



DETERMINATION OF MERGER NOTIFICATION M/14/040 – DALATA/MORAN/BEWLEY'S

Section 21 of the Competition Act 2002

Proposed acquisition of certain businesses and assets of the Moran/Bewley's Group by Dalata Hotel Group p.l.c.

Dated 29 January 2015

Introduction

1. On 17 December 2014, in accordance with section 18(1) of the Competition Act 2002 as amended¹ ("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 100% of the shares in Swintron Limited, Trackdale Limited, Islandvale Limited, Cresentbrook Limited and Hallowridge Limited (collectively "the Target Business") from the Moran/Bewley's Hotel Group ("Moran/Bewley's").² The Target Business comprises three Moran-brand hotels (one of which is located in the State) and six Bewley's-brand hotels (four of which are located in the State).
2. The proposed transaction is pursuant to a Share Purchase Agreement ("SPA"), dated 17 December 2014,³ which would result in Dalata acquiring the Target Business.

The Undertakings Involved

The Acquirer - Dalata

3. Dalata, headquartered in Sandyford in Dublin, is the holding company of the Dalata Hotel Group.⁴ Dalata is involved, through various wholly owned

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.

² Within Moran/Bewley's, Swintron Limited is the holding company for five hotels owned by Moran/Bewley's in the State (i.e. one Moran-brand hotel and four Bewley's-brand hotels). The other companies forming part of the Target Business own Moran-brand and Bewley's-brand hotels which are located outside of the State i.e. Trackdale Limited (the Chiswick Moran Hotel, London), Islandvale Limited (the Crown Moran Hotel, London), Cresentbrook Limited (the Bewley's Hotel Leeds) and Hallowridge Limited (the Bewley's Hotel Manchester Airport).

³ The Share Purchase Agreement is between (i) vendors: Glin Naofa Limited, Borua Holdings Limited, Chiswick Morans Hotel Limited, Segal Trading Limited, Ringway Hotels Limited and Sweet St Hotel Limited (all part of the Moran/Bewley's Hotel Group); (ii) warrantors: Allied Irish Banks p.l.c., the Governor and the Company of the Bank of Ireland, Canyon Finance Ireland Limited, Thomas Moran and Sheila Moran ("the Warrantors"), and (iii) the purchaser, Dalata.

⁴ 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%.



subsidiaries, in the hotel sector in Ireland and in Wales.⁵ Within the State Dalata owns and operates four hotels, one in Galway, one in Limerick and two in Dublin.⁶

- Maldron Hotel Parnell Square.
- Maldron Hotel Pearse Street.

4. Also within the State, Dalata operates 30 hotels owned by other parties in a wide variety of locations.⁷ Of these, 10 are operated on the basis of long term lease contracts (typically 25 years and sometimes longer) and 20⁸ are operated on the basis of short term (typically a 12 months renewable) contract.⁹ The hotels which are operated (but not owned) by Dalata in the State include:

- In Cork:
 - Maldron Hotel Cork.
- In Dublin
 - Ballsbridge Hotel.
 - Belvedere Hotel.
 - Best Western Plus Academy Plaza.
 - Citywest Hotel Conference and Event Centre.¹⁰
 - Clyde Court Hotel.
 - Maldron Hotel Cardiff Lane.
 - Maldron Hotel Dublin Airport.

⁵ 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.

⁶ Dalata states, in correspondence dated 27 January 2015, that it has completed its acquisition of the Clayton Hotel, located in Galway, subsequent to clearance by the Commission on 12 January 2015. See M/14/036 - Dalata / Clayton Hotel, available at:

<<http://www.tca.ie/EN/Mergers--Acquisitions/Merger-Notifications/Dalata--Clayton-Hotel.aspx>>.

Dalata also advises that it expects to complete soon its acquisitions of White's Hotel, located in Wexford, and the Pillo Hotel, located in Galway, subsequent to clearances by the Commission on 9 January 2015 and 13 January 2015 respectively. See M/14/035 - Dalata / White's Hotel and M/14/037 - Dalata / Pillo Hotel, available at:

<<http://www.tca.ie/EN/Mergers--Acquisitions/Merger-Notifications/Dalata--Whites-Hotel.aspx>>. and

<<http://www.tca.ie/EN/Mergers--Acquisitions/Merger-Notifications/Dalata--Pillo-Hotel.aspx>>.

⁷ 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.

⁸ This figure includes White's Hotel and the Pillo Hotel. As noted above, Dalata expects to complete its acquisition of these two hotels in the very near future.

⁹ Management contracts between receivers and operating companies are typically short term contracts, i.e. 12 months or less.

¹⁰ Dalata states, in correspondence dated 27 January 2015, that as of 31 January 2015 it will no longer operate this hotel.



- Maldron Hotel Smithfield.
 - Maldron Hotel Tallaght.
5. 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.¹¹

The Target Business

6. The proposed transaction would result in the acquisition of the Target Business pursuant to the SPA,¹² namely:
- a. Three Moran-brand hotels (one of which is located in the State):
 - Silver Springs Moran Hotel, Cork.
 - Crown Moran Hotel, London.
 - Chiswick Moran Hotel, London.¹³
 - b. Six Bewley's-brand hotels (four of which are located in the State):
 - Bewley's Hotel Ballsbridge, Dublin.
 - Bewley's Hotel Dublin Airport.
 - Bewley's Hotel Newland's Cross, Dublin.
 - Bewley's Hotel Leopardstown, Dublin.
 - Bewley's Hotel, Leeds.
 - Bewley's Hotel Manchester Airport.¹⁴
7. The Moran-brand Red Cow Hotel, located in Dublin, does not form part of the proposed transaction.
8. For the year ended 31 December 2013, the worldwide turnover deriving from the businesses to be acquired was €[...] million of which €[...] million was generated in the State.

¹¹ 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.

¹² See footnote 3.

¹³ For more information on Moran Hotels see <<http://www.moranhotels.com>>.

¹⁴ For more information on Bewley's Hotels see <<http://www.bewleyshotels.com>>.



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.”¹⁵

Third Party Submissions

10. The Commission received two submissions¹⁶ which expressed a concern that as a result of the proposed transaction the combined Dalata/Moran/Bewley’s entity would be in a position to maintain increased prices particularly for 3 star hotels in Dublin and otherwise harm competition.

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:

- *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.”¹⁷

13. 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:

¹⁵ Notification page 6.

¹⁶ The Commission received a letter of complaint concerning the proposed transaction prior to the notification of the proposed transaction to the Commission. The Commission has treated that letter as a third party submission.

¹⁷ 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_Assurance/Hotel-Classification-Matrix.pdf>.



“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.”¹⁸

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 hotel operators, it is not clear in this instance that these differences necessarily imply distinctly separate markets.¹⁹
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.²⁰ The parties submit that

“the relevant geographic markets should be defined ... as, at least, the Dublin area and as, at least, Cork city area.”²¹

17. In this instance, the choice of geographic market, e.g. national or a local market such as Cork City or Dublin City and/or County 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

¹⁸ 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.

¹⁹ The Commission’s discussions with the parties and third parties have not highlighted significant distinctions between chain hotels and independent hotels. To the extent that a separate market for the supply of accommodation in chain hotels could be identified, it would be expected that Best Western, Holiday Inn, Hilton, Jury’s Inn, Travelodge, and others would maintain a competitive constraint subsequent to the proposed transaction being put into effect.

²⁰ For example, M/07/007 - Bernard McNamara/Conrad International/ECHPL and M/13/011 - OIF/Mount Kellett/UBIL/Jury’s Inn.

²¹ Notification page 28.



narrowest relevant geographic markets to be those identified by the parties, i.e. as Cork City and surrounding areas²² and County Dublin.²³

Horizontal Overlap – Cork City and surrounding area

18. 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 Cork City and surrounding areas.

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

Cork	3 Star	4 Star	3 & 4 Star
Dalata ²⁴	16.3%	0%	4.2%
Moran/Bewley's	0%	6.1%	4.5%
Combined	16.3%	6.1%	8.8%

Source: Failte Ireland Hotel Register 2014²⁵

Competitive Effects – Cork City and surrounding area

19. The market shares presented in Table 1 do not imply a substantial lessening of competition as a result of the proposed transaction in either a market for 3 star hotels services, a market for 4 star hotel services or a combined market for 3 and 4 star hotel services within Cork City and surrounding areas.

²² The parties identify hotels in Cork City and surrounding areas including, for example, Ballincollig, Blarney, Carrigaline and Little Island and excluding Ballycotton, Cobh, Kinsale and Midleton. Without necessarily endorsing that definition the Commission considers that no further geographic market definition is necessary in the present case.

²³ The parties identify hotels in all of County Dublin. Without necessarily endorsing that definition the Commission considers that no further geographic market definition is necessary in the present case. The Commission notes that local geographic markets could be appropriate in the context of future transactions in the hotel sector (involving Dalata and/or other parties). Potential local markets could include the surrounding areas of hotels to be acquired, e.g. (i) Dublin City Centre and (ii) Dublin Airport and surrounding area.

²⁴ Dalata operates (but does not own) the 3 star Maldron Hotel Cork, which is included in the figures for Dalata in Table 1.

²⁵ See http://www.failteireland.ie/FailteIreland/media/WebsiteStructure/Documents/2_Develop_Your_Business/4_Quality_Assurance/2014-Hotels-Register.pdf.



20. The merged entity will still face competition from 3 star hotels such as Blarney Castle, Gresham Metropole Hotel and Jury's Inn and 4 star hotels such as the Ambassador Hotel, the Clarion Hotel, and the Radisson Blu Hotel and Spa.

Horizontal Overlap – County Dublin

21. Table 2 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 County Dublin.

Table 2: Dublin Hotel Rooms - Market Shares in the Market for the Supply of Hotel Accommodation in County Dublin

Dublin	3 Star	4 Star	3 & 4 Star
Dalata ²⁶	10.9%	13.0%	7.3%
Moran/Bewley's	18.6%	0%	8.7%
Combined	29.6%	13.0%	16.1%

Source: Failte Ireland Hotel Register 2014

Competitive Effects – County Dublin

22. The market shares presented in Table 2 in relation to 4 star hotel rooms do not imply a substantial lessening of competition in respect of the supply of 4 star hotel accommodation in County Dublin as a result of the proposed transaction since there is no overlap between the parties in this segment.
23. The market shares presented in Table 2 indicate that the proposed transaction would bring together two not insignificant operations. The merged entity would be the largest supplier of hotel accommodation in a market for the supply of 3

²⁶ Data excludes the Citywest Hotel Conference and Event Centre, which Dalata states, in correspondence dated 27 January 2015, it will not operate after 31 January 2015. This is a change that will occur entirely independently of the proposed transaction. Excluding the Citywest Hotel Conference and Event Centre, Dalata owns and operates two hotels in County Dublin: Maldron Hotel Parnell Square and Maldron Hotel Pearse Street. Dalata operates (but does not own) four 3 star hotels in County Dublin: Belvedere Hotel, Best Western Plus Academy Plaza, Maldron Hotel Smithfield, and Maldron Hotel Tallaght. (All seven of these 3 star hotels are which are included in the figures for Dalata in Table 2). Dalata also operates five 4 star hotels: Ballsbridge Hotel, Citywest Hotel Conference and Event Centre, Clyde Court Hotel, Maldron Hotel Dublin Airport, and Maldron Hotel Cardiff Lane. All of these 4 star hotels (with the exception of the Citywest Hotel Conference and Event Centre) are included in the figures for Dalata in Table 2. (The Belvedere Hotel and the Best Western Plus Academy are operated by Dalata under short-term management agreements.) For discussion of the counterfactual in the Commission's review of mergers see <http://www.tca.ie/images/uploaded/documents/CCPC%20Merger%20Guidelines.pdf>.



star hotel accommodation in County Dublin with a combined market share of 29.6%. However, notwithstanding this, for a number of reasons the Commission considers that the transaction would not substantially lessen competition.

24. First, the Commission notes that there is potential for the merged entity's portfolio of hotels to be reduced in the reasonably near future. Hotels in County Dublin currently operated on a short term contract by Dalata may be operated by other hotel operators in future. The 3 star Maldron Citywest Hotel (129 rooms) was operated on a short term contract by Dalata until December 2014 and is no longer within the Dalata portfolio. Two other 3 star hotels operated by Dalata, namely Best Western Plus Academy Plaza (304 bedrooms) and the Belvedere Hotel (92 bedrooms) are also operated by Dalata on the basis of short term contracts. This increases the possibility of a future reduction in the merged entity's portfolio of hotels in comparison to a situation where hotels are owned, or operated on longer term leases.
25. Second, it is also significant that, post-completion of the proposed transaction, the merged entity's share of a combined 3 and 4 star market would be much smaller than its share of a 3 star market. Although 3 and 4 star hotels can be distinguished in terms of the services offered,²⁷ the Commission's market enquiries suggest that in certain circumstances 4 star hotels may compete with 3 star hotels.
26. Third, post-acquisition the merged entity would face competition from 3 star hotels including the Arlington Hotel, Blooms Hotel, Jury's Inn-brand hotels and Travelodge-brand hotels, from 4 star hotels such as Fitzpatrick Castle Hotel, The Clarence, Crowne Plaza-brand hotels, and Radisson-brand Hotels, and potential new entrants in Dublin.²⁸
27. Fourth, the Commission's discussions with the parties and third parties have 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 following the implementation of the proposed transaction.
28. 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.

Vertical Issues

29. 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

²⁷ See footnote 17.

²⁸ See, for example, "JD Wetherspoon to open hotel, bar at homeless hostel in Dublin", Irish Times 15 December 2014, available at <<http://www.irishtimes.com/business/agribusiness-and-food/jd-wetherspoon-to-open-hotel-bar-at-homeless-hostel-in-dublin-1.2038197>>.



hotel operators seeking a hotel owner. In this instance, however, the proposed transaction does not give rise to vertical competition concerns.

Conclusion

30. In light of the above, the Commission has determined that, in its opinion, the result of the proposed acquisition whereby Dalata would acquire 100% of the shares in Swintron Limited, Trackdale Limited, Islandvale Limited, Crescentbrook Limited and Hallowridge Limited will not be to 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 100% of the shares in Swintron Limited, Trackdale Limited, Islandvale Limited, Crescentbrook Limited and Hallowridge Limited from the Moran/Bewley's Hotel Group 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