The Commission considers there are no reasons to depart from that view in this instance. For the purposes of reviewing the proposed transaction the Commission considers the narrowest relevant product market to be the market for the supply of 4 star hotel

¹³ Notification page 6.

¹⁴ For example *M/14/035 Dalata/White's Hotel*, *M/14/040 Dalata/Moran/Bewleys*, *M/15/002-Atlantic Troy/Chareville Park Hotel* and *M/15/044 – Thornmont/Hilton Kilmainham* and *M/16/005-Dalata/Clarion Sligo*. See:

<<http://www.ccpic.ie/enforcement/mergers/merger-notices/m14035-dalata-whites-hotel>>.

<<http://www.ccpic.ie/enforcement/mergers/merger-notices/m14040-dalata-moranbewleys>>.

<<http://www.ccpic.ie/enforcement/mergers/merger-notices/m15002-atlantic-charville-park-hotel>>.

<<http://www.ccpic.ie/enforcement/mergers/merger-notices/m15044-thornmont-hilton-hotel-kilmainham>>.

<<http://www.ccpic.ie/enforcement/mergers/merger-notices/m16005-dalata-clarion-sligo>>.



accommodation, given that the Target Hotels within the State are all 4 star hotels. The Commission has also analysed the effects of the proposed transaction on a potential combined market for the supply of 3 and 4 star hotel accommodation.

18. In this instance, the choice of geographic market, will not materially alter the competitive impact of the notified transaction in the State. Consequently, the issue of the appropriate geographic market can be left open. However, in addition to a national market comprising the State, for the purposes of reviewing the notified transaction, the Commission considers the narrowest relevant geographic markets to be local markets based on the area within which each of the Target Hotels competes for customers, i.e., Cork City and surrounding areas¹⁵, County Dublin¹⁶ and Limerick City and surrounding areas.¹⁷

Competitive Effects

The State

19. Within a geographic market comprising the State, Dalata currently has market shares (measured by number of rooms) of:
- (a) 9.4% in a market for the supply of 4 star hotel accommodation, and
 - (b) 10.0% in a combined market for the supply of 3 and 4 star hotel accommodation.
20. Following the completion of the proposed transaction, which would result in adding the Target Hotels to Dalata's portfolio, the merged entity's market shares within the State would be approximately:
- (a) 12.7% in a market for the supply of 4 star hotel accommodation (an increase of approximately 3.3%), and
 - (b) 11.7% in a combined market for the supply of 3 and 4 star hotel accommodation (an increase of approximately 1.8%).
21. The post-transaction market shares of the merged entity, and the limited increase in Dalata's pre-transaction market shares arising from the proposed transaction, do not, however, indicate a substantial lessening of competition within a geographic market comprising the State. There will continue to be almost 600 competing 3 and 4 star hotels within the State.
22. Also, as noted in previous Commission determinations, consumers have on-line access to information such as pricing and rating information. The availability of on-line information, and the extent to which it provides a competitive constraint,

¹⁵ In this Determination, the term "Cork City and surrounding areas" refers to all areas which lie within an approximate 20 minute drive time from Cork City.

¹⁶ The parties identify hotels in all of County Dublin including Dublin City. Without necessarily endorsing that approach to defining the relevant geographic market, the Commission considers that it is not necessary to reach a definitive view on geographic market definition in the present case.

¹⁷ In this Determination, the term "Limerick City and surrounding areas" refers to all areas which lie within an approximate 20 minute drive time from Limerick City.



will remain unchanged by the implementation of the proposed transaction in each of a national market and the local markets described below.

Cork City and surrounding areas

23. Within a geographic market comprising Cork City and surrounding areas, Dalata currently has market shares (measured by number of rooms) of:
- (a) 6.4% in a market for the supply of 4 star hotel accommodation, and
 - (b) 9.1% in a combined market for the supply of 3 and 4 star hotel accommodation.¹⁸
24. Following the completion of the proposed transaction, which would result in adding the Clarion Cork to Dalata's portfolio, the merged entity's market shares would be approximately:
- (a) 17.5% in a market for the supply of 4 star market for hotel accommodation (an increase of approximately 11.1%), and
 - (b) 17.4% in a combined market for the supply of 3 and 4 star hotel accommodation (an increase of approximately 8.3%).
25. Post-transaction, within Cork City and surrounding areas, the merged entity will be the largest supplier in each of a market for the supply of 4 star hotel accommodation and a combined market for the supply of 3 and 4 star hotel accommodation.¹⁹
26. However, the market shares do not, in themselves, imply a substantial lessening of competition as a result of the proposed transaction. There will continue to be 23 competing 3 and 4 star hotels within Cork City and surrounding areas. The merged entity will continue to face competition within Cork City and surrounding areas from other 4 star hotels, such as the Imperial Hotel, the River Lee Hotel and the Rochestown Park Hotel, and from 3 star hotels, such as Hotel Isaacs, Jurys Inns Cork and the Metropole Hotel.

County Dublin

27. Within a geographic market comprising County Dublin, Dalata currently has market shares (measured by number of rooms) of:
- (a) 14.0% in a market for the supply of 4 star hotel accommodation, and
 - (b) 18.8% in a combined market for the supply of 3 and 4 star hotel accommodation.

¹⁸ Dalata operates the Maldron Hotel and Leisure Club, located in Cork City, a 3 star hotel with 101 rooms. This accounts for approximately 17.1% of rooms in a market for 4 star hotel accommodation within a geographic market comprising Cork City and surrounding areas.

¹⁹ [...].



28. Following the completion of the proposed transaction, which would result in adding the Clarion Liffey Valley and the Gibson Dublin to Dalata's portfolio, the merged entity's market shares would be approximately:
- (a) 20.1% in a market for the supply of 4 star hotel accommodation (an increase of approximately 6.0%) and
 - (b) 22.2% in a combined market for the supply of 3 and 4 star hotel accommodation (an increase of approximately 3.2%).
29. Prior to the proposed transaction, within County Dublin, Dalata is the largest supplier in each of a market for the supply of 4 star hotel accommodation and a combined market for the supply of 3 and 4 star hotel accommodation. Consequently, the proposed transaction would consolidate Dalata's position in each of these potential markets.
30. However, the market shares do not, in themselves, imply a substantial lessening of competition as a result of the proposed transaction. There will continue to be approximately 350 competing 3 and 4 star hotels within County Dublin. The merged entity will continue to face competition within Dublin County from other 4 star hotels, such as the Gresham, the O'Callaghan hotels, the Crown Plaza Santry and the Red Cow Moran Hotel, and from 3 star hotels, such as Buswells, the Jurys Inns hotels, Temple Bar Hotel, the Aspect Hotel Parkwest, Glashaus Hotel, Tallaght and the Green Isle Hotel, Clondalkin.

Limerick City and surrounding areas

31. The Clarion Limerick currently has a market share of approximately 17.4% in a market for the supply of 4 star hotel accommodation within Limerick City and surrounding areas. Dalata currently has no presence in the supply of 4 star hotel accommodation in that area. Consequently, there is no overlap between the parties in relation to the supply of 4 star hotel accommodation in Limerick City and surrounding areas.
32. Within a combined market for the supply of 3 and 4 star hotel accommodation in Limerick City and surrounding areas:
- (a) Dalata currently has a market share of 7.7% through its operation of the Maldron Hotel, Limerick²⁰.
 - (b) the Clarion Limerick currently has a market share of approximately 8.6%.
 - (c) post-transaction, the merged entity would have a market share of 16.3%.

²⁰ The Maldron Limerick, located at Roxboro, is a 3 star hotel with 143 rooms, which accounts for approximately 15.1% of rooms in a market for the supply of 3 star hotel accommodation in a geographic market comprising Limerick City and surrounding areas.



33. The merged entity will be the largest supplier in a combined market for the supply of 3 and 4 star hotel accommodation within a geographic market comprising Limerick City and surrounding areas.
34. However, the market shares do not, in themselves, imply a substantial lessening of competition as a result of the proposed transaction. There will continue to be 18 competing 3 and 4 star hotels within the State. The merged entity will continue to face competition within Limerick City and surrounding areas from other 4 star hotels, such as the Castletroy Park Hotel, the Limerick Strand Hotel and the Radisson Blu Hotel and Spa, and from 3 star hotels, such as the George Boutique Hotel, the Limerick City Hotel and the South Court Hotel.

Vertical Issues

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

Conclusion

36. 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

37. The SPA contains restrictive obligations on the named covenants.²¹ None of these restrictive obligations exceeds the maximum duration acceptable to the Commission. Given the particular nature of the proposed transaction, the Commission considers that these obligations are directly related to and necessary for the implementation of the proposed transaction.

²¹ The covenants are listed in footnote 2.



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 acquisition whereby Dalata Hotel Group p.l.c., through its wholly-owned subsidiary DHGL Limited, would acquire the entire issued share capital of (i) Cavernford Designated Activity Company and its wholly-owned subsidiaries, Kasterlee UK Limited, Sparrowdale Limited and Galsay Limited, from Stagedale Designated Activity Company and (ii) Vizmol Limited, and its wholly-owned subsidiary Merzolt Limited, from Thicketglade Designated Activity Company, will not be to substantially lessen competition in any market for goods or services in the State and, accordingly, the acquisition may be put into effect.

For the Competition and Consumer Protection Commission

Isolde Goggin
Chairperson
Competition and Consumer Protection Commission