



Case C-028

Proposed acquisition of Sideplay
Entertainment Limited by Scientific
Games International, Inc.

Decision

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Jersey Competition Regulatory Authority
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1. Summary

1.1 Scientific Games International, Inc. (**Purchaser**) proposes to acquire the business of Sideplay Entertainment (**Target Business**) by the acquisition of 100% of the issued share capital of Sideplay Entertainment Limited (**Target**) from its shareholders (**Sellers**). The proposed transaction has been notified to the Jersey Competition Regulatory Authority (**the Authority**) for approval pursuant to Article 22 of the Competition (Jersey) Law 2005 (**the 2005 Law**).

1.2 The Authority has determined that the proposed transaction will not lead to a substantial lessening of competition in any relevant market and hereby approves the notified transaction.

2. The Notified Transaction

2.1 On 23 July 2021, the Authority received a joint application from the parties for the proposed acquisition of the entire issued share capital of the Target by the Purchaser. The Authority registered the application on its website with a deadline for comments of 6 August 2021. No submissions were received.

3. The Parties

Scientific Games International, Inc. (the Purchaser)

3.1 The Purchaser is a wholly owned subsidiary of Scientific Games Corporation ("**SGC**"), a Nevada corporation listed on NASDAQ with company number E0442732017-4). SGC together with the Purchaser and other members of its group, forms the "**SG Group**".

3.2 The SG Group is a leading developer of technology-based products and services and associated content for the worldwide gaming, lottery, social and digital gaming industries. The SG Group's portfolio of revenue-generating activities primarily includes supplying gaming machines and game content, content management systems and table game products and services to licensed gaming entities; providing instant and draw-based lottery products, lottery systems and lottery content and services to lottery operators; providing social casino and other mobile games to retail customers; and providing a comprehensive suite of digital real money gaming and sports wagering solutions, distribution platforms, content, products and services.

3.3 From the Purchaser's perspective, the primary reasons for the transaction are to expand its existing business areas, enter into new markets and work with new customers.

Sideplay Entertainment Limited (the Target)

3.4 The Target is a limited company, incorporated in Jersey under registration number 115424 and with its registered office at 31-33 New Street St Helier Jersey JE2 3RA.

3.5 The Sellers are natural persons and together own the Target and operate the Target Business. From the Sellers' perspective, the primary reasons for the transaction are to accelerate the growth of the business and enter new markets.

Sideplay Entertainment (the Target Business)

3.6 The Target Business develops online only instant win lottery games. Its customers are state run lotteries, for example the Pennsylvania Lottery, Loto Quebec, and UK National Lottery.

3.7 The Target Business provides game content to its customers through integration of its remote gaming server into the lottery operator systems or direct deployment of games onto the lottery operator platform. Revenues are generated through a number of different commercial models depending upon customer requirements. These include revenue share (typical for the industry), licencing of game content and commissioning on a time and materials basis.

3.8 The Target Business is Jersey based because it was founded by a Jersey resident. It has no Jersey customers because there are no state-run online lotteries operating from Jersey.

4. Requirement for Authority Approval

4.1 Under Article 2(1)(b) of the 2005 Law, a merger and acquisition (**merger**) occurs where a person who controls an undertaking acquires direct or indirect control of the whole or part of another undertaking.

4.2 On completion of the notified transaction, the Purchaser will acquire the entire share capital of the Target and have control of the Target. The notified transaction therefore constitutes a merger as defined by the 2005 Law.

4.3 According to Article 20(1) of the 2005 Law, a person must not execute certain mergers or acquisitions except and in accordance with the approval of the Authority. In particular, in relation to this transaction, Article 4 of the Order provides that where one or more of the parties to the proposed merger has an existing share of 40% or more of the supply or purchase of goods or services of any description supplied to or purchased from persons in Jersey, and if neither of the two exceptions apply¹, then the merger must be notified to the Authority for approval under Article 20(1) of the 2005 Law.

¹ The two exceptions are:

(a) the undertaking or undertakings being acquired has or have no existing share of the supply or purchase of goods or services of any description supplied to or purchased by persons in Jersey and otherwise owns or controls no tangible or intangible assets located in Jersey; or

(b) as regards the seller only, the 40% share of supply or purchase is not subject to the proposed merger or acquisition and provided that any non-competition, non-solicitation or confidentiality clauses included therein do not exceed a period of three years and are strictly limited to the products and services supplied by the undertaking being acquired.

4.4 According to information provided by the parties:

- the Purchaser has a share of supply in the design and production of physically ticketed lottery games and physical instant-win games (including scratch cards) for the Channel Islands Lottery of materially over 40%²; and
- neither of the exemptions to the requirement for Authority consent applies to the Transaction.

4.5 Therefore, the notified transaction requires the approval of the Authority prior to its execution.

5. Market Definition and Effect on Competition

5.1 Under Article 22(4) of the 2005 Law, the Authority must determine if the merger would substantially lessen competition in Jersey or in any part of Jersey. As an initial step, the Authority will identify the markets which are likely to be affected by the merger since market definition provides a framework within which the competitive effects of a merger can be assessed.

5.2 When defining a market, the Authority may take note of its own previous decision-making practice and/or market definitions applied by other competition authorities. These previous decisions are not precedents and are not binding, either on the merging parties or on the Authority. Competition conditions may change over time, changing the market definition, and market definition will always depend on the prevailing facts.³

5.3 After defining the relevant market, the Authority considers the respective market shares of the competitors in that market, both before and after the proposed transaction. These shares can be used as an indication of the overall level of market concentration which will be brought about as a result of the merger.

5.4 The analysis will consider whether the merger creates or enhances the ability or incentive to exercise market power, either unilaterally or in co-ordination with competitors, and whether other market forces (such as the entry of new competitors or countervailing power of customers) will eliminate this risk. The assessment will also consider any pro-competitive effects or efficiencies that may result from the merger.

5.5 For conglomerate mergers such as this one, the Authority's focus will be on assessing whether the merged entity would have the ability or incentive to foreclose the market to competitors, either

² It is the exclusive partner of the Channel Islands Lottery for the design and production of such games

³ This approach is consistent with that taken under EU law – see, for example, Joined Cases T-125/97 and T-127/97 [2000] ECR II-01733, paragraphs 81-82. Article 60 of the 2005 Law requires the Authority to attempt to ensure that so far as possible questions arising in relation to competition are dealt with in a manner that is consistent with the treatment of corresponding questions arising under European Union law in relation to competition within the European Union.

by denying access to important inputs upstream, or by denying access to 'routes to market' downstream.

5.6 In its assessment, the Authority will have regard to the guidelines produced by the European Commission. It may also consider the substantive merger guidelines applied by the Competition and Markets Authority in the UK, as well as those of other competition authorities

Views of the Parties

Product Market

5.7 The Parties consider that the relevant market for assessing the effects of the merger is the design and production of games for physically ticketed lotteries and physically-ticketed instant-win games (including scratch cards).

5.8 To the Parties' knowledge, the SG Group holds 100% (or close to 100%) of the printed ticket market in Jersey because it is the sole supplier to the Government of Jersey in connection with the Channel Islands Lottery, a paper ticketed state lottery and the only (or only material) paper ticketed lottery in Jersey so far as the Notifying Parties are aware. Further, the only customer facing business that either party carries out in Jersey is the sale of printed tickets (to the Government of Jersey in connection with the Channel Islands Lottery, by the Purchaser).

Geographic market

5.9 The Parties consider that the geographic market in which to assess the Relevant Market is the Island of Jersey. This is on the basis that it is a business to business market, the sole or principal customer of which is the Government of Jersey and is not a retail market where any geographic limitation is relevant or justified.

Effect on competition

5.10 The Parties consider there is no overlap between the Target Business and the business of the Purchaser within the Relevant Market. The Target Business, whilst being based in Jersey, does not supply to any customer within Jersey - all of its customers are located outside of Jersey. This means there is no overlap, either horizontal or vertical, between the Parties.

Authority Consideration

5.11 The Authority considers the precise market definition can be left open. This is because, as outlined below, the proposed merger would not result in a substantial lessening of competition in Jersey on any reasonable basis.

5.12 The Target Business does not provide printed tickets within Jersey and as such, has no share of supply and therefore there will be no change in market shares on Jersey as a result of the merger.

Further, it is unlikely that the Target Business would be able to expand into the printed ticket market in future, given the market requires significant infrastructure to be put in place to ensure the validity and security of physical tickets. Reflecting this, the printed ticket market is dominated by large international providers and competition is driven by reputation alongside price and game design quality.

5.13 Jersey residents are also unable to access any of the Target Business's products as the Target provides online game content to state lotteries. As a general rule, state run lotteries do not allow non-residents to participate in their lotteries. From an online perspective this is enabled by combinations of geo-fencing and requiring a residential address and bank account in the jurisdiction in order to open and fund an online account.⁴

5.14 Therefore, given there are no horizontal or vertical overlaps between the parties activities on Jersey, there are no competition concerns arising from this Transaction.

6. Decision

6.1 On this basis, the Authority concludes that the change in control of the Target Business will not substantially lessen competition in Jersey or any part of Jersey; and the merger is therefore approved under Article 22(1) of the 2005 Law.

24 August 2021

By Order of the Authority

⁴ For example, for the UK National Lottery, players outside of the UK, including Jersey residents, are unable to open an online account or play the game content published on their website.