Coimisiún um Iomaíocht agus Cosaint Tomhaltóirí | Competition and Consumer Protection Commission

DETERMINATION OF MERGER NOTIFICATION M/14/037 - DALATA / PILLO HOTEL

Section 21 of the Competition Act 2002

Proposed acquisition of Pillo Hotel Galway by Dalata Hotel Group p.l.c.

Dated 13 January 2015

Introduction

1. On 5 December 2014, 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") would acquire certain assets, namely the Pillo Hotel.[1]

The Proposed Transaction

2. The proposed transaction is pursuant to (i) a Business Transfer Agreement between Slyne Properties Limited (In Receivership), Receivers Kieran Wallace and Padraic Monaghan of KPMG, and Lintal Commercial Limited ("Lintal"), and (ii) a Property Sale Agreement between Slyne Properties Limited (In Receivership), The Western Partnership, Qutone Limited (In Receivership), David Courtney, and Lintal. [2]

The Undertakings Involved

The Acquirer - Dalata

3. Dalata, headquartered in Sandyford in Dublin, is the holding company of the Dalata Hotel Group.[3] Dalata is involved, through various wholly owned subsidiaries, in the hotel sector in Ireland and in Wales.[4]

4. Within the State Dalata owns and operates three hotels one in Limerick and two in Dublin. Also within the State, Dalata operates 32 hotels owned by other parties

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[1] On 28 November 2014 the Commission received a notification of a proposed transaction whereby Dalata would acquire certain assets, namely the Clayton Hotel, also located in Galway (see Case M/14/036 – Dalata/Clayton Hotel). The Commission's analysis of Dalata's proposed acquisition of the Pillo Hotel in the present case proceeds on the assumption that Dalata's acquisition of the Clayton Hotel, as notified to the Commission, has been implemented. See <http://www.tca.ie/EN/Mergers--Acquisitions/Merger-Notifications/Dalata--Clayton-Hotel.aspx>.

[2] Both of these documents are dated 5 December 2014. Lintal is a wholly owned subsidiary of Dalata.

[3] Dalata's largest shareholders are Franklin Templeton Institutional, LLC 11.9%, Marketfield Asset Management 10.1%, FIL Limited 10.0%, Pioneer Asset Management S.A. 4.9%, and Blackrock Inc. 3.5%.

[4] Outside of the State, Dalata owns and operates the Maldron Hotel Derry. Dalata also operates (but does not own) the Maldron Hotel Belfast and the Best Western Plus Maldron Hotel Cardiff.

in a wide variety of locations.[5] Of these 10 are operated on the basis of long term lease contracts (typically 25 years and sometimes longer) and 22 are operated on the basis of short term (typically a 12 months renewable) contract.[6] The hotels which are operated (but not owned) by Dalata in the State include three hotels in Galway, i.e. the Pillo Hotel Galway (which is the subject of the present determination), the Clayton Hotel Galway and the Maldron Hotel Galway.

5. Dalata, through its wholly owned indirect subsidiary Lintal, currently operates the Pillo Hotel under a management agreement with Receivers Kieran Wallace and Padraic Monaghan of KPMG. This management contract would expire on completion of the proposed transaction and Dalata would acquire ownership of the Pillo Hotel.

6. For the year ended 31 December 2013 Dalata's worldwide turnover was approximately €60.6 million, of which approximately €[…] million was generated in the State.[7]

The Target – Pillo Hotel

7. The assets to be acquired comprise the Pillo Hotel, a four star hotel located in Galway City, and associated assets[8] The Pillo Hotel's facilities include 104 rooms, 5 dedicated meeting rooms, a spa, a fitness suite, a bistro and a bar.

8. For the year ended 31 December 2013 the Pillo Hotel's worldwide turnover was approximately €[…] million all of which was generated in the State.

Rationale for the Proposed Acquisition

9. As stated by Dalata

> *"It is an integral part of Dalata's strategy to purchase hotel assets, securing the future of the hotel and transitioning the business to a more stable platform."*[9]

Third Party Submissions

10. No submission was received.

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[5] It is not uncommon in the hotel sector for one individual or undertaking to own a hotel and to enter into a management contract or contracts with another individual or undertaking to manage the hotel operations, i.e. the supply of hotel services to consumers.

[6] Management contracts between receivers and operating companies are typically short term contracts, i.e. 12 months or less.

[7] Dalata states that prior to 20 February 2014 the business of the Dalata Hotel Group was conducted through DHGL Limited (formerly Dalata Hotel Group) and its subsidiaries. Pursuant to a business reorganisation, on 20 February 2014, Dalata acquired the 100% shareholding previously held by DHGL Limited in each of its subsidiaries.

[8] As stated by the parties these comprise land and buildings of the Pillo Hotel and spa, a vacant retail unit and some office space which is occupied pursuant to an occupational lease, the freehold reversionary interest in a petrol station adjoining the Pillo Hotel and the freehold reversionary interest in an adjoining multi-storey car park. Notification page 5.

[9] Notification page 6.

Competitive Analysis

Product Market Definition

11. 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.

12. The parties submit the following regarding relevant product markets:

> *"The relevant product markets in this case may be as follows:*
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> - *the market for 3 star hotel accommodation; and*
> - *the market for 4 star hotel accommodation.*
>
> *Alternatively, the parties submit that the CCPC could leave open the market definition given that irrespective of how the market is defined there is no substantial lessening of competition."*[10]

13. In addition, European Commission decisions have indicated the possible segmentation of the hotel sector. For example, in Case No. COMP/M.4816 *Blackstone / Hilton* the European Commission stated:

> *"The [European] Commission has in previous decisions noted that the market for hotel accommodation could be segmented (i) by price/comfort level based on the grading or stars awarded to the particular hotel which indicates the standard and facilities the customer may expect and/or (ii) by ownership, distinguishing between chain hotels and independent hotels."*[11]

14. While there are differences in the quality and range of services supplied by different hotels and also differences in relationships between hotel owners and

[10] Notification page 17. The 3 star and 4 star categories identified by the parties correspond 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_Asurance/Hotel-Classification-Matrix.pdf>.

[11] See also, for example, Case No. COMP/M.1596 Accor/Blackstone/Colony Vivendi and Case No. COMP/M.3858 – Lehman Brothers / SCG / Starwood/ Le Meridien. In each of these cases while market segments were identified the precise market definition was left open.

hotel operators, it is not clear in this instance that these differences necessarily imply distinctly separate markets.[12]

15. Accordingly, the precise product market definition can be left open in the present case. However for the purposes of reviewing the proposed transaction the Commission considers the narrowest relevant product markets to be the market for the supply of 3 star hotel accommodation and the market for the supply of 4 star hotel accommodation.

Geographic Market Definition

16. The parties submit that, in line with previous Competition Authority decisions, the relevant geographic market is a local or regional market smaller than the national market.[13] In this instance, the choice of geographic market, e.g., national or a local market such as Galway City and surrounding areas, 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, for the purposes of reviewing the notified transaction, the Commission considers the narrowest relevant geographic market to be that identified by the parties, i.e., Galway City and surrounding areas. [14]

Horizontal Overlap

17. Table 1 identifies market shares, based on available rooms, for the parties for each of a 3 star market, 4 star market and a combined 3 and 4 star market in Galway City and surrounding areas. As noted in footnote 1 above, the Commission is assuming for the purposes of its analysis in the present case that Dalata's proposed acquisition of the Clayton Hotel in Galway (which was separately notified to the Commission in Case M/14/036) has been implemented.

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[12] The Commission's discussions with the parties and third parties have not highlighted significant distinctions between the operation and management of chain hotels and other independent hotels. In this instance Carlton, Jury's, Radisson and Maldron chain hotels operate within the Galway local geographic market, as defined in paragraph 16. Chain hotels comprise 37%, 28% and 33% of the markets for the supply of 3 star, 4 star and combined 3 and 4 star hotel accommodation respectively. To the extent that a separate market for the supply of accommodation in chain hotels could be identified, it would be expected that chain hotels not included in the proposed transaction – Carlton, Jury's and Radisson – would maintain a competitive constraint subsequent to the proposed transaction being put into effect.

[13] For example, M/07/007 – Bernard McNamara/Conrad International/ECHPL and M/13/011 - OIF/Mount Kellett/UBIL/Jury's Inn.

[14] Notification page 15. The parties identify hotels in Galway City and surrounding areas including, for example, Claregalway and Oranmore and excluding Athenry and Spiddal. Without necessarily endorsing that definition the Commission considers that no further geographic market definition is necessary.

Table 1: Galway Hotel Rooms - Market Shares in the Market for the Supply of Hotel Accommodation in Galway City and Surrounding Areas

Galway	3 Star	4 Star	3 & 4 Star
Dalata[15]	7%	15%	11%
Pillo Hotel	0%	7%	3%
Combined	7%	22%	14%

Source: Failte Ireland Hotel Register 2014[16]

Competitive Effects

18. The market shares presented in Table 1 do not imply a substantial lessening of competition as a result of the proposed transaction. The merged entity would be the largest supplier in a market for 4 star hotel services and also in a combined market for 3 and 4 star hotel services. There would, however, remain strong competition from 4 star hotels such as Ardilaun Hotel and Leisure Club, Hotel Meyrick, Park House Hotel and Radisson Blu Hotel and Spa and from 3 star hotels such as Carlton Hotel Galway City, Flannerys Hotel, Jury's Inn Galway and Salthill Hotel. [17]

19. The Commission's discussions with the parties and third parties have also highlighted the impact of increased availability of consumer information e.g., on-line pricing and rating information, as a competitive constraint on hotel operators. The availability of on-line information, and the extent to which it provides a competitive constraint, can be expected to remain unchanged by the implementation of the proposed transaction.

20. It is also the case that hotels are not the only providers of overnight accommodation. Other options include B&Bs, hostels, other non-hotel providers of accommodation, and latterly new offerings such as Airbnb.

[15] Dalata operates (but does not own) the 3 Star Maldron Hotel Galway. Dalata also operates the 4 star Clayton Hotel, and the Commission is assuming that Dalata owns that hotel (see footnote 1). (Dalata also operates (but does not own) the Pillo Hotel, but this table lists the Pillo Hotel separately.)

[16] See <http://www.failteireland.ie/FailteIreland/media/WebsiteStructure/Documents/2_Develop_Your_Business/4_Quality_Asurance/2014-Hotels-Register.pdf>.

[17] In a market for the supply of 4 star hotel accommodation the merged entity's market share is only marginally higher than that of the Radisson Blu Hotel and Spa Galway. In a combined market for the supply of 3 and 4 star hotel accommodation the merged entity's market share is only marginally higher than that of the Carlton Hotel Galway City.

Vertical Issues

21. The proposed transaction involves vertical integration of hotel ownership and hotel operations which could in other circumstances imply a risk of foreclosure either downstream for hotel owners seeking a hotel operator or upstream for hotel operators seeking a hotel owner. In this instance, however, the proposed transaction does not give rise to vertical competition concerns.

Conclusion

22. 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.

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. would acquire the Pillo Hotel 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

Stephen Calkins
Member
Competition and Consumer Protection Commission