

**ACQUISITION BY  
PAYPAL HOLDINGS, INC.  
OF  
IZETTLE AB  
ME/6766/18**

**MERGER NOTICE  
UNDER SECTION 96 OF THE ENTERPRISE ACT 2002**

**28 SEPTEMBER 2018**

Skadden, Arps, Slate, Meagher & Flom LLP

## **PART I – General information**

### **1. Provide the name and contact details of:**

#### **(a) an individual within each of the merger parties**

##### **PayPal**

Jyri Lassi  
Vice President, Chief IP Officer and M&A  
PayPal Holdings, Inc.  
2211 North First Street  
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United States

Telephone: [✂]

Email: [✂]

##### **iZettle**

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General Counsel  
iZettle AB  
Regeringsgatan 59  
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Stockholm, Sweden

Telephone: [✂]

Email: [✂]

#### **(b) any authorised representatives of each of the merger parties**

##### **PayPal**

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Skadden, Arps, Slate, Meagher & Flom LLP  
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**iZettle**

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**(c) if not already provided in response to (a) and (b), the person(s) submitting the Notice**

**(d) the person to whom the CMA should address any correspondence.**

Please address any correspondence to the authorised representatives of PayPal, as provided above.

## **PART II – Merger details**

### ***The merger situation***

2. **Describe the arrangements by which the enterprises will cease/have ceased to be distinct (the merger), including:**

**(a) the parties to the merger (the merger parties)**

1. The parties to the merger are PayPal Holdings, Inc., a Delaware corporation (“**PayPal**”) and iZettle AB, a Swedish limited liability company (“**iZettle**”; PayPal and iZettle jointly referred to as the “**Parties**”).

**(b) the type of transaction**

**(c) the consideration**

**(d) the key terms**

2. The transaction is structured as an acquisition of all shares, warrants and options in iZettle by PayPal pursuant to a share purchase agreement dated 17 May 2018.

3. The value of the transaction is approximately USD 2.2 billion.

4. The transaction closed on 20 September 2018 and was subject to one closing condition, namely the approval of the acquisition by the Swedish Financial Supervisory Authority (“**SFSA**”). SFSA approval was issued on 7 September 2018.

**(e) the timing**

5. In response to RFI1 Q. 1 and RFI2 Q. 1, the Parties provide a timeline of the transaction as well as of initial partnership discussions and meetings between the Parties below.

6. [✂]

[✂].

[✂].

[✂].

7. A timeline of the transaction from the PayPal perspective is provided in the following Table 1:

[REDACTED]

[REDACTED]<sup>1</sup>

[REDACTED]<sup>2</sup>

[REDACTED]<sup>3</sup>

[REDACTED]<sup>4</sup>

[REDACTED]<sup>5</sup>

[REDACTED]<sup>6</sup>

8. A timeline of the transaction from the iZettle perspective is provided in the following Table 2:

[REDACTED]

[REDACTED]<sup>7</sup>

[REDACTED]<sup>8</sup>

9. iZettle had been intending to launch an initial public offering ("**IPO**") and [REDACTED].

**(f) the strategic and economic rationale for the transaction**

10. The transaction will combine two complementary product offerings and geographies, and in particular PayPal's online payment service solutions with iZettle's in-store / offline product offerings, helping to build a proposition for merchant customers, particularly small business merchants, with enhanced omni-channel integrated solutions, i.e. seamless provision of both online and offline payment services products, to help merchants grow and manage their businesses.
11. [REDACTED] omni-channel becomes increasingly important to merchants:

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1 [REDACTED].  
2 [REDACTED].  
3 [REDACTED].  
4 [REDACTED].  
5 [REDACTED].  
6 [REDACTED].  
7 [REDACTED].  
8 [REDACTED].

[REDACTED]

[REDACTED]<sup>9</sup>

[REDACTED]

[REDACTED]

12. Given the dynamic landscape in payment services, it is necessary to offer new products and advanced technologies on a frequent basis in order to stay competitive. Ongoing investment and responsiveness to merchant demands is essential. [REDACTED] PayPal is increasingly being challenged by rivals who have sought to offer superior solutions straddling both online and offline payments.

[REDACTED]

[REDACTED]

13. As omni-channel becomes increasingly important to merchants, the Parties' competitors are seeking to develop and build their own omni-channel capabilities. Indeed, [REDACTED] a large number of the Parties' competitors are already able to offer both online and offline payment services to merchants in the UK.

[REDACTED]

[REDACTED]

14. In response to RFI1 Q. 11, the Parties provide Table 3 below, which summarises the main competitors and whether they provide an omni-channel solution (noting that firms differ in the scale and sophistication of their offerings).<sup>10</sup>

[REDACTED]<sup>11</sup>

[REDACTED]

15. The transaction will allow the combined PayPal/iZettle entity to compete more effectively with these companies, and to offer merchant customers with more

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<sup>9</sup> [REDACTED].

<sup>10</sup> iZettle does not provide payment services online as a standalone product in the UK, or anywhere else. As part of its e-commerce platform, iZettle offers its merchants the possibility to offer end-customers the option to pay by card via iZettle online, but since its launch in 2018, the e-commerce tool has only generated approximately GBP [REDACTED] of revenue (to June 2018) in the UK.

<sup>11</sup> [REDACTED].

enhanced omni-channel solutions than either party would be able to offer on a stand-alone basis.

16. In response to RFI2 Q. 1, PayPal assumes that after the transaction it will be able to achieve much higher penetration rates using iZettle's products than has been possible with PayPal Here historically, [REDACTED].<sup>12</sup> [REDACTED]. PayPal expects that [REDACTED] an enhanced focus by the combined PayPal / iZettle on delivering an omni-channel solution, will enable iZettle to become relevant to a larger population of PayPal's existing UK merchants.
17. PayPal expects to be able to offer PayPal's online payment solutions, enabling merchants to accept card and PayPal payments on their website, to iZettle's existing merchants. PayPal has specifically excluded invoicing and working capital products in its assumptions, given that iZettle already offers these products to its merchants.
18. For more information, please refer to the press release available via the hyperlink below for additional details:  
  
<https://investor.paypal-corp.com/releasedetail.cfm?releaseid=1067868>.
19. A further rationale for the transaction [REDACTED] is that it will enable [REDACTED].
20. [REDACTED].
21. [REDACTED].
22. [REDACTED].  
  
**(g) whether it is being notified in any other jurisdictions and, if so, whether the merger parties are willing to offer a waiver to support coordination between the CMA and the competition authorities in those jurisdictions, and**
23. The transaction is not being notified to competition regulators in any other jurisdiction.  
  
**(h) the ownership structure pre and post-merger, including any pre-merger links between the merger parties.**
24. PayPal Holdings, Inc. is a publicly listed company traded on the NASDAQ. PayPal has no interest in, or other pre-merger structural links with, iZettle.

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12 [REDACTED].

25. Post-merger, iZettle will become a wholly-owned subsidiary of PayPal.
3. **Provide a brief description of the businesses of the merger parties (and, where relevant, their groups).**

### **PayPal**

26. PayPal is a technology platform company that facilitates the processing of payment transactions. PayPal's business includes the following activities:
  - PayPal's *digital wallet* enables consumers and merchants to make payments online. PayPal issues electronic money to a customer upon receipt of funds, and enables customers to transfer e-money to each other's PayPal accounts.
  - PayPal's *merchant payments services* provides payment services to merchants for the acceptance of, inter alia, Visa, Mastercard and American Express payment cards. PayPal is primarily an online provider of such services, although in the UK, also has a limited presence in offline payment services through its PayPal Here product.
  - PayPal offers other payment and financial services such as provision of credit to merchants ("PayPal Working Capital"), and ancillary services such as software to facilitate with the management of invoices and loss protection for merchants.
27. In response to RF11 Q. 10, PayPal clarifies that it offers a variety of services that are dedicated not only to businesses (e.g. merchant payments services) but also to individuals (e.g. digital wallet). Below PayPal provides a detailed overview of all the online payment services that it offers to SMBs and of the services offered by PayPal's main competitors in those segments.
28. The Merchant Business Account ("**MBA**") underpins the provision of merchant solutions. With the MBA, merchants can access and configure PayPal's solutions to accord with their needs, and can manage and review payment activity via various dashboards and reports. More detail is provided in the attached **PayPal Confidential Annex 10.04**, but in brief PayPal offers the following types of online payment services to SMBs:
  - *Solutions to accept payments online* (main competitors include Worldpay, Barclays, Adyen, Stripe, Klarna, PaySafe, Amazon Pay, PayPoint, SagePay, Square);



- *Solutions to request payments* (main competitors include: Sage, Capita, Quickbooks, Zoho, ASG, Avalara, B2Boost, Basware, Canon, SAP Ariba, Cortex, Tungsten Network, Order2Cash, Saphety, Square, Unified Post, and Pagero);
- *Small business funding* (main competitors include: Amazon Lending, Funding Circle, RateSetter, British Business Bank, iwoca, Ezbob, iZettle, Cashplus, High Street banks); and
- *Solutions to make payments* (main competitors include: RBS / NatWest, Barclays, Lloyds, HSBC UK, Santander, Revolut, Monzo, Klarna, Cashplus, Google Wallet, Apple Pay, Monese, Paym).

29. A description of PayPal's main competitors in this segment is set out in Table 2 of **PayPal Confidential Annex 10.04**.

### ***iZettle***

30. iZettle is a financial technology company providing payment services solutions in particular to small businesses. iZettle's business includes the following activities:

- iZettle provides payment processing services to merchants for the acceptance of, inter alia, Visa, MasterCard and American Express payment cards through its iZettle reader. iZettle is a provider of such services for use in offline environments.
- iZettle's e-commerce tool enables merchants to set up an online store, sell from an already existing website, or through social media.
- iZettle offers other payment and financial services such as, effectively, provision of short term loans to merchants ("**Advance**") structured as payment transactions funded through credits offered by iZettle to eligible merchants, and ancillary services such as software to manage invoices, merchant to merchant e-money services, and point-of-sale hardware.

### ***E-commerce platform***

31. In response to RFI2 Q. 5, the Parties present a detailed description of the current features and capabilities of iZettle's e-commerce platform. However, as explained at paragraph 84 below, iZettle's e-commerce offering is extremely limited in the UK, accounting for GBP [X] of revenues from launch in the UK up until June 2018. Furthermore, iZettle does not offer a consumer facing "pay with iZettle" type product that would compete with PayPal's online digital wallet.

32. iZettle's e-commerce core capabilities consist of some basic features and functions supplied through the partnership with [redacted]<sup>13</sup> and others that sit as part of the iZettle product set:

- Building an online store with a drag and drop store builder: this capability is provided by the iZettle e-commerce partner [redacted]. Core features include:
  - Simple interface with all modules needed to build an online store
  - Pre-defined themes to help the merchant get started
  - Checkout flow including shipping options and integrations
- Multi-channel selling: this capability is provided by the iZettle e-commerce partner [redacted]. iZettle e-commerce enables the merchant to manage several online sales channels from a single interface through two core features:
  - Buy-buttons and Widgets provide the ability to integrate the online store to any existing web-page. If the merchant already has a home page, blog or other online presence, the Buy-buttons and Widgets can be integrated with a few lines of code, effectively enabling the merchant to process online sales in his/her already existing online environments.
  - Facebook store is a plug-in offered by Facebook to Online store providers. It enables the merchant to create an inventory-connected Shop Section in an already existing Facebook Page. The merchants' customers will be able to browse the products in the new Facebook Shop area of the Facebook Page.
- Omni-channel capabilities in three core areas: the majority of the below capabilities rely on iZettle existing infrastructure and capabilities. Omni-channel in this context essentially means connecting the above described capabilities (provided by [redacted]) into the iZettle existing solution.
  - *Inventory management:* The merchant can manage and automatically sync inventory between sales online and sales in-store. The iZettle Go Point of sale app is used for in-store sales management and iZettle e-commerce connects into the same inventory backend to ensure that the merchant can keep track of stock-level in real-time. The merchant then avoids the risk of selling

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13 See paragraph 85 below.

something that is out of stock and can use the unified data to better plan inventory levels.

- *Sales data*: The merchant can view both online sales and in-store sales in the same report. Sales data include data on products sold, pricing, VAT etc. The iZettle Go Point of sale app provides sales reports for in-store sales and iZettle e-commerce connects into the same backend providing the merchant with a single sales report including all sales channels.
- *Payments processing*: iZettle in-person payments funnel all payments through the iZettle Account Statement (where the merchant can track all of the payments cash flow). iZettle online payments leverage the same infrastructure, enabling the merchants to track all iZettle-processed payments cashflow in one place.

33. Please see attached **Non-Confidential Annexes 051 to 054** for additional materials:

- **Non-Confidential Annex 051** is a screen capture of the iZettle e-commerce Landing Page which describes the overall solution for the merchant. **Annex 051** can also be accessed on the web: <https://www.izettle.com/gb/sell-online>;
- **Non-Confidential Annex 052** is a screen capture of the iZettle e-commerce Feature Page which describes the core features to the merchant. **Annex 052** can also be accessed on the web: <https://www.izettle.com/gb/sell-online/features>;
- **Non-Confidential Annexes 053 to 054** are screen captures of the iZettle e-commerce Detailed Feature List. **Annexes 053 to 054** can also be accessed on the web: <https://www.izettle.com/gb/sell-online/features>.

#### *Ancillary services*

34. Furthermore, in response to RFI2 Q. 16, iZettle clarifies that it offers a wide variety of ancillary services which include:

- Software product and add-ons to the basic Go Point of sale offer for which iZettle charges a monthly subscription fee. Such add-ons include:
  - iZettle Pro for Hospitality (includes premium customer support)
  - e-commerce (includes premium customer support)

- Financing products including iZettle Advance and Business Loans;
  - The newly launched Marketing product – a simple app that simplifies and automates setting up online advertising campaigns through Google and Facebook. Setting up such campaigns is already possible today for small businesses – but iZettle has simplified the interface to do so.<sup>14</sup>
35. [REDACTED]<sup>15</sup> All of the above products are relevant for both a new and current user base. They all work as seamless and connected components within the iZettle Payments and Go Point of sale offering. [REDACTED].
  36. In response to RFI2 Q. 16 (b), the Parties provided more detail on iZettle's product development and explained that iZettle's intended IPO proceeds were earmarked to (among other uses) support the iZettle growth trajectory. [REDACTED].
  37. The overlap between iZettle “Software as a Service” and services offered by PayPal is limited to the merchant advance product (iZettle Advance and PayPal Working Capital), and Invoicing. The rest of the products and propositions are unique to iZettle. Furthermore, whereas iZettle provides an end-to-end e-commerce solution, PayPal only provides online payment solutions.
  38. The Parties note that iZettle’s services in this area contribute to the significant and growing differentiation between its product and PayPal Here which, [REDACTED], represents a more “bare bones” option with more limited functionality.
  39. Please find attached as **PayPal Confidential Annex 3.01** a corporate structure chart for PayPal. A corporate structure chart for iZettle is attached as **iZettle Confidential Annex 3.02**.
  4. **Provide brief details of any other transactions (merger, acquisition, disposal, joint venture) undertaken by:**
    - (a) **either of the merger parties in the last two years which involve the products or services in any Candidate Market identified in response to question 13, and**

## **PayPal**

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<sup>14</sup> For completeness, PayPal recently launched a product called *PayPal Marketing Solutions*, which is not however the same as iZettle’s Marketing Product, rather it provides customer insights, shopping cart recovery and dynamic website banners to boost a merchant’s online “conversion rate” (the proportion of website visitors who go on to purchase after browsing the merchant’s website).

<sup>15</sup> See slides 13 and 17 of **iZettle Confidential Annex 8e01**.

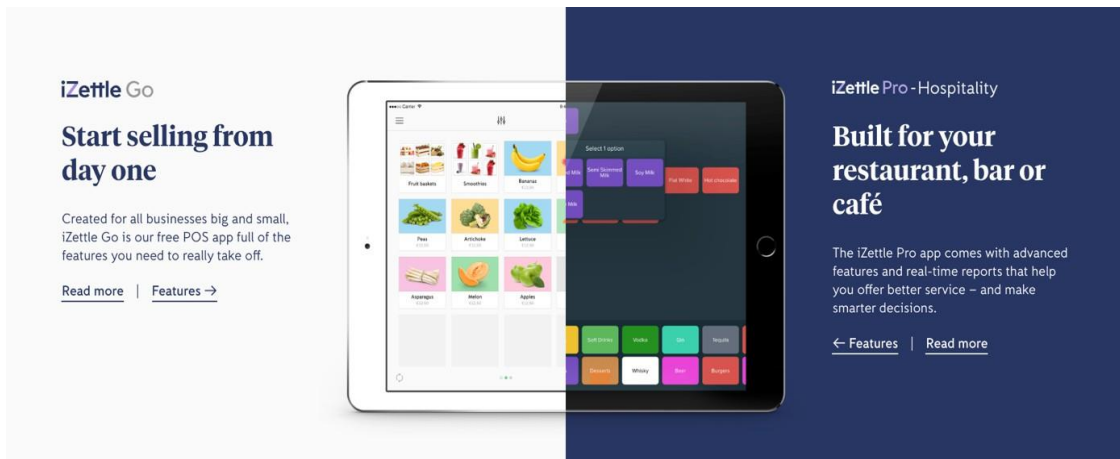
- PayPal acquired Swift Financial Corporation, a working capital provider active only in the United States, in September 2017.
  - PayPal acquired TIO Networks, a bill payment processor active only in North America, in July 2017.
  - PayPal acquired Jetlore, a retail prediction technologies start-up, in May 2018.
  - PayPal acquired Simility, a fraud detection start-up, in July 2018.
  - PayPal announced its proposed acquisition of Hyperwallet, a payout platform, in June 2018.
40. None of these transactions, however, overlap with the candidate markets in the UK.

### ***iZettle***

41. iZettle acquired Intelligent Point of Sale Limited (“**IntelligentPOS**”), a provider of cloud-based inventory, loyalty programs and customer flow software, in September 2016. The services offered by IntelligentPOS (now iZettle Pro for Hospitality) are complementary to the payment services products / candidate markets in the UK and do not overlap with or present a necessary vertical input into either of the Parties’ products or those of their competitors.
42. In response to RFI2 Q. 7, iZettle provides that iZettle Pro for Hospitality is an iPad-based point of sale-system, purpose-built to serve the needs of bar, cafés and restaurants. The solution shares many traits with iZettle’s standard and free Go Point of sale-software but includes features and capabilities specifically aiming to serve this segment. iZettle makes the distinction on the POS-system overview page (screenshot below).<sup>16</sup>

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<sup>16</sup> Screenshot taken from <https://www.izettle.com/gb/pos-systems>.



43. Examples of advanced features include:

- Table Management;
- Ability to split bills and run open tabs;
- Advanced Ingredient-level stock management;
- Sophisticated sales reports and analytics;
- Employee and multi-location management;
- Advanced customer loyalty features;

44. Please see attached **Non-Confidential Annexes 055 to 057**, which include:

- **Non-Confidential Annex 055:** Pro for Hospitality Overview Page to see an overview of the service.
- **Non-Confidential Annexes 056 to 057:** Pro for Hospitality Feature List to see a detailed list of all features.

Both annexes show material available on the web:  
<https://www.izettle.com/gb/pos-systems/izettle-pro-for-hospitality>

45. For additional materials, please see attached **Non-Confidential Annexes 058 to 059**, which include:

- **Non-Confidential Annex 058:** Go Point of sale Overview Page.
- **Non-Confidential Annex 059:** Go Point of sale Feature List. This will allow for comparison between the paid 'Pro for Hospitality' solution and the free 'Go Point' point of sale solution.

Both annexes show material available on the web: <https://www.izettle.com/gb/pos-systems/izettle-go>.

**(b) both or all merger parties in the last two years (that is, where the merger parties were party to the same transaction).**

46. None.

### ***Jurisdiction***

5. **Explain why:**

**(a) a relevant merger situation (as per section 23 of the Act) has been created, or**

**(b) arrangements are in progress or contemplation which will result in the creation of a relevant merger situation.**

47. As described above, PayPal proposes acquiring control over iZettle within the meaning of section 26 of the Enterprise Act and a definitive agreement was signed to this effect on 17 May 2018. As a result of the transaction, PayPal and iZettle will cease to be distinct enterprises.

48. iZettle's UK turnover is [REDACTED] less than GBP 70 million. Therefore, the turnover test set out in section 23(1) of the Enterprise Act is not met.

49. In addition, as explained in more detail in response to question 14 of this Merger Notice, the Parties believe that they do not have an estimated combined share of more than 25% of the supply of any plausible candidate market (shares of supply above this level arise only if one applies an artificially narrow segmentation both in terms of product technology and customer segmentation and, even then, the shares are not at levels which would raise concerns in light of the dynamic nature of the industry and the weak status of PayPal as a competitor). Consequently, in the view of the Parties, the transaction will not result in the creation of a relevant merger situation in accordance with section 23(3) of the Enterprise Act. However, following discussions with the CMA's Merger Intelligence Unit in July 2018, PayPal decided to voluntarily notify the transaction as it is understood that the CMA wishes to conduct a more detailed review of the transaction.

6. **Indicate the annual UK, EEA, and worldwide turnover in the last financial year associated with each of:**

**(a) the acquirer (including group companies where relevant – see Annex B of the Guidance), and**

**(b) the target (if not already provided under question 5).**

50. PayPal's UK turnover in the financial year 2017 was USD [✂] / GBP [✂]. Its EEA turnover was USD [✂] / GBP [✂] and its worldwide turnover, USD 13.09 billion / GBP 9.69 billion.
51. iZettle's UK turnover in the financial year 2017 was SEK [✂] / GBP [✂]. Its EEA turnover was SEK [✂] / GBP [✂] and its worldwide turnover, SEK 966 million / GBP 87.18 million.<sup>17</sup>
7. **Explain why the transaction is not subject to the European Union Merger Regulation (EU Merger Regulation), (highlighting whether it is notifiable in the UK by virtue of the 'two-thirds' rule in article 1(2) or 1(3) of that Regulation).**
52. The transaction is not notifiable under the EU Merger Regulation as iZettle's revenues in the EU were less than EUR 100 million in the financial year 2017.

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<sup>17</sup> Bank of England GBP / USD exchange rate on 29 December 2017: GBP to USD = 1.351; GBP to SEK = 11.0795.



### **PART III – Supporting documents**

**8. Provide:**

**(a) a press release or report and details of all notifications to listing authorities (for example, for admission to the UK Listing Authority Official List and for admission to trading on the London Stock Exchange) or other documentation evidencing that the merger (or merger proposal) has been made public, and**

53. Please see the press report available at <https://investor.paypal-corp.com/releasedetail.cfm?releaseid=1067868>.

**(b) a copy of the documents bringing about the merger situation, including heads of terms, memorandum of understanding, sale and purchase agreement, business purchase agreement or equivalent. Where these are not in final form, please provide the latest draft and keep the CMA informed of subsequent changes to the document, if any.**

54. Please see a copy of the sale and purchase agreement attached as **Joint Confidential Annex 8b01**.

55. Please find attached all schedules to the SPA as **Joint-Confidential Annexes S.001 to S.025**.

**(c) If the offer is subject to the City Code, copies of the Offer Document and Listing Particulars. If these are not yet available, provide copies of the latest drafts and supply the final versions as soon as they are issued.**

56. Not applicable.

**(d) for each of the acquirer and acquirer group (if relevant) and the target (or merger parties in the case of a full merger), the most recent annual report and accounts.**

57. PayPal's annual report can be found at <https://investor.paypal-corp.com/secfiling.cfm?filingID=1633917-18-29&CIK=1633917>.

58. iZettle's annual report is attached as **Non-Confidential Annex 8d02**.

**(e) copies of the most recent business plan of the acquirer and acquirer group (if relevant) and the target (or merger parties in the case of a full merger). Where a horizontal overlap or vertical relationship**

involves, for example, a specific division or brand of one or both of the merger parties, the most recent business plan for the relevant division or brand should be provided as well.

59. PayPal's most recent business plan is attached as **PayPal Confidential Annex 8e02**. iZettle's most recent business plan is attached as **iZettle Confidential Annex 8e01**.
60. Please find attached **PayPal Confidential Annexes S.107 to S.110**.
9. **Provide copies of any documents in either of the merger parties' possession which:**
  - (a) **have been prepared by or for, or received by, any member of the board of directors (or equivalent body) or senior management or the shareholders' meeting of either merger party (whether prepared internally or by external consultants), and**
  - (b) **either:**
    - (i) **set out the rationale for the merger (including but not limited to the benefits of, and/or investment case for the acquisition), or**
    - (ii) **assess or analyse the merger with respect to competitive conditions, competitors (actual and potential), potential for sales growth or expansion into new product or geographic areas, market conditions, market shares and/or the price to be paid. This should include but not necessarily be limited to post-merger business plans or strategy (including integration plans and financial forecasts) and Information Memoranda prepared by or for the merger parties that specifically relate to the sale of the target. If no such Information Memoranda exist, explain what information or document(s) given to any of the merger parties is meant to serve the function of an Information Memorandum.**

**Indicate (if not contained in the document itself) the date of preparation and the identity and role of the author(s) within the merger parties or external consultants.**

61. Please find attached relevant PayPal documents as **PayPal Confidential Annexes 9.01 to 9.15; S.047; S.049; S.051 to S.052**.
62. Please find attached relevant iZettle documents as **iZettle Confidential Annexes 001 to 003**.

10. **Provide copies of documents (including, but not necessarily limited to, reports, presentations, studies, internal analyses, industry/market reports or analysis, including customer research and pricing studies) in either merger parties' possession and prepared or published in the last two years which:**
- (a) have been prepared by or for, or received by, any member of the board of directors (or equivalent body) or senior management of either merger party (whether prepared internally or by external consultants), and**
  - (b) set out the competitive conditions, market conditions, market shares, competitors, or the merging parties' business plans in relation to the product(s) or service(s) where the merger parties have a horizontal overlap as identified in response to question 12 below.**
63. Please find attached relevant PayPal documents as **PayPal Confidential Annexes 10.01 to 10.06; S.045 to S.047; S.049; S.051 to S.106; S.108; S.111 to S.113.**
64. Please find attached **Non-Confidential Annexes S.042 to S.048;**
65. Please find attached relevant iZettle documents as **iZettle Confidential Annexes 10.07 to 10.16; 005 to 012; 024 to 116; 143.**

## **PART IV – Competition assessment**

### ***Counterfactual***

11. **If the notifying parties consider that the CMA should assess the competitive effects of the merger against a counterfactual other than the current or pre-existing competitive situation, please describe that counterfactual and explain why the notifying parties consider it should be used for that assessment.**
  
66. The Parties consider that the appropriate counterfactual against which to assess the transaction is one in which PayPal and iZettle remain as independent firms.

### ***Market definition***

12. **Describe the product(s) or service(s) and geographic area(s) where the merger parties overlap, where they have a vertical relationship, or where they supply related products/services.**

### **Introduction to card payments and to the activities of the Parties**

67. Card payments globally and in the UK have experienced considerable growth in recent years. For most of the twentieth century, retail payments were made by cash or cheque. In 1966, Barclaycard introduced its first credit card in the UK, but it was not until the 1980s that Verifone introduced electronic Point of Sale ("**POS**") terminals that could read magnetic strips on credit cards.<sup>18</sup> Innovation was limited to the introduction of debit cards in 1987 and incremental improvements in hardware throughout the 1980s and 1990s.
  
68. At the turn of the century, chip and pin cards, embedded with a microchip on the face of the card and inserted instead of swiped in the payment terminal, started to replace magnetic strip cards in the UK. However, a significant increase in the pace and degree of change occurred in the 2010s, driven by the advent of contactless payments and smartphone technology. Whereas historically consumers needed to carry a physical wallet containing cash, cheques, and / or physical credit or debit cards, smartphone technology makes it increasingly feasible to make in-person payments using a "virtual card" or "digital mobile wallet" on a Smartphone (Apple Pay, Google Pay, and Samsung Pay each being examples of digital mobile wallets); and consumers can also

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<sup>18</sup> Until then, credit cards were "read" using zip-zap machines which made an impression of the raised numbers on the front of a credit card onto carbon-paper packet copies.

pay through other solutions that make use of a smartphone, such as QR code scanning, or bank to bank payment apps such as Pingit by Barclays.

69. Within this increasingly broad retail payments landscape, the Parties' activities overlap in providing merchants with solutions for accepting in-person / offline payments via credit or debit cards.

70. Processing card payment transactions involves coordination among a number of industry participants providing the services and infrastructure required to enable such transactions. These participants consist of merchants, payment service providers, acquiring processors, card and payment schemes and issuing banks. An overview of this payment chain and the involved players as viewed by the Parties is set out below:<sup>19</sup>

- *Merchant*: a provider of goods and services that consumers purchase.
- *Payment service provider ("PSP")*: provider of the payment services that holds the direct relationship with the merchant and facilitates the rest of the payment transaction on behalf of the merchant. A PSP is also the merchant of record for the transaction.
- *Acquiring processor*: provider of the back-end technology and transaction services that facilitates the flow of funds and payment information between the PSP and the card and payment schemes on behalf of the acquiring bank.
- *Card and payment schemes* (e.g., Visa, MasterCard and American Express for card payments): provider of the infrastructure for card payment information and funds to flow between the acquiring bank, its associated acquiring processor and the issuing banks around the world.
- *Issuing bank*: the financial institution that issues the merchant's customer's payment card.
- *Acquiring bank*: the financial institution associated with the acquiring processor.

71. A card payment transaction usually begins with cardholders using a card to purchase goods or services from a merchant, which seeks the authorisation of the card issuer for the transaction via its "acquiring bank" (bank or financial

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<sup>19</sup> The dynamic nature of the payments landscape means that there is fluidity around some of these definitions (e.g. other sources may use the term PSP and acquirer somewhat differently from that used here). However, this taxonomy reflects that used by the Parties.

institution; sometimes referred to as a merchant acquirer). The authorisation request is initiated from the merchant's card reader (a POS terminal) and is transmitted electronically to the acquiring bank via a PSP and a processor.

72. To assist the CMA with understanding the above steps, the Parties provide as **Joint Confidential Annex A.01** a summary schematic showing the payment services process.
73. The Parties are both PSPs and their activities overlap in the provision of offline payment services (provision of the POS terminals, the POS software, and related payment services as an integrated solution). Both PayPal and iZettle sell their POS card reader devices to enable merchants to use their payment services and collect transaction fees on each completed transaction. PayPal and iZettle compete against each other and other suppliers on the basis of this integrated solution.
74. Today, the area of offline payment services continues to be dominated by a number of large international companies, such as for example Worldpay, Barclays, and Global Payments. In fact, in the past few months a large merger took place between two of the largest players in the industry, Vantiv and Worldpay. Technological development has facilitated the entry of digital POS solutions, such as mobile card readers and digital POS systems. Mobile card readers, such as the iZettle Reader, enable face-to-face electronic payments and integrate with merchant's own mobile devices such as smartphones and tablets. With the introduction of mobile card readers, the infrastructure needed to accept electronic payments has become easier for merchants to set up and use, whether at temporary or fixed point of sale locations.
75. iZettle introduced its offline payment services in the UK in 2012, with the launch of the iZettle Card Reader. The reader (hardware) connects wirelessly via Bluetooth<sup>20</sup> to an iZettle app on the merchants' smartphone or tablet device, using the device as a modem which then transmits the payments data onwards over the payments network. For this reason, payment services such as those offered by iZettle are often referred to as mobile POS (or "mPOS") services. As further described below, there is no reason why mPOS should be considered a distinct product category separate from POS (or offline) payment solutions from an antitrust perspective.
76. Over time, a number of mPOS products and services have been launched by several other competitors, including for example SumUp (launched in the UK in

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<sup>20</sup> Early versions of the iZettle Card Reader needed to be physically connected to the smartphone via the audiojack.

2012, the same year as iZettle); PayPal Here (which launched in the UK in 2013); Square, a leading US mPOS supplier which launched in the UK in 2017; and others. In addition, traditional merchant acquirers and payment service providers have expanded and repositioned their product offering, both by adapting their business model for the provision of payment services through the traditional POS terminals (that do not connect via mobile phones to the payments network) – for example, Worldpay having introduced a “pay as you go” POS product; and by expanding into the mPOS space themselves (for example, in the case of Worldpay, through Worldpay Zinc, an mPOS product launched in the UK in 2013; and in the case of Barclays, through Barclaycard Anywhere, launched in 2014).

## Horizontal Overlaps

### *Payment Services*

77. The Parties are active in a broad market for payment services, in which cash, physical credit / debit cards, digital wallets and payment apps all compete for the same consumers’ and merchants’ needs. Each of these payment mechanisms provides its own advantages and disadvantages. What is clear, however, is that there is a trend away from the use of cash in a number of countries, including in the UK, where the proportion of transactions made with cash has declined / reduced in recent years. This reflects the costs of using cash, both on the consumer and merchant side, with the most obvious drawback being that it is relatively inconvenient to carry as a consumer / handle as a merchant, compared to using credit or debit cards or using a digital wallet. That said, a number of merchants, especially small businesses, continue to only or primarily use cash to transact, suggesting that cash continues to offer a high degree of convenience particularly to these users and their customers.
78. As further shown in Table 4 below, the Parties are small players in the payment services space. In particular, iZettle has extremely limited activities, especially in the UK, with overall UK turnover in financial year 2017 of only GBP [X] and with total payment volume (“**TPV**”) in the payment services space in the UK of GBP [X], a [X] compared to an overall payment services TPV in the UK of GBP 881.25 billion.

### *Offline Payment Services*

79. The activities of the Parties overlap in the provision of offline credit / debit card payment processing services. PayPal considers that online and offline credit / debit card payment services should be considered under the same market

definition, but it recognises that a possible distinction between online and offline has been considered previously by the European Commission.<sup>21</sup>

80. For the reasons set out in this Merger Notice, the Parties respectfully submit that any hypothetical segmentation of the payment services market, or even more so, of online or offline payment services, would not constitute a plausible antitrust product market.
81. In any event, in this Merger Notice, the Parties will present estimated shares of supply for (online and offline) credit / debit card payment services, as well as for offline credit / debit card payment services alone, as well as under all hypothetical sub-segmentations thereof. For the reasons set out below, however, no competition issues arise in any such even purely hypothetical segmentation.

### *Invoicing*

82. Both PayPal and iZettle offer merchants invoicing services. Invoicing enables merchants to send digital invoices to their customers via email, which the customer can pay by card (iZettle and PayPal) or with their PayPal account (PayPal only). iZettle has only provided invoicing in the UK for eight months and its revenues (and estimated market share) are therefore [REDACTED], revenues being approximately GBP [REDACTED] in 2017 and approximately GBP [REDACTED] in the first quarter of 2018.

### *Cash Advance*

83. PayPal Working Capital and iZettle Advance and Business Loan provide eligible merchants access to funding with a fixed fee. The products are designed to be a fast and easily accessed source of working capital for businesses that use PayPal / iZettle. The PayPal Working Capital service is structured as a Merchant Cash Advance. As a form of factoring, the product involves PayPal purchasing a business's future sales in return for a cash advance and PayPal collects these receivables by deducting a percentage directly from a merchant's PayPal sales on a per-transaction basis. The iZettle Advance service is structured as payment transactions funded through credits offered by iZettle to the eligible merchants. Similar to the PayPal Working Capital service, iZettle collects monies owed to it by deducting a percentage directly from a merchant's iZettle sales on a per-transaction basis. iZettle

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<sup>21</sup> See COMP/M. 6314 *Telefonica UK/Vodafone UK/Everything Everywhere JV*, para. 139. Note that the Commission considered the possible distinction in the context of an analysis of payments made by consumers using their mobile phone.



Advance accounted for only GBP [X] of revenues in 2017. iZettle's Business Loan offering has not yet been fully launched. It is structured in the same way as the iZettle Advance service, however with a fixed repayment schedule and alternative means for repayment in addition to netting, such as for example through direct debit.

## Vertical Links

### *E-commerce*

84. iZettle offers a subscription service for an e-commerce tool enabling its merchants to create a basic e-commerce website. This e-commerce tool includes a choice of payment options at the merchant's online checkout. Merchants must accept payment by card via iZettle and can also add PayPal as a payment option for customers. The PayPal payment option could be considered a vertical link, to the extent that it provides an additional payment feature that can be integrated into the iZettle e-commerce software platform. However, it is entirely up to the merchant whether they choose to include the PayPal payment option at the online checkout. Furthermore, iZettle has extremely limited activity in e-commerce in the UK as of the date of this Merger Notice. Transaction fees collected through the e-commerce business in the UK amount to only approximately GBP [X] from launch in the UK up until June 2018.
85. The e-commerce tool is provided as a white-label solution through iZettle's partnership with the e-commerce platform [X]. As explained in paragraphs 31 to 33 above, customers get access to a set of tools for marketing and selling products online, while all product, inventory and sales data can be tracked in iZettle's POS reporting tools and the customer can process online payments through iZettle. iZettle does not provide this online payment option outside of its e-commerce tool. Moreover, as indicated above, iZettle's e-commerce business is extremely small overall, and virtually non-existent in the UK.

### *Accessories*

86. iZettle also offers its merchant customers a choice of third party brand POS accessory options, such as printers, tablet stands and cash drawers. These accessory options, which help improve iZettle's offer to larger merchant customers, are sold on iZettle's website, which accepts card payments as well as PayPal. iZettle's total revenues from sales of Accessories in 2017 in the UK were approximately GBP [X].

13. **Identify (and explain the rationale for identifying):**

- (a) the narrowest candidate product/service and geographic market(s) where the merger parties overlap, and (if the parties have a vertical relationship or supply related products/services) the narrowest candidate product/service and geographic market(s) at each level of the vertical supply chain and for each related product/service (the Narrowest Candidate Market(s)).
- (b) any other plausible candidate product/service and geographic market(s) where the merger parties overlap, have a vertical relationship, or supply related products/services (together with the Narrowest Candidate Market(s), the Candidate Market(s)).

#### *Prior Decisional Practice*

87. The Parties are not aware of previous CMA decisions concerning card payment services.
88. The Parties have consulted previous relevant decisions of the European Commission (the “**Commission**”).

#### *Payment Services*

89. The Commission has reviewed the area of payment services most recently in *Telefonica UK / Vodafone UK / Everything Everywhere / JV* (in the context of the supply of mobile phone payment solutions), and in *Worldline/ Equens/ Paysquare* (in the context of the supply of payment card processing).
90. In both *Telefonica UK / Vodafone UK / Everything Everywhere / JV* and *Worldline/ Equens/ Paysquare*, the Commission distinguished (i) situations in which the payee and the payer are physically in the same location (“**proximity**” / offline mobile payments) and (ii) remote / online payments when that is not the case, but it ultimately left open the exact conclusion on the correct market definition.
91. It should be noted that in prior decisions the Commission emphasised the nascent nature of the retail distribution of payment services, whose main features and borderlines were still expected to be defined. A payment services landscape with rapidly evolving innovative technologies was deemed to render the consensus on the exact scope of the relevant markets more difficult to define.<sup>22</sup>

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<sup>22</sup> Ibid., para 82. See also M.6967 – *BNP Paribas Fortis / Belgacom / Belgian Mobile Wallet*, para. 42.

92. Since the activities of the Parties overlap in the supply of offline payment services, the discussion below will focus on this product area.

### *Offline Payment Services*

93. The Commission reviewed the market for offline payment services most recently in *Worldline / Equens / Paysquare*.<sup>23</sup> The Commission distinguished three main payment card-related activities: (i) the issuing of payment cards to individuals and companies, (ii) payment card processing and (iii) the acquiring of merchants for card payment acceptance (merchant acquiring).
94. The Parties are not active in the issuing of payment cards or merchant acquiring.<sup>24</sup> As described above, the Parties are PSPs, and as such are active within what has been broadly described by the Commission as payment card processing in prior cases.
- (a) In *Atos Origin / Banksys BCC*,<sup>25</sup> the Commission described processing of payment card transactions as including services of a technical nature such as the routing of transactions, requests for authorizations including the verification of stop lists (cards stolen and counterfeited), card identifications, generation of statements and invoicing.
- (b) The Parties provide some of these processing services albeit iZettle does so through [✂].
95. The Parties note that in the *Worldline / Equens / Paysquare* decision, the Commission also identified a separate market for the provision of POS terminals and related services.<sup>26</sup>
96. In that case the Commission suggested that a distinct market for the provision of POS terminals may exist, separate from the market for acquiring or payment services. This is because the market investigation in that case suggested that there may be a difference in the merchants' purchasing strategy, depending on their size. While large retailers appear to be in a position to and often do buy the POS terminal separately from the merchant acquiring services, SMEs

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<sup>23</sup> COMP/M.7873 *Worldline / Equens / Paysquare*, April 2016, para. 10 et seq.

<sup>24</sup> [✂].

<sup>25</sup> See COMP/M.4316 *Atos Origin / Banksys BCC*, September 2006, para. 15.

<sup>26</sup> A POS terminal is the electronic device used to process card payments at the merchant's location. POS terminals are either sold or rented to merchants jointly with the merchant acquiring or payment services, or separately on a standalone basis. The provision of terminals typically also includes services contracts for related services (maintenance and updates).

largely opt for packaged solutions, which include both the acquiring and the POS terminal.

97. The Parties submit that this distinction is not relevant in the context of the assessment of the present transaction. As indicated above, the Parties sell their POS terminals and the related POS software and payment services as part of an integrated solution. In other words, they do not compete for the sale of POS terminals on a standalone basis.
98. There are a number of alternative POS solutions available in the market. A POS terminal is an electronic device used to process card or contactless mobile payments at retail or merchant locations such as stores, restaurants etc. The terminal can be owned by the retailer or an acquirer-owned terminal (i.e. provided on a rental basis to the merchant).
99. An mPOS terminal is an electronic accessory which provides POS functionality via a contact or wireless connection to a mobile device. It most typically refers to devices that enable POS functionality via a smartphone or tablet. mPOS terminals consist of just one type of POS terminals used for card processing services, but are not, and should not be viewed as a distinct antitrust product market.
100. As shown below, mPOS is a very small sub-segment of the supply of POS payment services. mPOS suppliers market their products and services on the basis of user-friendly and easy-to-understand product offerings, with transparent and straight-forward pricing models which do not lock merchants into subscriptions or long-term contracts. Similarly, traditional POS suppliers have recently modified their business model precisely to address these customers' needs and compete even more aggressively with mPOS suppliers. As a result, there is a remarkable blurring of the lines between the pricing and competitive positioning of traditional POS and mPOS providers. Today, competition is vigorous within the POS payment services space overall and no further segmentation would be appropriate from an antitrust perspective.
101. For the reasons further explained below, the Parties believe that any sub-segmentation of offline card payment services would be inappropriate.

#### *Offline Payment Services - Supply-Side Factors*

102. From a supply-side perspective, many providers of offline payment services are able to supply a range of alternative products and services. They are able to expand and reposition their product offering across the various segments of the market in the short term and without incurring significant incremental costs.

103. Offline payment services are a highly dynamic industry which has evolved rapidly in recent years, with new products emerging on a frequent basis, but the two largest service providers in the UK continue to be Worldpay and Barclaycard. These companies have traditionally offered products consisting of fixed or movable POS hardware, based on a business model founded on contractual arrangements, and annual or monthly fixed fees. As shown by the share of supply data provided in Section 14 below, these offline payment services providers have leading market positions in this area in the UK, and significantly larger than the Parties’.
104. As indicated above, in recent years, companies such as iZettle introduced competing offline payment services based on a mobile POS hardware, with no contractual arrangement and no fixed fees. The arrival of newer competitors such as iZettle and SumUp, which targeted primarily SMBs in the UK, has prompted a fast, intense and aggressive reaction from the traditional POS providers who have been able to bring new and alternative products to the market, including in the SMB customer segment.
105. Traditional offline payment service providers have expanded or repositioned their product offerings in two ways:
- (a) First, they have adapted the contractual and / or pricing and fee models of their existing POS payment services to more closely mirror those of the mPOS suppliers such as iZettle.
  - (b) Secondly, they have developed and successfully launched new mPOS payment services in competition with the incumbent mPOS products.
106. As an example of the first type of strategy, Worldpay launched a “pay as you go” POS service for small businesses in 2016. Under the pay as you go POS service, rather than paying monthly or annual charges, start-ups and small business owners could opt to pay a fee every time they took a customer card payment.
107. The Worldpay managing director at the time of the launch of the pay as you go service said that *“By providing greater flexibility, simplicity and choice we want to open up the possibilities for small businesses to take card payments, regardless of the structure, size or maturity of their business, helping them grow by increasing the ways they can sell to their customers”*.<sup>27</sup>

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<sup>27</sup> See article “Worldpay launches pay-as-you-go service for small businesses” at <https://startups.co.uk/worldpay-launches-pay-as-you-go-service-for-small-businesses/>.

108. Similarly, another major POS provider, Barclaycard, has become much more transparent in its POS pricing, mirroring the more transparent business model approach of mPOS providers such as iZettle.
109. This evidence shows that traditional POS suppliers suffer virtually no barriers to expansion or repositioning into the various segments of offline payment services. These companies have far greater technical know-how, expertise, reputation, marketing and distribution channel capabilities in this area than iZettle, PayPal or any other mPOS suppliers, which they have used to successfully introduce new product offerings and models. Today, companies such as Worldpay and Barclays have a larger range of offline payment products and services than suppliers such as iZettle or PayPal.
110. Offline payment service providers compete along most product and customer segments. [REDACTED]. This reflects the recent expansion and repositioning efforts of traditional POS suppliers. Similarly, mPOS suppliers have seen an opportunity to expand their product offering to address larger size customer segments as well.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

111. The Parties note that [REDACTED], for purposes of preparing the Offering Memorandum in relation to iZettle's originally planned Initial Public Offering, which eventually was never launched. As such, the study is designed to present and highlight to potential investors the best possible overview of iZettle's business and activities. As explained above in the market definition section, this overview does not reflect the relevant antitrust market definition for payment services that is applicable to this transaction.

#### *Offline Payment Services - Demand-side Factors*

112. From a demand-side perspective, customers make use of a range of payment service options which they view as largely substitutable. From the merchant perspective, mPOS is an iteration of POS offering the same fundamental service, i.e., the ability to offer card payment to customers as a payment method. Card terminals in general deliver similar functionality to each other, as under the rules of the major debit / credit card schemes, nearly every function is pre-specified by the schemes and is not optional. Therefore, where iZettle,

PayPal Here, SumUp, WorldPay or Barclays, amongst others, overlap, the payments service itself is very similar, whether POS or mPOS. While mPOS products are particularly popular among SMBs, today traditional and non-fixed POS products represent the predominant portion (more than 83% and potentially upwards of 90%)<sup>28</sup> of card payment systems used by SMB customers in the UK.<sup>29</sup> mPOS products, on the other hand, can and are also used by medium and large merchant customers.

113. This substitutability is facilitated by the ease of customer switching for these products and services and the increasing “blurring” of the lines between traditional and mPOS providers in terms of pricing and competitive positioning.
114. Suppliers of the hypothetical mPOS sub-segment of POS payment services market their products and services on the basis of user-friendly and easy-to-understand product offerings, with transparent and straight-forward pricing models which do not lock merchants into subscriptions or long-term contracts. Similarly, traditional POS suppliers have recently modified their business model precisely to address these customers’ needs and compete more aggressively with mPOS suppliers.
115. Competition is vigorous across the POS payment services space overall and no further segmentation into mPOS would be appropriate from an antitrust perspective. Businesses including SMBs look at the range of POS providers, [✂].

[✂]

[✂]

#### *Further segmentation of the mPOS Market*

116. The Parties note the supply of offline payment services has not been previously segmented by the size of customers served. The Parties are of the view that

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<sup>28</sup> In relation to RF11 Q. 2, the Parties clarify that the total value of mPOS transactions is estimated at GBP 8.71 billion by Juniper research which means that traditional POS solutions account for at least 83% of the total value of SMB offline card payments (GBP 51.81 billion). This represents a lower bound as a material proportion of mPOS transaction value will relate to large merchants [✂]. The Parties believe that PayPal Here, iZettle, and the other providers of mPOS services (which include incumbent players such as WorldPay and Barclays) account for a combined share of up to 10% in the hypothetical segmentation of payment services (small and micro businesses, cards only); traditional and non-fixed POS products therefore represent at least 90% of card payment systems used by small and micro businesses in the UK.

<sup>29</sup> “Non-fixed” POS refers to POS terminals which are portable, but still integrated into a traditional POS system (with a typical example being the portable terminals brought to the table to take payment in a restaurant). This is in contrast with mPOS which, while also portable, operates via a mobile app.



any hypothetical segmentation of the offline payment services market or the narrower mPOS market based on customer size would not reflect the market reality that today various offline payment services are offered over a continuum of functionalities and customer segments.

117. In response to RF11 Q. 4, the Parties submit that mPOS is a very small sub-segment of the supply of POS payment services. From the merchant perspective, mPOS is an iteration of POS offering the same fundamental service, i.e., the ability to offer card payment to customers as a payment method. Card terminals in general deliver similar functionality to each other, as under the rules of the major debit / credit card schemes, nearly every function is pre-specified by the schemes and is not optional. Therefore, where iZettle, PayPal Here, SumUp, WorldPay or Barclays, amongst others, overlap, the payments service itself is very similar, whether POS or mPOS. Competition is vigorous across the POS payment services space overall and no further segmentation into mPOS would be appropriate from an antitrust perspective.
118. The Parties respectfully submit that focusing on mPOS payment services and then further segmenting into merchant size segments such as “micro” and “nano” will result in definitions of relevant segments which are not meaningful, either under the share of supply test or for the substantive assessment of the transaction. For reasons explained below, even seeking to identify customers under these descriptions creates serious methodological difficulties because no common definitions exist. Essentially customers of whatever size (or any other attributes) seek the same types of payment services. We use the CMA's terminology<sup>30</sup> for convenience, but for avoidance of doubt this is not and should not be taken as the merging Parties' agreement that these terms are a meaningful frame of reference.
119. First, it is misleading to separate out mPOS from traditional POS solutions. Regardless of what merchant segmentation one uses, traditional POS remains the preferred solution for a significant bulk (and, in most cases) the vast majority of merchants accepting electronic payment. Both POS and mPOS systems enable acceptance of card payments. In circumstances where product boundaries are in flux and where traditional players are marketing mPOS products alongside their traditional POS solutions, and where independent sales organisations such as PaymentSense are aggressively marketing traditional POS solutions to merchants across the size spectrum, such a narrow definition loses sight of the true state of competitive dynamics within the

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<sup>30</sup> In RF11 Q. 4 the CMA requested the Parties to provide share of supply for the following segments: (i) mPOS payment services to micro businesses and (ii) mPOS payment services to nano businesses.



industry. Furthermore, such a methodology ignores the competitive constraint of other payment methods, such as cash, against which the Parties must remain attractive if they are to continue growing via increasing their penetration with merchants who do not currently accept card payment at all.

120. Second, the artificial nature of segmenting the market by both payment technology and merchant size is illustrated by the size of the resulting segments and the proportion of TPV they represent: the amount of economic activity accounted for by them is extremely modest.
121. Third, segmenting between merchants of different size is inappropriate and arbitrary in circumstances where there is strong supply-side substitution and evidence of ongoing repositioning by market players. While it is true that the Parties are more focused on smaller merchants than are the major incumbents, this situation is in flux [§] with incumbent players adapting and repositioning their product range and pricing / marketing strategies to compete even more effectively in this space.<sup>31</sup>
122. Fourth, the inappropriateness of merchant-size segmentation is underlined by the lack of any industry-wide definition of different merchant size categories: [§] definitions used by iZettle are not mirrored by PayPal or other market players. The lack of agreed definition for merchant size categories renders the CMA's proposed segmentation inappropriate for conducting the share of supply test.

#### *Share of Supply Test*

123. The Parties understand that the share of supply test is not an economic assessment of the type used in the CMA's substantive assessment. However, the CMA merger guidance acknowledges that, although this need not necessarily be the case, "the CMA will have regard to any reasonable description of a set of goods or services to determine whether the share of supply test is met. This will often mean that the share of supply used corresponds with a standard recognised by the industry in question".<sup>32</sup> In other words, the share of supply test must be based on some standard objective criteria that can be easily evaluated and assessed.
124. The distinction between nano, micro and small merchants is not an industry-wide recognised segmentation. There is no uniformly applicable industry standard for segmenting the market for payment services generally, and offline

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<sup>31</sup> This issue is discussed in more detail in paragraphs 184 to 193 and Table 16 below.

<sup>32</sup> Mergers: *Guidance on the CMA's Jurisdiction and Procedure*, paragraph 4.56.

payment services in particular. Different criteria may be used by various suppliers to segment their product offerings, measure performances and identify gaps vis-a-vis competitors' products. These ranges are specific to each company. In addition, due to rapid technological development and the dynamic nature of the industry, business strategies and customer focuses are constantly adjusted and re-calibrated. This is in particular with regard to any segmentation by size of the customers, which is measured by value of card transactions processed, and which can vary materially for each customer, in a short period of time.<sup>33</sup> This would make any customer segmentation fluid and blurred.

125. In RFI1 Q. 4, the CMA acknowledges that [REDACTED].<sup>34</sup> [REDACTED] PayPal does not segment its customers in the same way. Similarly, none of the independent third-party, external reports and analyses relevant to the industry use the segmentation.
126. This introduces methodological difficulties in providing estimated shares of supply on this basis. PayPal has not been able to identify suitable third-party sources as even a starting point for determining estimated shares of supply under such segmentations. Equally, iZettle does not have a source of data available that could be used to make reliable estimates. [REDACTED]. Providing splits on this basis for third party competitors is of course even more challenging.
127. Furthermore, it would be incorrect to read [REDACTED] as suggestive of it having a narrow focus on the smallest merchants. Rather, the situation is exactly the opposite: [REDACTED]. This helps explain why other suppliers active in the supply of payments services, without the same value added services, do not recognise the iZettle segmentations. [REDACTED]. It therefore illustrates, rather than undermines, the dynamic nature of the environment [REDACTED].
128. Therefore, in the Parties' view a segmentation by customer size, particularly when applied in conjunction with a focus specifically on mPOS, would not provide a reasonable description of a set of goods or services to determine whether the share of supply test is met. It is not a "description" of these services under section 23 of the Enterprise Act 2002 to define them by reference to a subjectively identified group of customers which happen to be, to some degree, customers of the merging Parties. If a description of services could be lawfully defined under section 23 as only customers who happen, for a chosen period of time, to be among those supplied by the merging Parties, then all horizontal mergers would fall within the CMA's jurisdiction, contrary to the legislative intent

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<sup>33</sup> The TPV of customers (for example those operating at annual events such as festivals) can fluctuate significantly from one month to the next.

<sup>34</sup> [REDACTED].

that section 23 filter those mergers which may require CMA review from those that clearly do not.

#### *CMA's Substantive Assessment*

129. Even if one applied a hypothetical segmentation by customer size to determine the share of supply test, any such segmentation would be inappropriate and cannot constitute the "plausible" candidate products / services where the merging Parties overlap, for purposes of the CMA's substantive merger assessment. Furthermore, it is similarly inappropriate to artificially restrict attention to mPOS.
130. There are a number of industry factors, several of them discussed already, that would render such an approach irrelevant:
- (a) On the demand side, customers make use of a range of payment service options which they view as largely substitutable. This is the case across all customer segments including for micro, nano, small and larger customers, who purchase payment services of different types from a wide range of suppliers. This is shown by the data provided by the Parties in Table 8. The data shows that small businesses (including nano and micro merchants) use mPOS, but the vast majority of their demand is satisfied by the services of traditional POS service providers.
  - (b) Furthermore, individual customers can move rapidly between segments as their businesses grow or their circumstances change. For example, a seasonal business may appear as a "small" business in one month and a "nano" one in the next or a business may "graduate" from nano to small as they win more business without any implications for their choice of PSP.
  - (c) On the supply side, offline payment service providers offer the exact same products / services across all customer segments. In other words, the type of product and service, prices and conditions do not vary depending on the size of the customer.<sup>35</sup> While some suppliers can focus their offering across a spectrum of customer groups, this is a purely commercial decision. The lack of any material barriers to entry, expansion or repositioning across all customer segments provides

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<sup>35</sup> Providers often offer discounts for larger volumes but such discounts are not offered based on the size of the customer but become available as a function of volumes processed.

evidence of the supply-side substitutability of these products across customer segments.

131. The Parties believe that share of supply data based on such segmentation would be inappropriate either under the share of supply test or for the substantive assessment of the transaction.
132. The Parties respectfully submit that, especially for the SMB customer segment, card payments and cash are largely substitutable options. Therefore, a competitive assessment of the Parties' and competitors' position in this segment should include the role of cash in retail payments. For completeness, the Parties will also provide share of supply estimates excluding cash, to show that the transaction cannot possibly raise any competition concerns even under this hypothetical segmentation.
133. For all the reasons outlined above, the Parties submit that the supply of offline payment services should not be further segmented for purposes of product market definition.
134. For completeness, however, and in the spirit of full cooperation, the Parties provide a range of share of supply figures under narrower segmentations in the next section of the notification. As well as providing share of supply estimates for small, micro, and nano merchants within mPOS, the Parties have shown similar segmentations by merchant size for POS payments at small businesses (i.e. under a more appropriate product market definition encompassing both mPOS and traditional POS). Similarly, the Parties provide for completeness a competitive assessment under other purely hypothetical segmentations. As will be shown below, the proposed transaction will not have an anticompetitive effect under any plausible product market delineation.

#### *Geographic market definition*

135. In prior cases relating to offline payments and card processing,<sup>36</sup> the EC considered the market EEA-wide at most but left ultimate definition open. For the purposes of this notification, the Parties will provide an assessment at the UK level to show that the transaction does not raise any concerns even at the narrowest geographic level.

#### *Invoicing services*

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<sup>36</sup> See COMP/M.7711 *Advent international/ Bain Capital/ ICBPI*, September 2015, para. 23, and *ATOS Origin / Banksys / BCC*, September 2006, para. 26.

136. In *Nordic Capital / Intrum Justitia*<sup>37</sup>, the Commission considered for the first time the markets for credit management services (“**CMS**”), which refers to a number of related services that may be required by companies which provide goods or services on credit. The Commission noted that the main types of CMS that can be distinguished are: credit information and scoring, payment services, invoicing and debt collection.<sup>38</sup> Specifically, invoicing services involve generating and sending out invoices for transactions between the company and its customers.
137. Finally, the Commission considered that the different services within CMS each form a separate market.<sup>39</sup> For the purpose of that case, the Commission assessed the debt collection market only.
138. In considering only one CMS service (debt collection market), the Commission concluded the geographic market to be national in scope.<sup>40</sup>
139. In contrast to the standalone market definition of invoicing services, in its recent mobile payments decision *Bite / Tele2 / Telia Lietuva / JV* the Commission looked at payment intermediation services, as a part of the market for remote / online mobile payments.<sup>41</sup>
140. For the purposes of the present case, the Parties submit that the exact definition of the relevant product market(s) with respect to invoicing services can be left open, since the proposed transaction will not have an anticompetitive effect under any plausible product market delineation.

### Cash Advance

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<sup>37</sup> Commission Decision of 12 June 2017, Case COMP/M.8287 *Nordic Capital / Intrum Justitia*.

<sup>38</sup> Ibid. para. 12.

<sup>39</sup> Ibid. para. 23: “Most importantly, the lack of demand-side substitutability between the services is a strong argument against considering that CMS could constitute one product market. As regards the supply-side, the market investigation results confirmed that not all debt collection agencies provide the other CMS, and for those that do, these other services are often offered as ‘add-ons’, particularly on the request of customers, but would not be provided on a stand-alone basis. It would require significant investment for a debt collector to start offering the other CMS. Similarly, for providers that specialise in payment services or invoicing services, for example, starting offering debt collection services would involve the set-up of a whole new business unit – it can in no way be seen as an extension to their existing business.”

<sup>40</sup> Ibid. 85.

<sup>41</sup> COMP/ M.8251- *Bite / Tele2 / Telia Lietuva / JV*, para. 23.: “[...] *payment intermediation services, which is a so-called ‘payment over invoice’ solution where customers can pay bus or parking tickets by sending an SMS that is then reflected in the customers’ mobile invoice.*”

141. The Parties are not aware of a precedent decision specifically concerning cash advance services offered to merchants.<sup>42</sup> The Parties respectfully submit that the market definition may be left open, as the transaction will not have an anticompetitive effect under any plausible product market delineation.

**Shares of supply**

14. **Provide the shares of supply (by value and, where appropriate, volume) for the merger parties and each of their principal competitors for the Candidate Markets (see question 13).**

142. The Parties provide below estimated shares under all possible sub-segments of payment services, including (i) total payment services, (ii) online only, (iii) offline / proximity only, (iv) payment services (non-fixed POS), (v) payment services (mPOS only), (vi) payment services – small businesses only, (vii) POS payment services for SMBs – small, micro and nano merchants broken out, and (viii) mPOS payment services for SMBs – small, micro and nano merchants broken out. PayPal does not believe that such segmentations amount to relevant antitrust product markets, but provides data under all these segmentations for completeness. PayPal believes that the appropriate market definition can be left open as the transaction does not present competition concerns however the market is segmented.

143. In addition, the Parties provide below estimated shares for the supply of (i) invoicing services (ii) e-invoicing services, (iii) working capital / cash advance and (iv) working capital / cash advance services only (i.e. excluding loans).

**UK Share of Supply Estimates<sup>43</sup>**

Table 4: Payment Services Excluding cash, 2017		
	Total Payment Volume (TPV) (GBP, billion)	Estimated share of supply (by TPV)

<sup>42</sup> In Case No. IV/M.873 *Bank Austria/Creditanstalt*, March 1997, the Commission did distinguish short-term and long-term loans: “The general commercial clients business with non-banks includes, in particular, the product segments of the execution of payment transactions (in particular electronic banking services), the deposits business, the loans business, the documents business and the financing of foreign trade. The loans business as a whole is, in principle, to be divided into the segments of short term loans (operating loans) and long-term loans (investment loans)”, see paragraph 17.

<sup>43</sup> In response to RF11 Q. 3, 18, 19 and RF12 Q. 18, 19 and 20, the Parties submit **Joint Confidential Annex A.02** which contains a detailed explanation of the methodology and sources relied upon to calculate these shares of supply estimates.

PayPal	[X]	[X]
iZettle	[X]	[X]
<i>Combined</i>	[X]	[X]
Worldpay	[X]	[30-35%]
Barclays	[X]	[20-25%]
Global Payments	[X]	[5-10%]
Elavon	[X]	[5-10%]
First Data/Lloyds	[X]	[5-10%]
SumUp	[X]	[0-5%]
Square	[X]	[0-5%]
Others <sup>44</sup>	[X]	[20-25%]
Total	881.25	100%

**Table 5: Payment Services (offline only) – Total POS, 2017**

	TPV (GBP, billion)	Estimated share of supply (by TPV)	Estimated share of supply (by number of transactions processed)
PayPal	[X]	[X]	[X]
iZettle	[X]	[X]	[X]
<i>Combined</i>	[X]	[X]	[X]
Worldpay	[X]	[30-35%]	[30-35%]

<sup>44</sup> “Other” competitors in Tables 4 to 6 include mainly JP Morgan Commerce Solutions, Adyen, Shopify, Stripe, Ingenico, Sage and Payworks.

Barclays	[✂]	[20-25%]	[20-25%]
Global Payments	[✂]	[5-10%]	[5-10%]
Elavon	[✂]	[5-10%]	[5-10%]
First Data/Lloyds	[✂]	[5-10%]	[5-10%]
SumUp	[✂]	[0-5%]	[0-5%]
Square	[✂]	[0-5%]	[0-5%]
Others	[✂]	[20-25%]	[20-25%]
Total	611.75	100%	100.00%

**Table 6: Payment Services (offline only) – Non-fixed POS<sup>45</sup>, 2017**

	TPV (GBP, billion)	Estimated share of supply (by TPV)	Estimated share of supply (by number of transactions processed)
PayPal Here	[✂]	[✂]	[✂]
iZettle	[✂]	[✂]	[✂]
<i>Combined</i>	[✂]	[✂]	[✂]
Worldpay	[✂]	[30-35%]	[30-35%]
Barclays	[✂]	[20-25%]	[20-25%]
Global Payments	[✂]	[5-10%]	[5-10%]
Elavon	[✂]	[5-10%]	[5-10%]
First Data/Lloyds	[✂]	[5-10%]	[5-10%]
SumUp	[✂]	[0-5%]	[0-5%]

<sup>45</sup> This segment is a hypothetical sub-segment of all proximity payment services characterised by the mobility of the POS terminal or card reader.



Square	[✂]	[0-5%]	[0-5%]
Others	[✂]	[20-25%]	[20-25%]
Total	305.9	100%	100%

**Table 7: Payment Services (offline only) – mPOS only, 2017**

	TPV (GBP, billion)	Estimated share of supply (by TPV)	Estimated share of supply (by number of transactions processed)
PayPal Here	[✂]	[✂]	[✂]
iZettle	[✂]	[✂]	[✂]
<i>Combined</i>	[✂]	[✂]	[✂]
Worldpay	[✂]	[25-30%]	[25-30%]
Barclays	[✂]	[20-25%]	[20-25%]
SumUp	[✂]	[5-10%]	[5-10%]
Square	[✂]	[5-10%]	[5-10%]
Others <sup>46</sup>	[✂]	[15-20%]	[15-20%]
Total	8.71	100%	100%

**Table 8: Payment Services (offline only) – SMB, card at offline POS only, 2017**

<sup>46</sup> “Other” competitors in Tables 7 and 12 include mainly First Data/Lloyds, Elavon, Global Payments, JP Morgan Commerce Solutions, Adyen, Shopify, Stripe, Ingenico, Sage and Payworks.

	TPV (GBP, billion)	Estimated share of supply (by value of transactions processed)	Estimated share of supply (by number of merchants)
PayPal Here	[X]	[X]	[X]
iZettle	[X]	[X]	[X]
<i>Combined</i>	[X]	[X]	[X]
Worldpay	[X]	[35-40%]	[30-35%]
Barclays	[X]	[25-30%]	[25-30%]
Global Payments	[X]	[10-15%]	[10-15%]
First Data/Lloyds	[X]	[10-15%]	[10-15%]
SumUp	[X]	[0-5%]	[0-5%]
Square	[X]	[0-5%]	[0-5%]
Others <sup>47</sup>	[X]	[0-5%]	[0-5%]
<b>Total</b>	<b>51.81</b>	<b>100%</b>	<b>100%</b>

**Table 9: Payment Services (online only), 2017**

	TPV (GBP, billion)	Estimated share of supply (by value of transactions processed)
PayPal UK	[X]	[X]

<sup>47</sup> In Tables 8 and 11, Elavon would be the largest competitor aggregated under the “Others” category. Other players also include JP Morgan Commerce Solutions, Adyen, Ingenico, Sage, Payworks in Small & Shopify and Stripe in Micro and Nano.

iZettle	[X]	[X] <sup>48</sup>
WorldPay	[X]	[25-30%]
Barclays	[X]	[20-25%]
Global Payments	[X]	[5-10%]
Elavon	[X]	[5-10%]
First Data/ Lloyds	[X]	[5-10%]
Others <sup>49</sup>	[X]	[20-25%]
Total	269.5	100%

**Table 10: Payment Services (online only) – SMB only, 2017**

	TPV (GBP, billion)	Estimated share of supply (by value of transactions processed)
PayPal UK	[X]	[X]
iZettle	[X]	[X] <sup>50</sup>
WorldPay	[X]	[25-30%]
Barclays	[X]	[25-30%]
Global Payments	[X]	[5-10%]

<sup>48</sup> iZettle does not provide payment services online as a standalone product / service, in the UK or anywhere else. As part of its e-commerce platform, iZettle offers its merchants the possibility to offer end-customers the option to pay by card via iZettle online. Since launch in 2018, the e-commerce tool has only generated approximately GBP [X] of revenue (to June 2018).

<sup>49</sup> The “Others” category in Tables 9 and 10 would be mainly composed of Amazon, Adyen, Stripe, Shopify, JP Morgan Commerce Solutions, Sage, Ingenico, Alipay, Apple Pay, Google Pay, China UnionPay, Klarna and Paysafe.

<sup>50</sup> iZettle does not provide payment services online as a standalone product / service, in the UK or anywhere else. As part of its e-commerce platform, iZettle offers its merchants the possibility to offer end-customers the option to pay by card via iZettle online. Since launch in 2018, the e-commerce tool has only generated approximately GBP [X] of revenue (to June 2018).

Others	[✂]	[20-25%]
Total	49.7	100%

**Table 11: Offline POS Payment Services for small businesses showing small, micro, and nano merchants broken out, 2017**

	Estimated share of supply (by TPV) – Small, Micro and Nano combined	Estimated share of supply (by TPV) - Small	Estimated share of supply (by TPV) - Micro	Estimated share of supply (by TPV) - Nano
PayPal	[✂]	[✂]	[✂]	[✂]
iZettle	[✂]	[✂]	[✂]	[✂]
<i>Combined</i>	[✂]	[✂]	[✂]	[✂]
WorldPay	[25-30%]	[30-35%]	[20-25%]	[15-20%]
Global Payments	[5-10%]	[10-15%]	[5-10%]	[0-5%]
Barclays	[25-30%]	[25-30%]	[25-30%]	[15-20%]
SumUp	[0-5%]	[0-5%]	[0-5%]	[10-15%]
First Data/Lloyds	[15-20%]	[20-25%]	[15-20%]	[15-20%]
Square	[0-5%]	[0-5%]	[0-5%]	[5-10%]
Others	[0-5%]	[0-5%]	[5-10%]	[0-5%]
Total transaction value within category (GBP billion)	19.85	13.53	4.44	1.88

144. As can be seen from the Table 11 above, submitted in response to RFI1 Q. 4, while the Parties' activities are more focused on smaller merchants, their combined market shares remain modest even under the narrowest focus on nano merchants (with a combined share of supply of less than [X]). The estimates also illustrate that there is a broad range of competitors with SumUp, Square, WorldPay, BarclayCard and First Data / Lloyds particularly significant.

<b>Table 12: mPOS Payment Services for small businesses showing small, micro, and nano merchants broken out, 2017</b>				
	Estimated share of supply (by TPV) – Small, Micro and Nano combined	Estimated share of supply (by TPV) - Small	Estimated share of supply (by TPV) - Micro	Estimated share of supply (by TPV) - Nano
PayPal	[X]	[X]	[X]	[X]
iZettle	[X]	[X]	[X]	[X]
<i>Combined</i>	[X]	[X]	[X]	[X]
WorldPay	[10-15%]	[15-20%]	[15-20%]	[5-10%]
BarclayCard	[20-25%]	[30-35%]	[15-20%]	[10-15%]
SumUp	[10-15%]	[5-10%]	[10-15%]	[15-20%]
Square	[5-10%]	[0-5%]	[5-10%]	[10-15%]
Others	[15-20%]	[20-25%]	[10-15%]	[10-15%]
Total transaction value within	4.23 <sup>51</sup>	1.35	1.59	1.29

<sup>51</sup> As the CMA noted in RFI2 Q. 21, the share of supply estimates for mPOS payment services for SMBs, when compared with the Parties' share of supply estimates for mPOS payment

category (GBP billion)				
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145. As one would expect given the narrow nature of the market for mPOS payment services to micro small, micro and nano businesses respectively, the combined shares of supply of the Parties are higher than in the Table 12 above at around [✂] for the nano and micro segment. However, even under this restrictive view there remains a range of effective competitors covering both recent entrants (SumUp and Square) and traditional players (such as WorldPay and BarclayCard). The Parties submit that these shares are not meaningful and that, when they are viewed in their proper context, they do not raise any competition concerns.
146. The Parties respectfully submit that it is inappropriate to segment the market by merchant size and that, even if such an approach were appropriate, it is even less meaningful to focus only on one technological solution (mPOS) given the fact that, as documented in the tables above, even the smallest merchants can and do use traditional POS solutions to meet their needs.

Table 13: Invoicing, 2017		
	TPV (GBP, billion)	Estimated share of supply (by value of transactions processed)
PayPal UK	[✂]	[✂]

services, imply that SMBs account for less than half of the TPV for mPOS payment services in the UK. While there is inevitably a degree of uncertainty around estimates such of these, the Parties consider that the implied share of larger merchants is consistent with their market experience. While small retailers constitute a large share of total mPOS users, larger merchants are also increasingly incorporating mPOS into their businesses. For example, airlines such as Ryanair and British Airways use mPOS to take on-flight payments while Apple, the world's largest firm by market capitalisation, is likely to be the single largest user of mPOS solutions in the UK as a result of it equipping all of its in-store sales staff with mPOS devices. Other large retailers using mPOS, of which a number have opted to use a system integrator for a customised solution with the hardware and payment service itself provided by separate providers, are thought to be the following (hardware or software providers in brackets, where known): Arcadia group (e.g. Topshop) (Worldpay); Mulberry (Adyen); Superdry (Adyen); My Hermes (Payworks); Virgin Trains (Unknown); Nike (Unknown); Eurostar (Unknown); Southern Railways (Unknown); New Look (Unknown); Odeon cinema (PMC Retail); and O2 Arena (Miura).

iZettle	[REDACTED] <sup>52</sup>	[REDACTED]
<i>Combined</i>	[REDACTED]	[REDACTED]
Bank Transfer	[REDACTED]	[85-90%]
Others <sup>53</sup>	[REDACTED]	[5-15%]
Total	34.0	100%

147. In response to RF11 Q. 14 PayPal clarifies that it estimates its share of supply of e-invoicing in the UK to be less than [REDACTED]. iZettle estimates its share of supply of e-invoicing in the UK to be [REDACTED].

148. In response to RF11 Q. 15, the Parties further submit that the e-invoicing segment is still a nascent segment which is expanding rapidly with the government and private sector focus on digitization to improve efficiency. E-invoicing is a highly fragmented segment with a number of different providers looking to grow in this space. Some examples include (but are not limited to) Sage, Capita, Quickbooks, Zoho, ASG, Avalara, B2Boost, Basware, Canon, SAP Ariba, Cortex, Tungsten Network, Order2Cash, Saphety, Unified Post, and Pagero.<sup>54</sup> Given the Parties' [REDACTED] presence and insight into the e-invoicing segment in the UK, it is difficult to estimate shares of supply in e-invoicing for competitors.

<b>Table 14: Working Capital / Cash Advance,<sup>55</sup> 2017</b>		
	Advances made to UK SMEs in 2017 (GBP, billion)	Estimated share of supply (by value of advances to SME's)
PayPal	[REDACTED]	[REDACTED]
iZettle	[REDACTED] <sup>56</sup>	[REDACTED]
<i>Combined</i>	[REDACTED]	[REDACTED]

<sup>52</sup> iZettle's TPV for invoicing in 2017 was [REDACTED].

<sup>53</sup> "Other" competitors in Tables 13 and 14 are described in paragraphs 148 and 150.

<sup>54</sup> Source: <https://eespa.eu/membership-list/>.

<sup>55</sup> This covers the PayPal Working Capital and iZettle Cash Advance and Business Loan products.

<sup>56</sup> iZettle made c. GBP [REDACTED] of advances in 2017.

RBS	[REDACTED]	[20-30%]
Lloyds Banking Group	[REDACTED]	[20-30%]
Barclays	[REDACTED]	[20-30%]
Others	[REDACTED]	[20-30%]
Total	19.2	100%

149. In response to RFI1 Q. 16, PayPal clarifies that it estimates its share of supply in a hypothetical segment for cash advance services only (i.e. excluding loans) in the UK to be approximately [REDACTED]. iZettle estimates its share of supply in a hypothetical segment for cash advance services only (i.e. excluding loans) in the UK to be less than [REDACTED].

150. In response to RFI1 Q. 17, the Parties' further submit that its main competitors in cash advance services only (i.e. excluding loans) include Amazon, 365 Business Finance, Boost Capital, Capify, Capitalise, Ezbob, First Data, Funding Circle, Iwoca, Liberis, RateSetter, Shopify, Sorodo, Spotcap, Square, Tolexo, and Worldpay. The Parties have very limited insight into the possible shares of supply of competitors in a hypothetical segment for cash advance services only (i.e. excluding loans) in the UK, but would consider that Funding Circle is likely to be the largest competitor.<sup>57</sup>

151. In response to question 10 of the Merger Notice iZettle has provided [REDACTED].

[REDACTED]

[REDACTED]

152. PayPal notes that, whilst app downloads is not in any case a reliable indicator of market share, as individuals downloading an app does not in itself translate into active use of an mPOS product, in the case of PayPal Here the measure is particularly unreliable. This is because individuals in the UK (where both the PayPal (online payments) app and PayPal Here apps are available) often download the PayPal Here app by mistake, believing it to be the PayPal online payments app instead. This is exacerbated by the fact that the iOS operating

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<sup>57</sup> Funding Circle originated GBP 1.25 billion in 2017 to UK businesses. See <https://www.fundingcircle.com/uk/statistics/>.



system on Apple iPads prioritises the PayPal Here app in the iOS App Store; the PayPal Here app is displayed first. As further explained in response to RF11 Q. 23, many of these individuals complete the PayPal Here sign up process under the assumption this is required to be able to use the PayPal online payments app or PayPal Business app, thereby inflating the number of merchants registered for PayPal Here. For these reasons, PayPal Here had [REDACTED] active merchants in December 2017 compared to [REDACTED] downloads (UK only). Thus, active merchants represented only approximately [REDACTED] of downloads. As far as iZettle is concerned, despite the [REDACTED] app downloads across Europe, monthly active users in Dec 2017 corresponded to only approximately [REDACTED] of app downloads. This further emphasises that app downloads are not a reliable indicator of a service's market position and this is particularly so given that the overall number of app downloads is calculated from start of operations, and hence do not reflect live customer/current engagement.

153. Furthermore, in **PayPal Confidential Annex 035** and **iZettle Confidential Annex 036** the Parties provide data on a monthly basis for the past three years on the (i) total payments value, (ii) revenue from transactions, (iii) revenue from hardware, (iv) revenue from subscriptions / services, (v) number of merchants registered, (vi) number of active merchants and (vii) number of terminals sold.<sup>58</sup> In response to RF11 Q. 24, the Parties add that PayPal has forecasted PayPal Here UK business performance up until the FY 2018 only and no forecasts exist beyond this date.<sup>59</sup> iZettle's forecasts for each of the measures above are attached as **iZettle Confidential Annexes 037 to 039**.
154. As requested by the CMA in RF12 Q. 15, the Parties submit their UK mPOS TPV from customers acquired in 2017 and in the first half of 2018. The Parties provided a split between nano, micro, small and other customers.<sup>60</sup>

[REDACTED]<sup>61</sup>

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<sup>58</sup> In RF11 Q. 23 the CMA asked the Parties to provide the data on a monthly basis over the past five years, however, following the call between the CMA, PayPal's counsel and iZettle's counsel on 18 August, the Parties provide data on a monthly basis for the past three years. iZettle has provided data for all seven requested metrics, whilst PayPal Here does not have any revenue from subscriptions / services and hence has no information to provide on this metric. iZettle's subscription / services revenue begins in September 2016 reflecting the launch of its "Pro for Hospitality Service".

<sup>59</sup> The budget for 2019 has not yet been determined.

<sup>60</sup> [REDACTED]

<sup>61</sup> [REDACTED].

[REDACTED]<sup>62</sup>

155. The data on iZettle's mPOS TPV from customers acquired in 2017 and in the first half of 2018 is provided in **iZettle Confidential Annex 063**. This data shows that [REDACTED].

156. In RFI2 Q. 12, the CMA also requested the Parties to provide a breakdown of the proportion of new UK mPOS customers acquired in 2017 through different channels. It must be noted that PayPal cannot attribute new customer activations to specific acquisition channels with 100% accuracy. The below table is a best estimate based on the data available to PayPal:

[REDACTED]

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

157. Furthermore, in response to RFI2 Q. 13 the Parties provide the data on the average customer acquisition cost ("**CAC**") for UK mPOS consumers acquired in 2017.

158. The CAC for UK mPOS customers in 2017 for PayPal Here was [REDACTED]. This is calculated as shown in the following table:

[REDACTED]

159. During 2017 in the UK, iZettle average CAC per activated user was [REDACTED].

160. For management purposes within the company, CAC consists of three primary elements:

- Acquisition Media Expenditure (generally targeted online media activity);

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[REDACTED].

- On-boarding expense through third party services to obtain info for AML and KYC compliance;
- Card Terminal discounts where the charge made for card terminals and shipping is below the direct cost incurred by iZettle.

161. It should further be understood that the above metric is not an efficiency metric since it fails to differentiate between ongoing active users, and those who could be very ‘casual users’ or perhaps even only make one or two test transactions and never use iZettle again. On this basis, if one were to exclude all activated users who failed to transact on average once per month during the first year (less than 12 transactions in 12 months), the total users considered would be [REDACTED] less and thus the CAC per user excluding these lowest end users, would rise by [REDACTED] to approximately [REDACTED].

162. [REDACTED].

163. Both PayPal and iZettle use online paid marketing. In response to RFI2 Q. 14, the Parties submit that in 2017 PayPal Here bid for [REDACTED].

164. [REDACTED]<sup>63</sup> [REDACTED]<sup>64</sup> [REDACTED].<sup>65</sup>

165. [REDACTED].

166. [REDACTED].<sup>66</sup> [REDACTED].

167. Please see **Table 20** below for detailed data on the 10 PayPal Here keywords that generated the highest number of impressions in 2017. For the full set of data, please see **PayPal Confidential Annex 061**.

[REDACTED]

[REDACTED]<sup>67</sup>

168. Contrary to PayPal, [REDACTED],<sup>68</sup> [REDACTED] including historic players such as [REDACTED].<sup>69</sup> [REDACTED]<sup>70</sup>

63 [REDACTED].

64 [REDACTED].

65 [REDACTED].

66 [REDACTED].

67 [REDACTED].

68 Other minor bids on [REDACTED] and [REDACTED] were also placed, but these generated virtually no impressions.

69 [REDACTED].

70 The CTRs being, respectively [REDACTED].

169. Overall, the keywords generating the most traffic generally related to [X] or more generic terms [X].

### ***Horizontal effects***

15. **Provide a description of how competition works in each Candidate Market where the merger parties overlap. The description of such competitive dynamics in the Candidate Market should include (but not necessarily be limited to):**
- (a) **information on the competitive constraint posed by each of the merger parties on each other and on the competitive constraint posed by the other principal suppliers in the Candidate Market(s);**

### *Payment Services*

170. As indicated above, the transaction is highly complementary. It will combine PayPal's online payment services activities with the offline payment services activities of iZettle.
171. As is evident from the market shares presented above, the transaction will not result in a substantial lessening of competition for the supply of payment services in the UK. The Parties' combined UK share is negligible and iZettle adds very limited revenues and shares. Post-merger the Parties will continue to face intense competition from a significant number of larger and established online and offline competitors.

### *Offline Payment Services*

172. As shown above, in the area of offline payment services the post-merger entity will have insignificant shares of supply in the UK, under all possible market share methodologies. The combined firm will face intense and growing competition by a number of much larger competitors, including in particular Worldpay, Barclays and Global Payments.

### *Competitive Assessment under Narrowest Hypothetical Segments*

173. As explained above, the Parties believe it would be inaccurate to segment the supply of offline payment services more narrowly. For completeness, however, they also provide below a competitive assessment under the narrowest possible (and in the Parties' view incorrect) segmentation based on the type of payment services (fixed, non-fixed, mPOS services) and the customer size (SMBs and further distinction between nano, micro and small merchants), to

show that the transaction will not raise competition concerns even under such hypothetical segmentations.

174. Even under these narrowest possible, hypothetical, segmentations, the combined UK share of supply of the Parties will remain limited, there are numerous equivalent (actual and potential) competitive alternatives, and industry characteristics establish that the combined firm could not implement a sustained anticompetitive price increase.
175. In particular, for the reasons explained below, even under these hypothetical segments, a variety of industry characteristics establish that the transaction will not lead to a substantial lessening of competition.
- (a) First, the post-merger entity will have limited combined shares;
  - (b) Second, the Parties are not each other's closest competitor;
  - (c) Third, they will continue to face intense competition from a number of established and much larger competitors seeking to tap a vast addressable market of which they have only scratched the surface;
  - (d) Fourth, on the supply-side, there are low barriers to entry, expansion, and repositioning by a number of firms, including (a) product line expansions by traditional POS suppliers, and (b) geographic expansions by other POS suppliers; and
  - (e) Fifth, on the demand-side, merchant customers can switch easily between competing products and services, in particular as neither of the Parties' products requires merchants to sign up to long-term contracts, and all POSs are compatible with the major payment schemes.
  - (f) Sixth, the evidence shows that [REDACTED].
176. Taking the above factors into account, even in the narrowest possible (and, in the Parties' view, incorrectly defined) relevant market, the combined firm could not implement a sustained anticompetitive price increase.

### ***Limited Shares of Supply Even under Narrowing Hypothetical Segments***

177. As shown by the data in Tables 7 and 8 above, even under a hypothetical (and in the Parties' view, incorrect) market segmentation focussing just on mPOS payment services or payment services to small businesses, the individual and combined shares of supply of the Parties are limited ([REDACTED] combined for mPOS payment services and [REDACTED] combined for payment services to small

businesses). This is because even in these hypothetical sub-segmentations, the Parties' position in the UK is small compared to the one of the large and established payment service suppliers, such as WorldPay and Barclays (with estimated shares of supply of around 20-35%). PayPal Here (in Europe, only present in the UK) is itself small, and iZettle adds very limited revenues and share.

178. Therefore, even under these hypothetical market segmentations, any potential competition concerns can be excluded at the outset of the competitive assessment.

### **Closeness of Competition**

179. iZettle and PayPal Here have adopted different pricing and go to market strategies historically and the Parties' own internal analyses reflect the fact that the Parties are not each other's closest competitor. In response to question 10 of the Merger Notice [REDACTED]. This low penetration rate can be expected to change, as Square has aggressive expansion plans, having completed a USD 750 million fundraising and appointed a former senior PayPal employee to head up its European operations.

[REDACTED]

[REDACTED]

180. [REDACTED] iZettle is just one of multiple players (both entrants and more-established players) it monitors. [REDACTED]<sup>71</sup>, [REDACTED].

181. While both PayPal and iZettle provide mPOS services to small merchants, each has developed at a different pace in recent years. [REDACTED]<sup>72</sup> [REDACTED].

[REDACTED]

[REDACTED]

182. Differences in product offerings, pricing and distribution channels have meant that PayPal Here, iZettle and other competitors tend to reach different user groups. The POS market caters to a wide variety of merchant demands ranging, for example, from those who want a very simple and limited solution, to others

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71 [REDACTED].

72 [REDACTED].

who value the accessories offered by iZettle, or the low headline rates of SumUp.

183. [✂].

[✂]

[✂]

[✂]

### ***Intensity of competition***

184. As described above in paragraphs 102 to 111, the supply of offline payment services, where both PayPal (through PayPal Here) and iZettle (through the iZettle Card Reader) are active, is home to a large number of competitors. PayPal Here and iZettle face aggressive competition not only from other mPOS suppliers, such as SumUp and Square, but increasingly also by the traditional POS players, who continue to lead, by far, the UK competitive landscape. Competition focuses on offering merchants simple to use tools for accepting and administering card-based transaction payments. Providers such as Worldpay, Barclays, Global Payments, PayPal, iZettle, SumUp or Square compete to offer an integrated, end-to-end product and service offering that connects functions that have traditionally been offered in silos, such as payment processing, POS software, hardware and financial services. The overall goal is to create simplicity for merchants in what is a rapidly evolving payments landscape.

185. Each provider competes on similar terms i.e. by seeking to offer the best value proposition for payment solutions to merchants through better pricing and customer service. Price competition is fierce. Price consists of transaction fees levied on the amount transacted, the cost of a payment terminal (which can be bought or rented), and monthly subscription fees.

186. The offline payment services landscape has evolved rapidly in recent years, with new products emerging on a frequent basis, but the largest service providers in the UK continue to be the established competitors such as Worldpay, Barclaycard and Global Payments. Each of these benefits from strong incumbent positions in the UK and a pipeline of customers forged through historic and current links with High Street Banks, which provides a distribution channel through bank branches and strong brand name recognition. Each has deep pockets with which to compete vigorously and each has responded quickly to the introduction of mPOS, both through repositioning and enhancing their existing POS services, and by introducing mPOS products

(notably Worldpay Zinc (recently rebranded to Smart POS), and Barclaycard Anywhere).

187. In addition, beyond the traditional players, there is ongoing entry and geographic expansion by new companies and products / services, such as PayPal Here, iZettle, SumUp, Square, and Shopify, which have all entered the payment services space in the last five years. In addition, there are numerous independent sales organisations who operate as PSPs in the UK. The largest UK ISO would appear to be PaymentSense while others include Handepay and RetailMerchantServices.

[✂]

[✂]

188. In **Non-Confidential Annex A.04** the Parties provide a summary of some the Parties' main competitors in the UK.

189. When merchants seek out a POS solution, they face a wide offering of POS services. For this reason, providers such as PayPal Here seek to reach different customers through their marketing and payment services offering. Often, merchants use both POS and mPOS products: [✂]. For merchants in this category it would be even easier to channel transactions via alternative payment options were the price or quality offer of mPOS to deteriorate and it also illustrates that mPOS users can and do make use of traditional POS.

[✂]

[✂]

### ***Low barriers to product entry, expansion, and repositioning***

190. Even if one were to focus the assessment on hypothetical mPOS sub-segment of POS payment services, the ease of entry, expansion and repositioning in this hypothetical sub-segment would defeat any attempt to substantially lessen competition post-merger.
191. As explained above in paragraphs 102 to 111, due to the characteristics of the products and services, the way in which they are sold and provided, and the fact that many competitors already have established positions in the supply of traditional POS offline payment services, there are no significant barriers to expansion or repositioning by a number of established suppliers.
192. In **Non-Confidential Annex A.05-10** the Parties provide evidence of recent expansion efforts by traditional POS offline payment suppliers in the area of the



hypothetical mPOS sub-segment of offline payment services. These include examples of marketing campaigns and product offerings by traditional POS suppliers, such as Worldpay, Barclays, and Lloyds Bank.

193. Furthermore, apart from the recent successful expansion and repositioning efforts of traditional POS suppliers into the SMB customer segments, mPOS suppliers have seen an opportunity to expand their product offering to address larger size customer segments as well. This is shown by PayPal Here's own documents, which reflect a strategy to expand its mPOS product offerings into the mid-market customer segments, similar to the strategy of other competitors.

[✂]

[✂]

[✂]

### ***Low barriers to geographic entry, expansion, and repositioning***

194. In addition, there are low barriers to geographic expansion into nearby regions or countries. There are a number of successful POS suppliers active in the EU and other world regions. These companies are already active and have sales, distribution and marketing forces across all main global markets.
195. These companies would have the ability and incentive to expand their product offering in the UK in response to a post-merger price increase. The recent product and geographic expansion by a number of large companies, such as Square's recent entry in 2017, demonstrates that geographic expansion also poses a competitive threat to the Parties.

### ***Ease of Customer Switching***

196. As explained above, customers of mPOS services (a hypothetical sub-segment of POS services) face virtually no incremental costs, time and steps in switching between competing suppliers.
197. Due to the flexible business model adopted by mPOS suppliers, merchant customers face very low switching costs and they can and do switch easily to alternative suppliers.
198. Merchant customers need only to purchase the mobile POS card reader, set up a user account online and download the mPOS app in order to start offering a mobile offline payment solution. Switching costs are therefore extremely low.
- (a) mPOS / card readers are inexpensive, typically being priced at under GBP 100 and frequently discounted to considerably less.

- (b) Comparing prices and products is easy. Price arrangements are publicly available, and merchants can readily compare prices as a result of increased availability through online tools / guides comparing pricing and functionality of mPOS supplier products.<sup>73</sup>
- (c) Merchants are not bound by long-term contracts. All mPOS payment services are “pay as you go”, and merchants can move to any other provider without long notice periods.
- (d) There are virtually no re-training or IT costs associated with switching mPOS or card reader. POS products are generally designed to be as user-friendly as possible. No significant investment is required to replace a POS product as the basic user knowledge is common.
- (e) Beyond the provider verifying a customer’s identity (per regulatory requirements) and that the customer is credit worthy and is not conducting prohibited business, there is no qualification or approval process required to operate a POS service. This makes switching simple and quick.

199. The decision to switch is therefore of a purely commercial nature. If the Parties were to increase prices or lower the quality of their mPOS payment services post-transaction, customers would have the ability and incentive to quickly switch to one of the various alternative suppliers who aggressively compete in these segments.

200. Furthermore, such a hypothetical price increase would jeopardize the Parties’ growth aspirations, undermine their attempts to compete for the vast addressable market for their services which far exceeds their current operations, and inevitably result in them being overtaken by other players, just as PayPal Here [redacted] by iZettle.

201. The ease of customers switching is supported by [redacted] meaning they can easily switch between devices, and emphasising the low cost of signing up to an alternative mPOS supplier.

[redacted]

[redacted]

**(b) an explanation of what drives customer choice for the overlap product/services. Where relevant, the response should include the**

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<sup>73</sup> For example, <https://www.comparecardservices.co.uk>.

**identification of separate customer groups, if any, and an explanation of how the competitive dynamics differ across these customer groups;**

**(c) a description of the parameters of competition (for example, price, quality, service, innovation) and their importance relative to one another;**

202. Merchants base their choice of payment services provider on a number of different factors, with price, quality, and service all playing a role. Price is the key consideration. As explained above, price consists of transaction fees levied on the amount transacted, the cost of a payment terminal (which can be bought or rented), and monthly subscription fees. Transaction fees are charged as a percentage of the transaction amount. For example, iZettle currently charges a transaction fee of 1.75% for iZettle Go with no monthly fee, the same as that charged by Square. Competition on price is fierce, as comparison websites direct merchants to the lowest cost provider.<sup>74</sup>
203. A significant driver of increasing electronic payments is the desire by all businesses, large or small, to take card payments. Consumer behaviour is changing rapidly, as consumers expect to be able to transact anywhere, anytime and on any device, by card and (increasingly) by smartphone.
204. By the same token, the innovation level in the payment solutions landscape is increasing, reflected by the recent introduction of contactless payments and launches of various types of digital wallets such as Apple Pay, Samsung Pay and Google Pay, allowing contactless payments through mobile phones. These developments emphasize the merchant's need for simple, modern and easy-to-use POS systems to be able to manage their sales efficiently while offering customers a seamless purchase experience.
205. Service quality is another basis of competition. Competent POS providers' personnel help merchants to navigate the complex structure of payment processing and efficiently integrate their systems within the payment network and make most use of the opportunities provided by payment services processing to streamline administrative burdens and take advantage of new solutions. Established POS providers such as Barclays have an advantage stemming from their well-known brands, reputation in the market, and, where a provider (such as Barclays) offers commercial banking facilities, ability to connect with merchants through these other channels.

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<sup>74</sup> See, for example, <https://www.mobiletransaction.org/square-vs-izettle-vs-sumup/>.

206. In terms of potential separate customer groups, offline payment services are provided across customer sizes with no material distinction or differentiation of product offering. A hypothetical distinction may be drawn between small businesses and medium to large businesses. This is because the average number and value of transactions for a small business will be significantly lower, as a general rule, than for medium to large businesses. Therefore, small businesses are more likely to accept cash only rather than also accept payment by card.
207. In recent years, companies such as PayPal, iZettle, Square, SumUp, Worldpay, Barclaycard, Global Payments, Payment Sense, Lloyds and others have sought to make taking card payments easier and cheaper for small businesses, in comparison to traditional payment services solutions which charge a relatively higher fixed cost for hardware (the card reader) and monthly subscription. This distinction is increasingly less relevant, however, as the established payment services providers have adapted their business model and have sought to introduce simpler payment services solutions suitable for all businesses, whether large or small. Established players have sought to attract smaller businesses with shorter term contracts and greater flexibility. For example, Worldpay now offers a “Pay As You Go” pricing model which competes directly with the more flexible pricing policies of the newer entrants of recent years such as SumUp, Square and iZettle.
208. The blurring of the line between the product offering of established and newer providers means that customer switching easily takes place. Traditional POS and mPOS have the same essential technical functionality, necessary to meet the requirements of card schemes.
- (d) an explanation of the role and significance of product/service differentiation (including an explanation of the extent to which the merger parties’ products/services are differentiated);**
209. Card terminals in general deliver similar functionality to each other, as per rules and regulations set out by the major debit / credit card schemes: nearly every function is pre-specified by the card schemes and is not optional. Therefore, where iZettle, PayPal Here, SumUp, Square, Worldpay Zinc, and others overlap, the payments service itself is very similar.
210. The Parties and their main competitors all offer commerce solutions to an extent (for example, invoicing services and software to facilitate payments administration). For example, iZettle offers cloud-based business software point of sale solutions around managing sales data and stock data, including management of front of house operations in the hospitality segment. PayPal

Here offers a more limited functionality, with the focus being on the basic payment services.

211. One main area of differentiation is the price modelling of each supplier, as described in more detail in (e) below.
212. Another area of differentiation is the aesthetics of the hardware (card readers) which may have some limited effect on merchant choice of provider. However, the main driver is pricing and customer service standards, in which there is limited differentiation, beyond competing to lower transaction fees and provide the best possible customer service experience and ease of use.  
  
**(e) an explanation of how pricing is determined (for example, whether set by suppliers, negotiated between suppliers and customers, or the result of a bidding process organised by customers), including, in appropriate cases (as explained below), supporting documentation; and**
213. PSPs charge merchants a transaction fee for processing the payment, which generates payment processing revenues, in addition to an upfront fee or rent for the card reader, and a monthly subscription fee. Payment processing revenue depends directly on the value of card payments processed.
214. Pricing is determined by PSPs in the context of a relatively transparent market, meaning that there is constant pressure to keep fees low<sup>75</sup> as merchants can easily compare competing offers using comparison websites, and face little or no switching costs between products / services of different suppliers.
215. Should a merchant wish to switch provider, this is increasingly straightforward as 'pay as you go' becomes an increasingly prevalent approach compared to the traditional norm of long-term contracts. A new account can be set up in five minutes online, and a new card reader acquired within 48 hours. The reason why merchants use more than one POS relates to PSP costs depending on the issuing instrument. Because of this, and the ease and low cost of setting up with a new provider, some merchants use more than one card reader at the same time, which further facilitates switching between products and services of alternative suppliers.

216. Below the Parties present a detailed overview of their current UK pricing plans for their offline payment services and summary of the changes in UK mPOS transaction rates implemented in the last 2 years.

### ***PayPal's pricing***

217. In response to RFI2 Q. 8, PayPal submits that a detailed overview of PayPal's Here UK transaction fees can be found in the PayPal Here User Agreement, Section 10, which can be found online at <https://www.paypal.com/uk/webapps/mpp/ua/paypalhereterms-full>.

218. PayPal's *Merchant Rates* are set out below. PayPal considers total payments processed with PayPal Here and other PayPal Commercial Services, to calculate total monthly sales (and thereby determine an individual merchant's Merchant Rate). The Merchant Rates shown below apply to domestic payments in GBP. PayPal applies additional charges for currency conversions and cross-border payments, as well as refunds and chargebacks. Merchants can choose between the Blended fee option or the PayPal Here Interchange Plus fee option, as described below.

[✂]

[✂]

219. [✂].

*Choice between Blended fee option or the PayPal Here Interchange Plus fee option*

### ***Blended fee structure***

220. The blended fee structure can include two components: a set percentage for each transaction, plus a fixed fee for some transactions. The merchant will pay the same rate regardless of the card type used [✂].

221. The Blended fee structure may be preferred if:

- Immediate availability of funds on all the merchant's transactions is important;
- Predictable transaction costs are essential for planning;
- Quick and simple reconciliation of PayPal online payments and card sales is preferred.

### ***Interchange Plus fee structure***

222. The Interchange Plus fee structure can include three components: interchange fees (set by MasterCard and Visa),<sup>76</sup> a set percentage for each transaction, plus a fixed fee for some transactions. Interchange Plus rates apply only to transactions in which the merchant's customer has paid the merchant directly with a debit or credit card. Interchange fees may vary depending on the country of issuance, category and type of card used to make the payment. [✂].

223. The Interchange Plus fee structure may be preferred if:

- The vast majority of the merchant's sales are from consumer card types in the UK or from within the European Economic Area where interchange fees are capped;
- A delay of one to two business days to the availability of the merchant's credit and debit card funds is acceptable;
- Differing settlement times between card sales and PayPal sales don't impact reconciliation.

#### *Changes in PayPal's UK mPOS transaction rates*

224. In response to RFI2 Q. 10, PayPal submits that in June 2016 it introduced an updated rate card that gave PayPal Here customers a choice between *Blended* fees and *Interchange Plus* fees, a requirement under the new Multilateral Interchange Fee Regulations. PayPal also used this opportunity to reduce rates for merchants who were processing more than GBP 6,000 TPV per month. [✂].

[✂]

[✂]

225. In February 2018 PayPal launched an updated rate card which lowered fees for merchants processing more than GBP 1,500 per month, and further lowered fees for merchants processing more than GBP 6,000 per month. [✂].

#### ***iZettle's pricing***

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<sup>76</sup> While interchange fee payments (the payment made by a merchant's acquirer to the cardholder's issuer on each transaction) are set by the card schemes, they have since December 2015 been capped by EU regulation at 0.2% for debit cards and 0.3% for credit cards. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0751&from=EN>

226. In response to RFI2 Q. 8, iZettle submits that currently it has a primary pricing plan of 1.75% rate for all card brand and schemes and no monthly subscription costs.<sup>77</sup> This is referred to as the iZettle Go plan and covers the offline payment service and the free POS application.
227. In addition to this, merchants can take additional services from iZettle which are covered under the Go Plus and Pro for Hospitality plans. [✂].
228. In response to RFI2 Q. 9, iZettle clarifies that there are two places on the website which demonstrate pricing which is different to the 1.75%, these are:
- (a) [www.izettle.com/gb/pricing](http://www.izettle.com/gb/pricing), which states that “We offer special rates for businesses with more than GBP 8000 in card payments each month. Get in touch with us for a custom quote at [tellmemore@izettle.com](mailto:tellmemore@izettle.com).” (exact wording is currently under review);
  - (b) <https://www.izettle.com/gb/pos-systems/izettle-pro-for-hospitality>, which states that when using iZettle payments in conjunction with iZettle Pro for Hospitality software you will be automatically eligible for a rate of 1.25% across all card brand and schemes.
229. Outside of these published special rates, iZettle offers other transaction rate plans in three core groups:
- [✂]
  - [✂]
  - [✂]
230. [✂].
231. The main criteria considered in determining what rate a merchant is offered are:
- [✂]
  - [✂]
  - [✂]
  - [✂]
  - [✂]

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<sup>77</sup> Introduced in [✂].



[✂]

[✂]

232. Where applicable, [✂].<sup>78</sup>

233. There are no additional fees relating to custom transaction rates, however, there are some clauses or conditions associated with these plans.

234. Any merchant getting a discounted transaction rate from iZettle has to sign an addendum to terms. This addendum always contains the following clauses:

[✂]

[✂]

235. In addition to the above some contracts contain a clause relating to the usage of a specific product:

[✂]

[✂]

236. In response to RFI2 Q. 11, iZettle provides that as yet, [✂].

#### *Changes in iZettle's transaction rates*

237. In response to RFI2 Q. 10, iZettle submits that there are two main changes which iZettle has carried out in the past two years relating to transaction rates.

238. The first move was in [✂], changing from a 'smart rate' (variable scale between 2.75% and 1% depending on monthly volume) to a fixed rate offer of 1.75%. The main reasons for this change were as follows:

[✂].

[✂].

[✂].

239. The second change was the 1.25% flat rate offer across all card brand and schemes which is now advertised in conjunction with iZettle Pro for Hospitality:

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<sup>78</sup> Illustrated by default pricing of 1.25% for merchants using iZettle Pro for Hospitality where merchants are typically larger: <https://www.izettle.com/gb/pos-systems/izettle-pro-for-hospitality>.

<https://www.izettle.com/gb/pos-systems/izettle-pro-for-hospitality>. This offer was started following the acquisition and re-brand of intelligentpos ltd to iZettle Pro for Hospitality. The rationale for this price point is that [✂].

**(f) an explanation of the supply chain (including distribution channels) for the product(s)/services(s), and of any differences between separate geographic areas, where the merger parties overlap, in relation to the supply of the same products/services.**















240. Processing card payment transactions requires close coordination among a number of industry participants providing the services and infrastructure required to enable such transactions. These participants consist of merchants, payment service providers, acquiring processors, card and payment schemes and issuing banks. Within this ecosystem, payment service providers act as the touch point between the merchant and the rest of the payment chain. This payment chain and the involved parties are outlined below.

- *Merchant*: A provider of goods and services that consumers purchase.
- *Payment service provider (PSP)*: Provider of the payment services that holds the direct relationship with the merchant and facilitates the rest of the payment transaction on behalf of the merchant.
- *Acquiring processor*: Provider of the back-end technology and transaction services that facilitates the flow of funds and payment information between the PSP and the card and payment schemes on behalf of the acquiring bank.
- *Card and payment schemes* (e.g. Visa, MasterCard and American Express for card payments or iDeal for alternative payment methods): Provider of the infrastructure for card payment information and funds to flow between the acquiring bank, its associated acquiring processor and the issuing banks around the world.
- *Issuing bank*: The financial institution that issues the merchant's customer's payment card.
- *Acquiring bank*: The financial institution associated with the acquiring processor.

241. In response to RFI1 Q. 5, the Parties clarify that acquiring processors facilitate the exchange of data and the flow of funds on payment card transactions between a merchant and the entity that issued the card being used in the transaction. PSPs by contrast provide merchants with one-stop solutions for

accepting payment cards, where acquiring processing is one part (but only part) of the payment-card solution. Most acquiring processors are also PSPs.

**Table 22: PSPs and Acquiring Processors**

Competitor		Primary Role in Offline Payment Services
 worldpay	<b>WorldPay</b>	Acquiring Processor / PSP
 barclaycard	<b>Barclaycard</b>	Acquiring Processor / PSP
 globalpayments	<b>Global Payments</b>	Acquiring Processor / PSP
 Elavon	<b>Elavon</b>	Acquiring Processor / PSP
 adyen	<b>Adyen</b>	Acquiring Processor / PSP
 FirstData <small>LLOYDS BANK</small> <b>First Data / Lloyds Bank Cardnet</b>	<b>First Data / Lloyds Bank Cardnet</b>	Acquiring Processor / PSP
 sum up	<b>SumUp</b>	PSP
 Square	<b>Square</b>	PSP
 stripe	<b>Stripe</b>	PSP
 shopify	<b>Shopify</b>	PSP <sup>79</sup>
 Verifone®	<b>Verifone</b>	POS Hardware / Card Terminals
 ingenico	<b>Ingenico</b>	Acquiring Processor / POS Hardware / Card Terminals
 payment sense.	<b>PaymentSense</b>	Independent Sales Organisation <sup>80</sup>
 handepay <small>HANDEPAY SERVICES</small>	<b>Handepay</b>	Independent Sales Organisation

<sup>79</sup> Primarily an e-commerce platform, for the purposes of the PSP / Acquiring Processor distinction, Shopify is closest to a PSP.

<sup>80</sup> Independent sales organisations ("ISOs") aggressively market POS solutions to merchants alongside other solutions to businesses on behalf of third party providers in return for commission on each sale made. Established players, including First Data / Lloyds, make extensive use of ISO services as an additional distribution channel for their products.

	<b>Retail Merchant Services</b>	<b>Independent Sales Organisation</b>
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242. In response to RF11 Q. 6, the Parties add that from the merchant’s perspective, both PSPs and acquiring processors provide the same essential payment services, even if there are technical differences in how this service is delivered. A PSP such as iZettle will supply a merchant with a terminal (e.g. an mPOS terminal) and the software needed to accept payment cards. When the terminal is then used for a payment-card transaction, a PSP such as iZettle will forward a request for authorisation to the acquiring processor, whereupon data will be forwarded over a card scheme’s switch to an issuing processor, whereupon it is delivered to the issuer of the card being used in the transaction. The response to the request for authorisation is then sent back to the PSP and the merchant over the same chain. If the transaction is approved, the acquiring processor is involved again in the flow of funds, delivering the funds received from the issuer (via the issuing processor) to the merchant’s acquiring bank.
243. The selection of the acquirer is handled for the merchant by the PSP, and the selection of the acquiring processor is handled by the acquirer. [REDACTED].
244. If dealing directly with acquirers, merchants source the terminals from the acquirer or may prefer to buy or rent the terminals from a terminal supplier. Each acquirer will have a relationship with an acquiring processor.
245. The Parties most obviously compete with other PSPs to provide payment-card solutions to merchants, whether the solution is for offline POS payment card transactions or for e-commerce transactions. However, many merchants (in particular larger merchants) use more of a “do it yourself” (“**DIY**”) model in which, rather than using a PSP, they contract directly with an acquiring bank (“**acquirer**”) and use terminals that are either supplied by the acquirer or by a third-party terminal supplier. In this DIY approach, the acquirer typically hires the acquiring processor. When a merchant is deciding between using a PSP or going with a DIY approach, there is effectively competition between PSPs on the one hand and the providers of components of the DIY solution on the other.
246. The competitors identified by the Parties in Tables 4 – 12 differ in the range of services provided. Some firms (e.g. PayPal, iZettle, SumUp, Square, Stripe, Shopify) operate only as PSPs. These firms will “outsource” acquiring and acquiring processing. Other competitors identified (e.g., Worldpay, Barclays, Global Payments) are vertically integrated and offer one-stop shop PSP

services (including mPOS terminals), but also operate as acquirers (including back-end acquiring processing) for merchants that use a DIY approach.

16. **For Candidate Markets characterised by bidding processes and/or where customers typically issue requests for quotations, provide bidding data setting out any bids made by each of the merger parties to win business in the overlapping markets.**
247. Not applicable.

#### ***Increase in the merger parties' buyer power***

17. **If applicable, for any product(s) (including raw materials) or service(s) which the merger parties both purchase, provide details of the merger parties' ability to obtain more favourable commercial conditions from suppliers as a result of this merger and the effects, if any, of such increased ability on competition at any levels of the supply chain.**
248. The Parties both purchase hardware (card readers and other hardware such as cash registers) from third party providers. The Parties do not expect to obtain significantly more favourable commercial conditions from suppliers as a result of the merger. They may be able to negotiate a slightly lower price with hardware (mostly card reader) manufacturers as a result of combining their purchase volumes, but this is not expected to be significant given the small size of their operations relative to other purchasers of POS hardware.
249. The Parties both use and pay fees to acquiring processors, which facilitate the flow of funds and payment information between PSPs such as PayPal or iZettle and the card and payment schemes on behalf of the acquiring bank. It is unlikely that the Parties would be able to negotiate a noticeably better price with acquiring processors. The same acquirer banks and processors are also often providers of payment processing services directly to merchants (as shown in Table 22) and therefore enjoy a much greater competitive advantage vis-a-vis providers such as iZettle, as there is an elimination of double marginalisation for these vertically integrated acquirer processors who provide services directly to merchants.

#### ***Loss of potential competition***

18. **Describe whether any merger party has plans or has attempted in the last three years to start supplying product(s)/service(s)/geographic area(s) which it does not currently supply but which the other merger party is already supplying (or expected to supply). If so:**

- (a) Provide any internal documents setting out plans of any merger party to expand in the overlapping product(s), service(s) and/or geographic area(s) or to enter a market where another merger party is operating.**
- (b) Explain what barriers to entry or expansion exist for each merger party to start supplying product(s)/service(s)/geographic area(s) which it does not currently supply but which the other merger party is already supplying (or expected to supply).**

250. As explained before, the payment services market is characterised by rapid innovation by a broad range of incumbent players and new entrants resulting in growing penetration of electronic payment and an increased blurring of market boundaries.
251. There are no products intended to be launched by either party in the near future in the UK, which the other merger party is already supplying (or expected to supply).
252. For completeness, although it does not concern the UK [✂].
253. As indicated above, barriers to entry or expansion into to new markets are extremely low, and they largely consist in (i) establishing new connections and relationships with banking and acquiring service providers locally, and (ii) funding the marketing required to break into a new market and compete for the existing customer base. These barriers are limited for both Parties in the UK as they have already entered the UK market.
254. In response to RF11 Q. 13, the Parties provide a detailed description of their pipeline projects with regards to payment services and in case of iZettle also e-commerce capabilities below.

*iZettle's pipeline projects in payment services*

255. iZettle's product development team [✂].
256. The table below provides an overview of iZettle's current pipeline projects in payment services (both online and offline) for SMBs, micro businesses, or nano-businesses relevant to mPOS.

[REDACTED]

[REDACTED]<sup>81, 82</sup>

*iZettle's pipeline projects in relation to its e-commerce capabilities*

257. In response to RF12 Q. 6, iZettle clarifies that its development efforts in the area of e-commerce solutions are conducted together with its white-labelling partner [REDACTED] (which provides many core components of the iZettle e-commerce solution). iZettle and [REDACTED] both work with agile development methodologies. [REDACTED].

258. In particular, iZettle intends to engage in the following initiatives:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

259. [REDACTED]

[REDACTED]

[REDACTED]<sup>83</sup>

*PayPal's pipeline projects in payment services and mPOS*

260. The table below provides an overview of PayPal Here's current pipeline projects in payment services (both online and offline) for SMBs, micro businesses, or nano-businesses, relevant to mPOS.

261. Generally speaking, [REDACTED].

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81 [REDACTED].

82 [REDACTED].

83 [REDACTED].

[✂]

[✂]<sup>84</sup>

### ***Vertical effects***

19. **If the merger parties operate at different levels of the supply chain (that is, a merger party is engaged in activities upstream or downstream of the activities in which the other merger party is engaged), describe the impact of the merger on the ability and incentive of the merged entity to foreclose rivals (including partial and/or full foreclosure) post-transaction, either by limiting the supply of key inputs or access to customers.**
262. There are no significant vertical relationships between the activities of the Parties or the Parties and their competitors. Please also refer to the discussion in paragraphs 84-86 of this Notice.

### ***Conglomerate effects***

20. **If the merger parties are active in “related” markets (eg products that are complementary or that belong to a range of products generally purchased by the same set of customers) and their individual share in any such related Candidate Market exceeds 30%, describe the impact of the merger on the ability and incentive of the merged entity to foreclose rivals (including partial and/or full foreclosure) post-transaction, either by limiting the supply of inputs or access to customers.**
263. Not applicable. For reference, please see paragraphs 15 to 16 above for a discussion of the complementarity of the Parties.

### ***Entry or expansion***

21. **Where notifying parties would like the CMA to consider whether or not the merged entity will be subject to constraints from potential entry or expansion, provide a description of the barriers to entry and expansion with respect to the Candidate Market(s).**
22. **If the notifying parties wish the CMA to consider potential entry or expansion in its competitive assessment, notifying parties should provide:**



- (a) **details of any expansion, entry or exit in any of the Candidate Markets over the past five years, and**
- (b) **details of any companies that the notifying parties believe are likely, post-merger, to enter or expand into any of the Candidate Markets in a sufficiently timely manner so as to adequately constrain the merged entity,**

**including, in either case, any available evidence for that submission and contact details for any companies named.**

- 264. Please refer to the discussions about low barriers to product and geographic entry, expansion, and repositioning in paragraphs 190-195 above.
- 265. As described in detail above, the area of payment services is dynamic and has seen numerous new entrants in the past five years. The Parties themselves both entered the UK market within the past five years.
- 266. In the area of working capital / cash advance, new entrants in the past five years include: iZettle, Funding Circle, Zopa, Spotcap, Ebury, Ezbob, iwoca, PayPal and RateSetter.<sup>85</sup>
- 267. The Parties are not aware of any plans by potential new entrants. Plausible new entrants could include Amazon and Revel Systems.

### ***Countervailing buyer power***

- 23. **Where notifying parties would like the CMA to consider whether or not the merged entity will be subject to countervailing buyer power, explain, with evidence where available, how the merged entity will be subject to this constraint.**
- 268. iZettle and PayPal Here merchants are not tied to term contracts. All payment services are “pay as you go”, and merchants can move to any other provider without long notice periods or additional costs payable to iZettle. This means that merchants can and do exercise competitive pressure by switching to alternative providers, as per the examples provided at paragraph 215 above.

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<sup>85</sup> In response to RF11 Q. 27, the Parties have provided contact details of all new entrants referred to in response to question 22 at **Joint-Confidential Annex 040**.

### ***Efficiencies and customer benefits***

24. **Where notifying parties would like the CMA specifically to consider at phase 1 any efficiencies or relevant customer benefits that the notifying parties believe will arise from the merger, describe such efficiencies and provide any documents prepared internally or by external consultants that discuss such expected efficiencies or relevant customer benefits.**
269. The transaction will combine two complementary product offerings and geographies, and in particular PayPal's online payment service solutions with iZettle's in-store / offline product offerings, helping to build a proposition for merchant customers, particularly small business merchants, with enhanced omni-channel integrated solutions to help grow and manage their businesses.<sup>86</sup> Merchants are expected to increasingly demand omni-channel solutions to taking payments to reflect their own evolution towards a multi-channel sale strategy, and there are material invoicing, inventory management and administration benefits to be realised by taking all payments through a single provider.
270. While PayPal already operates both an online and offline payment service business, [REDACTED].
271. A number of other companies have been investing significantly in this area. With the acquisition of iZettle, PayPal hopes to develop a more effective omni-channel solution than the one that each party would be able to offer on a stand-alone basis, to the benefit of existing PayPal and iZettle merchants, as well as new customers.

### ***Other information***

25. **Provide any other information that the notifying parties consider may be relevant to the CMA's Phase 1 investigation.**

### ***Broker Reports***

272. [REDACTED].
273. In response to RFI1 Q. 21, the Parties submit **Non-Confidential Annexes 005 to 030**, broker reports issued by JP Morgan, Morgan Stanley, Barclays, Jefferies, Raymond James and Cantor Fitzgerald, which mention the valuation

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86 [REDACTED]

and / or financial forecasts for Square or SumUp (if available) in the last three years.

274. In response to RF11 Q. 22, the Parties submit **Non-Confidential Annexes 031** to **034** being broker reports issued by Citi, Credit Suisse, Morgan Stanley and Piper Jaffray, which discuss PayPal's acquisition of iZettle.

**Churn data**

275. In response to RF12 Q. 4, the Parties explain how they sample merchants for inclusion in their churn surveys.

*PayPal*

276. The request<sup>87</sup> to participate in the churn survey was sent to PayPal Here merchants that met the following criteria:

[✂]

[✂]

[✂]

*iZettle*

277. [✂]

278. [✂]

[✂]

[✂]

[✂]

[✂]

[✂]

[✂]

[✂]

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<sup>87</sup> In response to RF12 Q. 3, PayPal submits the churn survey questionnaire used for the surveys at **PayPal Confidential Annex 050**.

[✂]

[✂].

[✂].

[✂]

[✂];

[✂].

[✂].

***Post-integration steps***

279. In response to RFI2 Q. 24, PayPal has submitted all integration steps to follow immediately at or after completion of the transaction. Please see the email from Bill Batchelor to Anna Caro of Monday 17 September 11:39 GMT and **PayPal Confidential Annex 097**.

***iZettle's response to the i-Zettle specific RFI2***

280. Please find attached iZettle response to RFI 2 as **iZettle Confidential Annex 098**.

## **PART V – Third party contact details**

26. **Provide contact details for the relevant competitors and customers of the merger parties for (where applicable):**

**(a) each of the Candidate Markets in which they overlap;**

281. In response to RFI1 Q. 25, the Parties have provided contact details for each of the Parties' top-five competitors in each candidate market at **Joint-Confidential Annex 040**. In response to RFI2 Q. 22, the Parties have submitted updated details separately on 14 September 2018 (email from Nick Wolfe to Anna Caro, 15:22 GMT) and further updated details at **Joint-Confidential Annex 094**.<sup>88</sup>

282. In response to RFI2 Q. 23, the Parties have submitted contact details at **PayPal Confidential Annex 095** and **iZettle Confidential Annex 096** for their:

- five largest UK customers;
- ten largest 'small' UK customers;
- 20 largest 'micro' UK customers; and
- 20 largest 'nano' UK customers.

**(b) each of the Candidate Markets in which the merger parties have a vertical relationship (providing contact details for the relevant competitors and customers of the merger parties on the upstream and downstream markets on which each merger party is active); and**

**(c) each of the Candidate Markets in which each of the merger parties provides related products/services.**

27. **To the extent applicable, provide contact details for relevant suppliers providing an estimate of the annual value and/or volume of purchases.**

28. **To the extent applicable, provide contact details for each of the companies that the notifying parties consider are likely to enter and expand into any of the Candidates Markets.**

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<sup>88</sup> In its response to RFI2 Q. 22, iZettle requested a waiver from supplying the investor contact details requested in RFI1 Q. 28.

29. **Provide the name and contact details, including address, and email address and telephone number, of:**
- (a) **any relevant regulatory authorities covering the industry in which the merger parties overlap, have a vertical relationship, or supply related product(s)/service(s).**
  - (b) **any trade associations which cover the industry in which the merger parties overlap, have a vertical relationship, or supply related product(s)/service(s).**
283. In response to RF11 Q. 26, the Parties have provided contact details of relevant regulatory authorities and trade associations in each candidate market and these are provided at **Joint-Confidential Annex 040**.

## **PART VI – Declaration**

### ***Declaration***

This Declaration must be signed by a duly authorised person or on behalf of each of the notifying parties:

*I declare that, to the best of my knowledge and belief, the information given in response to the questions in this Notice is true, correct, and complete in all material respects.*

*I understand that:*

*It is a criminal offence under section 117 of the Enterprise Act 2002 for a person recklessly or knowingly to supply to the CMA information which is false or misleading in any material respect. This includes supplying such information to another person knowing that the information is to be used for the purpose of supplying information to the CMA;*

*The CMA may reject any Notice if it is suspected that it contains information which is false or misleading in any material respect;*

*The CMA conducts both Phase 1 and Phase 2 investigations. In the event that the merger is referred for a Phase 2 investigation, information provided to the CMA during the course of the Phase 1 investigation will also be used for the Phase 2 investigation; and*

*The CMA will bring the merger described in this Notice, and the fact that the Notice has been given, to the attention of interested parties.*

*Signed:*

*Name: (block letters)*

*Position: (block letters)*

*Date:*

In addition to the above Declaration, the Declaration below should also be signed by a duly authorised person or on behalf of each of the notifying parties if the merger parties are appointing legal representatives:

*I confirm that the representative(s) (if any) named in reply to question 1(b) is/are authorised for the purposes of proceedings related to the arrangements described under question 2 to act on behalf of the merger parties respectively specified in*

*response to question 1(b) of this Notice. I hereby specify the address of the representatives named in reply to question 1(b) as an address at which PayPal will accept service or take receipt of documents in accordance with section 126(4) of the Enterprise Act 2002.*

*Signed:*

*Name: (block letters)*

*Position: (block letters)*

*Date:*