

Completed acquisition by PayPal Holdings, Inc. of iZettle AB

Issues statement

15 January 2019

The reference

1. On 5 December 2018, the Competition and Markets Authority (CMA), in exercise of its duty under section 22(1) of the Enterprise Act 2002 (the Act), referred the completed acquisition by PayPal Holdings, Inc. (PayPal) of iZettle AB (iZettle) (the Merger) for further investigation and report by a group of CMA panel members (the Group).
2. In exercise of its duty under section 35(1) of the Act, the CMA must decide:
 - (a) whether a relevant merger situation has been created; and
 - (b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition (SLC) within any market or markets in the United Kingdom for goods or services.
3. In this statement, we set out the main issues we are likely to consider in reaching our decision, having had regard to all the evidence available to us, including the evidence referred to in the CMA's phase 1 decision to refer the Merger for further investigation (the Reference Decision).¹ This does not preclude the consideration of any other issues which may be identified during the course of our inquiry.
4. We are publishing this issues statement in order to assist parties submitting evidence to our inquiry. The issues statement sets out the issues we currently envisage being relevant to our inquiry and we invite parties to notify us if there are any additional issues which they believe we should consider.
5. Throughout this document, where appropriate, we refer to PayPal and iZettle collectively as 'the Parties' and together as the Merged Entity.

¹ [The Reference Decision](#), 26 November 2018.

Background

6. On 20 September 2018, PayPal acquired iZettle under a share purchase agreement dated 17 May 2018 for approximately \$2.2 billion.
7. PayPal is a technology platform company headquartered in San Jose, California. Among other activities, PayPal provides online and offline payment services that allow merchants to accept online and offline card payments (eg Visa, Mastercard and American Express) from end-customers. In the UK, PayPal provides offline payment processing services to merchants through its PayPal Here reader. PayPal's turnover in 2017 was approximately £9.69 billion worldwide.
8. iZettle, headquartered in Sweden, is a financial technology company that provides payment services solutions with a particular focus on small businesses. iZettle mainly provides payment services that allow merchants to accept offline card payments from end-customers. In the UK, iZettle provides offline payment services to merchants through its iZettle reader. iZettle's turnover in 2017 was approximately £87 million worldwide.
9. The Parties overlap in the UK in the supply of offline payment services (ie in-store or where the customer is purchasing a product or service face-to-face with the merchant) through mobile point of sale (mPOS) devices. mPOS devices enable merchants to accept card payments using an app downloaded onto a smartphone or tablet, which is connected to a card reader. mPOS is a relatively new technology enabling small businesses to accept card payments.
10. To take card payments through an mPOS device, a merchant signs up to the service, downloads an app, and purchases an mPOS card reader which is connected to a smartphone or tablet. This contrasts to non-mPOS card reader devices, which are standalone devices that connect to the payment system via Wi-Fi or a wired or mobile connection.
11. The mPOS card reader is supplied for a fixed fee (usually £20-60), and transaction fees are charged for each payment taken. There are usually no monthly fees and merchants do not need to open merchant bank accounts. Instead, merchants have to pay a transaction fee to the mPOS provider for each completed transaction.
12. An emerging trend in payment services is the supply of 'omni-channel payment services'. The scope of such services may vary, but in its most basic form it refers to the provision of an integrated online and offline payment service, allowing merchants to take all payments through a single provider. At phase 1, the Parties submitted that merchants' evolution towards multi-channel sales strategies is expected to increase demand for this kind of

integrated service offering. Integrated payment services are also expected to generate material invoicing, inventory management and administration benefits to merchants.

13. The Reference Decision considered that PayPal is already present in the supply of omni-channel payment services as it already offers both online and offline payment services. In the Reference Decision, iZettle was identified as a potential entrant, noting that it had recently started offering a limited e-commerce tool.
14. PayPal submitted that the rationale for the Merger is to combine two complementary product offerings and geographies, in particular PayPal's online payment services with iZettle's offline payment services, so as to help build a proposition for merchants, particularly small businesses, to help them grow and manage their businesses with enhanced omni-channel payment solutions. The Parties submitted that, post-Merger, the Merged Entity will be able to offer merchants more enhanced omni-channel payment services than either Party would be able to offer on a standalone basis.

Frame of reference

15. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the CMA's analysis of the competitive effects of a merger in any mechanistic way. In assessing whether a merger may give rise to a SLC, the CMA may take into account constraints from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others.²
16. The Parties overlap in the supply of offline payment services through mPOS devices (see paragraphs 18 to 23). Further, we will consider the potential future overlap in the supply of omni-channel payment services to small (including very small) customers (see paragraphs 24 to 27). In the Reference Decision these were referred to as small, micro and nano customers.
17. Both Parties also supply some complementary services for small businesses in the UK, namely e-invoicing and cash advances. However, the Reference Decision reported that iZettle's revenues from these ancillary services are minimal, and the available evidence indicates that there are numerous credible alternative suppliers. Therefore, we do not propose to consider any standalone markets in these ancillary services where the Parties overlap.

² [Merger Assessment Guidelines](#) (CC2 (Revised)/OFT1254), September 2010, paragraph 5.2.2.

Offline payment services

18. As set out in the Reference Decision, the Parties submitted that the product frame of reference should be (at least) the supply of offline payment services via POS terminals, ie including the supply of offline payment services via mPOS devices as well as via non-mPOS devices, without any segmentation by type of technology or customer size. The Parties have told us small merchants are more likely to use other means than mPOS to take card payments. They have also said that this is a dynamic area with new technologies being developed (such as the likely future introduction of tap-on-glass card readers, where cards can be read directly from the merchant's mobile phone); and where alternative non-card payment means (such as electronic wallets and marketplace apps) are removing the need to take card payments.
19. The Reference Decision considered whether it was appropriate to segment the supply of offline payment services by: (a) mPOS devices and non-mPOS devices; (b) customer size; and (c) cash.
20. The Reference Decision found that non-mPOS devices should be excluded from the frame of reference. This was because, for smaller merchants with a limited number and value of card transactions, non-mPOS devices are generally costlier with monthly subscription costs and long-term contracts, unlike mPOS devices. The CMA also heard that the customer acquisition models for mPOS and non-mPOS services were substantially different limiting potential supply side substitution. Instead the Reference Decision stated that any constraint exercised by the supply of offline payment services via non-mPOS devices would be taken into account, to the extent relevant, within the competitive assessment.
21. The Reference Decision considered evidence to support segmentation of the supply of offline payment services by customer size. Some demand-side differences were recognised (see paragraph 26). However, the Reference Decision did not conclude on this as the competitive assessment would not materially vary whether carried out on the basis of a single segment for all customers or of separate sub-segments for different customer sizes.
22. The Parties submitted that cash should be included within the relevant frame of reference (or at least within the CMA's competitive assessment). The Reference Decision rejected this; given the trends applying to small businesses, it found that it was not plausible for a large number of merchants to switch back to taking cash rather than card payments such that it would be sufficient to constrain suppliers of offline payment services via mPOS devices from increasing prices.

23. The Reference Decision therefore assessed the Merger in the supply of offline payment services via mPOS devices in the UK.

Omni-channel payment services to small, micro and nano customers

24. The Reference Decision assessed the impact of the Merger separately in the supply of omni-channel payment services. The Reference Decision also considered whether a frame of reference for omni-channel payment services should be segmented by customer size (so that supply to small, micro and nano customers is considered separately to supply to larger customers). The Parties submitted that such a segmentation would be inappropriate, as the supply of omni-channel payment services requires the same expertise and ability regardless of customer size.
25. The Reference Decision found evidence to indicate that there already is, or will be in the near future, significant customer demand for omni-channel payment services.
26. The Reference Decision noted available evidence indicates that smaller merchants have different demands and requirements for offline payment services via mPOS devices than larger merchants for these services. As customers for omni-channel payment services will be a subset of customers for offline payment services, it concluded the same differences between merchant sizes are likely to be found in both markets.
27. The Reference Decision therefore assessed the Merger in the supply of omni-channel payment services to small, micro and nano customers.

Geographic scope

28. The Parties submitted that the appropriate geographic frame of reference was at least EEA-wide.
29. The Reference Decision noted that: (a) there are no factors (such as local variations in pricing or other elements of the offering) that suggest that the frame of reference should be narrower in scope than UK-wide for either offline payment services via mPOS devices or omni-channel payment services; and (b) while suppliers of offline payment services via mPOS devices and/or omni-channel payment services are active in multiple countries, there are barriers to suppliers that wish to enter the UK, such as the need for extensive industry and local regulatory knowledge, technology expertise, brand recognition and marketing capabilities.
30. The Reference Decision therefore considered the Merger within a UK-wide frame of reference.

Approach in phase 2

31. While we will use the frames of reference used in the Reference Decision as a starting point for our phase 2 investigation, we will investigate:
- the constraints imposed by non-mPOS devices in the supply of offline payment services via mPOS devices;
 - whether non-card-based payment systems are a constraint on the supply of offline payment services via mPOS devices;
 - whether there is a market for omni-channel payment services distinct from the separate provision of online and offline payment services;
 - whether the Merger should be assessed with reference to different customer size segments, for offline payment services and/or for omni-channel payment services; and
 - whether new technologies can be expected to change constraints on the supply of offline payment services via mPOS devices.

Assessment of the competitive effects of the merger

Counterfactual

32. The application of the SLC test involves a comparison of the prospects for competition with the Merger against the competitive situation without the Merger. The latter is called the 'counterfactual'. We will, therefore, assess the possible effects of the Merger on competition compared with the competitive conditions in the counterfactual situation (ie the competitive situation absent the Merger).
33. For completed mergers, the CMA generally adopts the pre-merger conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available, it is the most likely scenario, in the absence of the merger. The CMA may examine several possible scenarios, one of which may be the continuation of the pre-Merger situation; but ultimately only the most likely scenario will be selected as the counterfactual.
34. We also note that for the purposes of the Reference Decision, the CMA considered whether there was a realistic prospect of a counterfactual that was more competitive than the pre-merger conditions, whereas in a phase 2 investigation the CMA considers what is the most likely counterfactual.

Therefore, it is possible that our assessment at phase 2 may differ from the Reference Decision, and we will consider where within the merger assessment framework these issues may most effectively be assessed.

35. A number of issues are referred to within the Reference Decision which could be considered as part of the counterfactual, or within the competitive assessment, as they refer to possible aspects of how competition may develop in the future. We will therefore consider whether relevant issues should be assessed within the counterfactual assessment or in the competitive assessment.
36. The issues which are relevant to assessing the effects of the Merger include:
- Whether the counterfactual should include the entry by one of the Parties into the market of the other, or if already within the market, whether it would have expanded absent the Merger.³
 - Whether PayPal was likely to have invested in developing its offline payment services via mPOS devices, through its PayPal Here business, in the absence of the Merger (or taken alternative action such as an alternative acquisition);
 - Whether and how PayPal and iZettle would have developed their omni-channel payment services capabilities, individually or in partnership with alternative providers, absent the Merger.
37. We also note that prior to the acquisition by PayPal, iZettle had been preparing an initial public offering (IPO). This planned IPO was abandoned in light of the Merger. However, the acquisition price paid by PayPal is considerably greater than iZettle's valuation prepared for the purposes of the IPO. We shall investigate the reasons for this and consider whether this provides evidence on the counterfactual and/or the competitive effects of the Merger.

Theories of harm

38. Theories of harm describe the possible ways in which an SLC could arise as a result of a merger and provide the framework for our analysis of the competitive effects of the merger. We have set out below the theories of harm which we intend to investigate. However, we may revise our theories of harm as our inquiry progresses. Also, the identification of a theory of harm does not

³ [Merger Assessment Guidelines](#), paragraph 4.3.19.

preclude an SLC being identified on another basis following further work by us, or the receipt of additional evidence.

39. We welcome views on all the theories of harm set out below. At this stage, we are currently working on two horizontal theories of harm relating to the effect of the Merger on actual or potential competition in the UK. The concern under a horizontal (unilateral) effects theory of harm is that the removal of one party as a competitor could allow the remaining suppliers, including the Merged Entity, to increase prices, lower quality, reduce the volume or range of their services and/or reduce innovation, all relative to the counterfactual.

Horizontal unilateral effects in the supply of offline payment services via mPOS devices in the UK

40. At phase 1, the CMA considered whether the Merger may result in a reduction in competition in the supply of offline payment services via mPOS devices in the UK.
41. In the Reference Decision, evidence was presented that the Parties are the two largest suppliers of these services in the UK, with a combined market share of [80-90%] and a merger increment to the share of [20-30%]. The next largest competitor is considerably smaller than both Parties, holding a share of less than 10%. The Reference Decision recognises that these estimates are based on data which may exclude some suppliers. The Parties provided substantially different estimates of shares of supply, and also submitted that the relevant market was wider than the supply of offline payment services via mPOS devices. However, in light of other evidence, the Reference Decision concluded that the CMA's estimates were likely to provide a robust and reliable indication of the significance of the Parties' activities.
42. The Reference Decision also reported evidence of a high degree of competitive interaction between the Parties with PayPal, based on its internal documents, considering iZettle as its closest competitor. iZettle's documents indicated it viewed PayPal as one of a range of direct competitors.
43. The Parties told the CMA that PayPal Here was a weak constraint on iZettle and that the Parties are not close competitors. They argued other providers were becoming much more significant. However, as reported in the Reference Decision, the CMA found that PayPal Here won a higher proportion of new customers (based on TPV volumes) than any supplier of offline payment services via mPOS other than iZettle, for 2017 (the last full year for which data is available), and that the Parties would have a combined share of [80-90%] based on the acquisition of new customers.

44. The Reference Decision also considered that, absent the Merger, PayPal was likely to have invested substantially in developing its PayPal Here services (see paragraph 36). Therefore, the Reference Decision concluded that PayPal and iZettle are close competitors for the supply of offline payment services via mPOS devices.
45. Other providers of offline payment services via mPOS devices include SumUp and Square. However, the Reference Decision found there was mixed evidence on the extent of the competitive constraint posed by these other suppliers and noted that they had low shares of supply.
46. The Reference Decision also concluded that other suppliers of offline payment services via non-mPOS devices are a relatively weak constraint on the Parties.
47. Therefore, there is evidence that the effect of the Merger could be to reduce the competitive constraints on the Parties and other suppliers in providing offline payment services via mPOS devices. On the basis of the evidence currently available to us, we propose to investigate this theory of harm. To do so we are likely to consider:
 - (a) Why and how new customers choose to use offline payment services via mPOS devices and how they choose between providers of these services.
 - (b) The structure of supply in the relevant market, including market shares for the whole market and shares based on the acquisition of new customers.
 - (c) What causes existing customers to switch providers.
 - (d) The closeness of competition between the Parties, looking at acquisition and retention of customers, how customers perceive and choose between the Parties, and how the Parties perceive and respond to each other.
 - (e) The strength of competition from alternative suppliers of offline payment services via mPOS devices, looking at acquisition and retention of customers, switching rates between suppliers, how customers perceive and choose suppliers, and how the Parties perceive and respond to alternative suppliers.
 - (f) Whether customers for offline payment services via mPOS devices would be likely to switch to non-mPOS alternatives (or any other payment services) in the event of a relative price increase. If so, what is the strength of the constraints from these services.

- (g) Whether, going forward, any supplier in the relevant market is likely to become significantly more or less effective as a competitor, including whether, absent the Merger, PayPal would have been likely to develop and enhance PayPal Here's services.
- (h) Whether entry and expansion into the provision of offline payment services via mPOS devices and, where relevant non-mPOS payment services, from new suppliers or suppliers outside the UK can be expected given their incentives, ability and known intentions, and given any barriers to entry and expansion that may apply, and if so, what degree of constraint could this be expected to impose.
- (i) Whether there is a likelihood of a constraint from supply-side substitution, ie whether suppliers of payment services via POS devices or other services could readily and effectively enter the provision of payment services via mPOS devices.

Horizontal unilateral effects in the supply of omni-channel payment services to small, micro and nano customers

- 48. Unilateral effects may arise from the elimination of potential competition where that potential entrant could have increased competition. In assessing whether a merger leads to unilateral effects from a loss of potential competition, the CMA will consider:
 - (a) Would the potential entrant be likely to enter in the absence of the merger; and
 - (b) Would such entry lead to greater competition?⁴
- 49. As described above, the Reference Decision found that the supply of omni-channel payment services to small, micro and nano customers is a nascent market, which is expected to grow significantly in future. PayPal already provides both online and offline payment services, and it has a strategic priority of expanding its omni-channel payment services capabilities to small and medium sized businesses.
- 50. The Reference Decision noted that, although it classified iZettle as a potential entrant to omni-channel payment services, iZettle has already introduced an online e-commerce tool (which iZettle described as a form of 'omni-channel' tool). It found that iZettle's internal documents show that it has the intention to

⁴ [Merger Assessment Guidelines](#), see paragraph 5.4.13 – 5.4.15.

significantly expand its omni-channel payment services offering to small, micro and nano customers.

51. This theory of harm is based on the possibility that iZettle would have been likely to become a significant competitor in the provision of omni-channel payment services to small, micro and nano customers in competition with PayPal. The Reference Decision noted that iZettle had an incentive to enter and expand into the provision of such services given this was anticipated to be a growth area which it had identified as an opportunity. Moreover, it was well placed to cross-sell these services to its existing mPOS customer base. This would have required development of its online payment services capabilities and any other aspects of an omni-channel payment service.
52. Similarly, the Reference Decision found that PayPal would have been likely to expand significantly in omni-channel services and was well placed to do so given its large number of customers among small, micro and nano businesses for its online and mPOS payment services. The Reference Decision noted that this may have required it to enhance its offline payment services capabilities.
53. The effect of the Merger could therefore be to eliminate potential future competition between these Parties for omni-channel payment services. While other parties might also commence supplying omni-channel payment services in the future, the Parties' existing large customer bases for offline and online customers respectively may have enabled them to grow and make them close competitors in the future.
54. However, the Parties submitted that there is no realistic prospect that they would have become close competitors in the supply of omni-channel payment services to small, micro and nano customers in the near future. They said iZettle's e-commerce offering is still extremely limited, and would need development such as creating a full-scale anti-fraud platform in order to expand its omni-channel payment services offering. PayPal told us that the rationale for the Merger is to combine their offerings, so as to develop a proposition for merchants, particularly small businesses, for enhanced omni-channel payment services and that, post-Merger, the Merged Entity will be able to offer merchants more enhanced omni-channel payments solutions than either Party would be able to offer on a standalone basis.
55. The Parties submitted that a number of competitors are already active in the supply of omni-channel payment services (including to small, micro and nano customers), referring to traditional acquirers Worldpay, Barclaycard and Global Payments, e-commerce platforms such as Shopify, and mPOS suppliers such as Square and SumUp. These competitors have different

strengths and capabilities, and may develop an omni-channel payment service in different ways. It is also possible that opportunities may be identified by other entrants to serve customers using different technologies or payment systems.

56. On the basis of the evidence currently available to us, we propose investigating this theory of harm. To do so we are likely to consider:
- (a) The prospects for the development of a market for omni-channel payment services for small, micro and nano customers (including taking account of possible new technologies or payment systems), and the nature and range of services which suppliers and customers include and value within omni-channel payment services.
 - (b) Whether iZettle would be likely to enter in the absence of the Merger.
 - (c) Whether access to an existing base of customers for related products is important for an ability to expand in the provision of omni-channel payment services based on cross-selling opportunities.
 - (d) What barriers to entry and expansion apply to the development of omni-channel payment services.
 - (e) Whether PayPal would have been able to expand its omni-channel payment services, including whether it would have developed its offline payment service to help facilitate this expansion.
 - (f) Whether iZettle and PayPal would have been likely to be close competitors.
 - (g) Whether other suppliers of mPOS or other payment services would enter and/or expand in the provision of omni-channel payment services and what degree of competition they could be expected to provide.
 - (h) Whether any other potential competitors would have the ability and incentive to enter the provision of omni-channel payment services, and if so, what degree of competition they could be expected to provide.
 - (i) Whether being one of the first suppliers to establish an omni-channel payment services offering provides strategic benefits or otherwise strengthens their competitive position, through, for example, network effects, or establishing a reputational advantage.
 - (j) Whether the Merger would allow the Parties to offer an enhanced product more quickly than they could do individually, and whether this would

enhance competition with other suppliers of omni-channel payment services.

Countervailing factors

57. We will consider whether there are countervailing factors which are likely to prevent or mitigate any SLC that we may find. In particular, we intend to consider the constraint arising from possible entry and expansion into offline payment services via mPOS devices, and into omni-channel payment services, for small, micro and nano customers, and the impact of any efficiency benefits.
58. We are not currently aware of any other possible countervailing factors.

Entry and expansion

59. We will consider whether entry and/or expansion by alternative suppliers can mitigate any initial effect of the Merger on competition. In order to offset any SLC, entry and/or expansion would need to be timely, likely and sufficient.
60. To investigate this issue, we intend to look at:
- the history of entry, expansion and exit;
 - the extent of the potential constraint from entry/expansion for each theory of harm and for different categories of customer;
 - the incentives that apply to different types of potential entrant;
 - the barriers to entry and expansion including:
 - developing technology;
 - meeting any regulatory requirements;
 - challenges in marketing and attracting customers and whether an absence of a base of existing customers to whom to cross-sell is a barrier;
 - whether a barrier arises because of network effects or reputational effects from not being an early supplier to establish a significant presence; and
 - economies of scale or size.

Efficiencies

61. We will examine any arguments made in relation to efficiencies arising from the Merger. For example, we would consider whether the Merger could allow for an enhanced omni-channel payment service which would not otherwise be available (because the Parties could not achieve the same level of service individually), and whether this would benefit customers. In particular, we will examine whether any potential efficiencies are rivalry-enhancing and could be expected to offset any loss of competition.

Possible remedies and relevant customer benefits

62. Should we decide that the Merger may be expected to result in an SLC in any market(s), we will consider whether, and if so what, remedies might be appropriate, and will issue a further statement.
63. In any consideration of possible remedies, we may have regard to their effect on any relevant customer benefits in relation to the Merger and, if so, what these benefits are likely to be, and which customers would benefit.

Responses to the issues statement

64. Any party wishing to respond to this issues statement should do so in writing, by no later than **5pm on 29 January 2019**. Please email PayPal.iZettlePhase2@cma.gov.uk or write to:

Project Manager
PayPal/iZettle merger inquiry
Competition and Markets Authority
Victoria House
Southampton Row
LONDON
WC1B 4AD