

## **Completed merger by PayPal Holdings, Inc. of iZettle AB**

### **Summary of provisional findings**

**Notified: 30 April 2019**

1. On 5 December 2018, the Competition and Markets Authority (CMA) referred the completed acquisition by PayPal Holdings, Inc. (PayPal) of iZettle AB (iZettle) (the Merger) for an in-depth (phase 2) merger inquiry. The CMA is required to address the following questions:
  - (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 (UK) for goods or services.
2. PayPal is a technology platform company headquartered in the United States. Among other activities, PayPal provides payment services that allow merchants to accept online and offline (ie in-store or where the customer is purchasing a product or service face-to-face with the merchant) card payments from end-customers.
3. iZettle, headquartered in Sweden, is a financial technology company that provides payment (and other) services with a focus on small businesses, which mainly allow merchants to accept offline card payments from end-customers.
4. PayPal and iZettle (the Parties) overlap in the UK in the supply of offline payments through mobile point of sale (mPOS) services. mPOS services consist of a card reader that is connected, physically or by Bluetooth, to an app downloaded onto a smartphone or tablet, which enables merchants to accept card payments. mPOS is a relatively new technology. It was introduced as an alternative to 'traditional' point of sale (POS) services which, in contrast to mPOS services, operate through standalone devices that connect to a payment system via Wi-Fi or a wired or mobile connection rather than working through a smartphone or tablet.

5. In the UK, PayPal and iZettle provide offline payment services to merchants through their PayPal Here and iZettle Reader mPOS services. The Parties are active in the provision of offline payment services in other countries but only overlap in the UK: PayPal offers PayPal Here in the USA and Australia; iZettle is present in nine other European countries,<sup>1</sup> Mexico and Brazil.
6. An emerging trend in payment services is the supply of 'omni-channel payment services'. In its most basic form this refers to the provision of an integrated online and offline payment service, allowing merchants to take all payments through a single provider. Omni-channel services may also be considered to include additional components such as sales management, online-selling functionalities and other services to enable merchants to sell through multiple online and offline channels, although the scope of such services varies by provider.
7. PayPal offers both online and offline payment services. In addition to its offline offering, in April 2018, iZettle started offering a limited e-commerce service that enables merchants to set up an online store, including an option for end-consumers to pay by card via iZettle online.

## The Merger

8. PayPal announced the acquisition of iZettle for \$2.2 billion on 17 May 2018.<sup>2</sup> Only nine days earlier, iZettle had announced its intention to list all of its shares on Nasdaq Stockholm, at a price that was expected to result in a value of at least \$1.1 billion for the entire company.<sup>3</sup> The Merger completed on 20 September 2018.
9. PayPal submitted that the rationale for the Merger was to combine two complementary product offerings and geographies, in particular PayPal's online payment service solutions with iZettle's in-store/offline product offerings, 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. It announced<sup>4</sup> the three main reasons for the acquisition were to provide:
  - (a) a best in class omni-channel offering: combining PayPal's scale, brand and mobile and online offer with iZettle's in-store expertise and scalable platform;

<sup>1</sup> Denmark, France, Finland, Germany, Italy, Netherlands, Norway, Spain, Sweden.

<sup>2</sup> [PayPal, press release \(17 May 2018\): PayPal agrees to acquire iZettle.](#)

<sup>3</sup> Finextra (8 May 2018), [iZettle to list on NASDAQ Stockholm.](#)

<sup>4</sup> Presentation to PayPal investors (17 May 2018), [PayPal announces acquisition of iZettle](#), slide 4.

- (b) for an expansion of its offline offer to 11 new markets, acceleration of omni-channel commerce solutions in Australia, UK and US, and expansion opportunities in other markets where PayPal operates; and,
  - (c) an integrated commerce platform for small and medium-sized businesses (SMBs).
- 10. Our evaluation of this Merger takes into account that the payment services industry is a fast-moving and dynamic market. Such markets are distinguished by rapid growth in a relatively short period of time and notable technological and commercial developments that often result in disruption to the current state of competition and how consumers interact in the marketplace. In this context, we do not consider it sufficient to assess the impact of the Merger with reference solely to the current state of competition; we instead need to consider the likely impact on competition as it is expected to develop in relation to the markets it will affect. For this reason, we have to take account of a range of forward-looking evidence and, in particular, evidence that allows us to form expectations about future competition, both with and without the effects of the Merger. This has required us to investigate thoroughly evidence available from internal documents, of the Parties and third parties, that are relevant to possible future developments.
- 11. We also considered whether the acquisition might have been motivated by an intention to prevent future competition from an emerging rival. We examined whether the consideration paid by PayPal for iZettle (which was much higher than the expected IPO valuation) suggested that it had taken account of a potential reduction in competition. However, after careful review we have provisionally found no evidence to suggest that this was the case. We also found that the consideration appeared justified by commercial valuation and calculations of synergies including increased sales volumes and cost savings.

## **The counterfactual**

- 12. The counterfactual is the competitive situation we would expect to apply absent the Merger.<sup>5</sup> It serves as a benchmark against which the expected effects of a merger can be assessed, and is determined as the most likely scenario that would apply.<sup>6</sup> Against this framework, and in light of the Parties' submissions, we considered the likely future situation of each of PayPal and iZettle in the absence of the Merger.<sup>7</sup>

<sup>5</sup> *Merger Assessment Guidelines* (CC2 Revised), paragraph 4.3.1.

<sup>6</sup> *CC2 Revised*, paragraph 4.3.6.

<sup>7</sup> *CC2 Revised*, paragraph 4.3.6.

## PayPal and its mPOS product

13. PayPal told us the Merger was about bringing together largely complementary businesses to create a stronger omni-channel offering to smaller merchants. It said consumers and merchants increasingly demanded the ability to buy and sell across channels, and that it found itself needing to catch up with providers already offering a seamless omni-channel service to merchants. But it said that it was far from being able to compete strongly with its omni-channel offering to smaller merchants due to [redacted].
14. We reviewed an extensive selection of PayPal's internal documents, as submitted in response to our information requests and identified in a search and detailed review of the email records of relevant staff. We found these demonstrated a clear desire for PayPal to offer a strong offline payments service to complement its online payments product and to support its aspiration of developing a leading omni-channel service offering. We identified strong incentives to pursue this strategy in order to attract, retain and cross-sell to customers.
15. PayPal told us that the 'most likely' counterfactual was that PayPal Here would have continued as before and would not have significantly developed its offline offering. PayPal Here's share of mPOS supply has fallen recently, and we consider that this implies that PayPal Here's market share would have continued to decline. PayPal told us [redacted].
16. Based on the evidence we found in PayPal's internal documents, it was clear to us that a variety of investment, acquisition and partnering options were considered by PayPal. PayPal's global strategic aims would likely have required different approaches and a combination of acquisitions and partnerships in different countries to facilitate both product enhancement and geographic expansion. Overall, we found that PayPal had a range of different acquisition and partnering options it could have pursued to improve or replace PayPal Here. PayPal had a very strong incentive to develop its offline payment service and enhance its omni-channel offer as well as [redacted]. We have not sought to identify which specific option(s) it might have pursued but we are satisfied that it could and would have achieved this through one or more measures.
17. Our provisional view is that PayPal would have substantially improved or replaced PayPal Here. However, this would have taken time with the timing and impact of such an improvement in the UK dependent upon the means by which it was achieved, ie the profile of any acquisition or partnership targets. In the shorter term, we consider it likely that PayPal would have sought incremental improvements to its existing mPOS offering (for example through

improvements to pricing, marketing, or product hardware). Therefore, under the counterfactual it is likely that PayPal would have been a stronger competitor than it currently is, stemming the decline in PayPal Here's competitive position. However, we recognise the limitations of what PayPal could achieve in the shorter term to enhance PayPal Here's competitive position (particularly [REDACTED]).

## **iZettle and omni-channel**

18. We considered whether, absent the Merger, iZettle would have been likely to expand further into the provision of online payment services, thereby enabling it to offer an enhanced omni-channel service.
19. The Parties told us that iZettle's focus was on business management capabilities rather than online payments, and absent the Merger would not have been in a position to expand rapidly in this segment. iZettle had been planning to raise around £[REDACTED] million as part of an initial public offering (IPO) in May 2018. We have no reason to believe that iZettle would not have proceeded with the IPO absent the Merger. iZettle's draft IPO prospectus set out its growth strategy. According to the prospectus, it planned to use the IPO proceeds to continue to [REDACTED] and seek to [REDACTED], fund [REDACTED], for general corporate purposes and to provide strategic flexibility for [REDACTED]. There were no statements indicating an intention to significantly expand its online payment services.
20. In addition to iZettle's submissions and IPO documentation, we examined internal papers and strategy documents and reviewed internal email communications for a period prior to the Merger. This was to assess iZettle's business strategy in relation to its online payments capability and a broader omni-channel functionality. The evidence was consistent with its stated intention to prioritise the development of its offline offering, with a focus on [REDACTED], and on increasing its reach to [REDACTED], as well as expanding the [REDACTED].
21. We found evidence indicating that, absent the Merger, iZettle would have been likely to have considered either [REDACTED]. But we found no reason to consider it likely that it would have entered into a transformative partnership or acquisition to advance its online offering in a significant way in the foreseeable future.
22. Based on the Parties' submissions and our review of the evidence, we are satisfied that iZettle's strategy absent the Merger was likely to have focused on developing its existing services. Therefore, we provisionally conclude that absent the Merger it is likely that iZettle's expansion into online payments offering would have remained relatively less developed and therefore that its

omni-channel services would have proceeded and developed only at a slow rate.

## Competitive effects of the Merger

### Offline payments for smaller merchants

23. We considered the effects of the Merger on competition in the provision of offline payment services. As the Parties primarily serve smaller merchants, we looked at the potential impact of the Merger on these customers. We use the term 'smaller merchants' to mean those with a monthly transaction payment volume (TPV – the value of card payments made) below £15,000 (comprising nano customers with a monthly card TPV under £1,500, micro customers (£1,500-6,000) and small customers (£6,000-15,000)).
24. mPOS services are expanding in the UK, but traditional POS providers supply POS services to the great majority of smaller merchants. Based on all 2018 TPV for smaller merchants, traditional POS providers are far larger than the mPOS providers, accounting for some [90-100]% of overall offline payment processing. The two largest traditional POS providers are each ten times the size of the largest mPOS providers in serving smaller merchants. iZettle's share is just [0-5]% and PayPal's is [0-5]%. By number of such customers, their share is higher – iZettle [10-20]% and PayPal [5-10]%, reflecting that their customers tend to be smaller than those of traditional POS providers.
25. We conducted a survey of the Parties' customers,<sup>8</sup> which allowed us to calculate diversion ratios of who their customers might switch to if there were a relative price increase for the Parties' mPOS services. These diversion ratios indicated over 30% of their customers would switch to a POS offering if PayPal or iZettle were to increase their prices (compared to 60% switching to alternative mPOS offerings). These diversions are consistent with evidence from the Parties' data on the churn of their own customers.
26. We provisionally conclude that the relevant market is the supply of offline card payment services to smaller merchants in the UK. However, there are a priori reasons to consider that there would be some segmentation of mPOS customers within a broader offline payments market. mPOS offerings differ from traditional POS offerings primarily in terms of their pricing structures rather than functionality (which is very similar). mPOS offerings typically do not require a contract or monthly rental agreement, and pricing structures are, in most cases, based on a flat transaction rate. In terms of overall cost, a

<sup>8</sup> See the survey report on the PayPal/iZettle merger inquiry [webpage](#).

comparison of total charges indicates that mPOS services are generally a cheaper option for very small (nano and some micro) merchants than typical traditional POS services. This makes mPOS services attractive to merchants with low levels of customer card use, who are uncertain on what level of card use to expect, or whose usage is seasonal. Our survey of the Parties' customers asked what their main reasons were for choosing an mPOS offering. The main reasons provided were ease of use, flexibility (no long-term contracts), portability, speed of receiving funds, and lower overall and upfront costs.

27. However, POS solutions can offer comparable or better financial terms for many smaller merchants. Our analysis indicates that for larger micro and small merchants traditional POS offerings are better value than the Parties' mPOS offerings.
28. This indicates that there will, for many merchants, be financial attractions in moving from mPOS to POS services. In addition to price, users also take account of non-price aspects. We were told that POS readers tended to be more robust and reliable than mPOS readers and can have a longer battery life. Many have an inbuilt ability to print receipts, whereas mPOS readers require a separate mobile printer or can only offer emailed receipts. It also means the merchant does not also need to acquire and carry a mobile phone or tablet to use with the card reader.
29. The Parties put to us that the distinction between mPOS and POS services was diminishing as POS systems became available on simpler, pay as you go contracts, and so the overall pricing models were becoming more similar for smaller merchants. They also told us that the technologies were converging, for example mobile versions of POS systems were becoming close alternatives to mPOS systems, and that traditional providers were becoming more adept at digital onboarding. The Parties also pointed to the evolution of technology, including for example phone apps that do away with the need for a separate card reader. These may facilitate market change or the entry of new providers. We acknowledge that payment technologies can and do develop quickly, and technological or regulatory changes and developments in consumer habits can result in substantial market changes (for example how contactless card use suddenly became widespread in the UK). However, the likelihood and extent of any such impact from future technologies is unforeseeable.
30. Many of the traditional POS providers told us they did not actively target smaller customers, in part because of the costs of onboarding customers where many traditional providers had lengthy, complex, manual procedures for attracting and signing up customers and undertaking the required

regulatory checks. However, two traditional POS providers, Worldpay and Barclaycard, said they serve customers of all sizes. These are the two largest providers of offline payment services to smaller merchants, accounting for shares of [20-30]% (Worldpay) and [20-30]% (Barclaycard). In order to grow their business [X]. [X]. [X].

31. Worldpay and Barclaycard have very small shares of mPOS provision, just [0-5]% and [0-5]% shares respectively by TPV. In January 2019, Barclaycard cut the rates on its Anywhere mPOS to 1.6%, the lowest of all the mPOS providers. Worldpay has also relaunched its mPOS service. [X]. But Worldpay and Barclaycard's shares of the broader offline payment services market are very much higher, and customer diversion found in our survey is significant when combining the mPOS and traditional POS offerings of these providers: 10-20% for Worldpay and 10% for Barclaycard.
32. We considered competition between mPOS providers. We found that the mPOS providers tend to concentrate their competitive attention much more on each other rather than on the traditional POS providers. Nonetheless, the Parties' documents recognise competition from (and in some cases [X]) traditional POS providers whose constraints are stronger for [X] smaller merchants.
33. Pre-Merger, iZettle is by far the largest provider of mPOS services in the UK. By TPV, PayPal Here is number two, ahead of SumUp and Square, the other main mPOS providers. We heard that, nonetheless, PayPal had in recent years been perceived as a weak competitor. While most mPOS providers charge a fixed percentage transaction fee, PayPal Here retains a tiered-pricing structure, where the transaction rate varies depending on the payment volumes processed. This is more complex and results in the smallest customers paying higher charges. We note that in recent years PayPal Here's share of new mPOS customer acquisitions has been in decline. We also considered the diversion ratios based on our survey. iZettle customers indicated they were more likely to consider switching to SumUp or Square than to PayPal Here. [X], iZettle's documents indicate that it did not closely monitor or respond to [X]. Instead, it paid comparatively more attention to the competitive threat from [X] and [X].
34. However, as set out in paragraphs 13 to 17 our expectation is that absent the Merger, PayPal would have been a stronger competitor than it currently is, stemming the decline in PayPal Here's competitive position. This would have been achieved, in the shorter term, through possible incremental improvements to its existing mPOS offering (for example, it could have considered improvements to pricing, marketing, or product hardware), and in the longer term, through a substantial improvement or replacement of PayPal



Here. Therefore, it would have been a closer competitor to iZettle absent the Merger. We have assessed evidence and considered the competitive effects of the Merger in light of this.

35. We considered the impact of the Merger on the very smallest nano customers, for whom the financial advantages of an mPOS system over a traditional contract are likely to be strongest. However, even for nano customers, the diversion ratios to POS offerings were still 31% from iZettle and 32% for PayPal, indicating a material level of constraint from POS offerings for these customers.
36. We also considered the strength of competition from SumUp and Square for the acquisition of very small customers. Both have grown significantly in recent years and provide mPOS offerings with a similar fee structure to iZettle.
37. SumUp has the lowest transaction fee of the four largest mPOS providers. Its share of mPOS by TPV has grown from [5-10]% in 2016 to [10-20]% in 2018, with a sharp increase in the most recent year. SumUp's service is relatively simple but it is currently recruiting more new customers than any other mPOS provider, particularly for very small customers.
38. Square has achieved an mPOS share of [5-10]% since its entry in 2017. We were told that Square's service comes with sophisticated software functionality. Square's entry into the UK induced significant reactions from some other mPOS suppliers, in reducing prices and simplifying pricing structures.
39. Even though these mPOS providers are smaller in the UK than the Parties (who have a share of mPOS by TPV in 2018 of [50-60]% for iZettle and [10-20]% for PayPal), competition from Square and SumUp appears to be a significant constraining factor,<sup>9</sup> and can be expected to continue to be even in the case of a stronger PayPal Here in the counterfactual.
40. In addition to these key mPOS rivals, the evidence shows that traditional POS providers, particularly Worldpay and Barclaycard, also currently impose a material constraint on the Parties and are expected to do so in the future, even in the case of a stronger PayPal Here in the counterfactual.
41. Assessing all factors in the round, we have provisionally concluded that, notwithstanding a more strongly competing PayPal in the counterfactual, post-Merger, sufficient competitive constraints will remain on the Parties such that

<sup>9</sup> Other mPOS providers such as Shopify, Worldpay, Barclaycard and Elavon each have under [0-5]% share for mPOS, even though their provision of POS is very much larger.

it is unlikely that the Merger will substantially lessen competition in the provision of offline payments services to smaller merchants in the UK. This is due to:

- (a) The material constraint that applies from the much larger provision by POS providers for both PayPal's existing customers and as regards competition to acquire new customers:
  - (i) Whilst the Parties compete more closely with other mPOS providers than with traditional POS providers, traditional POS providers also exercise a meaningful constraint on the Parties. A material proportion of the Parties' customers consider traditional POS providers to be credible alternatives, and traditional POS providers currently serve a considerable proportion of smaller merchants;
  - (ii) The Parties' documents recognise competition from (and in some cases [~~§~~]) traditional POS providers particularly at the [~~§~~] for smaller merchants. This is consistent with our analysis of price levels, which shows that traditional POS offerings are cheaper than mPOS for larger micro and small merchants;
  - (iii) Some leading traditional POS providers have adjusted their offerings to meet the demand by smaller merchants;
  - (iv) We also take account of the recent and prospective reduction in the distinction between POS and mPOS services, pricing and contracts; and
- (b) The significant competitive constraint from Square and SumUp, particularly in relation to nano merchants.

## **Omni-channel**

- 42. We also considered the effects of the Merger on competition in the provision of omni-channel services to smaller merchants, ie whether iZettle would have developed an omni-channel offer that would have been in competition with PayPal's service, and if so, whether the loss of this competition would be expected to lead to an SLC, taking account of expected future competition in omni-channel services for smaller merchants.
- 43. We provisionally conclude that the relevant market is the supply of omni-channel services to smaller merchants in the UK.
- 44. In the context of this case, where we are considering a nascent market in which iZettle has only very recently commenced a limited e-commerce

offering, we considered it appropriate to use the framework for the assessment of potential competition.<sup>10</sup> The framework requires us to consider two questions: would iZettle be likely to enter into omni-channel services in the absence of the Merger and, if so, would such entry lead to greater competition. As iZettle has, to a very limited degree, already entered the market, we considered whether it would have been likely to expand in omni-channel services absent the Merger. This was considered in our counterfactual assessment, see paragraphs 18 to 22. The projected revenue expectations for iZettle e-commerce [X]. While it may have sought further opportunities [X], to increase its e-commerce offer, we have found this was not expected to constitute a significant expansion within the foreseeable future. Instead, we consider it likely that iZettle's focus post-IPO would have been more on developing and growing its existing lines of business. Therefore, we provisionally conclude that, absent the Merger, it is likely that iZettle's expansion into online payments would have remained relatively less developed and its omni-channel services would have proceeded and developed only at a slow rate.

45. For the same reasons, we are provisionally satisfied that it is likely that the effect of the acquisition has not been to achieve a tactical elimination of a potentially significant, nascent competitor to PayPal in omni-channel services.
46. The second limb of the framework is whether iZettle's expansion would lead to greater competition.
47. We have identified several providers that have entered or acquired e-commerce capabilities and are developing their omni-channel propositions while others have indicated that they have plans to expand into the omni-channel market. Competition in omni-channel for smaller merchants is in its early phases, but given the existence of significant competitors and the likelihood of future entry, the small scale of intended expansion by iZettle absent the Merger does not lead us to provisionally conclude that iZettle's planned expansion in omni-channel would lead to greater competition.
48. For these reasons, we provisionally conclude that the Merger is unlikely to substantially lessen competition in the provision of omni-channel services to smaller merchants in the UK.

<sup>10</sup> [CC2 Revised](#), paragraphs 5.4.13-5.4.15.

## **Provisional conclusions**

49. We provisionally conclude that the Merger has not resulted, and is not expected to result, in a substantial lessening of competition in the UK.