

Anticipated merger between Crowdcube and Seedrs

Decision on relevant merger situation and substantial lessening of competition

ME/6879/20

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 12 November 2020. Full text of the decision published on 3 December 2020.

Please note that [X] indicates figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

SUMMARY

1. On 2 October 2020, Crowdcube Limited (**Crowdcube**) agreed to acquire all of the outstanding share capital of Seedrs Limited (**Seedrs**) (the **Merger**). Crowdcube and Seedrs are together referred to as the Parties and for statements referring to the future, as the **Merged Entity**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of Crowdcube and Seedrs is an enterprise; that these enterprises will cease to be distinct as a result of the Merger; and that the share of supply test is met. Accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. Crowdcube and Seedrs overlap in the supply of equity crowdfunding platforms and are the two largest equity crowdfunding platforms in the UK. Equity crowdfunding platforms are 'two-sided' online platforms that connect small and medium-sized enterprises (**SMEs**) seeking equity investment on one side, with investors willing to provide funding in return for equity on the other side. The competitive conditions may differ as between the SME side and the investor side.

4. However, some evidence also indicates that investors are attracted by the choice of SMEs on the Parties' platforms, and therefore competition for investors and SMEs respectively are inherently linked to some extent. While the assessment of competitive effects on the SME side of the platform may therefore be informative of likely competitive effects on the investor side, the CMA has taken a cautious approach and assessed the scope for concern on each side separately. The CMA has therefore, on a cautious basis, assessed the impact of the Merger in two separate frames of reference, namely the supply of: (i) equity crowdfunding platforms to SMEs in the UK and (ii) equity crowdfunding platforms to investors in the UK.
5. On 14 and 15 October 2020, each of the Parties submitted a request for a fast track reference of the Merger to an in-depth Phase 2 investigation and gave their consent to the use of the fast track procedure. The CMA commenced its Phase 1 investigation on 22 October 2020 and issued an invitation to comment seeking views on the Parties' fast track request and the impact of the Merger on competition.
6. For a case to be fast tracked, the CMA must, at an early stage of its investigation, have evidence objectively justifying the belief that the test for reference to Phase 2 is met.¹ In addition, fast track cases are likely to be cases where, to the extent that the CMA does find a concern with the merger, that concern would impact on the whole or substantially all of the transaction, and not just one part (that could be resolved through structural undertakings in lieu (**UILs**)).²
7. The CMA has concluded that the test for reference is met because there is a realistic prospect that the Merger will result in a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects, in relation to the supply of both: (i) equity crowdfunding platforms to SMEs in the UK; and (ii) equity crowdfunding platforms to investors in the UK.
 - (a) The Parties are the only two sizeable suppliers of equity crowdfunding platforms in the UK and have an extremely high combined share of supply of [90-100]% both in terms of volume (number of SME deals) and value (investment value) in 2019, with a very high increment of [40-50]% by volume and [40-50]% by value arising as a result of the Merger.
 - (b) The Parties also compete closely for both SMEs and investors, as evidenced by their similar platform offerings and objectives, their internal documents and third party views. A number of third parties also

¹ *Mergers: Guidance on the CMA's jurisdiction and procedure (CMA2)*, paragraph 6.62.

² *CMA2*, paragraph 6.63.

expressed reasoned and competition-specific concerns in relation to the Merger, with several also indicating that seed stage SMEs may have particularly limited alternative options for raising equity finance post-Merger.

- (c) While Crowdcube submitted that other sources of equity finance such as venture capital firms and angel investment were strong alternatives to the Parties' equity crowdfunding platforms, the CMA found that these were not considered close alternatives by either investors or SMEs (the latter of which are particularly reliant on the Parties' platforms as a source of finance in addition (rather than as an alternative) to other sources of equity finance). Moreover, the Parties' internal documents and third parties did not indicate that other sources of equity finance pose a significant constraint on the Parties.
8. The CMA notes that the identified SLCs would impact on the whole or substantially all of the Merger and not just one part. The CMA has also had regard to its administrative resources and the efficient conduct of the case.³ In light of the above, the CMA believes that it is appropriate to proceed with a fast track reference of the Merger to Phase 2.
9. As part of their request for a fast track reference, the Parties waived their procedural rights at Phase 1, which included their right to submit UILs. As a result, the CMA has not considered UILs under section 73 of the Enterprise Act 2002 (the **Act**).
10. The CMA has therefore decided to refer the Merger pursuant to sections 33(1) and 32ZA(2) of the Act.

ASSESSMENT

Parties

11. Crowdcube is a UK-based private company that operates an equity crowdfunding platform. The turnover of Crowdcube in FY 2019 was £[~~XX~~] worldwide, £[~~XX~~] of which was generated in the UK.
12. Seedrs is a UK-based private company that operates an equity crowdfunding platform. The turnover of Seedrs in FY 2019 was £[~~XX~~] worldwide, £[~~XX~~] of which was generated in the UK.

³ CMA2, paragraph 6.65.

Transaction

13. On 2 October 2020, the Parties entered into an agreement for Crowdcube to acquire all of the outstanding share capital of Seedrs by way of a scheme of arrangement. In return, Seedrs' shareholders will be allotted new shares in Crowdcube by reference to an agreed exchange ratio such that, on completion, existing Crowdcube shareholders and option holders will own approximately 60% of the Merged Entity, and existing Seedrs shareholders and option holders, approximately 40% of the Merged Entity.⁴
14. The Merger is not subject to review by any other competition authority.

Jurisdiction

15. Each of Crowdcube and Seedrs is an enterprise. As a result of the Merger, these enterprises will cease to be distinct.
16. The Parties overlap in the supply of equity crowdfunding platforms in the UK, with a combined share of supply of [90-100]% by both value and volume (with an increment of [40-50]% by volume (the number of UK SME deals made through equity crowdfunding platforms in 2019) and [40-50]% by deal value (investment value of deals made through equity crowdfunding platforms in 2019)).⁵ The CMA therefore believes that the share of supply test in section 23 of the Act is met.
17. The CMA therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
18. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 22 October 2020 and the statutory 40 working day deadline for a decision is therefore 17 December 2020.

Fast track reference

19. On 14 and 15 October 2020, the Parties requested that the CMA make a fast track reference of the Merger for an in-depth investigation at Phase 2 and gave their consent to use of the fast track procedure. The Parties accepted

⁴ Final Merger Notice submitted by Crowdcube (**FMN**), paragraph 2(c); and Annex 2 to FMN, Implementation Agreement, clause 2.1 and schedule 5. Certain institutional investors of each of Crowdcube and Seedrs are also parties to the Implementation Agreement and will enter into a new shareholders agreement on completion.

⁵ See further below Table 1 for an explanation of the basis for the CMA's estimates.

that the conditions set out in paragraphs 6.61 to 6.65 of CMA2 are satisfied and that the CMA will find that the test for reference under section 33 of the Act is met (ie that there is a realistic prospect that the Merger will give rise to an SLC).⁶ As part of the request, the Parties waived their normal procedural rights during the Phase 1 investigation and agreed that the CMA would not be required to undergo all of the procedural steps it normally follows in cases that are referred for a Phase 2 investigation.⁷

20. For the case to be fast tracked, the CMA must, at an early stage of its investigation, have evidence objectively justifying the belief that the test for reference to Phase 2 is met.⁸ Fast track cases are likely to be cases where, to the extent that the CMA does find a concern with the merger, that concern would impact on the whole or substantially all of the transaction, and not just one part (that could be resolved through structural UILs).⁹
21. The CMA has considered the Parties' request and, for the reasons set out below, finds that the Merger gives rise to a realistic prospect of a SLC in one or more markets in the UK, as a result of horizontal unilateral effects in relation to the supply of: (i) equity crowdfunding platforms to SMEs in the UK; and (ii) equity crowdfunding platforms to investors in the UK.¹⁰
22. The CMA notes that the identified SLCs impact on the whole or substantially all of the Merger and not just one part. The CMA has also had regard to its administrative resources and the efficient conduct of the case.¹¹ In light of the above, the CMA believes that it is appropriate to proceed with a fast track reference of the Merger to Phase 2. For the avoidance of doubt, the CMA's in-depth Phase 2 investigation is not restricted to investigating the issues that have been found to give rise to a realistic prospect of an SLC at Phase 1.¹²

Counterfactual

23. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers the

⁶ CMA2, paragraph 6.62.

⁷ CMA2, paragraph 6.64.

⁸ CMA2, paragraph 6.62.

⁹ CMA2, paragraph 6.63.

¹⁰ The CMA also issued an invitation to comment on 23 October 2020 inviting interested parties to provide views on the effect of the Merger on competition and on the Parties' request for a fast track reference. No third parties opposed the Parties' request for a fast-track reference.

¹¹ CMA2, paragraph 6.65.

¹² [Merger Assessment Guidelines](#) (OFT1254/CC2), September 2010, paragraphs 4.2.5 and 4.2.6. The [Merger Assessment Guidelines](#) have been adopted by the CMA (see [CMA2](#), Annex D).

CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.¹³

24. Crowdcube submitted that:

(a) Neither of the Parties are [REDACTED].¹⁴

(b) The Parties' positions as outlined above [REDACTED].¹⁵ Crowdcube submitted that [REDACTED].¹⁶ [REDACTED].¹⁷

25. The CMA notes that the Coronavirus (COVID-19) pandemic has had, at least in the short-term, an impact on the Parties' revenues and on the investment sector. However, as set out in the CMA's guidance on merger assessments during the Coronavirus (COVID-19) pandemic, a merger control investigation typically looks beyond the short-term and considers what lasting structural impacts a merger might have on the markets at issue.¹⁸ Neither Party has provided any evidence to suggest that, absent the Merger, they would have exited the market or been a substantially weakened competitor relative to its rivals. Both Parties have previously been able to continue to operate as going concerns and have healthy gross profit margins. [REDACTED].¹⁹

26. Therefore, the CMA believes that the prevailing conditions of competition should be the relevant counterfactual against which to assess the Merger, with Crowdcube and Seedrs each remaining in the market as independent competitors.

¹³ [Merger Assessment Guidelines](#), from paragraph 4.3.5.

¹⁴ FMN, paragraphs 11(i) and 11(ii).

¹⁵ FMN, paragraphs 2(f)(iv) and 11(v).

¹⁶ FMN, paragraph 2(f)(iv) and 11(v).

¹⁷ [REDACTED]

¹⁸ [Merger assessments during the Coronavirus \(COVID-19\) pandemic \(CMA 120\)](#), 22 April 2020, paragraph 22.

¹⁹ Crowdcube June-20 management accounts and Seedrs Mar-May 2020 management accounts including prior year financial statements. The CMA further notes that Crowdcube announced its largest quarter ever for revenue in the third quarter of 2020, with an increase in investments of 76% compared to the second quarter (see [CrowdcubeQ3 2020 update](#) dated 21 October 2020).

Frame of reference

27. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.²⁰
28. The Parties overlap in the supply of equity crowdfunding platforms to SMEs and investors respectively in the UK. The CMA has taken these overlaps as its starting point for its Phase 1 assessment of the product frame of reference and has considered whether it is appropriate to:
- (a) Distinguish separate frames of reference as between:
 - (i) the SME and investor sides of the platform;
 - (ii) the different development stages of SMEs (ie as between seed stage, venture stage, growth stage and established stage); and
 - (b) Widen the product frame of reference to include other types of: (i) equity financing sources for SMEs; and/or (ii) investment options for investors.

Product scope

SME and investor sides of the platform

29. As the Parties' platforms are two-sided platforms (with the Parties competing to attract SMEs on one side and investors on the other), the CMA considered whether it would be appropriate to assess the impact of the Merger within a single or separate frame(s) of reference.
30. The evidence indicates that the competitive dynamics on the two sides may differ, with some parameters of competition (eg service fees, service quality, and customer features and innovations) being set separately on each side.²¹

²⁰ [Merger Assessment Guidelines](#), paragraph 5.2.2.

²¹ The Parties generate revenue primarily by charging commission to the SMEs on the capital raised through each round of funding (although both Parties also charge investors, those charges represent a minimal proportion of their respective revenues). (FMN, paragraph 3(iii)). For example, in respect of fees, Crowdcube charges SMEs a commission fee that is negotiated by the SME and can vary by SME and by round of investment. The standard commission charged is 7% of funds raised; in 2019, the average effective commission fee was [X]%. In contrast,

The Parties' internal documents also indicate that the Parties consider competitive conditions on the two sides separately, although they tend to focus more on the SME side than on the investor side.²²

31. However, a number of investors responding to the CMA's Merger investigation indicated that an important driver for investors to choose equity crowdfunding platforms is the opportunity to invest in SMEs (either generally, or in specific SMEs). Any competition for investors may, therefore, be reflected in competition for SMEs (such that the impact on one 'side' should not be considered in isolation).
32. Accordingly, the CMA considers there is some evidence that indicates that competition for investors and for SMEs respectively are inherently linked to some extent and, therefore, the assessment of competitive effects on the SME side of the platform may be informative of likely competitive effects on the investor side. However, the CMA has, on a cautious basis, assessed the impact of the Merger on each side of the platform separately.

Segmentation by development stage

33. Crowdcube submitted that it would not be appropriate to find distinct frames of reference as between SMEs at different stages of development (and specifically, as between seed stage, venture stage, growth stage and established stage equity financing),²³ on the basis that many firms that provide SME funding are active to a significant extent across different development stages, the boundaries between which are in any event blurred and constantly shifting.²⁴
34. The majority of the Parties' SME deals are either at seed stage or venture stage. Based on Crowdcube's own data, [X] % of its SME deals in the UK in

Crowdcube charges investors a standard fee of 1.5% of each investment with a minimum of £0.50 and a maximum of £250. (FMN, paragraph 25(a)(iii)). The Parties' product features and quality of service are also different on each side of the market (see, for instance, FMN, paragraphs 15(d)(v)-15(d)(xix)).

²² For instance, documents that focused on the SME side included: Annex 151 to FMN, 'Q1 2019 Funded deals – Market Update'; Annex 135 to FMN, 'Pricing (Seedrs Comparables)'; Annex 110 to FMN, 'Crowdcube vs. Seedrs_key messages (internal use only).PDF'; Seedrs Annex 15 to FMN, 'Board Presentation - 3 May 2018.pdf', page 15. Documents that focused on the investors side included: Annex 124 to FMN, 'Investment Fees', pages 1-2; Annex 117 to FMN, 'Fees messaging.DOCX', page 3.

²³ Based on definitions of SME growth stages used by Beauhurst, a third party database, that uses the following: (i) seed stage SMEs are young SMEs which are either being set up or have not yet made any commercial sales; (ii) venture stage SMEs are SMEs that have been active for a few years and are in the process of gaining significant market traction - sales are growing rapidly but the business may be unprofitable; (iii) growth stage SMEs have been active for around five years and are likely to have multiple offices or branches, with substantial revenue streams (some of which may be profitable); and (iv) established stage SMEs are those that have been trading for 15 years or more, or between 5-15 years but with a three-year consecutive profit of £5m+ or turnover of £20m+. Source: <https://www.beauhurst.com/blog/stages-evolution-companies/>

²⁴ FMN, paragraph 13(b)(xi).

2019 were seed stage and [X] % were venture stage, compared to [X] % at growth stage and [X] % at established stage. Based on Seedrs' own data, [X] % of its SME deals in the UK in 2019 were seed stage and [X] % were venture stage, compared to [X] % at growth stage and [X] % at established stage.²⁵

35. The available evidence indicates that earlier stage SMEs (namely, those at seed stage) may have fewer alternatives for raising capital than other, later-stage SMEs. For example, the average effective commission rate charged to seed stage SMEs by Crowdcube is [X],²⁶ with Crowdcube submitting that it [X].²⁷ Some of the Parties' internal documents also indicate a different pricing strategy for [X] deals, particularly those where [X] are involved.²⁸ Some third parties similarly indicated that seed stage SMEs tend to have fewer alternatives, and that venture capital firms are generally only involved at later stages.
36. On the supply side, the CMA notes evidence of variation in competitive conditions across the development stages. In particular, the Parties provided estimates of the proportion of SMEs' equity financing accounted for by their equity crowdfunding platforms, which was higher for earlier-stage SMEs than for later-stage SMEs.²⁹ The stronger performance of equity crowdfunding platforms among earlier-stage SMEs is consistent with those platforms having a stronger competitive position in that segment than when competing for later-stage SMEs.
37. However, the CMA notes that there is no consistent definition of seed stage or other development stages in the industry.³⁰ When asked by the CMA to categorise themselves as belonging to a particular development stage, SMEs

²⁵ For Crowdcube: Annex 33 to FMN, 'Full details of Crowdcube's equity financing 2018 – 2020'. For Seedrs: Seedrs Annex 72 to FMN, 'Annex Y - Deals (2018-2020) v2 - Categories.XLSX'.

²⁶ Crowdcube's response to the request for information issued to the Parties on 4 March 2020 (RFI 2), question 10.

²⁷ Crowdcube's response to RFI 2, question 10.

²⁸ Annex 54 to FMN, 'BD - Fees Team write up', page 1; Annex 56 to FMN 'BD Calculator V4 - JD Final.XLSX', sheet 'BD Calculator'.

²⁹ The Parties' combined shares of supply in terms of SME equity financing by number of SME deals in 2019 were: [20-30] % at seed stage, [20-30] % at venture stage and [5-10] % at growth stage. (Source: CMA calculation based on data submitted by the Parties and 'BBB Small Business Equity Tracker 2020' report, pages 12 and 15). The CMA considers that the Parties' estimates of the relative breakdowns as between SME deals by SMEs at different development stages can be used as a proxy for the equivalent breakdown within the supply of equity crowdfunding platforms specifically (excluding other sources of equity financing) as the Parties have a very high combined share of supply of [90-100] % of equity crowdfunding in the UK by deal volume and value (as noted in Table 1 further below).

³⁰ For instance, the BBB annual report uses Beauhurst's definitions of SME growth stages, while noting that the classification used by other institutions (such as Invest Europe and BVCA) are different ('BBB Small Business Equity Tracker 2020 report', page 65. This inconsistency is also noted by Beauhurst on its website (see <https://www.beauhurst.com/blog/stages-evolution-companies/>).

responding to the CMA's questions categorised themselves differently to the categories assigned to the same SMEs by the Parties in their submissions. The Parties' internal documents also do not tend to distinguish between competition for SMEs on a stage-specific basis (see paragraphs 58 and 59 below), and the Parties' comparative analysis targeted at each other was generally stage-agnostic.³¹

38. Accordingly, in particular given the fluidity of the boundaries between the different stages of SME development, the CMA has not distinguished (on either the SME or investor side of the market) separate frames of reference by stage of SME development, and has assessed the impact of the Merger on competition in the frame of reference as a whole. However, for the reasons outlined above, the CMA notes that any impact of the Merger on competition may be more significant for earlier-stage SMEs than for later-stage SMEs.

Other types of: (i) equity financing for SMEs; and (ii) investment options for investors

39. Crowdcube submitted that the narrowest plausible product scope is the supply of equity finance to SMEs and that there is no distinct market for the supply of equity crowdfunding to SMEs.³² Crowdcube submitted this category of equity finance provider included, in addition to equity crowdfunding platforms, venture capital firms and trusts, angel investors (both individuals and networks), financial institutions and blockchain-technology platforms.³³ This was on the basis that for SMEs, crowdfunding platforms are substitutable with other equity finance providers (primarily, venture capital firms and angel investors).³⁴ Crowdcube provided as supporting evidence examples of SMEs that had engaged in discussion with the Parties but ultimately obtained funding from alternative sources such as venture capital firms or angel investors.³⁵

³¹ See, for instance: Annex 84 to FMN, 'Crowdcube Board Meeting – Tuesday 16th July 2019.PDF', page 31; Annex 160 to FMN, 'Seedrs - Beauhurst 2019 additional data - v1.XLSX'; Annex 127 to FMN, 'Learnings for Seedrs Annual Shareholder Report 2018.PDF', pages 1-6; Annex 73 to FMN, 'closed won lost Q1 18 ANALYSIS.XLSX'; Annex 162 to FMN, 'Seedrs - Competitors deal log.XLSX'.

³² FMN, paragraph 13(b)(i) and 13(b)(iv).

³³ FMN, paragraph 13(a)(iii). As described at FMN, paragraphs 15(d)(xxxvi)-15(d)(xli), Blockchain-technology platforms assist companies in raising funds using blockchain and crypto-currency to raise funds. They do this, for instance, by enabling an 'Initial Coin Offering', whereby tokens are sold to investors in exchange for their local currency or other already-established cryptocurrencies, like Bitcoin or Ethereum. These tokens are promoted as future functional units of currency when the funding goal is met and the project launched.

³⁴ FMN, paragraph 13(b)(iv). As explained at FMN, paragraph 13(a)(iii), venture capital firms raise funds from investors and then select the businesses into which those funds will be invested. Angel investors invest on a self-directed or deal-by-deal basis through offline channels.

³⁵ FMN, paragraph 13(b)(iv)-13(b)(ix).

40. The CMA believes that, for SMEs, there is limited demand-side substitution between equity crowdfunding platforms and other sources of equity finance, based on the following evidence:
- (a) The product characteristics of the main alternative options cited by the Parties – namely, angel investors and venture capital firms – differ significantly from the Parties’ product propositions. Unlike the Parties’ platforms (which connect and facilitate the provision of equity finance), angel investors and venture capital firms will, for example, typically require a level of management control and/or rights attached to shares as part of their provision of equity finance.
 - (b) The CMA gathered evidence from SMEs that had previously used either Party.
 - (i) The majority of SMEs that responded indicated that, if the Party they had used had been unavailable, they would have used a different crowdfunding platform with most SMEs of that view indicating that their preferred option would have been the other Party.³⁶ The SMEs’ view that the Parties were each other’s closest alternative was also supported by the majority of crowdfunding platforms, angel networks, and venture capital firms that responded to the CMA’s Merger investigation.
 - (ii) Most SMEs that responded also considered that the other alternative sources of equity financing were not as ‘viable or attractive’. No SMEs indicated angel investors/networks, venture capital firms or other such sources of finance to be a key competitor to either Party.³⁷
 - (c) The majority of SME respondents indicated that, as part of the same funding round, they raised equity funding from other sources in addition to equity crowdfunding platforms.³⁸ In particular, a significant number of SME respondents indicated that equity crowdfunding is a complement to

³⁶ Although Kickstarter (a donation-based crowdfunding platform which, in contrast to equity-based and debt-based models of crowdfunding, does not generate financial returns for investors) was cited as a competitor to the Parties by a very small minority of SMEs, no SMEs indicated they would have used it as an alternative to the Parties’ own platforms.

³⁷ SyndicateRoom operates as a venture capital fund enabling high net worth and sophisticated investors to invest in a portfolio of startup companies. Syndicate was founded as an equity crowdfunding platform in 2013 but, in 2019, moved away from facilitating individual crowdfunding deals to an index-informed portfolio approach. Although SyndicateRoom was cited as a competitor to the Parties by a very small minority of SMEs, no SMEs indicated they would have used it as an alternative to the Parties’ own platforms.

³⁸ The reasons given for this included, amongst others, the fact that: (i) raising funding from other sources would raise more than what could be feasibly raised through equity crowdfunding platforms alone, and (ii) it was easier to raise equity through crowdfunding platforms when this was paired with existing external funds.

(rather than a substitute for) other sources of equity funding, which again suggests that these categories are not close alternatives.

(d) The Parties' internal documents frequently reference each other, while lacking detailed consideration of any of the other types of funding source that the Parties contend constrain them. Their documents instead often present these purported constraints as customers or partners of the platform, as opposed to competitors. Both Parties have documents that estimate the size of venture capital investment as an '[REDACTED]'.³⁹ While the purpose of such estimations is generally unclear from the documents, one of the documents includes a remark that equity crowdfunding is '[REDACTED]' by venture capital firms, suggesting venture capital firms are regarded as potential customers.⁴⁰ The Parties' documents also discuss business angels and angel networks as partners or users of the platforms on the investor side, as opposed to competitors to the platforms for the SME side.⁴¹

41. With respect to the question of whether the frame of reference for the investor side of equity crowdfunding platforms should be widened to include other investment options, Crowdcube submitted that the Parties' investors – the large majority of which are, in each case, retail rather than institutional⁴² – have a wide range of investment options with investment in SMEs through equity crowdfunding platforms representing only a small subset of many alternatives (such as investing in funds, stock markets, bonds and property).⁴³ Crowdcube submitted that for investors wishing to invest larger amounts of £1,000 or more, other ways of investing in SME equity include direct investment (eg as an individual angel) or indirectly through venture capital trusts and angel investment networks that typically impose a minimum investment amount.⁴⁴ For smaller-scale investments of less than £1,000, Crowdcube referred to other types of crowdfunding platform (eg debt, reward

³⁹ See, for instance: From Crowdcube: Annex 116 to FMN, 'EXPANSION.pptx', page 15; From Seedrs: Seedrs Annex 61 to FMN, '[REDACTED]', page 16.

⁴⁰ Seedrs Annex 61 to FMN, '[REDACTED]', page 16.

⁴¹ Annex 114 to FMN, '[REDACTED]', page 5; Seedrs Annex 61 to FMN, '[REDACTED]', page 25.

⁴² Crowdcube estimated the number of investors on its platform who would be classified as institutional to be [REDACTED]%, and that the total investment from these investors to represent [REDACTED]% of all investment on the platform. Seedrs estimated that the funds contributed by these investors constituted approximately [REDACTED]% of all investment made on the platform (FMN, paragraphs 3(xxix) and 3(xxxi)). The Parties view investors as either (1) "retail" or "everyday" or (2) "qualified" investors (i.e. institutional, high net worth and sophisticated investors) (FMN, paragraph 3(xxiv)). Retail and institutional investors are distinguished by their differing access to capital and investment knowledge/qualifications.

⁴³ FMN, paragraph 13(b)(x).

⁴⁴ FMN, paragraph 15(d)(xxii).

or donation-based platforms)⁴⁵ as a way to invest in SMEs in addition to traditional options such as publicly listed equity shares, bonds, and managed funds.⁴⁶

42. However, the evidence indicates that there is limited demand-side substitution between equity crowdfunding platforms and other types of investment options from an investor perspective. Equity crowdfunding platforms are, in light of the minimum investments imposed by angel investment networks and venture capital trusts, the only option available to retail investors wanting to invest relatively small amounts in SME equity. Crowdcube⁴⁷ and Seedrs⁴⁸ accept investment starting from £10, whereas other platforms mainly facilitate larger amounts of investment from angel investors and venture capital by, for instance, requiring proof of high net worth and fulfilment of other membership criteria for access, or setting minimum investment amounts for deals that may be as large as £5,000 or £10,000.⁴⁹ The majority of retail investors that responded to the CMA's Merger investigation indicated that, other than the Parties' platforms, there were limited or no alternative options by which they could invest in the SME asset class (or in the particular SME in which they wished to invest). This was commonly mentioned as a driver for investors' decision to invest through an equity crowdfunding platform, with many stating that investing in the SME directly and independently from the equity crowdfunding platform would not have been a viable option.
43. As discussed further below at paragraphs 58 and 59, the Parties' internal documents also indicate that the Parties see each other as their main competitor in attracting business from both SMEs and investors. That is, both Parties consider that another equity crowdfunding platform is their main competitor rather than alternatives such as venture capital firms or angel investors. As discussed above at paragraph 40(d), venture capital firms and

⁴⁵ FMN, paragraphs 15(a)(i) and 15(d)(xxiii). Debt or loan-based funding refers to the provision of a loan to a SME that the SME is obliged to repay; rewards-based funding refers to the provision of funds to a SME in return for a reward, such as free or discounted products or services, or early access to SMEs' products or services; donation-based funding refers to the provision of funds to a SME without expectation of repayment, reward or generation of financial returns.

⁴⁶ FMN, paragraph 13(b)(x). Publicly listed equity shares are equity shares in publicly listed companies, which are freely traded on a public stock exchange; bonds are debt securities issued by a company that entitles the holder to interest or full repayment of the debt at maturity; and managed funds refers to funds managed by a mutual fund manager on behalf of a group of investors that have combined their capital in order to generate financial returns. The CMA notes that the Parties' submissions in this respect do not address retail investors' ability to invest in the SME equity asset class specifically, but rather go to other ways in which to invest in SMEs generally (eg through debt finance).

⁴⁷ <https://www.crowdcube.com/explore/investing>

⁴⁸ <https://www.seedrs.com/how-to-invest-in-startups>

⁴⁹ For instance, in response to the CMA's questionnaires, third parties such as [X] and [X] indicated that their members must be high net worth or sophisticated investors; whilst [X] and [X] confirmed minimum investment amounts of £5,000 and £10,000 respectively.

angel investors are only briefly referenced in the Parties' internal documents as an '[REDACTED]' (seemingly as potential customers), or as partners or users of the platform.

44. With regard to supply-side substitutability, the CMA considers that the available evidence does not, in the round, support the Parties' arguments for widening the frame of reference on either side of the platform:
- (a) The CMA may consider a wider frame of reference on the basis of supply-side substitutability in cases where, among other conditions, the same firms compete to supply different products and the conditions of competition between the firms are the same for each product.⁵⁰ However, the CMA notes that, in this case, equity crowdfunding platforms are generally not active in the supply of other types of equity funding, and vice versa, so this condition is not met.
 - (b) Furthermore, the Parties' internal documents did not indicate that they consider the threat of entry from other sources of equity finance into the supply of equity crowdfunding platforms when making strategic decisions regarding the SME and investor sides of the business. Documents often referred to venture capital firms and angel investors as customers or partners of the platforms as opposed to competitors.⁵¹
 - (c) In addition, and as discussed at paragraphs 78 to 81, the barriers to entry and expansion in the equity crowdfunding platform markets are significant. The CMA has not received any evidence suggesting that other third parties, including venture capital firms, angel investors or other equity finance sources, are planning to enter or expand into equity crowdfunding platforms.
45. On the basis of the evidence outlined above, the CMA does not believe the product frame of reference should be widened to include either: (i) for the SME side of the platform, other sources of equity finance for SMEs; or (ii) for the investor side of the platform, other investment options.

Geographic scope

46. Crowdcube submitted that the geographic frame of reference is national on the basis that crowdfunding is generally specific to the country in which the

⁵⁰ [Merger Assessment Guidelines](#), paragraph 5.2.17.

⁵¹ Marketing materials from both Parties pitched to SMEs the fact that they have partnerships with VCs and angel investors as an advantage of using their platforms. See, for instance, from Seedrs: Annex 114 to FMN, '[REDACTED]', page 5, and from Crowdcube: Annex 57 to FMN, 'BD Deck v1.3.PDF', page 55.

SME raising the funds is located. Crowdcube noted that the Parties had not observed UK SMEs seeking funding from abroad in response to increased commission rates in the UK.⁵²

47. The CMA has not received any evidence to suggest that the geographic frame of reference should be any wider (or narrower) than national. In particular, a large majority of SMEs and most investors indicated that, if either Party had not been available, non-UK equity crowdfunding platforms would not have been a viable or attractive option. Accordingly, the CMA has considered the impact of the Merger within a national geographic frame of reference.

Conclusion on frame of reference

48. For the reasons set out above, the CMA has considered the impact of the Merger in the following frames of reference:
- (a) the supply of equity crowdfunding platforms to SMEs in the UK; and
 - (b) the supply of equity crowdfunding platforms to investors in the UK.

Competitive assessment

Horizontal unilateral effects

49. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or to degrade quality on its own and without needing to coordinate with its rivals.⁵³ Horizontal unilateral effects are more likely when the merging parties are close competitors. The CMA assessed whether it is or may be the case that the Merger may be expected to result in an SLC in relation to horizontal unilateral effects in the supply of:
- (a) equity crowdfunding platforms to SMEs in the UK (**ToH 1**); and
 - (b) equity crowdfunding platforms to investors in the UK (**ToH 2**).

ToH 1 – supply of equity crowdfunding platforms to SMEs in the UK

50. In order to assess the likelihood of the Merger resulting in horizontal unilateral effects with respect to the supply of equity crowdfunding platforms to SMEs in the UK, the CMA considered evidence on:

⁵² FMN, paragraph 12(iii).

⁵³ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

- (a) shares of supply;
- (b) closeness of competition between the Parties; and
- (c) competitive constraints from alternative suppliers.

Shares of supply

51. The CMA has calculated shares of supply for 2019 based on the Parties' and third parties' actual data, both in terms of the number of SME deals made on each platform, and in terms of the total amount invested through each platform. Based on this data, the CMA estimates that there were a total of [redacted] equity crowdfunding deals in the UK in 2019, at a total value of [redacted]. The corresponding share of supply estimates are presented in Table 1.

Table 1: CMA estimates of shares of supply of equity crowdfunding in the UK (2019)

	By volume (number of deals)	By value (amount invested)
Crowdcube	[40-50]%	[40-50]%
Seedrs	[40-50]%	[50-60]%
Parties' combined	[90-100]%	[90-100]%
Investors	[5-10]%	[0-5]%
Growth Capital	[0-5]%	[5-10]%

Source: Data from Parties (responses to email dated 21 August 2020) and third party responses to questionnaires.⁵⁴

52. Based on these estimates, the Parties have an extremely high combined share of supply of [90-100]% both in terms of value and volume. The increment arising from the Merger was similarly very large, at [40-50]% in terms of volume and [40-50]% in terms of value. The minimal shares accounted for by other players in the table is consistent with the Parties' own view that there are no effective competitors providing equity crowdfunding other than the Parties.⁵⁵ This is also consistent with an industry report, which estimates the Parties' combined share of supply to be 96%.⁵⁶

⁵⁴ Note: [redacted] identified itself as a crowdfunding platform of all types (i.e. including equity, debt, rewards, and donation-based contributions to SMEs). Given that the CMA was unable to identify the share of the self-reported number of deals and investment value corresponding to equity at this stage, the CMA did not include the data provided by this competitor in its estimates.

⁵⁵ FMN, paragraph 11(iii).

⁵⁶ Beauhurst, *The Deal: Equity investment in the UK 2019*, page 32.

53. Accordingly, the CMA considers that the Parties' combined shares of supply are extremely high with a very high increment resulting from the Merger and that the Merger provides a strong indication that the Parties are likely to be significant alternatives to each other, and raises *prima facie* competition concerns as a result.

Closeness of competition

54. At the outset, the CMA notes that, given the Parties' extremely high share of supply in the supply of equity crowdfunding and the weak competitive constraints from other sources of equity funding (as discussed in paragraph 40), the Parties are, by definition, each other's closest competitor.
55. As noted above at paragraph 52, the Parties acknowledge that they are the only two effective equity crowdfunding platforms in the UK.⁵⁷ However, Crowdcube submitted that the Parties nevertheless each pose only a limited competitive constraint upon one another, as SMEs seeking equity finance have a range of alternative options available (including venture capital firms and angel investors).⁵⁸
56. The Parties have very similar business offerings for SMEs – a factor acknowledged by Crowdcube, who notes that Seedrs is the closest of the various types of competitor to Crowdcube and has a similar business model to it.⁵⁹ Both Parties allow SMEs to reach and combine investment from institutional investors with a wide range of individual retail investors,⁶⁰ many of which would otherwise not be able to invest in SME equity (see paragraph 42), thereby broadening the investor pool available to SMEs. The Parties also offer similar additional marketing services to SMEs, such as promotion of the SME's fundraising campaign (and, by extension, of the SME's business) via digital advertising and social media.⁶¹ The Parties' platform features on the SME side are also very similar, including a personalised page on the Parties' website, as well as analytical tools such as private dashboards and reports for SMEs to monitor the progress of the campaign.⁶²

⁵⁷ FMN, paragraph 11(iii).

⁵⁸ FMN, paragraph 15(a)(i).

⁵⁹ FMN, paragraph 15(a)(ii) and (iii).

⁶⁰ FMN, paragraph 3(i).

⁶¹ Based on the Parties' marketing materials for SMEs (for instance, for Crowdcube: Annex 57 to FMN, 'BD Deck v1.3.PDF', pages 42-48; for Seedrs: Annex 114 to FMN, '[REDACTED]', pages 13-20).

⁶² Based on the Parties' marketing materials for SMEs (for instance, for Crowdcube: Annex 57 to FMN, 'BD Deck v1.3.PDF', pages 42-48; for Seedrs: Annex 114 to FMN, '[REDACTED]', pages 13-20).

57. The CMA has seen evidence that the Parties have the same long-term goals to develop their platforms beyond traditional fundraising platforms to dynamic, full-scale fundraising ecosystems with strengthened network effects and efficiencies: eg, [REDACTED],⁶³ [REDACTED].⁶⁴ The CMA considers that two potential ecosystems that have the same objectives to compete to win customers and build network effects are likely to be close competitors.
58. The Parties' internal documents also indicate that the Parties monitor each other closely and view each other as their closest competitor. There are multiple examples of internal documents prepared for the Board, senior management or shareholders of the Parties that refer to the other Party's strategy and plans to react to that strategy.⁶⁵ For example:
- (a) A significant number of Crowdcube documents demonstrate Crowdcube closely monitoring Seedrs [REDACTED],⁶⁶ [REDACTED];⁶⁷ [REDACTED];⁶⁸ [REDACTED].⁶⁹ A 2018 document demonstrates that Crowdcube considered Seedrs' [REDACTED].⁷⁰ The longstanding nature of Crowdcube's focus on Seedrs is also evident from board minutes produced in 2016 which indicate that competition between the Parties was the main factor [REDACTED].⁷¹
 - (b) Similarly, Seedrs' documents demonstrate Seedrs closely monitoring and planning reactions against Crowdcube. A 2018 Seedrs board presentation refers [REDACTED].⁷² Another 2018 Seedrs board presentation indicates that Seedrs had a specific project [REDACTED].⁷³ The document identifies Seedrs monitoring Crowdcube's [REDACTED].
59. The Parties' internal documents state that the rationale for the Merger includes the objective to [REDACTED].⁷⁴ The CMA is concerned that this may point to a

⁶³ FMN, paragraph 24(iv).

⁶⁴ FMN, paragraph 24(vii); Annex 87 to FMN, '[REDACTED]', pages 8-11; '[REDACTED]', page 5; Seedrs Annex 61 to FMN, '[REDACTED]', page 12; Seedrs Annex 19 to FMN, '[REDACTED]', pages. 22-23; Annex 95 to FMN, '[REDACTED]', page 5.

⁶⁵ The conclusions from the CMA's analysis of internal documents is also applicable to a large extent to the analysis of the Parties competing closely for the investor side of their platforms. As noted above at paragraph , the majority of the Parties' internal documents do not distinguish SMEs by development stage, and the analysis of internal documents is applicable to SMEs as a whole.

⁶⁶ Annex 45 to FMN, '[REDACTED]'.

⁶⁷ Annex 74 to FMN, '[REDACTED]'. Similarly, an internal 2019 Crowdcube Board presentation directly compares [REDACTED] each of Crowdcube and Seedrs for [REDACTED] (see Annex 84 to FMN, '[REDACTED]', page 31).

⁶⁸ Annex 151 to FMN, '[REDACTED]'; and Annex 135 to FMN, '[REDACTED]'.

⁶⁹ Annex 110 to FMN, '[REDACTED]', page 2.

⁷⁰ Annex 54 to FMN, '[REDACTED]', page 1. The document notes that '[REDACTED]'.

⁷¹ Annex 106 to FMN, '[REDACTED]', page 2. The [REDACTED] state that '[REDACTED]'

⁷² Seedrs Annex 16 to FMN, 'Board Presentation – 25 June 2018.pdf', pages 33 and 34.

⁷³ Seedrs Annex 24 to FMN, '[REDACTED]', page 31. The document notes '[REDACTED]'

⁷⁴ Annex 08 to FMN, 'Crowdcube Presentation to the Seedrs Board.pdf', page 10.

risk that the rationale of the Merger is to eliminate competition between the Parties, particularly given that the same document also stated that '[X]'.⁷⁵ The Parties explained that their intention was to 'enable more consistent commission rates to be quoted and agreed than at present, resulting in more transparent, consistent and predictable commission terms.' However, this alternative interpretation of the Parties' stated rationale in any event suggests that the Parties may have a significant impact on each other's pricing.

60. Evidence from third party analyst reports and articles routinely compare the Parties against only each other and indicate the Parties are viewed as each other's closest competitors in the marketplace.⁷⁶ A number of articles also indicate that SME customers specifically consider the Parties to be close competitors. For instance, Smallbusiness.co.uk published an interview with the founders of Ding, who stated that '[t]he two main options for us were Crowdcube and Seedrs'.⁷⁷ When considering the Parties' platforms, the CEO of Chessable also stated that 'we decided that both platforms are just as good. It was 50/50.'⁷⁸ No other equity crowdfunding platforms are mentioned in these articles.
61. SME respondents to the CMA's Merger investigation similarly indicated that the Parties were each other's closest competitor, with the vast majority of SMEs responding that Seedrs was Crowdcube's closest competitor, and vice versa. In addition to responses to the CMA's questionnaires, the CMA also received proactive submissions from SMEs raising concerns about the potential impact of the Merger on competition. Several SMEs expressed concerns that the Merger could lead to price increases due to reduced competition in the market. Some customers specifically indicated that they leveraged competition between the Parties to achieve better terms.
62. Accordingly, on the basis of the above, the CMA believes that the Parties are the most significant constraints on each other based on the similarity of their product propositions (and the fact the Parties react to the competitive offerings of the other), their strategic objectives, their internal documents and third party views. Importantly, as noted above at paragraphs 58, 59 and 61, some internal documents suggest that the Parties engage in bidding wars against each other and some SMEs indicated that they leverage competition

⁷⁵ Annex 08 to FMN, 'Crowdcube Presentation to the Seedrs Board.pdf', page 3.

⁷⁶ See for example: December 2018 a Real Business blog article titled '[Seedrs vs Crowdcube: Which equity platform should you pick?](#)'; Startups.co.uk blog article titled '[Seedrs and Crowdcube go head to head](#)', which compares the key performance metrics of the Parties.

⁷⁷ <https://smallbusiness.co.uk/seedrs-raise-money-business-2540060/>

⁷⁸ <https://www.chessable.com/blog/2016/10/25/seedrs-vs-crowdcube-our-crowdfunding-campaign-part-i/>;
<https://www.chessable.com/blog/2017/02/28/seedrs-vs-crowdcube-part-ii-key-lessons-for-uk-crowdfunding-campaigns/>

between the Parties to achieve better terms. While the CMA considers its conclusion on closeness of competition between the Parties to be applicable to competition for SMEs generally irrespective of the development stage they have reached at the point of seeking financing, the CMA notes that closeness of competition between the Parties may be expected to be even more pronounced for seed stage SMEs, for the reasons outlined in the frame of reference (paragraph 35 above).

Competitive constraints

63. With respect to in-market constraints, as noted above at Table 1, the equity crowdfunding platforms that constitute the remaining [5-10]% of the share of supply are Investors, Growth Capital and possibly [X]. The Parties' internal documents generally do not discuss these platforms as providing competitive constraints.⁷⁹ Further, third parties did not indicate that any of these entities pose a material constraint on the Parties.
64. Crowdcube submitted that the Parties will continue to be constrained primarily by other sources of equity finance for SMEs, including in particular venture capital firms and angel investor networks.⁸⁰ As set out above in the context of the frame of reference at paragraph 40, the CMA does not consider these alternative sources of equity finance for SMEs to be a close alternative to the Parties' platforms (in particular, for seed stage SMEs that may have fewer alternatives, as noted at paragraph 35 above). The CMA has nevertheless considered the extent to which these other sources of equity finance exert an out-of-market constraint.
65. As noted above in the preceding subsection on the closeness of competition between the Parties, there is clear evidence that the Parties are the most significant constraint on each other. In this context, and in light of the Merged Entity's extremely high [90-100]% share of supply in equity crowdfunding platforms, the CMA considers that out-of-market constraints would be unlikely to constrain the Merged Entity to a sufficient extent to mitigate the impact of the Merger on competition. Furthermore, in this case, the CMA believes that the evidence indicates that the other types of equity finance for SMEs will exert a weak out-of-market constraint for the reasons outlined in relation to the frame of reference.

⁷⁹ Although there are some limited references to SyndicateRoom in the Parties' internal documents (eg Annex 73 to FMN, 'closed won lost Q1 18 Analysis'), as noted above, SyndicateRoom is no longer considered to be a crowdfunding platform. Further, the Parties' internal documents did not, as a whole, indicate that they considered SyndicateRoom to pose a material constraint.

⁸⁰ FMN, paragraphs 3(vii) to (xiv).

Conclusion on horizontal unilateral effects in supply of equity crowdfunding platforms to SMEs in the UK

66. For the reasons set out above, the CMA believes that the Parties have a very high combined share of supply; that the Parties compete closely; and that out-of-market suppliers do not pose a significant competitive constraint on equity crowdfunding platforms for SMEs. The CMA considers that this applies to SME customers in general but may be especially pronounced for SMEs at earlier stages of development. Accordingly, the Merger raises significant competition concerns as a result of horizontal unilateral effects in relation to the supply of equity crowdfunding platforms to SMEs in the UK.

ToH 2 – supply of equity crowdfunding platforms to investors in the UK

Closeness of competition

67. As noted above in the context of ToH 1, the Parties have an extremely high combined share of supply in the supply of equity crowdfunding platforms in the UK ([90-100]% both by deal value and volume). The CMA has also gone on to assess the closeness of competition between the Parties when competing for investors specifically.
68. Similarly to their product propositions for SMEs, the Parties offer investors very similar offerings. The Parties' platforms are the only option by which retail investors can invest small amounts in SME equity by choosing the SME in which they wish to invest. Both Parties offer investors a nominee structure (with Crowdcube's offering in this respect being a direct reaction to Seedrs' nominee structure, a fact acknowledged by the Parties).⁸¹ The Parties also offer platforms with similar characteristics for investors to manage their investments.⁸²

⁸¹ See FMN, paragraph 15(a)(iv), in which Crowdcube acknowledges that it had adapted its own business model to match Seedrs' after the latter had begun offering a nominee structure. Under a nominee structure, a nominee holds shares in a company on behalf of another person. Nominee structures enable equity crowdfunding platforms to hold legal title to SME shares for investors, who receive the full economic interest. Seedrs claims this structure aids investors because Seedrs can assist with shareholder administration (eg tracking corporate events) and monitoring the enforcement of shareholder rights, as well as aiding SMEs because Seedrs can assist with administrative matters like consents and shareholder votes. Further information is available at: <https://www.seedrs.com/learn/blog/nominee-structure-equity-crowdfunding>

⁸² FMN, paragraph 15(d)(xlili). Crowdcube submitted that the 'characteristics of the platforms are similar'. Crowdcube noted some specific differences that do not alter the conclusion that the Parties' product proposition is largely similar such as Crowdcube allowing investment via app; Seedrs' secondary marketplace; Seedrs AutovInvest, which allows investors to automatically invest in deals that meet certain criteria; and Seedrs' Anchor Investor Service, where Seedrs makes off-platform introductions between SMEs and investors.

69. The Parties' internal documents also indicate that the Parties compete closely to attract investors. The Parties closely monitor each other and make strategic decisions based on the practices of the other company. As noted above at footnote 65, the analysis of internal documents made in the context of ToH 1 is also largely applicable to that of ToH 2. Specific examples demonstrating the Parties competing closely against each other for investors include:
- (a) An internal Crowdcube document prepared in September 2018 that indicates that Crowdcube monitors Seedrs, [REDACTED].⁸³
 - (b) A 2019 Seedrs board presentation which [REDACTED]. The document presents [REDACTED].⁸⁴ As noted above at paragraph 68, Crowdcube's reaction to Seedrs' introduction of the nominee structure was to adapt its own business model to match and also provide a nominee structure.
70. As noted in part at paragraph 42, third party views indicate that the Parties are close competitors with each other. All retail investors that responded to the CMA's Merger investigation indicated that the Parties were each other's closest competitors, as did a large majority of crowdfunding platforms, angel networks and venture capital firms.

Competitive constraints

71. With respect to in-market constraints, as noted above at paragraph 63, other equity crowdfunding platforms have a minimal share of supply (both individually and in aggregate) and do not pose a material competitive constraint to the Parties, as evidenced also by the Parties' internal documents and feedback from third parties.
72. Crowdcube submitted that the Parties will continue to be constrained primarily by other investment options for investors, such as investing in funds, stock markets, bonds and property.⁸⁵ As set out above in the context of the frame of reference at paragraph 40, the CMA does not consider these alternative investment options to be a close alternative to the Parties' platforms, but has nevertheless considered the extent to which these other sources of equity finance exert an out-of-market constraint.
73. As noted above, the Parties are each other's closest competitors for investors wishing to invest in SME equity, as evidenced by the similarity in their product

⁸³ Annex 124 to FMN, [REDACTED], pages 1-2. The document states for example '[REDACTED]' and '[REDACTED]'.

⁸⁴ Seedrs Annex 25 to FMN, 'Board Presentation – 18 September 2019.pdf', page 27.

⁸⁵ FMN, paragraph 13(b)(x).

propositions for investors, their internal documents and feedback from third parties.⁸⁶ In this context, and in light of the Merged Entity's extremely high [90-100]% share of supply in equity crowdfunding platforms, the CMA considers that out-of-market constraints would be unlikely to constrain the Merged Entity to a sufficient extent to mitigate the impact of the Merger on competition. Furthermore, in this case, for the reasons outlined in relation to the frame of reference, the CMA believes that the evidence indicates that the other types of equity finance for SMEs will exert a weak out-of-market constraint.

Conclusion on horizontal unilateral effects in supply of equity crowdfunding platforms to investors in the UK

74. For the reasons set out above, the CMA believes that the Parties have a very high combined share of supply; that the Parties compete closely; and that out-of-market suppliers do not pose a significant competitive constraint on equity crowdfunding platforms for investors and, in particular, retail investors. Accordingly, the Merger raises significant competition concerns as a result of horizontal unilateral effects in relation to the supply of equity crowdfunding platforms to investors in the UK.

Conclusion on horizontal unilateral effects

75. For the reasons set out above, the CMA found that the Merger raises significant competition concerns as a result of horizontal unilateral effects within the supply of: (i) equity crowdfunding platforms to SMEs in the UK; and (ii) equity crowdfunding platforms to investors in the UK. For the purpose of this decision, the CMA has considered these as two separate theories of harm. As explained above, the CMA recognises that there are strong links between competition for SMEs and for investors respectively and that therefore, competition concerns on one side of the platform may, of itself, be indicative of harm to customers on the other side of the platform.
76. In light of the Parties' request for a fast track reference, the CMA has focused its assessment in this Phase 1 decision solely on whether the test for reference is met in relation to the overlap between the Parties in equity crowdfunding platforms (a loss of competition as a result of horizontal unilateral effects).

⁸⁶ By contrast to the Parties' frequent references to the other Party, the Parties' internal documents did not indicate that they monitored or referred to other types of investment options when discussing competition to attract investors to the platforms.

77. The CMA has concluded that the test for fast track reference is met because there is a realistic prospect that the Merger would lead to an SLC in the supply of equity crowdfunding platforms to both SMEs and investors respectively in the UK. Therefore, it has not been necessary for the CMA to reach a conclusion, at Phase 1, in relation to any other potential competition concerns. Any other areas of overlap between the Parties, and other potential theories of harm, will fall within the scope of the CMA's Phase 2 investigation, which is not limited to investigating the concerns identified in this Phase 1 decision.

Barriers to entry and expansion

78. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no SLC. In assessing whether entry or expansion might prevent an SLC, the CMA considers whether such entry or expansion would be timely, likely and sufficient.⁸⁷

79. The CMA noted that the Parties' business model as a two-sided platform is likely to be characterised by the existence of direct and indirect network effects (whereby the attractiveness of the platform for one side of the market (eg investors) is increased by sufficient presence of users (eg SMEs) on the other side of the market, and vice versa). Given the Parties' extremely high [90-100]% combined share of supply in equity crowdfunding platforms, network effects are likely to act as a substantial obstacle for any potential competitors. The existence of such network effects is evidenced by the Parties' own submissions, their internal documents,⁸⁸ and the views from other crowdfunding platforms.

80. Third party responses to the CMA's Merger investigation, including from equity crowdfunding platforms not active in the UK, also did not indicate any intention by third parties to enter the equity crowdfunding platform market in the UK. Third parties estimated that it would take an equity crowdfunding platform two to five years and £5m to £60m to grow to a similar size to that of the Parties combined. This is consistent with the fact that it took the Parties

⁸⁷ [Merger Assessment Guidelines](#), from paragraph 5.8.1.

⁸⁸ See FMN, paragraphs 11(iii) and 21(ii), in which Crowdcube submitted that in an unplanned exit situation by either Party, there would be no opportunity for a smaller crowdfunding competitor to gain customers and profit from the exit of either party by becoming a stronger competitive force in crowdfunding; and that a new entrant would benefit from having an established network of investors available to provide the financing for SMEs that they worked with. See also the following internal documents from the Parties. From Seedrs: Seedrs Annex 61 to FMN, '[REDACTED]', page 12; Seedrs Annex 19 to FMN, '[REDACTED]', pages 22-23. From Crowdcube: Annex 95 to FMN, '[REDACTED]', page 5; '[REDACTED]', pages 7, 9 and 10; Annex 109 to FMN, '[REDACTED]', page 1.

more than three years to achieve their current scale⁸⁹ and, as set out in paragraphs 24 and 25, [✂].

81. For the reasons set out above, the CMA believes that entry or expansion would not be timely, likely or sufficient to prevent a realistic prospect of an SLC as a result of the Merger.

Decision

82. For the reasons set out above, the CMA believes that it is or may be the case that (i) arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation; and (ii) the creation of that situation may be expected to result in an SLC within a market or markets in the United Kingdom. The CMA therefore believes that it is under a duty to refer under section 33(1) of the Act.
83. The Parties requested and consented to the use of the fast track process and waived their right to offer UILs. The CMA has therefore decided to refer the Merger pursuant to sections 33(1) and 34ZA(2) of the Act.

Andrea Gomes da Silva
Executive Director, Markets and Mergers
Competition and Markets Authority
12 November 2020

⁸⁹ Crowdcube launched operations in 2009 and Seedrs in 2012 (FMN, paragraphs 3(xii)-3(xiii)). Historical data on the number of equity crowdfunding deals in the UK from 2011-2019 indicates the Parties combined did not reach the 350 deals milestone until 2015, after having had fewer than 50 deals in 2012. (Source: BBB Small Business Equity Tracker 2020, Figure 1.14, under the assumption that the size of equity crowdfunding broadly corresponded to the size of the Parties combined, given that they have always been the two largest providers in the UK by far).