Completed acquisition by PayPal Holdings, Inc. of iZettle AB

Appendices and Glossary

Appendices

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Glossary

Appendix A: Terms of reference

Terms of reference

On 5 December 2018, the CMA referred the completed acquisition by PayPal Holdings, Inc of iZettle AB. The terms of reference were as follows:

1. In exercise of its duty under section 22(1) of the Enterprise Act 2002 (the **Act**) the Competition and Markets Authority (**CMA**) believes that it is or may be the case that:

    (a) a relevant merger situation has been created, in that:

    (i) enterprises carried on by PayPal Holdings, Inc. have ceased to be distinct from enterprises carried on by iZettle AB; and

    (ii) the condition specified in section 23(2)(b) of the Act is satisfied; and

    (b) the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom (**UK**) for goods or services, including in:

    (i) the supply of offline payment services via mobile point of sale devices in the UK; and

    (ii) the supply of omni-channel payment services to small, micro and nano customers in the UK.

2. Therefore, in exercise of its duty under section 22(1) of the Act, the CMA hereby makes a reference to its chair for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013 in order that the group may investigate and report, within a period ending on 21 May 2019, on the following questions in accordance with section 35(1) of the Act:

    (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 within any market or markets in the UK for goods or services.

Andrea Gomes da Silva
Executive Director, Markets and Mergers
Competition and Markets Authority
5 December 2018

Appendix B: Conduct of inquiry

1. On 5 December 2019, the CMA referred the completed merger between PayPal and iZettle for an in-depth phase 2 merger investigation.

2. We published the biographies of the members of the inquiry group conducting the phase 2 inquiry on the inquiry webpage on 5 December 2018, and the administrative timetable for the inquiry was published on the inquiry webpage on 17 December 2018. A revised version of the administrative timetable was published on the inquiry webpage on 4 April 2019.

3. We invited interested parties to comment on the Merger. These included competitors of the Parties and others involved in the payments industry. We sent detailed questionnaires to interested parties and evidence was obtained from these third parties through hearings, telephone discussions and written requests. Evidence provided to the CMA during phase 1 was also considered in phase 2.

4. We also commissioned a customer survey through an external market research company. Accent was commissioned to conduct a customer survey of the Parties' mPOS customers to collect information on customer preferences and switching. The Survey Report has been published on the inquiry webpage.

5. On 15 January 2019, we published an issues statement on the inquiry webpage setting out the areas of concerns on which the inquiry would focus and inviting comments from the main and third parties. The Parties' response to our issues statement has been published on the inquiry webpage.

6. Members of the inquiry group, accompanied by staff, visited iZettle's headquarters in London on 15 January 2019 and PayPal's headquarters in Richmond on 17 January 2019.

7. We received written evidence from the Parties in the form of submissions and responses to information requests. A non-confidential version of their joint response to the phase 1 decision is published on our inquiry webpage together with the Merger Notice.

8. During our inquiry, we sent the Parties a number of working papers for comment. We also provided the Parties and third parties with extracts from our working papers for comments on accuracy and confidentiality. The Parties were also sent an annotated issues statement, which outlines our thinking prior to their respective hearings.

9. We held separate hearings with PayPal and iZettle on 19 March 2019.

10. On 30 April 2019, we issued a notice of extension due to the exceptionally large volume of evidence received that required additional time and resource to assess. We also considered the need to allow sufficient time to take full account of comments that will be received in response to the provisional findings and then provide a fully reasoned decision within the statutory time frame. This changed the statutory deadline to 16 July 2019.

11. On 30 April 2019, we published a notice of Provisional Findings and a summary of our Provisional Findings report on the inquiry webpage. A non-confidential version of the Provisional Findings was published on the inquiry webpage on 7 May 2019. We invited interested parties to comment on this. A non-confidential version of PayPal's response to our Provisional Findings has been published on the inquiry webpage.

12. Our findings were announced and a non-confidential version of the final report was placed on the inquiry webpage on 12 June 2019.

13. We would like to thank all those who have assisted in our inquiry.

Interim measures

14. The CMA made an initial enforcement order on 19 September 2018. We requested fortnightly updates from the Parties to confirm they remained separate and independent. We granted derogations on 20 September, 7 November, 8 October, 19 December 2018 and 22 January 2019. The order and redacted derogations were published on the inquiry webpage.

15. On 24 December 2018, we directed PayPal to appoint a monitoring trustee.

Appendix C: Internal Documents on PayPal Here Counterfactual

1.   We have systematically reviewed a large number of PayPal's internal documents and emails[1] with a view to inform its assessment of the PayPal Here counterfactual[2]. For this purpose, a number of key documents and emails, dating between April 2017 and May 2018, have been selected and are presented in the appendix below in chronological order. These documents can be summarised under three broad categories:

   (a) *Documents referring to PayPal's M&A strategy*: [✂].[3] [✂].

   (b) *Documents referring to PayPal Here strategy*: [✂].[4] [✂]:

        (i)   [✂].

        (ii) [✂].

        (iii) [✂].

   (c) *Draft documents and emails*: [✂].

2.   The appendix is structured as follows:

   (a) Section 1 provides overview and context of the document review.

   (b) Section 2 analyses a PayPal document from April 2017, titled [✂].

   (c) Section 3 analyses a PayPal document from June 2017, titled '[✂]'.

   (d) Section 4 analyses a PayPal document from July 2017, titled '[✂]'.

   (e) Section 5 analyses a PayPal document from February 2017 titled '[✂]'.

   (f) Section 6 analyses a PayPal document from September 2017, titled '[✂]'.

   (g) Section 7 analyses a PayPal document from October 2017, titled '[✂]'.

   (h) Section 8 analyses PayPal emails and presentation drafts until October 2017.

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[1] These includes documents submitted by PayPal throughout the inquiry.
[2] Internal documents from the Parties have also been analysed in (i) Appendix D, in relation to the iZettle counterfactual; and (ii) Appendix H, in relation to the competitive landscape of the supply of offline card payments services to smaller merchants.
[3] Some of these documents were also presented to [✂], member of the SLT.
[4] This includes members of the SLT.

(i) Section 9 analyses a PayPal document *from* December 2017, titled '[✂]'.

(j) Section 10 analyses PayPal emails and presentation drafts until December 2017.

(k) Section 11 analyses a [✂] document from February 2018, titled '[✂]'.

(l) Section 12 analyses a PayPal document from February 2018, titled '[✂]'.

(m) Section 13 analyses a PayPal document from March 2018, titled '[✂]'.

(n) Section 14 analyses a PayPal document from April 2018, titled '[✂]'.

(o) Section 15 analyses PayPal emails and presentation drafts until April 2018.

(p) Section 16 analyses a PayPal document from May 2018, titled '[✂]'.

(q) Section 17 analyses a PayPal document from May 2018 titled '[✂]'.

(r) Section 18 analyses PayPal emails and presentation drafts in preparation of iZettle acquisition.

(s) Section 19 provides details on other materials.

Section 1: Overview and context of document review

Email and document request to PayPal

3. We have asked PayPal to provide all email files sent or received by the following custodians between 1 January 2017 and 1 June 2018 which related to the composition, review and presentation of the following documents and to PayPal's strategy and business plans for PayPal Here, [✂].

4. Custodians:

(a) [✂].

(b) [✂].

(c) [✂].

(d) [✂].

(e) [✂].

(f) [✂].

(g) [✂].

5.   Documents:

     (a) [✂].

     (b) [✂].

     (c) [✂].

     (d) [✂].

     (e) [✂].

     (f)   [✂].

6.   In response to the above request PayPal submitted around 2200 email files (800 emails and 1400 attachments) which, as stated above, we have systematically reviewed together with all the other relevant documents submitted by PayPal throughout the inquiry.

Overview of PayPal Team

7.   We set out below some further information on the roles of PayPal staff appearing in the email exchanges reported in this appendix.

8.   PayPal's Project [✂] Team[5] was composed as follows

     (a) [✂]:

          (i)   [✂].

          (ii) [✂].

          (iii) [✂].

          (iv) [✂].

     (b) [✂]:

          (i)   [✂].

          (ii) [✂].

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[5] Note that these are the roles assigned to each individual within the Project [✂] team which do not necessarily coincide with the full job title indicated in paragraph 4 above.

(iii) [✂].

(c) [✂]:

    (i) [✂].

    (ii) [✂].

    (iii) [✂].

    (iv) [✂].

9.   From an internal email it also appears that the following staff worked on PPH from a strategy perspective:

    (i) [✂].

    (ii) [✂].

    (iii) [✂].

Overview of main findings from document review

10.   As mentioned above, to assess PayPal's most likely course of action absent the Merger, we reviewed an extensive selection of PayPal's internal documents, including (a) documents referring to PayPal's M&A strategy and (b) documents (including drafts and emails) referring to PayPal Here strategy. The main findings from this analysis are set out in Section 7 of the Final Report. Additional detail is reported below.

Documents referring to PayPal's M&A strategy

11.   Documents on PayPal's M&A strategy were generally prepared for the Board of Directors or the EMEA Management Team.[6] These documents show that until the acquisition of iZettle, PayPal's senior management monitored a number of companies [✂],[7] including:

(a) [✂];[8]

(b) [✂];[9]

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[6] Some of these documents were also presented to [✂], member of the SLT.
[7] Please refer to Sections 2-6, Section 12 and Section 13.
[8] See eg Section 3: [✂], Section 4: [✂], Section 6: [✂].
[9] See eg Section 3: [✂], Section 4: [✂], Section 6: [✂].

(c) [✂];[10]

(d) [✂];[11]

(e) [✂][12] [✂];[13] and

(f) [✂].[14]

12.   [✂], PayPal's senior management also monitored other targets [✂].[15]

13.   PayPal submitted that [✂]. Our review of the internal documents showed that while some senior management presentations listed potential investment and/or acquisition targets without giving any further context, others presented certain targets in more depth. For example, [✂].[16]

14.   [✂]:

(a) [✂];[17]

(b) [✂];[18] and

(c) [✂].[19]

15.   We also note that [✂] was not included in the list of potential acquisition targets [✂] monitored by PayPal's senior management (which [✂]).

Documents (including drafts and emails) *referring to PayPal Here strategy.*

16.   These final version documents were generally prepared by the PayPal Here team for the EMEA management team and/or the Operating Group with drafts circulated within the PayPal Here product team.[20] This category of documents shows that, [✂].[21]

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[10] See eg Section 3: [✂], Section 12: [✂] and Section 13: [✂]
[11] See eg Section 3: [✂] and Section 13: [✂]
[12] [✂].
[13] See Section 12: [✂].
[14] See eg Section 6Section 3: [✂], Section 12: [✂] and Section 13: [✂]
[15] Please refer to Sections 2-6, Section 12 and Section 13.
[16] Figure 77, Figure 78, Figure 81 and Figure 82.
[17] Figure 6.
[18] Figure 75.
[19] Figure 60 to Figure 62.
[20] This includes members of the SLT.
[21] Figure 37, Figure 98.

17. In this respect, we found that several presentations prepared by the PayPal Here product team for PayPal's senior management [✂] (as well as certain drafts), [✂]. These included:

    (a) partnering [✂];

    (b) [✂]; and

    (c) buying [✂].[22]

18. We found that the PayPal Here product team evaluated the available options, considering the advantages, disadvantages and likely impact on the business of each.[23]

19. PayPal identified several advantages, [✂], from entering into partnerships [✂]. For example,

    (a) [✂];[24]

    (b) [✂];[25]

    (c) [✂];[26] and

    (d) [✂].

20. We also found that as part of an analysis of the acquisition targets identified at paragraph 11 above ([✂]), PayPal's board of directors in June 2017 noted that [✂])',[27] suggesting that partnerships relating to its offline payment services capabilities [✂].

21. [✂],[28] [✂].

22. We have found that the evidence on the complexity of integrating potential partners ([✂]) into PayPal Here, is mixed. For example:

    (a) [✂];[29]

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[22] See eg Figure 24, Figure 25, Figure 26, Figure 55, Figure 86, Figure 95.
[23] Figure 34 to Figure 36, Figure 74.
[24] Figure 86.
[25] Figure 47 and Figure 48.
[26] Figure 106.
[27] Figure 4 .
[28] Figure 96.
[29] Figure 87 .

(b) [✂].[30] [✂];[31]

(c) [✂];[32]

(d) [✂];[33] and

(e) [✂].[34]

23. However, the available evidence also shows that [✂].[35]

24. We have found that [✂].[36] [✂]:

(a) [✂];[37] and

(b) [✂].[38]

25. We have, however, also seen evidence which suggests that PayPal considered that pursuing a geo-expansion strategy alongside further investment into PayPal Here in the UK was feasible. In particular:

(a) [✂].[39] [✂],[40] [✂];[41]

(b) [✂];[42] and

(c) [✂].[43]

26. In general, the available evidence shows [✂][✂].[44] [✂][45] [✂].[46]

27. [✂].[47]

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[30] Figure 89.
[31] Figure 92.
[32] Figure 47 and Figure 48.
[33] Figure 86.
[34] Figure 99.
[35] Figure 15.
[36] Figure 32, Figure 36, Figure 45, Figure 47, Figure 48, Figure 86.
[37] Figure 23.
[38] Figure 28.
[39] Figure 32 .
[40] Figure 34.
[41] Figure 36.
[42] Figure 85, Figure 86.
[43] Figure 106.
[44] Figure 34, Figure 35 Figure 36, Figure 74.
[45] See Section 9: [✂].
[46] Figure 45.
[47] See eg Figure 11 and Figure 14.

Section 2: [✂]

[✂]

28.　　[✂]⁴⁸. [✂].

[✂]

29.　　[✂]:

　　　(a) [✂]:

　　　　　　[✂].

　　　(b) [✂].

Figure 1: [✂]

[✂]

Source [✂].

Figure 2: [✂]

[✂]

Source: [✂].

Figure 3: [✂]

[✂]

Source: [✂]

Section 3: [✂]

[✂]

30.　　[✂].

[✂]

31.　　[✂].

Figure 4: [✂]

[✂]

Source: [✂].

---

⁴⁸ [✂].

Section 4: [✂]

[✂]

32.   [✂].[49] [✂].

[✂]

33.   [✂].

Figure 5: [✂]

[✂]

Source: [✂].

Figure 6: [✂]

[✂]

Source: [✂].

Section 5: [✂]

[✂]

34.   [✂].[50] [✂].

[✂]

35.   [✂].

Figure 7: [✂]

[✂]

Source [✂]

36.   [✂].

Figure 8: [✂]

[✂]

Source: [✂]

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[49] [✂].
[50] [✂].

Section 6: [✂].

37.   [✂] [✂].

[✂]

38.   [✂].

Figure 9: [✂]

[✂]

Source: [✂].

39.   [✂]:

      (a) [✂].

      (b) [✂].

      (c) [✂].

Figure 10: [✂]

[✂]

Source: [✂].

Section 7: [✂]

[✂]

40.   [✂]:

      (a) [✂].

      (b) [✂].

      (c) [✂].

      (d) [✂].

41.   [✂].

[✂]

42.   [✂]:

      (a) [✂].

(b) [✂].

(c) [✂].

Figure 11: [✂]

[✂]

Source: [✂]

43. [✂].

Figure 12: [✂]

[✂]

Source: [✂]

44. [✂]:

(a) [✂].

(b) [✂].

(c) [✂].

Figure 13: [✂]

[✂]

Source: [✂]

45. [✂]:

(a) [✂].

(b) [✂].

(c) [✂].

Figure 14: [✂]

[✂]

Source: [✂]

Section 8: Emails and presentation drafts until October 2017

[✂]

46. [✂]:

(a) [✂].

(b) [✂].

Figure 15: [✂]

[✂]

Source: [✂]

Figure 16: [✂]

[✂]

Source: [✂]

47.   [✂]:

       (a) [✂].

       (b) [✂].

       (c) [✂].

Figure 17: [✂].

[✂]

Source: [✂]

48.   [✂]:

       (a) [✂]:

           (i) [✂];

           (ii) [✂]; and

           (iii) [✂].

       (b) [✂].

Figure 18: [✂]

[✂]

Source: [✂]

49.   [✂]:

       (a) [✂].

       (b) [✂].

       (c) [✂].

Figure 19: [✂]

[✂]

Source: [✂]

50.   [✂].

Figure 20: [✂]

[✂]

Source: [✂]

_[✂]_

[✂]

51.   [✂]:

        (a) [✂].

        (b) [✂].

        (c) [✂].

52.   [✂].

[✂]

53.   [✂].

Figure 21: [✂]

[✂]

Source: [✂]

54.   [✂]:

        (a) [✂].

        (b) [✂].

Figure 22: [✂]

[✂]

Source: [✂]

55.   [✂].

56.   [✂].

Figure 23: [✂]

[✂]

[✂]

[✂]

57.　　[✂]:

　　　　(a) [✂].

　　　　(b) [✂].

　　　　(c) [✂].

　　　　(d) [✂].

[✂]

58.　　[✂].

Figure 24: [✂]

[✂]

59.　　[✂]:

　　　　(a) [✂]:

　　　　　　(i)　[✂].

　　　　　　(ii)　[✂].

　　　　(b) [✂]:

　　　　　　(i)　[✂].

　　　　　　(ii)　[✂].

　　　　(c) [✂].

Figure 25: [✂]

[✂]

Source: [✂]

60.   [✂].

Figure 26: [✂]

[✂]

Source: [✂]

61.   [✂].

Figure 27: [✂]

[✂]

Source: [✂]

[✂]

62.   [✂].

Figure 28: [✂]

[✂]

Source: [✂]

63.   [✂]:

        (a) [✂].

        (b) [✂].

        (c) [✂].

Figure 29: [✂]

[✂]

Source: [✂]

64.   [✂].

Figure 30: [✂]

[✂]

Source: [✂]

Section 9: [✂]

[✂]

65. [✂]:

    (a) [✂].

    (b) [✂].

    (c) [✂].

66. [✂]:

    (a) [✂].

    (b) [✂].

67. [✂].

[✂]

68. [✂].

Figure 31: [✂]

[✂]

Source: [✂]

69. [✂].

Figure 32: [✂]

[✂]

Source: [✂]

70. [✂]:

    [✂]

    [✂]

    [✂]

    [✂]

    [✂]

[✂].

[✂]

[✂]

[✂]'

71.   [✂]

Figure 33: [✂]

[✂]

Source: [✂]

72.   [✂].

Figure 34: [✂]

[✂]

Source: [✂]

73.   [✂]:

     (a) [✂].

     (b) [✂].

74.   [✂].

Figure 35: [✂]

[✂]

Source: [✂]

75.   [✂].

Figure 36: [✂]

[✂]

Source: [✂]

Section 10: Emails and presentation drafts until December 2017

[✂]

[✂]

76.   [✂].

77.   [✂].

78.   [✂]:

       (a) [✂].

       (b) [✂].

       (c) [✂].

79.   [✂].

[✂]

80.   [✂]

Figure 37: [✂]

[✂]

Source: [✂]

Figure 38: [✂]

[✂]

Source: [✂]

81.   [✂].

Figure 39: [✂]

[✂]

Source: [✂]

82.   [✂]:

       (a) [✂].

       (b) [✂].

Figure 40: [✂]

[✂]

Source: [✂]

83.   [✂].

Figure 41: [✂]

[✂]

Source: [✂]

84.   [✂].

Figure 42: [✂]

[✂]

Source: [✂]

85.   [✂].

Figure 43: [✂]

[✂]

Source: [✂]

[✂]

[✂]

86.   [✂].

[✂]

87.   [✂]:

    (a) [✂].

    (b) [✂].

Figure 44: [✂]

[✂]

Source: [✂]

88.   [✂].

Figure 45: [✂]

[✂]

Source: [✂]

89.   [✂].

Figure 46: [✂]

[✂]

Source: [✂]

90.   [✂]:

(a) [✂].

(b) [✂].

Figure 47: [✂]

[✂]

Source: [✂]

Figure 48: [✂]

[✂]

Source: [✂]

[✂]

91.   [✂].

Figure 49: [✂]

[✂]

Source: [✂]

[✂]

[✂]

92.   [✂].

[✂]

93.   [✂].

[✂]

94.   [✂].

[✂]

95.   [✂].

[✂]

96.   [✂]:

      (a) [✂].

      (b) [✂].

      (c) [✂].

Figure 50: [✂]

[✂]

Source: [✂]

97.   [✂]

Figure 51: [✂]

[✂]

Source: [✂]

98.   [✂]:

      (a) [✂].

      (b) [✂].

Figure 52: [✂]

[✂]

Source: [✂]

99.   [✂].

Figure 53: [✂]

[✂]

Source: [✂]

100.   [✂].

Figure 54: [✂]

[✂]

Source: [✂]

101.   [✂]:

>   *(a)* [✂].

>   *(b)* [✂].

Figure 55: [✂]

[✂]

Source: [✂]

Section 11: [✂]

[✂]

102.   .[51]

[✂]

103.   [✂]:

>   *(a)* [✂]

>   *(b)* [✂]

>   *(c)* [✂]

>   *(d)* [✂].

104.   [✂].

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[51] See also appendix D for further analysis on this document.

Figure 56: [✂]

[✂]

Source: [✂]

Section 12: [✂]

[✂]

105.   [✂]. [✂].

[✂]

106.   [✂]:

   (a) [✂].

   (b) [✂]

   (c) [✂].

   (d) [✂].

Figure 57: [✂]

[✂]

Source: [✂].

107.   [✂]:

   (a) [✂].

   (b) [✂].

   (c) [✂].

108.   [✂].

Figure 58: [✂]

[✂]

Source: [✂].

Figure 59: [✂]

[✂]

Source: [✂].

Figure 60: [✂]

[✂]

Source: [✂].

Figure 61: [✂]

[✂]

Source: [✂].

Figure 62: [✂]

[✂]

Source: [✂].

Figure 63: [✂]

[✂]

Source: [✂].

Figure 64: [✂]

[✂]

Source: [✂].

Figure 65: [✂]

[✂]

Source: [✂].

Figure 66: [✂]

[✂]

Source: [✂].

Figure 67: [✂]

[✂]

Source: [✂].

Figure 68: [✂]

[✂]

Source: [✂].

Section 13: [✂]

[✂]

109.   [✂].

[✂]

110.   [✂].

Figure 69: [✂]

[✂]

Source: [✂].

111.   [✂].

Figure 70: [✂]

[✂]

Source: [✂]

112.   [✂].

Figure 71: [✂]

[✂]

Source: [✂]

113.   [✂].

Figure 72: [✂]

[✂]

Source: [✂].

114.   [✂]:

(a) [✂]; and

(b) [✂].

Figure 73: [✂]

[✂]

Source: [✂].

115. [✂].

Figure 74: [✂]

[✂]

Source: [✂].

116. [✂].

Figure 75: [✂]

[✂]

Source: [✂].

Figure 76: [✂]

[✂]

Source: [✂].

Figure 77: [✂]

[✂]

Source: [✂].

Figure 78: [✂]

[✂]

Source: [✂].

Figure 79: [✂]

[✂]

Source: [✂].

Figure 80: [✂]

[✂]

Source: [✂].

Figure 81: [✂]

[✂]

Source: [✂].

Figure 82: [✂]

[✂]

Section 14: [✂]

[✂]

117.   [✂]:

      (a) [✂]

      (b) [✂]

      (c) [✂]

118.   [✂]:

      (a) [✂].

      (b) [✂].

      (c) [✂][52] [✂].

119.   [✂].

120.   [✂].

[✂]

121.   [✂]:

      (a) [✂].

      (b) [✂].

Figure 83: [✂]

[✂]

122.   [✂].

---

[52] Business Unit

Figure 84: [✂]

[✂]

Source: [✂]

123. [✂]:

      (a) [✂].

      (b) [✂].

Figure 85: [✂]

[✂]

Source: [✂]

124. [✂]:

      (a) [✂].

      (b) [✂].

      (c) [✂].

      (d) [✂].

Figure 86: [✂]

[✂]

Source: [✂]

Section 15: Emails and presentation drafts until April 2018

[✂]

125. [✂].

Figure 87: [✂]

[✂]

Source: [✂]

[✂]

[✂]

126. [✂]:

(a) [✂].

(b) [✂].

(c) [✂].

127. [✂].

[✂]

Figure 88: [✂]

[✂]

Source: [✂]

Figure 89: [✂]

[✂]

Source: [✂]

Figure 90: [✂]

[✂]

Source: [✂]

Figure 91: [✂]

[✂]

Source: [✂]

Figure 92: [✂]

[✂]

Source: [✂]

[✂]

128. [✂]:

(a) [✂].

(b) [✂].

Figure 93: [✂]

[✂]

Source: [✂]

[✂]

129.   [✂]:

(a) [✂]; and

(b) [✂].

Figure 94: [✂]

[✂]

Source: [✂]

130.   [✂].

Figure 95: [✂]

[✂]

Source: [✂]

[✂]

131.   [✂].

Figure 96: [✂]

[✂]

Source: [✂]

Section 16: [✂]

[✂]

132.   [✂].

[✂]

133.   [✂]:

(a) [✂]

(b) [✂]

(c) [✂].

134.   [✂].

Figure 97: [✂]

[✂]

Source: [✂]

Section 17: [✂]

[✂]

135.   [✂]:

  (a) [✂].

  (b) [✂].

  (c) [✂].

  (d) [✂].

  (e) [✂].

136.   [✂]:

  (a) [✂].

  (b) [✂].

137.   [✂].

[✂]

138.   [✂].

Figure 98: [✂]

[✂]

Source: [✂]

139.   [✂]:

  (a) [✂].

  (b) [✂].

Figure 99: [✂]

[✂]

Source: [✂]

140. [✂].

Figure 100: [✂]

[✂]

Source: [✂]

141. [✂]:

(a) [✂]; and

(b) [✂].

Figure 101: [✂]

[✂]

Source: [✂]

142. [✂]

Figure 102: [✂]

[✂]

Source: [✂]

143. [✂].

Figure 103: [✂]

[✂]

Source: [✂]

Section 18: [✂]

144. [✂].

Figure 104: [✂]

[✂]

Source: [✂]

145.   [✂].

Figure 105: [✂]

[✂]

Source: [✂]

146.   [✂]:

(a) [✂].

(b) [✂].

(c) [✂].

Figure 106: [✂]

[✂]

Source: [✂]

147.   [✂].

Figure 107: [✂]

[✂]

Source: [✂]

148.   [✂].

Figure 108: [✂]

[✂]

Source: [✂]

149.   [✂].

Figure 109: [✂]

[✂]

Source: [✂]

Section 19: [✂]

150.   [✂].

Figure 110: [✂]

[✂]

Source: [✂]

Figure 111: [✂]

[✂]

Source: [✂]

151. [✂].

Figure 112: [✂]

[✂]

Source: [✂]

Appendix D: Internal documents on iZettle Counterfactual

Summary and Introduction

1.   This Appendix provides a summary of the documents, dating between CMA's September 2017 and May 2018, used to inform the view on the iZettle counterfactual[1]. Such documents can be broadly categorised as follows:

   (a) iZettle internal documents, generally prepared for the iZettle Board of Directors or Senior Management;

   (b) materials prepared for the iZettle IPO and for this Merger, including a prospectus for investors, an iZettle presentation to research analysts and an equity research report; and

   (c) an internal document submitted by PayPal, relevant for the assessment of the iZettle counterfactual.

2.   Overall, the documents analysed below show that iZettle:

   (a) Recognised that demand for omni-channel by smaller merchants exists and has taken steps to meet such demand.

   (b) Set out its long-term vision to develop [✂] and identified a number of key elements and factors to pursue such vision.

   (c) Discussed growth opportunities and market and product commercial strategies with the Board of Directors and the senior management.

   (d) [✂].

3.   The Appendix is structured as follows:

   (a) Section 1 analyses relevant documents relating to iZettle's view of demand for omni-channel services.

   (b) Section 2 analyses relevant documents relating to iZettle's strategy.

---

[1] Internal documents from the Parties have also been analysed in (i) Appendix C, in relation to the PayPal Here counterfactual; and (ii) Appendix H, in relation to the competitive landscape of the supply of offline card payments services to smaller merchants.

Demand for omni-channel services

4. We have identified two main documents, respectively from iZettle and PayPal, which relate to demand for omni-channel services, namely:

    (a) iZettle online/offline strategic research.

    (b) Evercore merchant survey.

5. We analyse each of the above documents in the paragraphs below.

iZettle online/offline strategic research

Overview

6. We have examined the iZettle's internal research on customer requirements in online payments and omni-channel.

7. iZettle carried out a user study in relation to demand for online payments in Q4 2017.

    (a) [✂].

    (b) The purposes were to identify challenges faced by users in running a business both online and offline, to find out how users manage their business across platforms, and to understand how important iZettle is compared to other solutions.

    (c) The findings and recommendations were presented by the marketing team to iZettle senior management.

    (d) The study did not refer to 'omni-channel', but it discussed various features of e-commerce and integration of online/online offerings to customers relevant to omni-channel.

8. As explained in the following paragraphs, the iZettle study found that:

    (a) [✂].

    (b) [✂].

    (c) [✂].

    (d) [✂].

    (e) [✂].

9. The iZettle marketing team made two recommendations on the basis of its findings:

   (a) [✂].

   (b) [✂].

10. We extract relevant parts of the study in the following paragraphs.

Analysis of relevant parts

11. Figure 1 indicates that:

    - iZettle estimated that there are [✂] micro and nano merchants in the UK. The total volume of online payments by [✂].

    - Indicatively, applying iZettle's online transaction fee of [✂] by payment volume in the micro/nano segment would represent total payments revenue of [✂].

Figure 1: [✂]

[✂]

Source: [✂]

12. As set out in Figure 2, iZettle assessed the degree of online presence by its customers and found that:

    (a) [✂] of iZettle users did not have online sales (based on an iZettle survey).

    (b) However, [✂] of all offline purchases start online (based on a study published in Harvard Business Review).

13. iZettle concluded that [✂] (see Figure 2)

Figure 2: [✂]

[✂]

Source: [✂].

14. In terms of demand for online payments by different merchant sectors, iZettle found that:

    (a) [✂].

    (b) [✂].

(c) [✂].

Figure 3: [✂]

[✂]

Source: [✂].

Figure 4: [✂]

[✂]

Source: [✂].

Figure 5: [✂]

[✂]

Source: [✂].

15.   In terms of product features wanted by users, iZettle found that:

(a) [✂]

(b) [✂]

(c) [✂]

Figure 6: [✂]

[✂]

Source: [✂].

Figure 7: [✂]

[✂]

Source: [✂].

Figure 8: [✂]

[✂]

Source: [✂].

Evercore merchant survey

Overview

16.   Evercore, PayPal's financial adviser for the Merger, carried out a survey of 125 small and medium-size merchants across Europe (including 35 in the UK). The results were summarised in a presentation dated February 2018.

17.   This survey appears to confirm the relevance and importance of omni-channel to smaller merchants.[2]

18.   The appendix to the survey contains notes from a meeting between Evercore and iZettle.

19.   We extract relevant parts in the following paragraphs.[3]

Analysis of relevant parts

20.   The Appendix of the Evercore survey (see Figure 9) contains its meeting notes with [✂], iZettle's co-founder and executive Chairman, in January 2018. Evercore reported iZettle's view as follows.

   (a) [✂].

   (b) [✂].

   (c) [✂].

Figure 9: [✂]

[✂]

Source: [✂]

21.   The figure above provides some insights into iZettle's investment priorities in January 2018. It was reported that [✂].

iZettle's Strategy

22.   We have examined the following iZettle strategy documents and internal research, which describe iZettle's growth strategy prior to the Merger and provide insights into the role of ecommerce in its strategy:

---

[2] Other PayPal documents assessing the relevance of omni-channel as a key rationale of the Merger have been examined in Appendix C.
[3] See Appendix C for further analysis on this document.

(a) iZettle 2018-2020 Strategy (September 2017).

(b) iZettle 2018 Budget (December 2017).

(c) Strategy Workshop I (April 2018).

(d) iZettle EMB minutes (July 2017).

(e) iZettle 2019 Strategy.

23. We have also considered materials prepared for the iZettle IPO and for this Merger, including prospectus for investors, iZettle presentation to research analysts and equity research reports:

(a) iZettle IPO Prospectus (May 2018).

(b) iZettle presentation to research analysts (March/April 2018).

(c) [✂].

(d) [✂].

24. Lastly, we have considered the following document submitted by PayPal

(a) Evercore meeting notes with iZettle (April 2018).

25. We analyse each of the above documents in the paragraphs below.

iZettle 2018-2020 Strategy

Overview

26. This is a three-year strategy document prepared by senior management for the iZettle Board in September 2017. Its purpose was to seek board approval of the strategic objectives, direction and actions for iZettle.

27. It discussed growth opportunities and market/product commercial strategies. It did not discuss [✂].

28. It is not specific to the UK, but it considered iZettle's global strategy (of which UK is part).

29. In summary, the document suggests that:

(a) [✂].

(b) [✂].

(c) [✂].

(d) [✂].

(e) [✂].

30.   We describe the relevant sections of the document in the following paragraphs.

Analysis of relevant parts

31.   Figure 10 shows that:

(a) iZettle identified 'four key levers' in identifying 'new direction' based on merchant product feedback.

(b) [✂].

(c) [✂].

Figure 10: [✂]

[✂]

Source: [✂].

32.   As set out in Figure 11 iZettle identified [✂]:

(a) [✂].

(b) [✂].

(c) [✂].

Figure 11: [✂]

[✂]

Source: [✂].

33.   Figure 12 sets out iZettle's view of its envisaged market position relative to other competitors:

(a) [✂].

(b) [✂].

(c) [✂].

Figure 12: [✂]

[✂]

Source: [✂].

34.   As shown in Figure 13:

   (a) iZettle recognised 'changing payments landscape', [✂].

   (b) [✂].

   (c) [✂].

Figure 13: [✂]

[✂]

Source: [✂].

35.   Figure 14 indicates that iZettle planned to [✂]:

   (a) [✂];

   (b) [✂];

   (c) [✂];

   (d) [✂];

   (e) [✂]; and

   (f) [✂].

Figure 14: [✂]

[✂]

Source: [✂].

36.   Figure 15 indicates that iZettle, at this time, had [✂]:

   (a) [✂].

   (b) [✂].

   (c) [✂].

Figure 15: [✂]

[✂]

37.   As set out in Figure 16, iZettle summarised [✂] 'strategic actions' for its product strategy, [✂].

Figure 16: [✂]

[✂]

38.   In relation to market expansion opportunities, iZettle considered [✂]:

    (a) [✂].

    (b) [✂].

    (c) [✂].

Figure 17: [✂]

[✂]

39.   As set out in Figure 18, iZettle summarised [✂] 'strategic actions' for its market strategy.

40.   [✂].

Figure 18: [✂]

[✂]

iZettle 2018 Budget

Overview

41.   The 2018 Budget presentation was prepared by the CFO for the iZettle Board in December 2017.

42.   The budget provides an indication of the [✂] (iZettle e-commerce was launched in April 2018).

    (a) E-commerce accounted for a [✂] proportion ([✂]) of its total budgeted revenue in 2018 [✂].

(b) Within e-commerce, payment revenue was [✂] and software subscription (SaaS) revenue was [✂].

43. As detailed in the paragraphs below:

(a) It describes [✂]

(b) It identifies 'online commerce' as [✂].

44. iZettle's 2019 Budget [✂] a break-down of its e-commerce revenue.

Analysis of relevant parts

45. Figure 19 shows that one of the [✂].

46. iZettle told us that the [✂]

Figure 19: [✂]

[✂]

Source: [✂].

47. As reflected in Figure 20, in setting its budget for headcount, iZettle identified [✂]

(a) [✂].

(b) [✂].

(c) [✂].

(d) [✂].

Figure 20: [✂]

[✂]

Source: [✂].

Strategy Workshop I

Overview

48. This document is the 'pre-read' material for a strategy workshop for senior management of iZettle in April 2018.

49. We have extracted relevant parts in the paragraphs below.

Analysis of relevant parts

50.   As set out in Figure 21 iZettle identifies [✂].

51.   [✂]

Figure 21: [✂]

[✂]

Source: [✂].

52.   As set out in Figure 22, iZettle projected that growth would be [✂].

        (a) [✂].

        (b) [✂].

        (c) [✂].

53.   In this respect, iZettle told us that:

        (a) [✂] of its payment revenue would come from e-commerce.

        (b) Its projection [✂].

Figure 22: [✂]

[✂]

Source: [✂].

54.   As Figure 23 shows, in an internal survey of 15 'sponsors and owners', [✂].[4]

Figure 23: [✂]

[✂]

Source: [✂].

---

[4] [✂].

EMB minutes July 2017

Overview

55.   The minutes of an iZettle management meeting on 11 July 2017 discussed its [✂].

56.   We have extracted relevant parts of the document in the following paragraphs.

Analysis of relevant parts

57.   As shows in Figure 24:

    (a) [✂] (Chief Product Officer) noted that:

        (i)   [✂].

        (ii) [✂].

        (iii) [✂].

    (b) [✂].[5]

Figure 24: [✂]

[✂]

Source: [✂].

iZettle 2019 Strategy

Overview

58.   This is a short iZettle strategy document (15 slides) from 2019.

59.   We have extracted relevant parts in the paragraphs below.

Analysis of relevant parts

60.   As set out in Figure 25 iZettle identifies [✂]:

    (a) [✂];

---

[5] In a December 2018 Board presentation discussing [✂].

(b) [✂];

(c) [✂]; and

(d) [✂].

61.   [✂].

Figure 25: [✂]

[✂]

Source: [✂]

62.   As shown in Figure 26 iZettle identifies [✂].

Figure 26: [✂]

[✂]

Source: [✂]

iZettle draft IPO Prospectus

Overview

63.   This is a draft prospectus prepared for the iZettle IPO which was abandoned on 17 May 2018, just before the SPA was signed.

64.   It describes iZettle's business and growth strategy to prospective investors.

65.   It identifies 'four key levers' and describes its growth strategy in broad terms:

(a) [✂].

(b) [✂].

(c) [✂].

(d) [✂].

66.   These four key levers have been described in detail in other iZettle internal documents (2018 Budget and 2018-2020 Strategy) and elaborated further in [✂]. Two of these [✂] are in part related to [✂].

67.   We have extracted relevant parts of the document in the paragraphs below.

Analysis of relevant parts

68.   As shown in Figure 27, the IPO prospectus states that:

       (a) [✂];

       (b) [✂]; and

       (c) [✂].

Figure 27: [✂]

[✂]

Source: [✂].

69.   As set out in Figure 28, the IPO prospectus describes the iZettle commerce platform as [✂]:

       (a) [✂].

       (b) [✂].

       (c) [✂].

       (d) [✂].

70.   It also highlights that the platform allows [✂].

Figure 28: [✂]

[✂]

Source: [✂].

iZettle presentation to research analysts

Overview

71.   This document was prepared by iZettle for research analysts for the purposes of producing their research reports in March 2018. A similar version of the presentation was presented to PayPal's due diligence team in April 2018.

72.   It provides a business overview of iZettle, which is described as a [✂] that provides [✂].

73.   We have extracted relevant parts in the paragraphs below.

74.   [✂] are mentioned various times alongside other product features that allow merchants to [✂] (see Figure 29).

Figure 29: [✂]

[✂]

Source: [✂].

75.   Figure 30 shows that [✂].

Figure 30: [✂]

[✂]

Source: [✂].

76.   As shown in Figure 31 iZettle considers [✂].

Figure 31: [✂]

[✂]

Source: [✂].

77.   As in other internal iZettle strategy documents, this analyst presentation identifies [✂] of long term growth (see Figure 32)

78.   E-commerce is considered under [✂].

Figure 32: [✂]

[✂]

Source: [✂].

[✂]

Overview

79.   [✂]. It produced a securities research report [✂].

80.   We have extracted relevant parts of the reports in the following paragraphs.

Analysis of relevant parts

81.   As set out in Figure 33 the [✂]

(a) [✂].

(b) [✂].

82.   [✂].

Figure 33: [✂]

[✂]

Source: [✂].

83.   [✂]:

(a) [✂].

(b) [✂].

Figure 34: [✂]

[✂]

Source: [✂].

Figure 35: [✂]

[✂]

Source: [✂].

[✂]

Overview

84.   This document is a [✂] report prepared [✂] in May 2018.

85.   The document identified five drivers of revenue growth forecast.

86.   The drivers are broadly similar to iZettle's 'four key levers' identified in the IPO prospectus and in its presentation to equity analysts.

87.   We have extracted relevant parts of the document in the paragraphs below.

Analysis of relevant parts

88.   As illustrated in Figure 36 [✂]:

(a) [✂].

(b) [✂].

Figure 36: [✂]

[✂]

Source: [✂].

89. [✂]:

    (a) [✂];

    (b) [✂];

    (c) [✂]; and

    (d) [✂].

Figure 37: [✂]

[✂]

Source: [✂].

Evercore meeting notes with iZettle

Overview

90. These are the notes of a meeting between Evercore (PayPal's financial adviser for the Merger) and [✂] (iZettle co-founder and executive chairman) in January 2018.

91. We have extracted relevant parts of the documents in the paragraphs below.

Analysis of relevant parts

92. As Figure 38 illustrates, the notes report that, for iZettle:

    (a) [✂].

    (b) [✂].

    (c) [✂].

93. The meeting notes did not specify whether the [✂].

Figure 38: [✂]

[✂]

Source: PayPal

Appendix E: Shares of supply

Introduction

1. This appendix presents the shares of supply estimates based on total payments volume (TPV) and on number of customers using data collected from the Parties and other suppliers of offline payment services.

2. We provide share estimates for all smaller merchants (ie nano, micro and small merchants combined), and then for each customer segment. For each of these customer segments, we consider shares taking into account:

    -   all providers (ie mPOS and traditional POS providers combined); and

    -   mPOS providers.

3. Finally, in a dynamic and growing market, the position of mPOS and traditional providers can move rapidly. We therefore also considered trends in new customer acquisition and the volumes generated from these new customers using an mPOS and a traditional POS device.

Parties' views

4. The Parties submitted that, to the extent that the CMA relies on backward looking shares of supply calculation, the only informative basis to do so is to combine mPOS and traditional POS. Further, PayPal submitted that distinguishing between smaller and larger merchants is accurate given that PayPal Here's customers are, in most part, smaller merchants.

5. However, the Parties submitted that historical shares of supply are not a reliable measure of the strength of suppliers in a dynamic and growing market, whereas the analysis of latest trends in supplier strength is more instructive.[1]

6. As an indicator of trends in mPOS supplier strength, the Parties submitted the analysis of UK app download data from May 2016 to February 2019, as a proxy for new customer acquisitions (see Figure 1). The evidence suggests that:

---

[1] The Parties response to the Issues statement, paragraph 4.8.

(a) iZettle has been acquiring more customers than other suppliers throughout the period (with the exception of a few months of data), and its rate of growth has increased significantly;

(b) PayPal has been acquiring customers but at a declining rate – in 2016 its downloads were at a similar level to iZettle's, but they have since reduced significantly;

(c) SumUp's growth has accelerated rapidly, drawing level with iZettle in app downloads by early 2019 from a negligible level in 2016;

(d) Square's growth has also accelerated, but less significantly, only drawing level with PayPal at the end of 2018; and

(e) Worldpay and Barclaycard have negligible levels of downloads for their mPOS apps and this has not changed over the period.

Figure 1: Analysis of UK app downloads for the six main mPOS apps
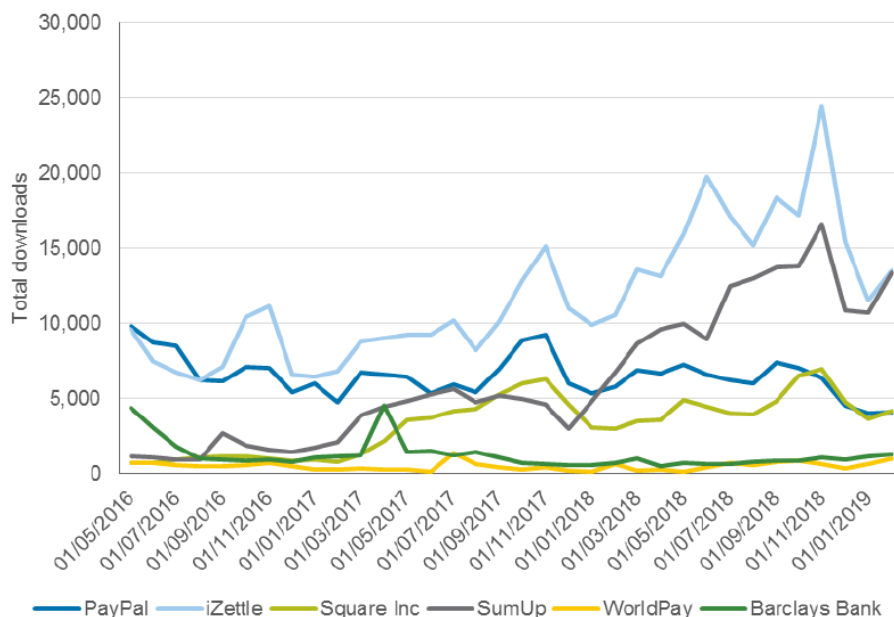
Source: CRA analysis of App Annie download data from May 2016 to February 2019.

CMA assessment of shares of supply

Methodology

7. We collected data on annual TPV and number of customers from the Parties and from several major providers of offline payment services in the UK for each of 2016, 2017 and 2018, namely: Barclaycard, Elavon, First Data, Global Payments, Shopify, Square, SumUp and Worldpay.

8.   We asked that the data be split according to merchant size categories based on their annual TPV using the following thresholds:

- Nano: annual TPV below £21,000

- Micro: annual TPV between £21,000 and £160,000

- Small: annual TPV between £160,000 and £380,000.

9.   PayPal Here allows merchants the option of keying in a transaction, ie processing a 'card not present transaction'. These transactions are typically used for internet or other remote (eg telephone) sales ie they are generally not for face-to-face payments. Therefore, we excluded PayPal key-in transactions from PayPal's sales.

10.   Moreover, we do not include ISOs' volumes in the share of supply estimations, as the TPV processed through their card terminals would be double counted with acquirers' TPV.

11.   We consider shares with reference to smaller merchants (ie nano, micro and small merchants combined), and then for each customer segment. For each of these customer segments, we consider shares in 2016, 2017 and 2018 taking into account:

(a) all providers (ie mPOS and traditional POS providers combined); and

(b) mPOS providers.

12.   Finally, to assess the latest trends of the mPOS and traditional POS providers' strength, we also collected data on the number of new customers and the TPV from new customers acquired by each provider in the UK for each of 2016, 2017 and 2018.[2]

Shares of supply

All smaller merchants (nano, micro and small combined)

13.   Table 1 sets out the trends between 2016 and 2018 of offline card payments to smaller merchants by mPOS and traditional providers. In particular, Table 1 shows that:

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[2] PayPal's and iZettle's data of new customer do not include December 2018.

(a) Worldpay ([20-30]%) and Barclaycard ([20-30]%) are the two largest competitors by volumes followed by Elavon, First Data and Global Payments;

(b) the main mPOS providers (ie iZettle, PayPal, SumUp and Square) collectively account for a very small proportion of the overall market (less than [0-5]%);

(c) the transaction volume processed by mPOS providers is growing much more rapidly than the rest of the market in relative terms – the whole market grew by 14% between 2016 and 2018, while the volumes of mPOS suppliers grew by 193%;

(d) the Parties have a low combined share in the overall market of [0-5]%.

14.   Table 2 considers trends in shares of supply by number of customers. The table shows that:

(a) Worldpay ([20-30]%) and Barclaycard ([10-20]%) are still the two largest competitors with First Data ([✂]) and iZettle ([✂]) each in the range [10-20]%;

(b) mPOS providers account for a greater proportion of the overall market in terms of new customers (around [30-40]%);

(c) the Parties' combined market share in 2018 is [10-20]%.

Table 1: Shares of supply based on TPV for offline payments via mPOS and traditional POS devices – all smaller merchants

		All providers				
Firm	*TPV 2016 (£m)*	*Share*	*TPV 2017 (£m)*	*Share*	*TPV 2018 (£ m)*	*Share*
iZettle	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
PayPal	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Parties Combined	*[✂]*	*[0-5]%*	*[✂]*	*[0-5]%*	*[✂]*	*[0-5]%*
Worldpay	[✂]	[30-40]%	[✂]	[20-30]%	[✂]	[20-30]%
Barclaycard	[✂]	[20-30]%	[✂]	[20-30]%	[✂]	[20-30]%
Global Payments	[✂]	[10-20]%	[✂]	[10-20]%	[✂]	[5-10]%
Elavon	[✂]	[10-20]%	[✂]	[10-20]%	[✂]	[10-20]%
First Data	[✂]	[10-20]%	[✂]	[10-20]%	[✂]	[10-20]%
SumUp	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Square	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Shopify	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Total	[✂]	*100%*	[✂]	*100%*	[✂]	*100%*

Source: CMA analysis of Parties' and third-parties' data.

Table 2: Shares of supply based on number of customers for offline payments via mPOS and traditional POS devices – all smaller merchants

Firm	# Customers 2016	Share	All providers # Customers 2017	Share	# Customers 2018	Share
iZettle	[✂]	[5-10]%	[✂]	[10-20]%	[✂]	[10-20]%
PayPal	[✂]	[5-10]%	[✂]	[5-10]%	[✂]	[5-10]%
Parties Combined	*[✂]*	*[10-20]%*	*[✂]*	*[10-20]%*	*[✂]*	*[20-30]%*
Worldpay	[✂]	[30-40]%	[✂]	[30-40]%	[✂]	[20-30]%
Barclaycard	[✂]	[10-20]%	[✂]	[10-20]%	[✂]	[10-20]%
Global Payments	[✂]	[5-10]%	[✂]	[5-10]%	[✂]	[5-10]%
Elavon	[✂]	[10-20]%	[✂]	[5-10]%	[✂]	[5-10]%
First Data	[✂]	[5-10]%	[✂]	[10-20]%	[✂]	[10-20]%
SumUp	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[5-10]%
Square	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Shopify	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Grand Total	[✂]	*100%*	[✂]	*100%*	[✂]	*100%*

Source: CMA analysis of Parties' and third-parties' data.

15. We consider shares of supply trends between 2016 and 2018 for offline payments via mPOS devices for all smaller merchants. Table 3 shows that, based on TPV:

(a) the Parties are currently the [✂] with a combined share of supply of [70-80]%;

(b) iZettle has constantly been the largest mPOS supplier with a share of [50-60]% each year;

(c) PayPal is a significant supplier with a share of [10-20]%, but its share has reduced over the period from [30-40]% in 2016;

(d) SumUp has grown significantly, increasing its share from [5-10]% to [10-20]% between 2016 and 2018;

(e) Square has also grown rapidly since its entry in 2017, growing to a [5-10]% share;

(f) the shares of other providers are very small.

16. Table 4 considers trends in shares of supply by number of customers. The table shows that:

(a) iZettle is still the largest mPOS supplier followed by SumUp, PayPal and Square;

(b) PayPal's shares of supply have declined from [30-40]% in 2016 to [20-30]% in 2018;

(c) SumUp is [✂] with a share ([20-30]%) [✂];

(d) Square's and other providers' share of supply estimated based on the number of customers give broadly consistent results to the shares of supply estimated on the basis of TPV.

Table 3: Shares of supply based on TPV for offline payments via mPOS devices – all smaller merchants

		mPOS only				
	TPV 2016		TPV 2017		TPV 2018	
Firm	(£ m)	Share	(£ m)	Share	(£ m)	Share
iZettle	[✗]	[50-60]%	[✗]	[50-60]%	[✗]	[50-50]%
PayPal	[✗]	[30-40]%	[✗]	[20-30]%	[✗]	[10-20]%
Parties Combined	*[✗]*	*[80-90]%*	*[✗]*	*[80-90]%*	*[✗]*	*[70-80]%*
SumUp	[✗]	[5-10]%	[✗]	[10-20]%	[✗]	[10-20]%
Square	[✗]	[0-5]%	[✗]	[0-5][%	[✗]	[5-10]%
Shopify	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Worldpay	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Barclaycard	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Elavon	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Total	[✗]	*100%*	[✗]	*100%*	[✗]	*100%*

Source: CMA analysis of Parties' and third-parties' data.

Table 4: Shares of supply based on number of customers for offline payments via mPOS devices – all smaller merchants

		mPOS only				
	# Customers		# Customers		# Customers	
Firm	2016	Share	2017	Share	2018	Share
iZettle	[✗]	[30-40]%	[✗]	[40-50]%	[✗]	[30-40]%
PayPal	[✗]	[30-40]%	[✗]	[30-40]%	[✗]	[20-30]%
Parties Combined	*[✗]*	*[70-80]%*	*[✗]*	*[70-80]%*	*[✗]*	*[60-70]%*
SumUp	[✗]	[10-20]%	[✗]	[10-20]%	[✗]	[20-30]%
Square	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[5-10]%
Shopify	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Worldpay	[✗]	[5-10]%	[✗]	[5-10]%	[✗]	[0-5]%
Barclaycard	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Elavon	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Total	[✗]	*100%*	[✗]	*100%*	[✗]	*100%*

Source: CMA analysis of Parties' and third-parties' data.

Nano merchants

17. We consider the share of supply trends between 2016 and 2018 for offline payments via mPOS and traditional POS devices for nano merchants. Table 5 shows that:

(a) Worldpay ([20-30]%) and Barclaycard ([10-20]%) are the [✗] by volumes with First Data ([✗]) and iZettle ([✗]) each in the range [10-20]%.

(b) the main mPOS providers collectively account for [✗] of the TPV in this customer segment in 2018;

(c) the transaction volume processed by mPOS providers is growing much more rapidly than the rest of the market in relative terms – the whole

market grew by 24% between 2016 and 2018, while the volumes of mPOS suppliers grew by 141%;

(d) the Parties' combined shares of supply increased from [10-20]% in 2016 to [20-30]% in 2018.

18. Shares of supply estimated on the basis of number of customers (Table 6), show that:

(a) iZettle is the largest provider with [20-30]% of share of supply, followed by Barclaycard, PayPal Here, SumUp and Worldpay each with shares in the [10-20]% range; and,

(b) the four identified mPOS-only providers collectively account for a significant proportion ([50-60]%) of the customers in this segment.

Table 5: Shares of supply based on TPV for offline payments via mPOS and traditional POS devices - nano merchants

			All providers			
Firm	*TPV 2016 (£ m)*	*Share*	*TPV 2017 (£ m)*	*Share*	*TPV 2018 (£ m)*	*Share*
iZettle	[✕]	[5-10]%	[✕]	[10-20]%	[✕]	[10-20]%
PayPal	[✕]	[5-10]%	[✕]	[5-10]%	[✕]	[5-10]%
Parties Combined	*[✕]*	*[10-20]%*	*[✕]*	*[10-20]%*	*[✕]*	*[20-30]%*
Worldpay	[✕]	[30-40]%	[✕]	[20-30]%	[✕]	[20-30]%
Barclaycard	[✕]	[20-30]%	[✕]	[20-30]%	[✕]	[10-20]%
Global Payments	[✕]	[5-10]%	[✕]	[5-10]%	[✕]	[5-10]%
Elavon	[✕]	[10-20]%	[✕]	[5-10]%	[✕]	[5-10]%
First Data	[✕]	[10-20]%	[✕]	[10-20]%	[✕]	[10-20]%
SumUp	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[5-10]%
Square	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Shopify	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Grand Total	[✕]	*100%*	[✕]	*100%*	[✕]	*100%*

Source: CMA analysis of Parties' and third-parties' data.

Table 6: Shares of supply based on number of customers for offline payments via mPOS and traditional POS devices - nano merchants

			All providers			
Firm	*# Customers 2016*	*Share*	*# Customers 2017*	*Share*	*# Customers 2018*	*Share*
iZettle	[✕]	[10-20]%	[✕]	[10-20]%	[✕]	[20-30]%
PayPal	[✕]	[10-20]%	[✕]	[10-20]%	[✕]	[10-20]%
Parties Combined	*[✕]*	*[30-40]%*	*[✕]*	*[30-40]%*	*[✕]*	*[30-40]%*
Worldpay	[✕]	[20-30]%	[✕]	[20-30]%	[✕]	[10-20]%
Barclaycard	[✕]	[10-20]%	[✕]	[10-20]%	[✕]	[10-20]%
Global Payments	[✕]	[5-10]%	[✕]	[0-5]%	[✕]	[0-5]%
Elavon	[✕]	[10-20]%	[✕]	[5-10]%	[✕]	[5-10]%
First Data	[✕]	[5-10]%	[✕]	[5-10]%	[✕]	[5-10]%
SumUp	[✕]	[5-10]%	[✕]	[5-10]%	[✕]	[10-20]%
Square	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Shopify	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Grand Total	[✕]	*100%*	[✕]	*100%*	[✕]	*100%*

Source: CMA analysis of Parties' and third-parties' data.

19. Table 7 sets out trends between 2016 and 2018 of offline payments to nano merchants by mPOS providers. In particular, Table 7 shows that:

    (a) iZettle is the largest supplier in mPOS followed by SumUp, PayPal Here and Square;

    (b) SumUp is [✂] with a share ([20-30]%) [✂] than PayPal;

    (c) PayPal's shares of supply have declined from [30-40]% in 2016 to [20-30]% in 2018, however, the Parties have a combined share of supply of [60-70]%;

    (d) Square has also grown rapidly since its entry in 2017, growing to a [5-10]% share;

    (e) the shares of other providers are very small.

20. Shares of supply estimated based on the number of customers give broadly consistent results to the shares of supply estimated based on TPV (see Table 8).

Table 7: Shares of supply based on TPV for offline payments via mPOS devices – nano merchants

			mPOS only			
Firm	TPV 2016 (£ m)	Share	TPV 2017 (£ m)	Share	TPV 2018 (£ m)	Share
iZettle	[✂]	[40-50]%	[✂]	[40-50]%	[✂]	[40-50]%
PayPal	[✂]	[30-40]%	[✂]	[30-40]%	[✂]	[20-30]%
Parties Combined	*[✂]*	*[70-80]%*	*[✂]*	*[70-80]%*	*[✂]*	*[60-70]%*
SumUp	[✂]	[10-20]%	[✂]	[10-20]%	[✂]	[20-30]%
Square	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[5-10]%
Shopify	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Worldpay	[✂]	[5-10]%	[✂]	[0-5]%	[✂]	[0-5]%
Barclaycard	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Elavon	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Total	*[✂]*	*100%*	*[✂]*	*100%*	*[✂]*	*100%*

Source: CMA analysis of Parties' and third-parties' data.

Table 8: Shares of supply based on number of customers for offline payments via mPOS – nano merchants

		mPOS only				
Firm	# Customers 2016	Share	# Customers 2017	Share	# Customers 2018	Share
iZettle	[✂]	[30-40]%	[✂]	[40-50]%	[✂]	[30-40]%
PayPal	[✂]	[40-50]%	[✂]	[30-40]%	[✂]	[20-30]%
Parties Combined	*[✂]*	*[70-80]%*	*[✂]*	*[70-80]%*	*[✂]*	*[60-70]%*
SumUp	[✂]	[10-20]%	[✂]	[10-20]%	[✂]	[30-40]%
Square	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[5-10]%
Shopify	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Worldpay	[✂]	[5-10]%	[✂]	[0-5]%	[✂]	[0-5]%
Barclaycard	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Elavon	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Total	[✂]	*100%*	[✂]	*100%*	[✂]	*100%*

Source: CMA analysis of Parties' and third-parties' data.

Micro merchants

21. We consider the share of supply trends between 2016 and 2018 for offline payments via mPOS and traditional POS devices for micro merchants. Table 9 shows that:

    (a) traditional POS providers generate large payment volumes from micro merchants, accounting for over [90-100]% of TPV for this customer segment in 2018;

    (b) Worldpay and Barclaycard are the two largest competitors by volume;

    (c) the identified mPOS providers (ie iZettle, PayPal, SumUp and Square) collectively account for a very small proportion of the TPV in this customer segment ([5-10]%);

    (d) the Parties' combined share of supply in 2018 is very low ([0-5]%).

22. Shares of supply estimated based on the number of customers give consistent results to the shares of supply estimated based on TPV (see Table 10).

Table 9: Shares of supply based on TPV for offline payments via mPOS and traditional POS devices - micro merchants

			All providers			
Firm	*TPV 2016 (£ m)*	*Share*	*TPV 2017 (£ m)*	*Share*	*TPV 2018 (£ m)*	*Share*
iZettle	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
PayPal	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Parties Combined	*[✗]*	*[0-5]%*	*[✗]*	*[0-5]%*	*[✗]*	*[0-5]%*
Worldpay	[✗]	[30-40]%	[✗]	[30-40]%	[✗]	[30-40]%
Barclaycard	[✗]	[20-30]%	[✗]	[20-30]%	[✗]	[20-30]%
Global Payments	[✗]	[10-20]%	[✗]	[10-20]%	[✗]	[5-10]%
Elavon	[✗]	[10-20]%	[✗]	[10-20]%	[✗]	[10-20]%
First Data	[✗]	[10-20]%	[✗]	[10-20]%	[✗]	[10-20]%
SumUp	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Square	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Shopify	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Grand Total	[✗]	*100%*	[✗]	*100%*	[✗]	*100%*

Source: CMA analysis of Parties' and third-parties' data.

Table 10: Shares of supply based on number of customers for offline payments via mPOS and traditional POS devices - micro merchants

			All providers			
Firm	*# Customers 2016*	*Share*	*# Customers 2017*	*Share*	*# Customers 2018*	*Share*
iZettle	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
PayPal	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Parties Combined	*[✗]*	*[0-5]%*	*[✗]*	*[0-5]%*	*[✗]*	*[0-5]%*
Worldpay	[✗]	[40-50]%	[✗]	[40-50]%	[✗]	[40-50]%
Barclaycard	[✗]	[10-20]%	[✗]	[10-20]%	[✗]	[10-20]%
Global Payments	[✗]	[5-10]%	[✗]	[5-10]%	[✗]	[5-10]%
Elavon	[✗]	[10-20]%	[✗]	[10-20]%	[✗]	[5-10]%
First Data	[✗]	[10-20]%	[✗]	[10-20]%	[✗]	[10-20]%
SumUp	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Square	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Shopify	[✗]	[0-5]%	[✗]	[0-5]%	[✗]	[0-5]%
Grand Total	[✗]	*100%*	[✗]	*100%*	[✗]	*100%*

Source: CMA analysis of Parties' and third-parties' data.

23.   Table 11 sets out trends between 2016 and 2018 of offline payments to micro merchants by mPOS providers. In particular, Table 11 shows that:

    (a) iZettle is the largest supplier in mPOS with over [50-60]% share of supply, followed by PayPal Here ([10-20]%), SumUp and Square;

    (b) PayPal's share of supply has declined from [30-40]% in 2016 to [10-20]% in 2018 but the Parties' combined share is over [70-80]%.

    (c) Worldpay and Barclaycard have very low shares of supply.

24.   Shares of supply trends based on the number of customers shows Worldpay as the second largest provider with [20-30]% in 2018 (see Table 12).

Table 11: Shares of supply based on TPV for offline payments via mPOS devices – micro merchants

		mPOS only				
Firm	TPV 2016 (£ m)	Share	TPV 2017 (£ m)	Share	TPV 2018 (£ m)	Share
iZettle	[✂]	[50-60]%	[✂]	[50-60]%	[✂]	[50-60]%
PayPal	[✂]	[30-40]%	[✂]	[20-30]%	[✂]	[10-20]%
Parties Combined	*[✂]*	*[80-90]%*	*[✂]*	*[80-90]%*	*[✂]*	*[70-80]%*
SumUp	[✂]	[5-10]%	[✂]	[5-10]%	[✂]	[10-20]%
Square	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[5-10]%
Shopify	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Worldpay	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Barclaycard	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Elavon	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Total	*[✂]*	*100%*	*[✂]*	*100%*	*[✂]*	*100%*

Source: CMA analysis of Parties' and third-parties' data.

Table 12: Shares of supply based on number of customers for offline payments via mPOS – micro merchants

		mPOS only				
Firm	# Customers 2016	Share	# Customers 2017	Share	# Customers 2018	Share
iZettle	[✂]	[40-50]%	[✂]	[40-50]%	[✂]	[40-50]%
PayPal	[✂]	[20-30]%	[✂]	[20-30]%	[✂]	[10-20]%
Parties Combined	*[✂]*	*[60-70]%*	*[✂]*	*[60-70]%*	*[✂]*	*[50-60]%*
SumUp	[✂]	[5-10]%	[✂]	[5-10]%	[✂]	[10-20]%
Square	[✂]	[[0-5]%	[✂]	[0-5]%	[✂]	[5-10]%
Shopify	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Worldpay	[✂]	[20-30]%	[✂]	[20-30]%	[✂]	[20-30]%
Barclaycard	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Elavon	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Total	*[✂]*	*100%*	*[✂]*	*100%*	*[✂]*	*100%*

Source: CMA analysis of Parties' and third-parties' data.

Small merchants

25. We consider the share of supply trends between 2016 and 2018 for offline payments via mPOS and traditional POS devices for small merchants. Table 13 shows that:

   (a) traditional POS providers account for almost all ([90-100]%) of the TPV for this customer segment in 2018;

   (b) Barclaycard ([30-40]%) and Worldpay ([20-30]%) are the [✂] by volume;

   (c) among the main mPOS providers, iZettle's share of supply in 2018 is [0-5]%, while PayPal's, SumUp's and Square's shares of supply are each less than that;

   (d) the Parties' combined share of supply in 2018 is just [0-5]%.

26.   Shares of supply estimated based on the number of customers give consistent results to the shares of supply estimated based on TPV (see Table 14).

Table 13: Shares of supply based on TPV for offline payments via mPOS and traditional POS devices - small merchants

		All providers				
Firm	TPV 2016 (£ m)	Share	TPV 2017 (£ m)	Share	TPV 2018 (£ m)	Share
iZettle	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
PayPal	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Parties Combined	*[✂]*	*[0-5]%*	*[✂]*	*[0-5]%*	*[✂]*	*[0-5]%*
Worldpay	[✂]	[20-30]%	[✂]	[20-30]%	[✂]	[30-40]%
Barclaycard	[✂]	[30-40]%	[✂]	[30-40]%	[✂]	[30-40]%
Global Payments	[✂]	[10-20]%	[✂]	[10-20]%	[✂]	[10-20]%
Elavon	[✂]	[10-20]%	[✂]	[10-20]%	[✂]	[10-20]%
First Data	[✂]	[10-20]%	[✂]	[10-20]%	[✂]	[10-20]%
SumUp	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Square	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Shopify	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Grand Total	*[✂]*	*100%*	*[✂]*	*100%*	*[✂]*	*100%*

Source: CMA analysis of Parties' and third-parties' data.

Table 14: Shares of supply based on number of customers for offline payments via mPOS and traditional POS devices - small merchants

		All providers				
Firm	# Customers 2016	Share	# Customers 2017	Share	# Customers 2018	Share
iZettle	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
PayPal	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Parties Combined	*[✂]*	*[0-5]%*	*[✂]*	*[0-5]%*	*[✂]*	*[0-5]%*
Worldpay	[✂]	[20-30]%	[✂]	[20-30]%	[✂]	[30-40]%
Barclaycard	[✂]	[30-40]%	[✂]	[30-40]%	[✂]	[30-40]%
Global Payments	[✂]	[10-20]%	[✂]	[10-20]%	[✂]	[10-20]%
Elavon	[✂]	[10-20]%	[✂]	[10-20]%	[✂]	[10-20]%
First Data	[✂]	[10-20]%	[✂]	[10-20]%	[✂]	[10-20]%
SumUp	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Square	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Shopify	[✂]	[0-5]%	[✂]	[0-5]%	[✂]	[0-5]%
Grand Total	*[✂]*	*100%*	*[✂]*	*100%*	*[✂]*	*100%*

Source: CMA analysis of Parties' and third-parties' data.

27.   Table 15 sets out trends between 2016 and 2018 of offline payments to small merchants by mPOS providers. In particular, Table 15 shows that:

(a) iZettle accounts for a share of over [70-80]%, PayPal is the second largest supplier, but significantly smaller than iZettle at [10-20]%. Their combined share is over [80-90]%;

(b) All other suppliers have small shares of supply in this segment.

28. Share of supply estimated on the basis of number of customers give broadly consistent results to the shares of supply estimated on the basis of TPV (see Table 16).

Table 15: Shares of supply based on TPV for offline payments via mPOS devices – small merchants

			mPOS only			
Firm	*TPV 2016 (£ m)*	*Share*	*TPV 2017 (£ m)*	*Share*	*TPV 2018 (£ m)*	*Share*
iZettle	[✕]	[70-80]%	[✕]	[70-80]%	[✕]	[70-80]%
PayPal	[✕]	[20-30]%	[✕]	[10-20]%	[✕]	[10-20]%
Parties Combined	*[✕]*	*[90-100]%*	*[✕]*	*[90-100]%*	*[✕]*	*[80-90]%*
SumUp	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Square	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[5-10]%
Shopify	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Worldpay	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Barclaycard	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Elavon	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Total	*[✕]*	*100%*	*[✕]*	*100%*	*[✕]*	*100%*

Source: CMA analysis of Parties' and third-parties' data.

Table 16: Shares of supply based on number of customers for offline payments via mPOS – small merchants

			mPOS only			
Firm	*# Customers 2016*	*Share*	*# Customers 2017*	*Share*	*# Customers 2018*	*Share*
iZettle	[✕]	[70-80]%	[✕]	[70-80]%	[✕]	[60-70]%
PayPal	[✕]	[20-30]%	[✕]	[10-20]%	[✕]	[10-20]%
Parties Combined	*[✕]*	*[90-100]%*	*[✕]*	*[80-90]%*	*[✕]*	*[80-90]%*
SumUp	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Square	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[5-10]%
Shopify	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Worldpay	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Barclaycard	[✕]	[0-5]%	[✕]	[0-5]%	[✕]	[0-5]%
Elavon	[✕]	[0-5]%	[✕]	[5-10]%	[✕]	[0-5]%
Total	*[✕]*	*100%*	*[✕]*	*100%*	*[✕]*	*100%*

Source: CMA analysis of Parties' and third-parties' data.

Trends in new customer acquisition

29. In a dynamic and growing market, the position of the various players can move rapidly. We therefore consider trends in new customer acquisition and the volumes generated by these customers for all providers and then for mPOS providers only.

30. Figure 2 shows recent trends in the number of new customer acquired by both mPOS and traditional POS providers. Figure 2 indicate that:

 (a) SumUp acquired the largest number of customers in 2018, [✕];

 (b) traditional POS providers' level of new customer acquisition has been [✕] between 2016 and 2018;

31.	By transaction volumes, Figure 3 shows that customers acquired by mPOS providers are significantly smaller that the customers acquired by traditional POS providers.

Figure 2: Number of new customers acquired by the major mPOS and traditional POS providers in each of 2016, 2017 and 2018

[✂]

Source: CMA analysis of Parties' and third-parties' data.

Figure 3: TPV generated by the new customers acquired by the major mPOS and traditional POS providers in each of 206, 2017 and 2018.

[✂]

Source: CMA analysis of Parties' and third-parties' data.

32.	Figure 4 below shows the number of new mPOS customers acquired by each mPOS supplier in each year 2016-2018. [✂]:

(a)	[✂];

(b)	In 2018, SumUp had a sharp increase in the number of customers acquired and [✂];

(c)	Barclaycard has very low levels of new mPOS customer acquisition compared to the main mPOS providers;

(d)	Worldpay has [✂].

33.	[✂]. The transaction volumes of iZettle and SumUp, and [✂] Square, have all grown in the last three years (see Figure 5).

Figure 4: Number of new customers acquired by the major mPOS providers in each of 2016, 2017 and 2018

[✂]

Source: CMA analysis of Parties' and third-parties' data.

Figure 5: TPV generated by the new customers acquired by the major mPOS providers in each of 206, 2017 and 2018.

[✂]

Source: CMA analysis of Parties' and third-parties' data.

Appendix F: Analysis of diversion

1. This appendix sets out the analysis we have carried out on diversion from the Parties' offline payment services, which includes analyses based on:

    (a) Stated diversion of the Parties' customers from the CMA survey.

    (b) Historical switching by the Parties' customers from the CMA survey.

    (c) Historical customer churn data submitted by the Parties.

Analysis of stated diversion from CMA survey

2. The CMA commissioned a survey to investigate the behaviours and preferences of the merging Parties' customers. This is published on our website. The survey's main objective was to assess the closeness of competition between the Parties and third parties.

3. Using the CMA survey, we calculate diversion ratios for the customers of each of the Parties. A diversion ratio is the proportion of customers who would switch to a given alternative option in response to either i) a price increase by their current provider ('price diversion') or ii) their current provider no longer being available ('forced diversion'), as a percentage of all customers who would switch.

4. Diversion ratios provide evidence of the relative strength of competition from competing providers. The higher the value of a diversion ratio from one of the Parties to a given option, the more of a competitive constraint that option imposes on the Party.

5. Using the CMA survey, we calculated 'price diversion' ratios as follows:[1]

    (a) We identified customers who are 'price sensitive' (Question 13 of the survey), ie those who said they would switch to another provider if their current provider (either iZettle or PayPal) were to increase transaction fees by a small amount (0.1 percentage point, eg from 1.75% to 1.85%).

    (b) For those customers who said they are price sensitive, we then identified the type of provider they would consider switching to (Question 9): 'another mPOS', 'another non-mPOS', 'stop accepting card payments' or 'something else'.

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[1] The analysis we undertake on the CMA survey excludes respondents who are 'nano below threshold', the excluded customers have annual TPV less than £1000.

(c) For those customers who said they would move to 'another mPOS' or 'another non-mPOS' provider, we identified the specific provider they said they would switch to (Question 10 & Question 12).

(d) Finally, based on the shares of each provider within each type of response (Question 9, excluding 'don't know' responses), we calculated diversion ratios as the overall percentage of customers that would switch to each competing provider (excluding 'don't knows'). We break down diversion ratios between nano[2] and micro[3] customers (defined by annual TPV).

6. Additionally, we undertook 'forced diversion' sensitivities. These sensitivities consider alternative options chosen by customers if their current provider were unavailable, irrespective of whether they are price sensitive. This means we look at the next best option for all customers.

Price diversion by provider type

7. Tables 1 and 2 show diversion ratios from iZettle's price sensitive nano and micro customers respectively.

8. Considering nano and micro customers of iZettle who are 'price sensitive':

(a) Around 60% said they would switch to another mPOS provider.

(b) Around 30% said they would switch to a non-mPOS provider.

(c) Around 5% of customers said they would stop taking card payments, but the proportion is slightly lower (3-4%) when measured by volume.

(d) The diversion ratios do not differ materially whether they are measured by number of customers or by volume.

Table 1: Price sensitive iZettle nano customer diversion, by type of provider

Provider type	Number	Diversion by number	Diversion by TPV
mPOS	247	61%	63%
non-mPOS	122	30%	31%
Stop taking card payments	25	6%	4%
Something else	13	3%	2%
Total	407	100%	100%

Source: CMA Analysis, CMA survey.

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[2] Nano customers are those with annual TPV below £21,000.
[3] Micro customers are those with annual TPV between £21,000 and £160,000.

Table 2: Price sensitive iZettle micro customer diversion, by type of provider

Provider type	Number	Diversion by number	Diversion by TPV
mPOS	69	58%	60%
non-mPOS	43	36%	34%
Stop taking card payments	5	4%	3%
Something else	1	1%	2%
Total	118	100%	100%

Source: CMA Analysis, CMA survey.

9. Tables 3 and 4 show diversion ratios from PayPal's price sensitive nano and micro customers respectively.

10. A broadly similar pattern is observed for PayPal Here nano and micro customers who are 'price sensitive'.

(a) Over half of PayPal Here customers said they would switch to another mPOS provider

(b) Around a third of PayPal Here customers said they would switch to a non-mPOS provider. This proportion is slightly smaller for nano customers, compared to the micro group.

(c) A greater proportion of nano customers (7-8%) said they would stop taking card payments than micro customers (1-2%).

(d) However, we note that the sample size of micro customer is relatively small

Table 3: Price sensitive PayPal Here customer diversion (nano), by type of provider

Provider type	Number	Diversion by number	Diversion by TPV
mPOS	75	54%	52%
non-mPOS	44	32%	31%
Stop taking card payments	10	7%	8%
Something else	9	7%	9%
Total	138	100%	100%

Source: CMA Analysis, CMA survey.

Table 4: Price sensitive PayPal Here customer diversion (micro), by type of provider

Provider type	Number	Diversion by number	Diversion by TPV
mPOS	28	54%	58%
non-mPOS	19	37%	33%
Stop taking card payments	1	2%	1%
Something else	4	8%	8%
Total	52	100%	100%

Source: CMA Analysis, CMA survey.

Price diversion to each competitor

11.   There are multiple mPOS providers that iZettle customers said they would switch to (Table 5).

12.   The competitor with the highest level of diversion is Square (24% by volume or 20% by number of customers). SumUp follows with diversion of 11% by volume and 20% by number of customers. The difference suggests that smaller customers would be more inclined to switch to SumUp.

13.   Diversion to PayPal Here (9%) is lower compared to Square and SumUp. The degree of diversion to Worldpay (13%) and Barclaycard (10%), combining mPOS and non-mPOS[4], is comparable to diversion to PayPal Here.

14.   Diversion to other non-mPOS providers in aggregate is substantial. Other non-mPOS providers account for over a fifth (22%) of TPV diversion.

Table 5: Price sensitive iZettle customer diversion (all) [5], by each competitor

Provider type	Provider	Number	Diversion by number	Diversion by TPV
mPOS	Square	80	20%	24%
mPOS	SumUp	79	20%	11%
mPOS	PayPal Here	36	9%	9%
mPOS	Worldpay	17	4%	5%
mPOS	Barclaycard	9	2%	0%
mPOS	Other	14	4%	7%
non-mPOS	Worldpay	18	11%	8%
non-mPOS	Barclaycard	10	6%	10%
non-mPOS	Other	23	15%	22%
Other	-	44	8%	3%
Total		330	100%	100%

Source: CMA Analysis, CMA survey.

15.   Tables 6 and 7 show that the diversion from iZettle customers to each competitor is consistent when broken down to micro and nano merchants. Even within the nano segment there are substantial levels of diversion to non-mPOS providers. Around a third (31%) of diversion by TPV would move to non-mPOS card readers within this segment.

Table 6: Price sensitive iZettle customer diversion (micro), by each competitor

Provider type	Provider	Number	Diversion by number	Diversion by TPV
mPOS	Square	15	18%	19%
mPOS	SumUp	15	18%	14%
mPOS	PayPal Here	9	11%	11%
mPOS	Worldpay	7	8%	10%
mPOS	Barclaycard	-	-	-
mPOS	Other	4	5%	6%
non-mPOS	Worldpay	7	18%	16%
non-mPOS	Barclaycard	3	8%	5%

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[4] For WorldPay and Barclaycard their non-mPOS offer refers to the traditional POS card readers.
[5] All small+, micro, and nano customers combined, excluding respondents who are 'nano below threshold'.

Provider type	Provider	Number	Diversion by number	Diversion by TPV
non-mPOS	Other	33	10%	13%
Other	-	6	5%	5%
Total		70	100%	100%

Source: CMA Analysis, CMA survey.

Table 7: Price sensitive iZettle customer diversion (nano), by each competitor

Provider type	Provider	Number	Diversion by number	Diversion by TPV
mPOS	Square	62	21%	23%
mPOS	SumUp	63	21%	20%
mPOS	PayPal Here	25	9%	10%
mPOS	Worldpay	10	3%	2%
mPOS	Barclaycard	9	3%	3%
mPOS	Other	9	3%	4%
non-mPOS	Worldpay	10	12%	10%
non-mPOS	Barclaycard	4	5%	5%
non-mPOS	Other	12	14%	16%
Other	-	38	9%	6%
Total		242	100%	100%

Source: CMA Analysis, CMA survey.

16.   Table 8 shows PayPal Here's price sensitive customers would divert to a range of competitors.

17.   iZettle has the highest level of diversion (28% by volume or 25% by number of customers). This level of diversion is slightly under the level of all of those who would divert to non-mPOS combined. Diversion to iZettle is more than twice that of the diversion to Square, who is the next closest mPOS provider (diversion of 11-13%).

18.   Diversion to Worldpay is material (17-20%), as is diversion to Barclaycard to a lesser extent (7-10%), if we consider their combined mPOS and non-mPOS offers.

19.   A smaller proportion of customers (2% by volume and 7% by number) said they would divert to SumUp.

20.   Diversion to non-mPOS providers is material for PayPal Here customers. Around a third (32%) of customers by TPV would divert to these card readers. Non-mPOS providers other than Worldpay and Barclaycard account for 12% of TPV diversion.

Table 8: Price sensitive PayPal Here customer diversion (all), by each competitor

Provider type	Provider	Number	Diversion by number	Diversion by TPV
mPOS	iZettle	35	25%	28%
mPOS	Square	16	11%	13%
mPOS	SumUp	10	7%	2%
mPOS	Worldpay	8	6%	4%
mPOS	Barclaycard	3	2%	6%
mPOS	Other	5	4%	3%
non-mPOS	Worldpay	13	11%	16%
non-mPOS	Barclaycard	6	5%	4%
non-mPOS	Other	19	17%	12%
Other	-	24	13%	10%

Total		139	100%	100%

21. Tables 9 and 10 show that the diversion from PayPal Here customers to each competitor is broadly consistent when broken down to micro and nano customers.

22. The key difference is that all of the customers who would divert to SumUp are nano customers and this demonstrates that the customers who would divert are among the smallest customers.

23. There is a small sample size for the micro price-sensitive customers, we therefore exercise caution in interpreting these results. Across both segments, diversion to non-mPOS devices is significant.

Table 9: Price sensitive PayPal Here customer diversion (micro), by each competitor

Provider type	Provider	Number	Diversion by number	Diversion by TPV
mPOS	iZettle	7	21%	29%
mPOS	Square	6	18%	14%
mPOS	SumUp	-	-	-
mPOS	Worldpay	2	6%	4%
mPOS	Barclaycard	2	6%	8%
mPOS	Other	1	3%	3%
non-mPOS	Worldpay	5	17%	19%
non-mPOS	Barclaycard	2	7%	4%
non-mPOS	Other	4	13%	10%
Other	-	5	10%	9%
Total		34	100%	100%

Table 10: Price sensitive PayPal Here customer diversion (nano), by each competitor

Provider type	Provider	Number	Diversion by number	Diversion by TPV
mPOS	iZettle	28	26%	27%
mPOS	Square	10	9%	8%
mPOS	SumUp	10	9%	6%
mPOS	Worldpay	6	6%	7%
mPOS	Barclaycard	1	1%	1%
mPOS	Other	4	4%	3%
non-mPOS	Worldpay	8	9%	8%
non-mPOS	Barclaycard	4	5%	5%
non-mPOS	Other	15	18%	19%
Other	-	19	14%	17%
Total		105	100%	100%

Forced diversion to each competitor

24. Using forced diversion instead of price diversion leads to a similar ranking by competitor for iZettle customers (Table 11).

25. Diversion to Square (22%) is similar to diversion to SumUp (23%) under this measure.

26.   PayPal Here has the third highest diversion (17% by number and 12% by volume). The higher diversion under number of customers compared to TPV demonstrates that smaller customers would divert to PayPal Here.

27.   Under forced diversion, around a quarter of customers (26%) would move to non-mPOS card readers. This represents a sizable level of diversion.

Table 11: Forced iZettle customer diversion (all), by each competitor

Provider type	Provider	Number	Diversion by number	Diversion by TPV
mPOS	Square	377	22%	22%
mPOS	SumUp	393	23%	23%
mPOS	PayPal Here	292	17%	12%
mPOS	Worldpay	82	5%	7%
mPOS	Barclaycard	34	2%	2%
mPOS	Other	59	4%	6%
non-mPOS	Worldpay	54	8%	8%
non-mPOS	Barclaycard	33	5%	6%
non-mPOS	Other	54	8%	12%
Other	-	144	5%	3%
Total		1522	100%	100%

Source: CMA Analysis, CMA survey.

28.   Tables 12 and 13 show that the diversion from iZettle customers to each competitor is consistent when broken down to micro and nano merchants.

Table 12: Forced iZettle customer diversion (micro), by each competitor

Provider type	Provider	Number	Diversion by number	Diversion by TPV
mPOS	Square	76	23%	24%
mPOS	SumUp	73	22%	19%
mPOS	PayPal Here	45	13%	12%
mPOS	Worldpay	28	8%	9%
mPOS	Barclaycard	8	2%	2%
mPOS	Other	16	5%	6%
non-mPOS	Worldpay	13	8%	7%
non-mPOS	Barclaycard	9	6%	4%
non-mPOS	Other	17	10%	14%
Other	-	15	3%	2%
Total		300	100%	100%

Source: CMA Analysis, CMA survey.

Table 13: Forced iZettle customer diversion (nano), by each competitor

Provider type	Provider	Number	Diversion by number	Diversion by TPV
mPOS	Square	294	23%	23%
mPOS	SumUp	312	24%	25%
mPOS	PayPal Here	240	18%	17%
mPOS	Worldpay	51	4%	4%
mPOS	Barclaycard	25	2%	2%
mPOS	Other	38	3%	3%
non-mPOS	Worldpay	39	9%	9%
non-mPOS	Barclaycard	18	4%	5%
non-mPOS	Other	28	7%	7%
Other	-	126	6%	5%
Total		1171	100%	100%

Source: CMA Analysis, CMA survey.

29.   The results of forced diversion produce similar results to price sensitive diversion for PayPal customers (Table 14).

Table 14: Forced PayPal Here customer diversion (all), by each competitor

Provider type	Provider	Number	Diversion by number	Diversion by TPV
mPOS	iZettle	176	31%	37%
mPOS	Square	68	12%	15%
mPOS	SumUp	49	9%	3%
mPOS	Worldpay	37	6%	12%
mPOS	Barclaycard	28	5%	3%
mPOS	other	17	3%	3%
non-mPOS	Worldpay	39	10%	13%
non-mPOS	Barclaycard	19	5%	2%
non-mPOS	other	33	9%	5%
Other	-	84	10%	7%
Total		550	100%	100%

Source: CMA Analysis, CMA survey.

30.   Tables 15 and 16 show that forced diversion for PayPal Here customers to each competitor is consistent when broken down to micro and nano merchants.

31.   Diversion to iZettle is slightly lower by TPV within the micro and nano customer groups relative to the results for all customers, as the results for all customers include small customers, who have higher levels of TPV and a greater level of diversion to iZettle than other customers.

Table 15: Forced PayPal Here customer diversion (micro), by each competitor

Provider type	Provider	Number	Diversion by number	Diversion by TPV
mPOS	iZettle	37	30%	30%
mPOS	Square	20	16%	18%
mPOS	SumUp	4	3%	2%
mPOS	Worldpay	9	7%	7%
mPOS	Barclaycard	4	3%	3%
mPOS	Other	7	6%	6%
non-mPOS	Worldpay	15	15%	17%
non-mPOS	Barclaycard	3	3%	2%
non-mPOS	Other	8	8%	5%
Other	-	17	9%	8%
Total		124	100%	100%

Source: CMA Analysis, CMA survey.

Table 16: Forced PayPal Here customer diversion (nano), by each competitor

Provider type	Provider	Number	Diversion by number	Diversion by TPV
mPOS	iZettle	138	31%	31%
mPOS	Square	47	11%	10%
mPOS	SumUp	45	10%	11%
mPOS	Worldpay	26	6%	6%
mPOS	Barclaycard	24	5%	6%
mPOS	other	10	2%	2%
non-mPOS	Worldpay	24	9%	9%
non-mPOS	Barclaycard	16	6%	6%
non-mPOS	other	25	9%	10%
Other	-	67	10%	9%
Total		422	100%	100%

Source: CMA Analysis, CMA survey.

Analysis of historical switching from CMA survey

32.   Switching indicates the degree of past competitive interactions between competitors. We have considered customer switching data from the survey in two ways.

33.   First, we consider the Parties' current customers and which provider, if any, they had used previously to take offline card payments (Question 4). Secondly, we consider which providers inactive customers have switched to after leaving the Parties (Question 33).

34.   There are caveats to what this switching analysis tells us. Because a large proportion of the Parties' customers are new to card payments, past competitive interactions may not fully capture preferences of new customers. For example, the Parties may lose customers as a result of merchants' needs changing which means we observe migration to other solutions, not a competitive interaction.

35.   This is particularly relevant when looking at switching to the Parties from previous providers. Because mPOS is a relatively new product offering which has grown at a rapid rate, switching to the Parties from rivals may not reflect closeness of competition with those rivals, but instead reflect customers becoming aware of preferable options that were not previously available.

36.   Another important caveat is that there is a small number of inactive customers who have switched in the CMA survey, and we place less weight on results with smaller sample sizes.

Customer switching to iZettle from rivals

37.   In the survey, we asked the Parties' customers which providers they used before they started using the Parties (Question 4).

38. In Table 17 we present the proportion of customers that had switched to iZettle from each rival.[6]

39. Of the customers that have switched to iZettle from other providers, the highest proportion had switched from Worldpay. Around [✂]% of switching to iZettle comes from Worldpay.

40. PayPal Here accounts for the second highest proportion ([✂]%) of iZettle customers that have switched from another provider.

41. [✂] had switched from Square, however this is likely to reflect Square's recent entry.

42. Customers had switched to iZettle from a number of other non-mPOS providers, who individually contribute a small amount to the switching numbers such as Barclaycard ([✂]%), Clover/First Data ([✂]%), Global Payments ([✂]%), Paymentsense ([✂]%), Payzone ([✂]%), and RMS ([✂]%). In aggregate, the vast majority of customers who switched to iZettle from rivals had switched from traditional POS providers.

Table 17: Customers switched to iZettle by previous provider

Provider	Number of customers	Share of switch %
Worldpay	[✂]	[✂]
PayPal Here	[✂]	[✂]
Barclaycard	[✂]	[✂]
SumUp	[✂]	[✂]
Clover/First Data	[✂]	[✂]
Elavon	[✂]	[✂]
Global Payments	[✂]	[✂]
Paymentsense	[✂]	[✂]
RMS	[✂]	[✂]
Payzone	[✂]	[✂]
Handepay	[✂]	[✂]
Square	[✂]	[✂]
Shopify	[✂]	[✂]
Another provider	[✂]	[✂]
Total	[✂]	100%

Source: CMA Analysis, CMA survey.

Customer switching to PayPal Here from rivals

43. Table 18 shows for PayPal Here, customers who have switched from rivals had mostly switched from Worldpay ([✂]%) and Barclaycard ([✂]%).

44. Of providers with only an mPOS offer, iZettle ([✂]%) is the rival who most customers have switched from. SumUp ([✂]%) and Square ([✂]%) contribute a relatively small portion of the customers who switched to PayPal Here.

---

[6] This excludes customers who were new to card payments when joining iZettle.

Table 18: Customers switched to PayPal Here by previous provider

Provider	Number of customers	Share of switch %
Worldpay	[✂]	[✂]
Barclaycard	[✂]	[✂]
iZettle	[✂]	[✂]
Global Payments	[✂]	[✂]
Elavon	[✂]	[✂]
Clover/First Data	[✂]	[✂]
RMS	[✂]	[✂]
Paymentsense	[✂]	[✂]
SumUp	[✂]	[✂]
Payzone	[✂]	[✂]
Handepay	[✂]	[✂]
Square	[✂]	[✂]
Shopify	[✂]	[✂]
Another provider	[✂]	[✂]
Total	[✂]	100%

Source: CMA Analysis, CMA survey.

Customer switching to rivals from iZettle

45. In the CMA survey, we asked those customers which have stopped using the Parties within the last six months, which provider they have switched to (Question 34). Table 19 shows the results of which providers customers have left iZettle for:

(a) Square ([✂]%) and SumUp ([✂]%) are the largest competitors, winning over a fifth of iZettle's lost customers who have switched away.

(b) Worldpay ([✂]%) and other traditional providers RMS ([✂]%), and Paymentsense ([✂]%) are winning a smaller but not insignificant share of customers who switched away from iZettle. Collectively these providers are winning more customers than either Square or SumUp individually.

(c) A low proportion of customers switched from iZettle to PayPal Here ([✂]%).

46. We exercise caution in interpreting these results as there is a relatively low sample size.

Table 19: Customers switched to rivals from iZettle by current provider

Provider	Number of customers	Share of switch %
Square	[✂]	[✂]
SumUp	[✂]	[✂]
Worldpay	[✂]	[✂]
Paymentsense	[✂]	[✂]
RMS	[✂]	[✂]
Shopify	[✂]	[✂]
PayPal Here	[✂]	[✂]
Elavon	[✂]	[✂]
Clover/FirstData	[✂]	[✂]
Barclaycard	[✂]	[✂]
Another provider	[✂]	[✂]
Total	[✂]	100%

Customer switching to rivals from PayPal Here

47.   Table 20 shows the results of which providers customers have switched to from PayPal Here.

48.   Table 20 shows that around a fifth of PayPal Here customers lost to rivals have moved to each of SumUp ([✂]%), Worldpay ([✂]%), and Square ([✂]%). Around half as many customers switched from PayPal Here to iZettle ([✂]%).

49.   Customers also switched from PayPal Here to a number of other non-mPOS providers, who individually contribute a small amount to the switching numbers such as Clover/First Data ([✂]%), Payzone ([✂]%), Barclaycard ([✂]%), Paymentsense ([✂]%), RMS ([✂]%) and Global Payments ([✂]%). In aggregate, this represents a material level of switching.

50.   We exercise caution in interpreting these results as there is a relatively low sample size.

Table 20: Customers switched to rivals from PayPal Here by current provider

Provider	Number of customers	Share of switch %
SumUp	[✂]	[✂]
Worldpay	[✂]	[✂]
Square	[✂]	[✂]
iZettle	[✂]	[✂]
Clover/First Data	[✂]	[✂]
Elavon	[✂]	[✂]
Payzone	[✂]	[✂]
Barclaycard	[✂]	[✂]
Shopify	[✂]	[✂]
Handepay	[✂]	[✂]
Paymentsense	[✂]	[✂]
RMS	[✂]	[✂]
Global Payments	[✂]	[✂]
Another provider	[✂]	[✂]
Total	[✂]	100%

Source: CMA Analysis, CMA survey.

Analysis of historical switching from Parties' churn data

Parties' churn data

51.   Both Parties have carried out a number of surveys in their ordinary course of business of users who have stopped using their mPOS services. As part of these surveys, the Parties ask respondents whether they have switched to using a competitor's services, and if so to which competitor.

52. For PayPal the data used were the surveys from Feb/July/Oct 2017 and April/July 2018. There are [✂] responses in total, after excluding [✂] responses where respondents refused to specify the competitor they had switched to.

53. [✂].

54. The results of the switching from this data is shown in Tables 21 and 22 below, which show customer destination by provider after they have stopped using the Parties.

Table 21: Customers switching to rivals from PayPal Here by destination

	%	
Provider	2017 percentage	2018 percentage
iZettle	[✂]	[✂]
SumUp	[✂]	[✂]
Square	[✂]	[✂]
Other mPOS	[✂]	[✂]
Worldpay	[✂]	[✂]
Barclaycard	[✂]	[✂]
Other, non-mPOS	[✂]	[✂]

Source: CMA Analysis, Parties' data.

55. Table 21 shows that PayPal has [✂].

Table 22: Customers switching to rivals from iZettle by destination

	%	
Provider	2016 percentage	2017 percentage
PayPal Here	[✂]	[✂]
SumUp	[✂]	[✂]
Square	[✂]	[✂]
Other mPOS	[✂]	[✂]
Taxi apps	[✂]	[✂]
Worldpay	[✂]	[✂]
Barclaycard	[✂]	[✂]
Other, non-mPOS	[✂]	[✂]

Source: CMA Analysis, Parties' data.

56. Table 22 shows [✂], iZettle has [✂].

57. Both Parties have experienced a material level of switching to SumUp and Square. [✂].

58. Traditional providers are also destinations for material numbers of both of the Parties' customers. In the most recent years' data for each Party, iZettle and PayPal's switching to traditional providers was [✂]% and [✂]% respectively, but it is unclear the extent to which customers have switched to the mPOS or traditional POS offerings of these providers.

[✄]

59. [✄].

60. [✄].

Table 23: [✄]

[✄]	[✄]	[✄]
[✄]	[✄]	[✄]
[✄]	[✄]	[✄]
[✄]	[✄]	[✄]
[✄]	[✄]	[✄]
[✄]	[✄]	[✄]
[✄]	[✄]	[✄]
[✄]	[✄]	[✄]
[✄]	[✄]	[✄]

Source: [✄].
* [✄].
** [✄].

61. [✄].

62. [✄].

Switching: matching customer databases

63. In its response to the CMA's working papers, PayPal submitted analysis estimating diversion by matching customers across the Parties' customer databases.

64. First, they estimate the total number of customers that switched away from each of the Parties to any competitor from December 2015 to November 2018 by counting the number of customers who became inactive from each Party's customer data. This is combined with an estimate from an internal PayPal churn survey of the percentage of inactive customers who switch to another competitor (as opposed to eg stopping trading).

65. The total number of switches between the Parties is then calculated as the number of customers who appear in one Party's data within 3 months of becoming inactive in the other Party's database. Customers are matched between databases on the basis of their email addresses.

66. Using this approach, the Parties calculate the level of switching from PayPal Here to iZettle to be [✄]% by number of customers and [✄]% by TPV. Switching from iZettle to PayPal Here is estimated to be [✄]% by number, [✄]% by TPV.

67. The analysis relies on the PayPal Here Churn Survey to estimate the proportion of inactive customers who switch to a competitor. However, we

note that the same survey also asks a direct question on which provider customers switch to, which indicate a much higher proportion of customers switching from PayPal to iZettle ([✁]).

68. The discrepancy between these estimates suggests that the pool of customers sampled in the churn survey are materially different from the broader base of customers who become inactive.[7]

69. We therefore place limited weight on the matching analysis, and instead rely primarily on the other evidence discussed in this appendix to estimate diversion between the Parties.

Summary of results of diversion analysis

70. For both Parties' customers, mPOS providers (which together capture around 50-60% diversion) account for more diversion than traditional POS providers (which together capture around 30% diversion).

71. Diversion from PayPal to iZettle is high and substantially greater than other mPOS providers. Of the diversion from iZettle, PayPal does not have the greatest diversion. Diversion to Square and SumUp is substantial for iZettle.

72. Diversion to Worldpay, and to a lesser extent Barclaycard, are also material when we consider each of their mPOS and non-mPOS solutions together.

73. Diversion to non-mPOS providers collectively is material. Additionally, of customers who switched to the Parties from a rival, the vast majority of customers came from traditional POS providers.

74. Findings from the Parties' customer churn data are broadly similar to those from the CMA survey.

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[7] The Parties submitted that 'the conclusions from the CMA's survey are used to draw inferences about the broader pool of the Parties' customers' and 'a consistent level of caution should be applied when extrapolating any survey results to a wider population' (PayPal's response to the Provisional Findings, annex, paragraph 3.2(a)). We note that the CMA survey sample design has taken steps to ensure that it was representative of the wider population relevant to the assessment, as described in the Survey Report, section 2.

Appendix G: Analysis of pricing structures

1. In this appendix we consider the pricing structures used in the provision of offline payment services to smaller merchants by mPOS providers and by traditional POS providers, including:

    (a) customer preferences on pricing structures;

    (b) comparison of firms' pricing structures; and

    (c) the possibility of price discrimination in mPOS pricing.

Customer preferences on pricing structures

2. As detailed in Section 8, our assessment identified a number of key customer characteristics:

    (a) the Parties' customers are primarily nano and micro merchants;

    (b) a substantial minority of them are seasonal merchants;

    (c) most of them are new to accepting card payments; and

    (d) they report valuing ease of use and flexibility in a card reader.

3. These characteristics suggest the Parties' customers are likely to value pricing structures that are simple, include no fixed fees and do not involve long-term contracts.

4. However, in this section we investigate this in more detail through an examination of research into customer pricing preferences undertaken by industry participants.

iZettle research [✂]

5. [✂]:

    (a) [✂];

    (b) [✂]; and

    (c) [✂].

[✂]

6. [✂].

7.   [✁].

[✁]

8.   [✁].

9.   [✁].

10.   [✁].

[✁]

11.   [✁].

12.   [✁].

PayPal research [✁]

13.   [✁].

14.   [✁]:

      (a) [✁].

      (b) [✁].

15.   [✁].

      Figure 1: [✁]

[✁]

Source: [✁]

Competitor research on customer pricing preferences

16.   The CMA also considered research carried out by Square and Worldpay into customer preferences on pricing.

Square research on customer pricing preferences

17.   Square undertook research in 2016 to inform its pricing decisions at that time. These slides were shared with senior executives giving a recommendation on UK pricing. The recommended pricing was implemented by Square when they entered the UK.

18. It undertook a number of qualitative interviews, and found that: 'sellers want a single, flat and consistent transaction price' [✂].

19. Square identified that the pricing principles that they would implement in the UK, in order of priority were: 'simple', 'transparent', 'value', 'accessibility' and 'scalability'.

Worldpay research on customer pricing preferences

20. Worldpay carried out research on the appeal and likely uptake of a simplified pricing plan in October 2017.Worldpay interviewed [✂], and tested their preference between four different payment models including a Pay-As-You-Go ('PAYG') structure, a 'Simplicity' structure with a fixed transaction fee, and two more complex pricing models.

21. [✂].

    (a) [✂].

    (b) [✂].

22. This evidence shows that there are subgroups of Worldpay's customers who have a preference for simplicity, transparency, and flexibility in pricing and contracts.

Comparison of firm's pricing structures

23. This section summarises the pricing structures used by industry participants, considering in turn:

    (a) the Parties' pricing;

    (b) third party mPOS pricing; and

    (c) traditional POS pricing.

24. We assess the extent to which these firms offer pricing that is simple and flexible, given the evidence that customers value these qualities as summarised in the previous section. We also assess the extent to which different providers' pricing is likely to be cost-effective for customers of different sizes.

The Parties' pricing

25. The fee structures used by the Parties have some similar characteristics:

(a) Customers purchase a card reader from one of the two Parties then pay a transaction fee as a percentage of TPV.

(b) For iZettle, all customers using the main pricing plan pay the same rate. For PayPal, there are tiered rates depending on monthly volumes (but the same rate applies to all transactions).

26.   The Parties' offerings in terms of simplicity and flexibility are summarised in Table 1. iZettle offers two separate pricing plans, iZettle Go and iZettle Pro, which we consider separately.

Table 1: Summary of the merging parties' fee structure

Provider	Simplicity	Flexibility
PayPal[1]	Four-tiered transaction fee	No fixed term, no cost when not using
iZettle Go[2]	Single transaction fee	No fixed term, no cost when not using
iZettle Pro[3]	Single transaction fee & monthly charge	No fixed term, but monthly cost applies regardless of volumes

Source: CMA Analysis, Publicly available information.

27.   PayPal has a tiered pricing structure for card transactions. Merchants pay one of four transaction fees based on their monthly TPV:

(a) merchants with less than £1,500 TPV pay a 2.75% transaction fee;

(b) merchants with £1,500 to £6,000 TPV pay a 1.75% transaction fee;

(c) merchants with £6,000 to £15,000 TPV pay a 1.50% transaction fee; and

(d) merchants with over £15,000 TPV pay a 1.00% transaction fee.

28.   iZettle have fixed prices they apply to iZettle Go and Pro customers separately:

(a) Merchants who are customers of iZettle Go pay a 1.75% transaction fee with no monthly fees. This provides customers with the basic functionality.[4]

(b) Merchants who are customers of iZettle Pro pay a 1.25% transaction fee and £39 in monthly fees. Pro customers also receive additional software functionality, targeted at hospitality industry merchants.

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[1] See PayPal, *credit card reader*.
[2] See iZettle, *pricing*.
[3] See iZettle, *pricing*.
[4] 'Go Plus' is another offer from iZettle which charges the same transaction fees as 'iZettle Go', but for a monthly fee of £29 also includes the ability to sell online using an e-commerce tool and enhanced customer service. We do not consider this product further in this appendix.

29.   Figure 2 compares the pricing of the Parties' offers given levels of monthly
       TPV.

Figure 2: Monthly spend on the Parties' mPOS relative to TPV
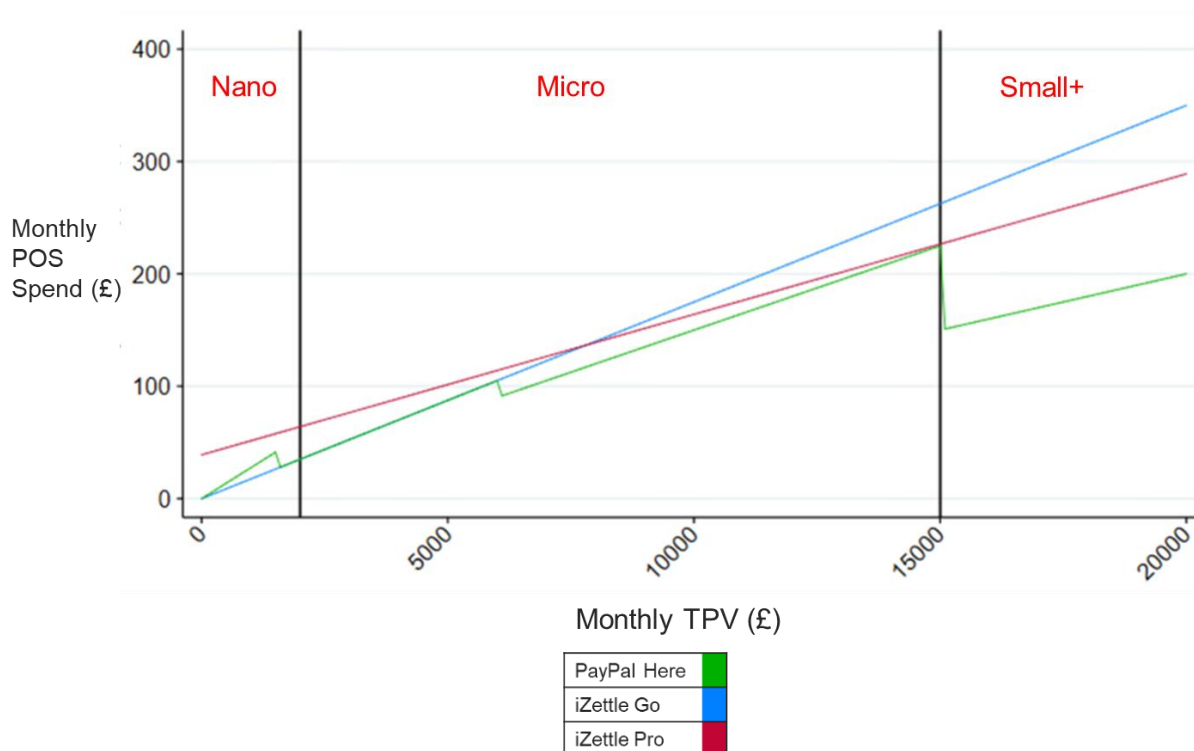
Source: CMA Analysis, Publicly available information[5].

30.   As shown by the figure above:

   (a) for nano merchants, PayPal Here is more expensive than iZettle (2.75%
         vs 1.75%);

   (b) for micro merchants, PayPal's pricing is the same or lower than iZettle
         Go. Larger micro merchants who use iZettle Pro end up with similar
         monthly costs to PayPal Here; and

   (c) for small or larger merchants with over £15,000 monthly TPV, PayPal
         Here is cheaper.

31.   One aspect that is not considered in this comparison is that PayPal's pricing is
       based on total (online and offline) payment volumes. Customers with high
       online TPV with PayPal and a small amount of offline TPV may therefore still
       find it cheaper to use PayPal Here for their offline payments than iZettle.

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[5] See iZettle, *pricing*; PayPal, *credit card reader*.

Third party mPOS pricing

32.   SumUp has a single transaction fee. Merchants pay a 1.69% transaction fee and was the cheapest in the market until Barclaycard's recent price cut.

33.   Square also has a single transaction fee. Merchants pay a 1.75% CP transaction fee for offline payments.[6] This is the same fee as iZettle Go, and some PayPal Here customers.[7]

34.   Barclaycard Anywhere has recently (January 2019) updated its pricing. Merchants using Barclaycard Anywhere pay a 1.6% transaction fee. Barclaycard told us they had previously had an uncompetitive price that had not been updated for several years, during which time competitors had cut prices.

35.   Worldpay recently relaunched its mPOS offering. This is offered with either a 'Simplicity' pricing model with a 1.5% transaction fee and a £5 monthly fee, or a 'PAYG' pricing model with a 2.5% + 4p transaction fee and no monthly fee.[8]

36.   Figure 3 illustrates these prices graphically relative to monthly TPV.

Figure 3: Monthly spend on the Parties' and third parties mPOS relative to TPV

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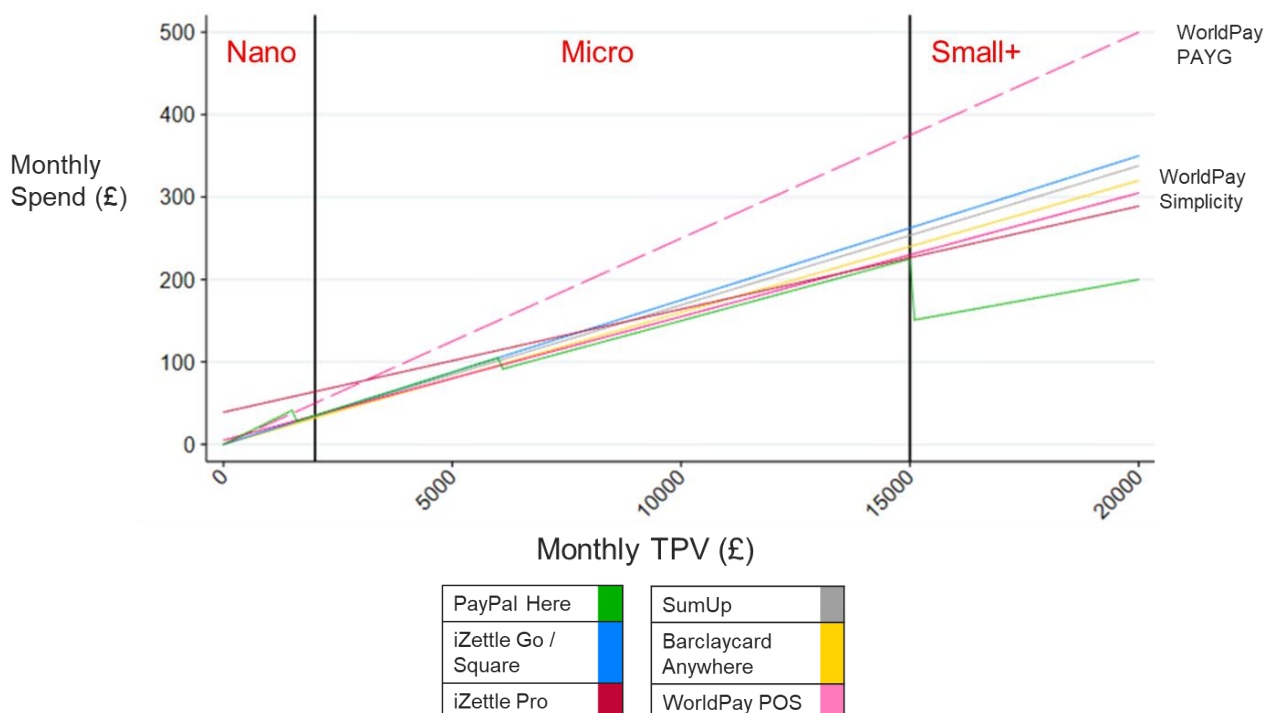
[6] Square has different rates for larger sellers and for transactions which are not face-to-face eg eCommerce transactions.

[7] Those with monthly TPV between £1500 and £6000.

[8] See Worldpay, *card reader*.

37.   Figure 3 shows how similar spend on the Parties' offers are to each other and other mPOS offers at TPV up to £15,000.

38.   For most of this range, the differences in price between the various mPOS providers are small. However, there are some notable differences:

   (a) Worldpay PAYG is substantially more expensive than other offerings. Worldpay Simplicity is more expensive for nano and smaller micro customers.

   (b) PayPal is more expensive for merchants with a TPV under £1,000. PayPal is significantly cheaper than other providers above £15,000 TPV per month.

Traditional POS provider price structure

39.   Traditional POS providers typically have a more complex fee structure.

40.   Per-transaction costs are charged as a percentage of payment volume, but these vary depending on the card type, with transactions through credit cards, commercial cards or international cards attracting higher rates

41.   These rates are usually not available publicly and are negotiated with merchants – larger merchants tend to get lower rates. There may also be flat per-transaction authorisation fees.

42.   Typically, POS devices are rented and there is a monthly rental charge depending on the type of terminal. Minimum monthly service charges also typically apply in months where transaction fees are below the minimum level. Other various fees may apply, including for refunds and chargebacks.

Price comparison analysis against traditional POS

43.   To assess whether traditional POS would be a cost-effective alternative to mPOS for the Parties' customers, we have carried out an assessment using the Parties' customer data.

44.   We combined data on customer transactions provided by the Parties with an example of a traditional provider's contract terms to simulate the difference in pricing. We used the specific 'standard' contract terms from [✂] to simulate the price that customers would have paid for a traditional POS contract. This is compared to the price the customer would pay with the Parties. For PayPal, we calculated pricing based off TPV in their data submission. For iZettle, we

used separate data to identify the pricing plan that specific customers were on.

45. To demonstrate the results of this analysis, we present graphically the proportion of customers (weighted by TPV) that would have paid more or less under [✂] typical contract terms compared to what they pay when using the Parties. The results are shown by Figure 4 below.

46. Stacked on the horizontal axis is the total TPV of merchants split by the difference between what they pay with PayPal/iZettle and what they would have paid at [✂]. The categories are broken down into those who would have paid:

(a) over 10% less (dark green);

(b) 0 to 10% less[9] (light green);

(c) 0 to 10% more[10] (light red); and

(d) over 10% more (dark red).

47. For each of the Parties, we show the breakdown for customers in different size bands.

Figure 4: Monthly spend on the Parties' and third parties mPOS relative to TPV

[✂]

Source: CMA Analysis, Parties data and [✂] specific contract terms.

48. Figure 4 shows that nano merchants would overwhelmingly pay more by moving to [✂] traditional POS proposition:

(a) For the smallest customer size band, over [✂]% of PayPal and over [✂]% of iZettle customers by TPV would find it cheaper to stay with their current provider than to use [✂].

(b) For these customers, the [✂] monthly terminal rental and minimum monthly charges alone would almost always be higher than the cost of the transaction fees for PayPal / iZettle.

49. For micro merchants, [✂] and the Parties are more comparable on price:

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[9] If a merchant would pay the exact same between their current provider and the traditional provider, then they are included in this group.
[10] All merchants in this groups would pay more.

(a) Within the second band, there is a more even split between customers who would pay less at [✂] and those who would pay more, although the majority of customers by TPV would pay more by moving to [✂].

(b) For the third band, by contrast, [✂]% of PayPal's customers and [✂]% of iZettle's customers would pay less by switching to [✂].

50. For larger merchants, [✂] is more often a cheaper alternative to the Parties.

(a) In the largest price band (small merchants and above), around [✂] of PayPal's customers and over [✂]% of iZettle's customers would pay less by switching to [✂].

(b) The [✂] prices used in the analysis are for typical customers with a TPV up to £10,000 per month, and so lower prices might be available for customers in the £15,000+ TPV band – this analysis could therefore understate the savings customers in this band would make.

51. Overall, [✂]% of PayPal customers and [✂]% of iZettle customers by TPV would pay more by switching to [✂]. The difference between the Parties is primarily driven by iZettle's higher share of large micro and small merchants.

Traditional providers' introduction of simplified pricing

52. Of the suppliers of traditional POS which the CMA spoke to, only one (Worldpay) had introduced simplified contracts for customers hiring traditional POS.

53. Worldpay offers two types of 'simplified' pricing plans for traditional POS (it also offers versions of these plans for mPOS):

(a) Simplicity: 1.5% transaction rate for all Visa/Mastercard transactions, £[✂] monthly terminal rental.

(b) Pay as you go: 2.5% transaction rate + [✂] authorisation fee, upfront terminal fee of £[✂], no monthly terminal rental.

54. These offers are still not as simple or flexible as most mPOS offers as:

(a) the merchant needs to enter into a separate agreement with American Express to accept American Express cards;

(b) the Simplicity pricing plan includes a monthly fee and typical eighteen-month contract for terminal rental; and

(c) the pay as you go pricing plan includes a transaction rate, an authorisation fee, plus additional fees for premium transaction.

Summary of price comparison

55. The Parties and other mPOS providers offer similar pricing structures. They are all relatively simple and flexible. Most are reasonably similar in terms of price levels, although PayPal is typically more expensive for nano merchants with no online volumes, and [✕] is typically more expensive for nano and smaller micro merchants.

56. Traditional POS suppliers offer prices that are substantially more complex and less flexible. An analysis of pricing levels suggests traditional POS is likely to be expensive for nano merchants, but more comparable to mPOS for micro and larger customers.

57. Few traditional POS providers have started offering simplified prices and contracts – of the POS providers we contacted, only Worldpay had started to offer simplified contracts. The simplified POS contracts that are available are generally still not as simple and flexible as most mPOS contracts.

Possibility of price discrimination for mPOS

58. Competitive conditions may vary by merchant size, for example nano or micro merchants could have a smaller number of effective options than small merchants. This raises the question of whether the merging parties could realistically target a price increase at any particular group of customers, eg nano customers.

59. The Parties submitted that because of customer preferences for price simplicity, they would not be able to raise prices only for nano merchants after the Merger. They submitted that any price increase would have to be across-the-board and would therefore result in larger merchants switching away.

60. In its response to the Provisional Findings, PayPal said the CMA 'overstate the ease with which the Parties would be able to price discriminate, particularly as regards any price discrimination targeted at smaller merchants'.[11]

61. [✕].

---

[11] PayPal's response to the Provisional Findings, Annex, paragraph 3.3.

62.   We evaluate the available evidence on the extent to which the Parties' pricing structures would potentially allow them to price discriminate.

Ability to price discriminate: Evidence from PayPal

63.   [✂].

Ability to price discriminate: Evidence from iZettle

64.   [✂].

65.   [✂].

66.   [✂].

67.   [✂].[12] [✂].

68.   The Parties submitted that this [✂].

69.   [✂].

Summary of evidence on price discrimination

70.   There are a number of ways that prices can be varied between customer groups, and this does not appear to require a significant increase in complexity.

71.   Both Parties currently vary prices between customers based on TPV or [✂] and have continued to acquire customers. PayPal's tiered pricing structure does not appear to be difficult for customers to understand, as the PayPal customer research discussed above indicated that this structure was viewed by customers as 'straight-forward'. Alternatively, a pricing model whereby lower rates are accompanied by a monthly fee allows for price discrimination while maintaining simplicity in pricing.

Summary of evidence on pricing structures

72.   Research carried out by the Parties and competitors provides evidence that smaller customers have a preference for simple pricing and flexible contracts.

73.   mPOS suppliers typically offer simple pricing structures with a single transaction rate, although PayPal's pricing is somewhat more complex as it involves tiered pricing based on a merchant's monthly TPV. Traditional POS

---

[12] See iZettle, *pricing.*

providers offer prices that are substantially more complex and less flexible. These are more expensive than mPOS for nano customers, but similar in price or cheaper to mPOS for micro and small customers.

74. One of the largest traditional POS providers has begun to offer contracts more similar to mPOS. The simplified contracts that are available are generally still less simple/flexible and more expensive than mPOS.

75. Both Parties currently vary prices between customers based on their size, and this does not appear to have required a prohibitive degree of complexity.

Annex – Other POS supplier pricing

Barclaycard pricing.

76. Barclaycard's fee structure is as follows:

    (a) Some of the elements of fee structure are fixed and some are negotiated.

    (b) Mobile terminal rental fees are typically around £[✂] per month with an average £[✂] joining fee.

    (c) Fees vary by card type, typical negotiated fees are demonstrated below.

    Table 2: Barclaycard typical fees, for card types at example TPV levels

			Per cent
Card	*Typical customer with TPV of £500*	*Typical customer with TPV of £3,000*	*Typical customer with TPV of £10,000*
Consumer debit	[✂]	[✂]	[✂]
Consumer credit	[✂]	[✂]	[✂]
Commercial debit	[✂]	[✂]	[✂]
Commercial credit	[✂]	[✂]	[✂]

    Source: Barclaycard.

77. Additional fees include:

- *[✂];*

- *[✂];*

- *[✂];*

- *[✂];*

- *[✂];*

- *[✂]; and*

- *[✂].*[13]

First Data pricing.

78. First Data has a comprehensive fee structure catering for merchant business requirements:

    (a) Some of the elements of fee structure are fixed and some are determined by the type and size of the merchant's business.
    (b) Mobile terminal rental fees vary based on the terminal functionality and duration of the rental period.
    (c) Fees also vary by card type, typical fees are demonstrated below

    Table 3: First Data typical fees, for card types at example TPV levels

			Per cent
Card	*Typical customer with TPV of £500*	*Typical customer with TPV of £3,000*	*Typical customer with TPV of £10,000*
Consumer debit	[✂]	[✂]	[✂]
Consumer credit	[✂]	[✂]	[✂]
Commercial debit	[✂]	[✂]	[✂]
Premium	[✂]	[✂]	[✂]

    Source: First Data, [✂].

79. First Data identified ancillary fees such as:

---

[13] [✂].

- *£[✂] fee per attempted authorisation;*

- *£[✂] charge per refund;*

- *£[✂] monthly PCI monthly management fee;*

- *£[✂] for paper statements;*

- *£[✂] per month minimum monthly fee (in addition to Mobile terminal rental); and*

- *£[✂] per chargeback.*

[✂] pricing.

80.   [✂] has a complex fee structure.

  (a) Mobile terminal rental fees are typically around £[✂] per month with a £[✂] Joining fee.

  (b) Fees also vary by card type, typical negotiated fees are demonstrated below.

Table 4: [✂] data typical fees, for card types at example TPV levels

			Per cent
Card	*Typical customer with TPV of £500*	*Typical customer with TPV of £3,000*	*Typical customer with TPV of £10,000*
Consumer debit	[✂]	[✂]	[✂]
Consumer credit	[✂]	[✂]	[✂]

Source: [✂].

81.   Additional fees include:

- for credit cards, where the appropriate card type rate of interchange is not at EU MIF rate of 0.3%;

- for debit cards, where the appropriate card type rate of interchange is not at EU MIF rate of 0.2%;

- a £[✂] per month minimum monthly fee (in addition to Mobile terminal rental);

- *[✂]* also submitted that Visa & MasterCard transaction and processing and settlement scheme fees as applicable, although these rates were not specified; and

- *[✂]* also apply other product/ancillary fees depending on the customers' requirements.

Worldpay pricing

82.   Fees vary by card type used in the transaction. Mobile terminal rental fees are typically between £[✂] and £[✂] per month. Fees also vary by card type used in the transaction, typical fees differ with TPV. Ranges of typical card-based fees are demonstrated in the table 2 below.

Table 5: Worldpay typical fees, for card types at example TPV levels

			Per cent
Card	*Typical customer with TPV of £500*	*Typical customer with TPV of £3,000*	*Typical customer with TPV of £10,000*
Debit	[✂]	[✂]	[✂]
Credit	[✂]	[✂]	[✂]
Commercial	[✂]	[✂]	[✂]

Source: [✂]

83.   Other fees include:

(a) A £[✂] fee per authorised transaction.

(b) A £[✂] monthly PCI management fee, charged annually.

(c) A [✂] & [✂] fee is applied respectively to intra-regional and inter-regional transactions.

84.   Additional technicalities include:

(a) A £[✂] per month minimum monthly fee (in addition to Mobile terminal rental).

(b) £[✄] per chargeback debited

(c) £[✄] monthly PCI non-compliance charge (if merchants are non-compliant).

Clover POS pricing.

85. Clover POS is an IPOS system distributed by First Data. Pricing is based on merchant requirements based on type of device, hardware peripherals, software plans and third-party applications.

86. First Data charges different prices for Clover depending on the hardware, software and third-party applications.

87. Merchants can choose to rent or purchase outright a POS device. Monthly costs are dependent upon the terminal functionality and the rental period that meets the merchant's requirements. There are also set-up, maintenance and replacement costs.

88. Software costs are charged on a monthly basis and depend on which one of three software plans and third-party applications best meet the merchant's business requirements.

89. In addition to the charges detailed in previous sections, merchants are charged a monthly £[✄] PCI Non-Compliance Fee [✄] after first becoming non-compliant. First Data works with merchants to assist them in becoming PCI compliant.

90. Merchant service fees depend on the value and mix of transactions submitted and the underlying Interchange and Scheme Fees imposed on acquirers.

Appendix H: Internal documents on the competitive landscape of the supply of offline payments

Introduction

1.   This appendix provides a summary of the Parties' internal documents we have examined in relation to the competitive landscape of the supply of offline card payments services to smaller merchants.[1]

2.   We have considered:

   (a) the Parties' internal strategy documents;

   (b) the Parties' business updates and competitive monitoring documents;

   (c) documents prepared for PayPal's acquisition of iZettle;

   (d) documents commissioned by iZettle for its IPO; and

   (e) internal emails.

PayPal's internal documents

[✄]

3.   [✄].

4.   [✄]:

   (a) [✄]

   (b) [✄]

   (c) [✄]

5.   [✄].

6.   [✄].

Figure 1: [✄]

[✄]

---

[1]Some of these internal documents from the Parties have also been analysed in (i) Appendix C, in relation to the PayPal Here counterfactual; and (ii) Appendix D, in relation to the iZettle counterfactual. In this appendix however, we focus on how the Parties perceive and monitor competition from each other and other players in the market.

7.   [✂].

Figure 2: [✂]

[✂]

[✂]

8.   [✂].

9.   [✂].

Figure 3: [✂]

[✂]

10.   [✂].

    (a) [✂].

    (b) [✂].

11.   [✂].

Figure 4: [✂]

[✂]

12.   [✂]:

    (a) [✂];

    (b) [✂]; and

    (c) [✂].

13.   [✂].

[✂]

14.   [✂].

15.   [✂].

Figure 5: [✂]

[✂]

Source: [✂]

Figure 6: [✂]

[✂]

Source: [✂]

16.   [✂].

Figure 7: [✂]

[✂]

Source: [✂]

17.   [✂].

18.   [✂].

[✂]

19.   [✂].

20.   [✂].

21.   [✂].

22.   [✂]:

   (a) [✂].

   (b) [✂].

23.   [✂].

Figure 8: **[✂]**

[✂]

Source: [✂]

[✂]

24.   [✂].

25.   [✂]:

   (a) [✂];

(b) [✂];

(c) [✂];

(d) [✂].

Figure 9: [✂]

[✂]

Source: [✂]

[✂]

26.   [✂]:

    (a) [✂];

    (b) [✂]; and

    (c) [✂].

27.   [✂].

28.   [✂].

[✂]

29.   [✂]:

    (a) [✂];

    (b) [✂];

    (c) [✂].

30.   [✂]:

    (a) [✂];

    (b) [✂]; and

    (c) [✂].

31.   [✂].

32.   [✂].

33.   [✂].

[✂]

34. [✂].

35. [✂].

Figure 10: [✂]

[✂]

Source: [✂]

36. [✂].

37. [✂]:

(a) [✂].

(b) [✂].[2]

(c) [✂].

38. [✂]:

(a) [✂].

(b) [✂].

[✂]

39. [✂].

40. [✂].

[✂]

41. [✂].

42. [✂].

Figure 91: [✂]

[✂]

Source: [✂]

43. [✂].

---

[2] [✂].

Figure 12: [✂]

[✂]

Source: [✂]

[✂]

44.   [✂].

45.   [✂].

[✂]

46.   [✂].

47.   [✂].

48.   [✂].

49.   [✂].

50.   [✂].

      (a) [✂].

      (b) [✂].

      (c) [✂].

      (d) [✂].

      (e) [✂]

      (f) [✂]

iZettle's internal documents

Budget execution 2018

51.   The 2018 Budget presentation was prepared by the CFO for the iZettle Board in December 2017. Slide 7 discusses iZettle's value propositions to help address its customers' needs. iZettle offers three propositions:

      (a) iZettle GO, iZettle's 'free POS for merchants who want an easy and reliable way to start selling quickly'. This proposition has no monthly fee, but it has a transaction fee.

(b) iZettle GO PLUS, iZettle's 'POS for everyday business that needs the tools and support to grow'. This proposition, unlike the iZettle GO, has a fixed monthly fee and transaction fee.

(c) iZettle PRO, iZettle's 'tailor made EPOS system with advanced features for hospitality and retail'. This proposition has a monthly fee per till and transaction fees.

52. The presentation then describes iZettle's commercial strategy for the UK and includes a snapshot of the market (slide 9). This slide shows that the number of nano/micro business in the UK is [✂] and [✂]% of these are addressable market for iZettle. It finally reports that iZettle's market share (of this 'addressable market') in the UK is less than 5%.

Figure 103: Budget execution 2018, slide 9

[✂]

Source: [✂]

53. In the Appendix, the presentation further discusses the payment competitive landscape and iZettle positioning in the UK. Slide 12 shows the relative competitive positioning of commerce platforms, industry incumbents, tablet POS and mPOS providers. [✂].

Figure 114: Budget execution, slide 12

[✂]

Source: [✂]

54. Finally slide 13 outlines pricing of the main competitors and, in the UK, they mention [✂].

Edgar Dunn and Company (EDC) market study

55. This is a market study carried out by Edgar, Dunn & Company for iZettle's IPO. [✂].

56. iZettle submitted that the evidence from the EDC market study, which is not an iZettle internal document, should be appropriately weighted given that it was created by a third-party consultant to be used as potential marketing tool for the abandoned IPO.

57. Slide 32 reports the 'mPOS terminal market' forecasts. It shows that the 'mPOS terminal market' will grow at [✂]% per year until 2022.

58. The presentation then describes the 'ecosystem that serves merchants'.

(a) [✂]:

    (i)   [✂];

    (ii)   [✂];

    (iii)   [✂];

    (iv)   [✂].

(b) Slide 57 explains the needs for face-to-face card acceptance by merchant size. iZettle devices are best suited for [✂], whereas traditional POS solution are commonly used among [✂].

Figure 125: EDC market study, slide 57

[✂]

Source: [✂]

59.   Slides 63 to 79 include a competitive analysis of 'mPOS providers' in Europe [✂]:

(a) [✂],

(b) [✂],

(c) [✂].

Figure 16: EDC market study, slide 64

[✂]

Source: [✂]

60.   It also states that '[✂].

61.   Slide 76 compares the number of app downloads monthly active app users (MAAUs) of all the major mPOS apps in Europe, including [✂]. The slide shows that iZettle [✂].

Figure 17: EDC market study, slide 76

[✂]

Source: [✂]

62.   The presentation also indicates that iZettle has the [✂].

Figure 13: EDC market study, slide 77

[✂]

Source: [✂]

63.   Slides 84 to 88 discuss barriers to entry and competitive threats to iZettle. [✂].

64.   Slide 85 explains how mPOS has [✂]:

    (a) [✂];

    (b) [✂];

    (c) [✂].

Figure 19: EDC market study, slide 85

[✂]

Source: [✂]

65.   The presentation also discusses 'new players in the payment ecosystem' (slide 87). It states that 'the digitalisation of payments has provided opportunities for new players to enter the market'. However, [✂]:

    (a) [✂];

    (b) [✂];

    (c) [✂].

66.   Slides 100 to 105 discuss pricing. [✂].

Figure 20: EDC market study, slide 106

[✂]

Source: [✂]

iZettle IPO prospectus

67.   This is iZettle's draft 'Offering Memorandum', dated May 2018, prepared for its IPO. The prospectus provides insight into the mPOS competitive landscape, iZettle's future plans absent the merger, and barriers to entry.

68.   In the overview the prospectus highlights that iZettle's [✂].

69.   [✂].

70.   [✂].

71.   [✂].

iZettle strategy 2018 – 2020

72.   This is a presentation from September 2017 prepared by iZettle's senior management for iZettle's board, setting out the iZettle strategy for the next three years.

73.   [✕].

74.   [✕].

Strategy workshop

75.   This document dated April 2018 was prepared by iZettle's senior management team as part of the senior management meetings.

76.   [✕].

77.   iZettle submitted that this presentation was not UK specific, and that iZettle documents which are not focused on the UK do not necessarily reflect the perspective of domestic traditional POS providers in the UK. However, given that [✕].

Figure 141: Strategy workshop, slide 19

[✕]

Source: [✕]

mPOS competitor analysis UK

78.   This Excel table, dated February 2016, was produced by the senior management team for a senior management meeting. The purpose of this table was to discuss possible review of iZettle mPOS proposition.

79.   [✕].

POS and mPOS competitors in Europe

80.   This short presentation, dated July 2017, was produced by the senior management team for a senior management meeting. For each country where iZettle is present, it shows side-by-side comparison of fees of iZettle and its competitors.

81.   [✕].

Project Polaris

82.　This presentation dated March 2018 has been produced by iZettle senior team for the PayPal due diligence team. The main purpose of the presentation is to share the overview of the iZettle company.

83.　[✂].

Figure 15: Project Polaris, slide 92

[✂]

Source: [✂]

84.　iZettle submitted that slide 92 was drafted with a view to demonstrating software capabilities for merchant sizes and it was not intended to demonstrate a delineation of payments capability or competitiveness by customer size.

iZettle emails in relation to competitors

85.　[✂].

86.　[✂].

87.　[✂]:

　　(a)　[✂].

　　(b)　[✂].

EMB meeting

88.　This presentation, dated June 2017, was produced by [✂] (iZettle's Chief Operating Officer) for the senior management meeting. This presentation provides iZettle senior managers with an update on the main trends of iZettle card reader.

89.　[✂].

iZettle emails in relation to meeting with [✂]

90.　In an email on the 2 September 2017 from [✂] (Executive Vice-President) to [✂] (CFO), [✂] (Chairman) and [✂] (CEO) discussing the meeting with [✂] attached iZettle's due diligence questionnaires. [✂].

91.　In the document, iZettle discusses its main UK competitors highlighting their key strengths and weaknesses.

(a) [✂].

(b) [✂].

(c) [✂].

(d) [✂].

(e) [✂].

92.	iZettle submitted that this email exchange and the presentation are historic and do not take account of developments since September 2017.

Appendix I: Other considerations: entry and expansion

Introduction

1.   This Appendix discusses the barriers to entry and expansion into mPOS and omni-channel, and in Annex 1 provides detail on the regulatory background and requirements for payment service providers (PSPs) in the UK.

Barriers to entry and expansion

Developing technology

2.   In order to launch an mPOS service, the provider must develop software and hardware products which can integrate with the merchant's business and systems, and which are compliant with regulations (see Annex 1).

3.   Providers have choices as to how they develop the mPOS products: in-house, white label / partnering, or acquisition. While acquisition is likely to be the most expensive option, it results in more immediate entry, whereas developing in-house technology takes longer and runs the risk of the technology being out of date before the product is launched. The Parties told us that developing hardware and software was a material barrier to entry, and that a white label solution could help a new entrant launch a limited solution.

4.   [✂] told us that it was reasonably straightforward for a company that had the back-end platforms – required hardware and payments capability (whether in-house or third party sourced) – to develop an mPOS product.

5.   Barclaycard told us that an mPOS provider needs to ensure that it has software which will run on the mPOS device, so it needs to procure the software from a third party, or develop it in-house. It also told us that mPOS providers must also integrate the proposition into their own system, which can be difficult; acquirers need to understand how to integrate the mPOS offering into their organisation to be able to process transactions.

6.   We note that Barclaycard used [✂] as a white label payment gateway and app provider in order to enter the market with its Barclaycard Anywhere mPOS solution.

7.   The Parties submitted that partnership models may work well to enable an omni-channel service provider of one type to be able to offer other services

alongside its core proposition. For example, an omni-channel payments provider might partner with a commerce provider as a route to market.[1]

8.   PayPal set[2] out the downside to partnering, for example: '[✂].

9.   PayPal also told us[3] that, despite the difficulties, for providers with a single channel heritage to become an omni-channel provider, a number of players have achieved an omni-channel offering, for example Barclaycard and Worldpay have developed new online payments platforms over several years and some players have acquired payments or sales management capability to be able to offer an omni-channel service (for example Square acquiring Weebly, Ingenico acquiring Bambora and Stripe acquiring Index).

10.   SumUp told us that it did not currently offer an e-commerce omni-channel service but was considering it. Developing this would take a minimum of 18 months: it could build it in-house, as its own development team would be capable, but would more likely acquire another company to offer this service.

11.   SumUp told us that there is always the option to partner with an existing provider; however SumUp valued being in control of its own business, therefore a partnership could prove challenging.

12.   First Data told us that it took the gateway service it provided in the US and brought it to Europe, adapting it as necessary to create an internet payment gateway. It opened its processing platform to multiple payment gateways and now has a credible SME gateway (it told us that one obstacle preventing clients from changing gateway providers is the fact that clients often connect to a specific gateway because of that gateway's specialism in that sector and the specific functionality offered by a particular gateway). The technology needed to allow a face to face provider to connect with an online payment gateway is relatively simple; it would not be difficult for a pure face to face payment provider to partner with a third-party online payment provider to offer an omni integrated service. It requires a connected technology and to ensure that it is certified with the card schemes, is PCI compliant and compliant with the relevant regulations.

13.   Payzone described omni-channel as offering one payment gateway at the back end to customers for both offline and online services; the gateway should be able to recognise the customer regardless of the channel used. Full omni-channel requires integration of the channels, eg full integration at the back end (so that a merchant is able to view changes to its inventory from

---

[1] [✂].
[2] The Parties response to the issues statement, paragraph 3.8.
[3] The Parties response to the issues statement, paragraph 5.19.

online and offline purchases). [✄]. It said that technically, it is 'quite difficult' to bring together online and offline provision; technical integration requires more security as well as partnering with an acquirer.

14. Shopify told us that it can be relatively easy for a technology company to integrate APIs and that many companies have APIs with respect to how they push out certain parts of payments. Shopify has integrated with Stripe for payment processing for 'Shopify Payments', but it also offers payment options with other payment processors including PayPal; in that scenario, PayPal handles the payment processing itself. Shopify told us that ultimately, the level of difficulty in terms of integrating with payment processors depends on the relationship the company has with the payment processor and the amount of information needed.

15. [✄].

16. Square explained that a POS provider could also provide an online payment capability in three different ways, using APIs that allow someone to process a transaction:

    (a) develop a website in-house and integrate the APIs into it directly;

    (b) integrate the APIs with programmes such as Woo Commerce and Wix Commerce, which are large shopping cart providers; or

    (c) acquire a shopping cart facility: this is what Square did with the acquisition of Weebly.

Regulatory requirements

17. The payment services industry is highly regulated, and providers need to be authorised by the FCA or passport their authorisation in from another EEA country (see Annex 1). The requirements for authorisation are onerous and there are minimum capital requirements. Standards for card payments are continuously evolving and POS terminals must be certified to ensure functionality, safety and compliance with requirements set by card issuers.

18. SumUp told us that regulation was a barrier to entry, and that there were costs associated with localisation for an overseas company, although EU payment processors can take advantage of passporting rights.

19. Barclaycard told us that the main regulatory barrier to entry was selecting an acquirer. Barclaycard also told us that accreditation was a barrier to entry, with the process taking between 6-12 weeks.

Building a customer base and efficient onboarding

20. In order to build a customer base, companies require brand recognition and marketing skills, and there is a cost involved in recruiting customers. A quick and efficient onboarding process is crucial in order to attract customers and control a payment provider's costs, and investment is required to build this onboarding process. We considered whether the new mPOS providers were more efficient than the incumbents because they did not have legacy IT systems or less streamlined onboarding processes.

21. [✂].

22. SumUp told us that the traditional acquirers are not used to dealing with large volumes of small customers with regard to controlling costs, that is, the margins available from small customers do not cover the costs of onboarding. In addition, merchants often require adjustments in how the software works to suit their business (eg to suit restaurants) and banks are not readily able to offer those adjustments. SumUp characterised itself and iZettle as 'more nimble businesses.'

23. SumUp told us that the margins are low because of the costs of customer acquisition. Know your customer (KYC) and identification checks are a large cost. Whilst banks are dealing with legacy systems, fin-tech companies have been able to use technology to lower these costs. It told us that even if banks outsourced their KYC automation with third parties, it would still be a complex task for them at their back-end, for example in compliance with regulatory requirements.

24. First Data does not supply mPOS in its EU businesses, although it does have a referral agreement with SumUp whereby it refers small merchants seeking an mPOS solution to SumUp. It also refers small merchants seeking a POS solution to SumUp if they generate less than £[✂] annual turnover. Acquiring POS customers is done through telesales or field-sales people with the documentation requiring e-signatures, and the anti-money laundering (AML) and KYC checks are done by First Data.

25. [✂].

26. [✂] told us that the mPOS market was not 'particularly profitable;' it had sold very few mPOS devices and did not actively market them.

27. [✂] told us that a main barrier to entry for mPOS was customer acquisition costs, which were very high for small businesses.

28. Global Payments (a POS provider) told us that to onboard a new client, it conducts regulatory and risk control processes: anti-impersonation checks; sanctions checks; KYC checks; risk assessment; evaluate underwriting requirements; and credit rating agency checks. mPOS providers must comply with these same regulatory requirements and will need to undertake risk assessments (of credit and fraud exposure) but most have automated the process. It told us [✂]. It does not currently offer a straight-through onboarding process; it said that onboarding is not an easy model to automate and build as it involves a lot of regulatory processes.

29. PayPal told us that iZettle and its contemporaries brought to market streamlined onboarding processes as one of the major innovations, and that major acquirers are now replicating this. It stated that innovation in onboarding (for various financial products) has continued with operators such as Monzo and Revolut (financial services providers) using technology to streamline the customer acquisition process further. Digital onboarding is offered as a commoditised service by a number of third-party providers; such onboarding processes could be applied to merchant payment acceptance and result in disruption from a new provider.

30. PayPal also told us that if an entrant was already active in an adjacent market (such as POS software or a form of payments service) then building a customer base was not necessarily a barrier to entry, given their existing scale.

31. [✂] told us that it was working to meet demands for faster onboarding.

32. Traditional providers are working towards faster and more efficient onboarding, and some have indicated to us that they are addressing these problems which will increase the attractiveness of serving smaller customers. But in some cases, they are still constrained by complex compliance procedures, infrastructure and distribution networks, and their legacy systems. In contrast, we have also seen evidence that the new mPOS entrants such as iZettle, Square and SumUp have automated their KYC and AML checks, streamline their distribution, and are unencumbered by legacy systems.

First mover advantage and network effects

33. PayPal stated[4] that this is not a market with network effects or other inherent first-mover advantages which could be difficult for later entrants to overcome. However, it acknowledged that there were benefits to being among the early

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[4] The Parties response to the issues statement, paragraph 5.20.

established providers in terms of building a customer base and establishing brand recognition as a leading provider of the service in question.

Economies of scale / scope

34.   Economies of scale are crucial given the sizeable investment in technology and marketing and high fixed costs required to build and sustain a viable business.

35.   Economies of scope, for example by offering complementary products such as inventory management, access to capital, and invoicing, are important in order to generate customer loyalty and profits.

36.   iZettle wrote in its draft IPO document (which was never published) that the ability to service large volumes of merchants is important to achieve economies of scale; economies of scale are a barrier to entry as new entrants are unable to price similarly to existing merchants due to their outsized cost structures relative to their volumes.

37.   [✂] told us that a main barrier to entry for mPOS was generating customer demand and building a scalable business.

38.   SumUp told us that the primary barrier to entry was the low fees charged by mPOS providers, which traditional providers found difficult to match. SumUp told us that many of the traditional acquirers tried to enter mPOS but were not able to compete, because of the low margins. Instead, the acquirers work with SumUp, by referring customers below a certain revenue threshold to SumUp, and once those customers grow and meet the acquirers' threshold, SumUp refers them back to the acquirers.

Annex 1 - Regulatory background and requirements for payment service providers in the UK

Introduction

39.   PSPs are regulated by the FCA in the UK under the Payment Services Regulations 2017 (PSRs 2017), the Electronic Money Regulations 2011 (EMRs) and the Second Payment Services Directive (PSD2). The PSRs 2017 and the FCA Handbook[5] implement PSD2 in the UK.

40.   This annex sets out the relevant information on:

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[5] Financial Conduct Authority (FCA), *handbook*.

(a) The Second Payment Services Directive

(b) PSRs 2017, including application process and passporting

(c) Capital requirements

(d) Customer onboarding

(e) Certification

(f) Other requirements.

41. The EMRs place similar obligations on PSPs as the PSRs 2017 and they are not set out in detail here.

The Second Payment Services Directive

42. The PSD2 is the EU legislation which sets regulatory requirements for firms that provide payment services. PSD2 was published in the European Union's Official Journal on 23 December 2015 and implemented into national law in the UK effective from 13 January 2018. PSD2 replaces PSD1 and updates the regulatory regime to reflect changes in the market and remove barriers to market entry.

43. It aims to:

(a) contribute to a more integrated and efficient European payments market;

(b) improve the level playing field for payment service providers (PSPs);

(c) promote the development and use of innovative online and mobile payments;

(d) make payments safer and more secure;

(e) protect consumers; and

(f) encourage lower prices for payments.[6]

44. PSD2 governs the authorization and prudential requirements for payment institutions and sets the conduct of business requirements for providing payment services.

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[6] FCA, *PSD2.*

45.   PSD2 is relevant both for firms which are already authorized or registered and firms that will have to seek authorization or registration or notify the FCA of certain information as a result of the changes. This includes all existing PSPs, including banks, building societies, credit card providers, money remitters and e-money issuers.

46.   PSD2 is expected to change the payments market in the EU significantly and aims to strengthen the European single market further. In order to support the objectives of the PSD2, the European Banking Authority (EBA) has adopted technical standards and guidelines to specify detailed provisions in relation to, among other things, incidents, payment security, passporting and supervision.

47.   The implementation of the PSD2 grants PSPs extended rights to access payment accounts and payment systems which are provided by credit institutions, including banks. In order to make electronic payments more secure, the PSD2 introduces an obligation for PSPs to implement sufficient internal procedures for managing operational and safety risks.

PSRs 2017

48.   The PSRs 2017 establish a class of firms authorised or registered to provide payment services which are referred to as payment institutions (PIs). There are some exceptions, for example certain institutions such as banks which are already authorised by the FCA. An Authorised PI is a PSP authorised under the PSRs 2017 and receives the right to 'passport' that authorisation to other EEA States.

49.   A UK business that provides payment services (as defined in the PSRs 2017) as a regular occupation or business activity in the UK needs to apply to the FCA to become either an authorised PI, a small PI or a registered account information service provider (RAISP), unless it is already another type of PSP or is exempt or excluded.

50.   Being a small PI is an option available to businesses with an average payment transactions turnover that does not exceed €3 million per month and which do not provide account information services (AIS) or payment initiation services (PIS). The registration process is cheaper and simpler than authorisation and has no ongoing capital requirements, but there are no passporting rights for small PIs nor may they provide AIS or PIS.

51.   The Financial Services Register is a public record of firms, individuals and other bodies that are, or have been, regulated by the PRA and/or FCA. The Register includes information about PIs, RAISPs and EMIs and their agents and the EEA branches of PIs and EMIs. This information is also included on a

register maintained by the European Banking Authority (EBA), together with information provided by the competent authorities in other EEA States. This is available free of charge on the EBA's website.

Application process and requirements

52.   Anyone wishing to become authorised or registered needs to complete an application form and submit it to the FCA along with the required information and the application fee. The FCA has to make a decision on a complete application within three months of receiving it.

53.   The information required to be submitted contains detail on the following:

(a) Programme of operations: containing a description of the payment services envisaged, including an explanation of how the activities and the operations fit into the list of payment services set out in the PSRs 2017. The applicant is also required to state whether they will enter into the possession of customers' funds. The applicant is required to provide details of how transactions will be executed (including details of all the parties involved in the provision of the services).

(b) Business plan: needs to explain how the applicant intends to carry out its business. It should provide enough detail to show that the proposal has been carefully thought out and that the adequacy of financial and non-financial resources has been considered.

(c) Structural organisation: which is the plan for how the work of the business will be organised including through any branches, agents and distributors, including a description of the applicant's relevant outsourcing arrangements.

(d) Capital: applicants are required to provide information on their own funds, including the amount and detailed breakdown by paid-up capital, reserves and retained earnings as part of their business plan. Capital required is set out in the section below.

54.   Information is also required to be provided on: the location of offices and where business is carried out; safeguarding measures; professional indemnity insurance; governance arrangements, internal controls and risk management; security incident and security-related customer complaint procedures; sensitive payment data processes; business continuity arrangements; the principles and definitions used by the applicant in collecting statistical data on performance, transactions and fraud; security policy – detailed risk assessment of the services to be provided including risk of fraud; money

laundering and other financial crime controls; and qualifying holdings – FCA must be satisfied that the applicant is 'fit and proper'.

Passporting

55.   Passporting is the exercise by a business of its right to carry on activities and services regulated under EU legislation in another EEA State on the basis of authorisation or registration in its home EEA State. The activities may be carried on through an establishment in the host state (an 'establishment' passport) or on a cross-border services basis without using an establishment in the host state (a 'service' passport).

56.   Passporting rights are only available to authorised PIs, RAISPs and authorised EMIs (except authorised EMIs whose head office is situated outside the EEA), not small PIs or small EMIs.

Incoming EEA authorised PIs, RAISPs and authorised EMIs

57.   Firms that are authorised or registered in another EEA State that wish to provide payment services or issue, distribute or redeem e-money in the UK should refer to their home state competent authority for instructions on making a passport application.

58.   When the FCA receives a passport notification from the applicant's home state competent authority, it is required to assess the information and provide relevant information to the home state competent authority, especially relating to reasonable grounds for concern with regard to money laundering and terrorist financing involvement.

59.   When the notification is received, FCA gathers information from the home-state regulator and assesses the risk that an incoming firm presents and whether the firm meets the requirements under the relevant directive. Under most directives, it can take up to 60 days to process an establishment passport from the date the notification is received.[7]

60.   Where it has concerns, it must notify the home state competent authority within one month of receipt of the notification. The home state competent authority will then have one month to decide what action to take.

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[7] FCA, *passporting*.

61.   In most cases, firms with passports into the UK will still be regulated by its home-state regulator, as in the case of PayPal[8] and iZettle[9]. Accordingly, in most cases, there are minimal or no additional regulatory restrictions surrounding market entry into UK.

62.   As both PayPal and iZettle passport into the UK, the implications of passporting and a 'hard Brexit' need to be considered: should there be a 'hard Brexit' with no transition / implementation period, both firms will have to notify the FCA or PRA to become part of the respective 'temporary permissions regime' for the type of firm in question. This will allow them to continue to operate in the UK while they seek to be fully authorised by the FCA or PRA.

Capital Requirements

63.   Under the Payment Services Regulations 2017 (PSR 2017), payment institutions are required to fulfil a variety of qualitative and quantitative requirements. Qualitative requirements include sound administrative, risk management and accounting procedures, proper internal control mechanisms, directors and managers that are of good repute and possess appropriate knowledge and experience, as well as shareholders that are suitable, taking into account the need to ensure the sound and prudent management of a payment institution.[10] Quantitative requirements include those to ensure financial stability.

64.   In relation to quantitative requirements, payment institutions are required to maintain a capital buffer which amounts to the higher of the initial capital threshold (amount varies from EUR 20,000 to EUR 125,000) or an amount which is calculated through one of three methods outlined:[11]

    (a) 10% of fixed overheads (admin expenses, rent, salaries, etc);

    (b) degressive percentage (from 4% to 0.25%) of amount of monthly payment transactions in previous year;

    (c) degressive percentage (from 10% to 1.5%) of sum of relevant indicator (sum of interest income, interest expense, commissions & fees, other operating income).

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[8] PayPal is an authorised credit institution in Luxembourg and provides services in the UK on a cross-border basis via passporting.
[9] iZettle is an authorised electronic money institution in Sweden and provides services in the UK on a cross-border basis via passporting.
[10] European Commission (EC), *Payment Services – Directive Frequently Asked Questions*.
[11] EC, *Payment Services – Directive Frequently Asked Questions*.

65.   [✂],[12] [✂].

Customer Onboarding

66.   In compliance with anti-money laundering directives, the Parties carry out
       automated identity checks as part of the onboarding process to comply with
       EU Know Your Customer / Know Your Business (KYC/KYB) regulations.

67.   [✂].

Table 1 iZettle's onboarding costs, UK

	2016	2017	Nov 2017 – Oct 2018
Onboarding costs (£)	[✂]	[✂]	[✂]
Activations*	[✂]	[✂]	[✂]
Onboarding cost per activation (£)	[✂]	[✂]	[✂]

Source: iZettle.
* Customers making their first transaction

68.   [✂].

Table 2 PayPal Here's onboarding costs, UK

	2016	2017	Dec 2017 – Nov 2018
Onboarding costs (£)	[✂]	[✂]	[✂]
Activations*	[✂]	[✂]	[✂]
Onboarding cost per activation (£)	[✂]	[✂]	[✂]

Source: PayPal.
* Customers making their first transaction

Certification

69.   mPOS devices need to be compliant with Europay, Mastercard and Visa
       (EMV) standards and Payment Card Industry – Data Security Standards (PCI-
       DSS) compliant to ensure that merchants are meeting all industry security
       standards. Both EMV and PCI-DSS are enforced through their inclusion in
       card scheme rules.

70.   EMV is a set of interoperability standards and involves a series of tests to
       ensure that the mPOS device conform to requirements.

71.   PCI-DSS is a set of security guidelines for individuals or companies that are
       processing, transmitting or storing credit card data. PCI ensures that a
       business is operating in a secure network and that information stored for a

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[12] 1 GBP = 11.0126 SEK.

customer is secure. Card readers which are linked to mobile phones or tablets must be compliant with PCI DSS PIN Transaction Security (PTS) version 4.1.

72.   iZettle's software, developed in-house, is also certified as PCI-DSS Level 1[13] compliant.

Other requirements

Card schemes

73.   Card schemes[14] are organisations that manage and control the operation and clearing of card payment transactions according to card scheme rules.[15] This requires, amongst others, due diligence reviews by payment service providers to with regards to prohibited industries and closer scrutiny of merchants within certain industries.

74.   Card schemes also impose many rules and standards on PSPs and acquirers as a condition of their participation in the network, and have ultimate say over whether an acquirer or PSP can participate in the network (and hence offer card acceptance services to merchants).

The General Data Protection Regulation (GDPR)

75.   The GDPR entered into force on 25 May 2018 and was brought into UK law as the Data Protection Act 2018. It regulates the processing of personal data within the EU and thus applies to PSPs where they process personal data on behalf of the merchants. Processing is the act of obtaining, recording, holding or using personal data. The general rule under the GDPR is that personal data should be processed lawfully, fairly and in a transparent manner in relation to the data subject and not be kept for a longer period than necessary with regard to the purpose of the processing. Furthermore, as a general rule, personal data should only be processed if the data subject has given his or her consent to the processing of personal data and only for certain specific purposes or if processing is necessary to comply with a legal obligation.

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[13] For merchants processing over 6 million Visa transactions per year regardless of payment channels and/or any merchant that Visa determines should meet the Level 1 merchant requirements.
[14] Card schemes that operate in the UK are American Express, Diners Club, JCB, Maestro, UnionPay International, MasterCard and Visa.
[15] The UK Card Association, *card payment cycle*.

Money laundering and terrorism

76.   All payment service providers and electronic money issuers must comply with the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 to counter the risk that they are misused for the purposes of money laundering and terrorist financing. The obligations include identifying customers, monitoring transactions and identifying and reporting suspicious transactions.[16]

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[16] FCA, *Payment Services and Electronic Money – Our Approach.*

Glossary

Adyen	Adyen N.V., is a global payment company that provides acquiring services in Europe.
Airbnb	Airbnb, Inc is an online marketplace and hospitality service.
AML	Anti-money laundering.
API	Application programme interface.
Bambora	Bambora is part of the Ingenico Group.
Barclaycard	Barclaycard is a division of Barclays plc and is a global credit card and a POS provider.
Barclaycard Anywhere	Barclaycard Anywhere is Barclaycard's mPOS device.
CAT	Competition Appeal Tribunal.
CMA	Competition and Markets Authority.
CMA Survey	CMA commissioned a customer survey through an external market research company, Accent. Accent conducted a customer survey of the Parties' mPOS customers to collect information on customer preferences and switching.
EBA	European Banking Authority.
eBay	eBay Inc., is an American e-commerce corporation that facilitates consumer-to-consumer and business-to-consumer sales through its website.
EC	European Commission.
E-commerce	The buying and selling of goods and services via the internet.
EEA	European Economic Area.
Elavon	Elavon Financial Services DAC.
EMEA	Europe, Middle East and Africa.
EMRs	The Electronic Money Regulations 2011.

EMV	Europay, Mastercard and Visa standards.
EU	European Union.
Facebook	Facebook, Inc.
FCA	Financial Conduct Authority of the UK.
First Data	First Data Europe Limited.
GDPR	The General Data Protection Regulation.
Google	Google LLC.
The Guidelines	CMA's Merger Assessment Guidelines.
Intelligentpos	Intelligent Point of Sale Limited, is a UK-based provider of cloud-based inventory, loyalty programmes and customer flow software, with the intention of enhancing its offering of advanced integrated payment and POS tools.
IPO	Initial public offering.
ISO	Independent sales organisation.
Issues statement	Issues Statement on the Merger published on 15 January 2019.
iZettle	iZettle AB.
iZettle Go	iZettle Go is iZettle's basic mPOS offering.
iZettle Pro	iZettle Pro is an mPOS offer that provides additional software capabilities.
iZettle UK	iZettle AB UK branch.
Klarna	Klarna Bank AB.
KYB	Know your business.
KYC	Know your customer.
Merger	The completed acquisition by **PayPal** of **iZettle**.
Micro	Customers with an annual TPV between £21,000 and £160,000.

MID	Merchant Identification Number.
mPOS	Mobile point of sale or mobile card readers which link up with a smartphone or tablet which provides connectivity to the payment service provider.
Nano	Customers with an annual TPV of below £21,000.
Nasdaq Stockholm	The Stockholm Stock Exchange.
Offline Payment	Card-present payment from customers in a face-to-face setting.
Omni-channel	Provision of integrated online and offline payment service which allows merchants to take all payments through one single provider.
Online Payment	Card-not-present payment from customers in an online setting.
PagSeguro	PagSeguro Internet S/A.
PAYG	Pay as you go.
Paymentsense	Paymentsense Ltd, is a UK based ISO and merchant service issuer for First Data.
PayPal	PayPal Holdings, Inc.
PayPal Here	PayPal Here is PayPal's mPOS device.
PayPoint	PayPoint plc.
Payworks	Payworks GmbH.
Payzone	Payzone UK Limited.
PCI	Payment Card Industry.
PCI-DSS	Payment Card Industry – Data Security Standards.
PI	Payment institution.
POS	Point of sale card readers with inbuilt connectivity, which connect to the payment service provider using wired, wi-fi or mobile connections.

PRA	Prudential Regulation Authority of UK.
The Prospectus	iZettle's draft IPO prospectus.
PSD2	Second Payment Services Directive.
PSP	Payment service provider.
PSRs 2017	Payment Services Regulations 2017.
QR codes	Quick response codes.
RAISP	Registered account information service provider.
RMS	Retail merchant services.
SaaS	Software as a service.
Selz	Selz is an American company that is an e-commerce platform for selling products and services online.
Shopify	Shopify Inc, is a Canadian e-commerce platform.
SLC	Substantial lessening of competition.
Small	Customers with an annual TPV between £160,000 and £380,000.
Smaller Merchants	Nano, micro and small merchants.
SMB	Small and medium sized businesses.
SPA	The share purchase agreement dated 17 May 2018 for the acquisition of all shares, warrants and options in iZettle by PayPal.
Square	Square, Inc, is an American company that supplies mPOS and e-commerce in the UK.
Stripe	Stripe Inc, is an online payment services provider which supplies mPOS in the US.
SumUp	SumUp Payments Limited is a UK based company that provides mPOS in Europe.
Survey Report	Accent final survey report published on the inquiry webpage.

The Act	The Enterprise Act 2002.
The Parties	PayPal and iZettle.
Traditional POS providers	Providers of POS (which does not preclude these providers from also providing mPOS).
TPV	Transaction payments volume.
Weebly	Weebly is a web hosting service specifically oriented for onine shopping. The parent company is Square.
White label	White label products or services are sold by a company to other companies who rebrand the product or service and present it to customers under their own brand names.
Worldpay	Worldpay (UK) Limited is a payment processing company in the UK.
Worldpay Zinc	Worldpay Zinc was Worldpay's previous mPOS reader.
Zoot	Zoot Enterprises Limited provides origination, acquisition and decision management solutions.