

ANTICIPATED ACQUISITION BY CROWDCUBE LIMITED OF SEEDRS LIMITED

Summary of provisional findings

Notified: 24 March 2021

Overview

1. The Competition and Markets Authority (CMA) has provisionally found that the proposed merger (the Merger) between Crowdcube Limited (Crowdcube) and Seedrs Limited (Seedrs) (together, the Parties or Party where appropriate) may be expected to result in a substantial lessening of competition (SLC) within the supply of equity crowdfunding (ECF) platforms to SMEs and investors in the UK.
2. We invite submissions from any interested parties on these provisional findings **by 5pm on Wednesday 14 April 2021**.
3. As we have provisionally found an SLC, we are also setting out our provisional views on possible remedies and we invite submissions on our notice of remedies **by 5pm on Wednesday 7 April 2021**. At this stage, our view is that the only effective remedy is likely to be prohibition of the Merger.

Conduct of the inquiry

4. In reaching this provisional decision, we have considered submissions from the Parties. We have also considered a wide range of evidence including: market share estimates; data from the Parties on lost business opportunities; the Parties' internal documents; questionnaire evidence from customers of the Parties (both SMEs and investors) as well as from competitors and other providers of equity finance supplemented with calls with customers and competitors; and information in relation to the appropriate counterfactual. We held formal hearings with the Parties and received separate presentations from both Parties in lieu of in-person 'site visits'.

Jurisdiction

5. We have provisionally found that the Merger, if carried into effect, will result in the creation of a relevant merger situation on the basis of the share of supply test as the Parties have a combined share in the supply of ECF platforms to SMEs and investors in the UK of [90–100%], with an increment arising from the Merger of [40–50%].

The Parties and relevant industry

6. The Parties are the two leading providers of ECF platforms in the UK. ECF platforms are online platforms with the characteristics of a ‘two-sided’ market that connect SMEs seeking equity investment on one side with prospective investors willing to provide funding in return for equity on the other side. ECF platforms enable SMEs to market and sell equity stakes to a wide range of prospective investors through an online platform. In addition to providing a source of financing, ECF platforms can also serve as a marketing tool for SMEs wishing to expand their customer and investor base.
7. The Parties have near-identical service offerings and both have the typical features of an ECF platform such as the provision of: due diligence on SMEs and their pitches; a website that displays a variety of SMEs and tracks the progress of their funding rounds; and administration activities related to managing the shareholdings of their investor customers.
8. As a source of equity funding to SMEs, ECF platforms have become an important part of the overall financial ecosystem. They have grown from accounting for a negligible number of equity raises at the start of the last decade to accounting for almost 500 equity raises in 2020, of which nearly half went to ‘Seed’ (ie, early growth stage) companies.

The Merger

9. The Parties entered into a binding implementation agreement for the Merger on 2 October 2020. The case was ‘fast-tracked’ to a phase 2 reference on 12 November 2020.

Counterfactual

10. During the course of our investigation, the Parties made submissions that, absent the Merger, there was the possibility that one or both firms might exit and/or would need to re-orientate its business strategy.

11. We have assessed a range of evidence in relation to these submissions and have provisionally concluded that exit (whether fully or partially) is not the most likely counterfactual in this case. We have provisionally concluded that the Merger should be assessed by reference to the prevailing conditions of competition – that is, we believe that absent the Merger both Parties will continue to compete to offer services for all types of SME customers.
12. We recognise that both Parties are facing challenges in reaching profitability and may need to take steps to address this. We note that a prevailing conditions of competition counterfactual is not static and incorporates the continued dynamic evolution of the market including the potential for re-orientation of the Parties' business models. We considered the possible impact of such future developments in our assessment of the competitive effects of the Merger.

Market definition

13. We have provisionally concluded that the relevant market is the supply of ECF platforms to SMEs and investors in the UK.
14. ECF platforms have a number of features which distinguish them as a funding source from other sources of equity funding – for example, ECF platforms enable SMEs of different sizes and stages of growth to raise funding (including small raises) reaching a wide range of prospective investors; they provide the opportunity to 'market' a SME to existing customers as potential investors in the business; they create investment opportunities for an unrestricted pool of investors that typically acquire small amounts of equity and do not get board seats or significant control of the company; and they provide an attractive way to invest in a specific SME.
15. The evidence we have reviewed shows that in this two-sided market the main mode of competition between ECF platforms is to attract SMEs onto the platform and that the opportunity to invest in particular SMEs, or a range of SMEs, is a key factor driving investors' choice towards ECF platforms.
16. Evidence from the Parties' internal documents and responses to our questionnaires shows that the competitive constraint exerted by other equity finance providers on ECF platforms is much weaker than that exerted by ECF platforms on each other. On this basis, our provisional view is that the relevant product market includes only the supply of ECF platforms and should not be widened to include other equity finance providers, although we take into account the potential competitive constraint from venture capital (VC) and angel investors in our assessment of the competitive effects of the Merger.

Competitive assessment

17. We have considered a single horizontal unilateral effects theory of harm. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint.
18. The Parties are the two leading providers of ECF platforms in the UK offering near-identical products and services. The Parties' market shares in the supply of ECF platforms to SMEs and investors in the UK, calculated in terms of the number of deals in 2020, are [50–60%] for Seedrs and [40–50%] for Crowdcube. This gives the Parties an extremely high combined share of supply of [90–100%], with a very large increment arising from the Merger. Further, the Parties' combined share has increased over the last three years, from [80–90%] in 2018. Other ECF platforms have very small market shares (Envestors, Growth Capital, Crowd for Angels and Crowd2Fund have a combined share of [0–5%]) and do not offer a comparable range of services to those provided by the Parties.
19. Evidence from internal documents (including board, strategy, and marketing documents) shows that the Parties compete closely with each other. The documents we have reviewed show that the Parties closely monitor and assess each other's competitive positioning and performance. The Parties compete over short-term competitive variables (such as prices charged to SMEs), as well as developing new product features and services in response to each other (for example, Crowdcube developed a nominee structure for investors in response to Seedrs' own nominee structure). In contrast, we found very little evidence of the Parties actively monitoring either other ECF platforms or other equity funding providers, such as VCs or angel investors.
20. We issued a questionnaire to a sample of the Parties' SME customers. The responses show that the Parties are each other's closest competitor and that other providers of equity finance are distant competitors. Responses to our questionnaire indicate that many SMEs choose ECF platforms due to their particular differentiating features when compared with other sources of equity funding. When asked to list and rank their main alternatives as potential sources of funding, SME customers tended to rank the other Party as the strongest alternative to the Party they had used. We also observed that the most popular alternative named by both Parties' customers, if the Party they had used had not been available, would have been the other Party, indicating that the Parties are each other's closest alternative.
21. We issued a questionnaire to a sample of the Parties' investor customers. The responses suggest that the Parties are close competitors for investors. We noted that respondents mainly chose a particular ECF platform based on

wanting to invest in a specific SME opportunity, and that the range of SMEs is important for some investors. We observed that, for both Parties, other investment options or not investing at all were the most popular alternative, if the Party they had used had not been available (albeit that the other Party was the second or third most popular alternative).

22. The evidence that we gathered from angel investors, VCs and other equity funding providers generally indicates that they do not compete with the Parties or that they are not close competitors to the Parties and supports our view that the Parties are each other's closest competitors.
23. Crowdcube and Seedrs each submitted an analysis of prospective SME customers that they had sought to win but that ultimately raised funding from elsewhere or not at all. This included an assessment of the fundraising decisions that the SMEs ultimately took and, where known, the provider that each SME raised with. The Parties argued that this showed that SMEs considered a wide range of alternative equity funding options before choosing an ECF platform.
24. We considered these 'lost opportunity' submissions and decided it would be appropriate to put limited weight on them. This is because the data contains limited information regarding the assessment that prospective SME customers may have made of different providers and why they ultimately did not contract with the Party in question. As a result, it is not clear from the data provided whether the Parties' offerings would have suited the prospective SME customers' needs at that time and what competition, if any, took place between the Party that failed to win the SME opportunity and other providers. We also noted that both Parties undertook such an analysis for the first time for the purposes of the CMA's investigation.
25. Notwithstanding these concerns, when considering only those lost SMEs that went on to raise finance, we noted that both the Parties' results and a CMA sensitivity analysis are broadly consistent with other evidence, including internal documents and the responses to the CMA's SME customer questionnaire, in suggesting that the Parties are close competitors for a significant number of SMEs.
26. Our provisional view is that the evidence clearly shows that the Parties are each other's closest competitor in the supply of ECF platforms to SMEs and investors in the UK and impose a strong competitive constraint on each other. In particular, the evidence that we reviewed shows that the Parties compete head-to-head, flexing short-term competitive variables (including SME fees) and engaging in longer-term innovation in response to each other.

27. In contrast, other ECF platforms have very small market shares and impose only a very limited constraint on the Parties. Other equity providers from outside the relevant market (including angel investors and VCs) provide a moderate constraint on the Parties in aggregate but are a less-close alternative to the Parties, such that this aggregate constraint is lower than the constraint that the Parties impose on each other. Consistent with the fragmented nature of the wider equity finance industry, no individual equity finance provider appears to exert a material constraint on the Parties.
28. Therefore, we are concerned that the removal of one Party as a competitor is likely to reduce competition significantly. The main focus of competition for the Parties is to attract SMEs to their platforms, so we are particularly concerned that the Merger will allow the merged entity to increase prices or reduce the quality of its products and services, concerns that were articulated by a number of SME customers as well. Further, the Parties compete over product features that benefit both SMEs and investors and we are concerned that, by reducing incentives for the merged entity to engage in innovation and product development, the Merger may lead to worse outcomes for both SMEs and investors.
29. We received submissions that supported the Merger on the basis that it would bring about a stronger fintech and equity funding environment for SMEs. The CMA's role is to assess the impact of potential mergers on competition. Competition drives businesses to provide lower prices, and to innovate to develop new offerings and better-quality products and services to the benefit of consumers. Competitive markets in the UK are more likely to produce businesses that can take advantage of global growth opportunities. Competition between Crowdcube and Seedrs has built an ECF platform market in the UK, driven innovation and led to lower prices and higher quality services. In our provisional view, the Merger is likely to substantially reduce competition, leading to less innovation and worse outcomes for SMEs and investors.
30. We therefore provisionally conclude that the Merger may be expected to result in an SLC in the supply of ECF platforms to SMEs and investors in the UK.

Countervailing factors

31. We have reviewed evidence regarding the potential for entry and expansion in this market. We found evidence of a number of significant barriers to entry into the supply of ECF platforms – those related to network effects, incumbency advantages, and economies of scale are likely to be particularly

significant. Further, we have not seen evidence of clear plans for significant entry or expansion in the supply of ECF platforms. Accordingly, our provisional view is that entry or expansion would not be timely, likely and sufficient to prevent or mitigate the SLC we have provisionally identified.

32. In relation to potential efficiencies, the Parties submitted that the Merger would lead to cost savings which would benefit their customers. However, we did not see sufficient evidence that any cost savings would be passed through to customers or that these cost savings would lead to greater competition. We acknowledge that there is the potential for some customer benefits arising from the Merger – for example, in response to our questionnaire, a number of SMEs highlighted the potential benefit of being able to access a larger number of potential investors on a single platform and some investors told us that the Merger would lead to increased investment opportunities. However, we note that investors are able to invest in SMEs on either (or both) Parties' platforms already and it is unclear to us that such network effects would be strong enough to mitigate or prevent the loss of competition which would occur due to the Merger. Further, as noted above in paragraph 19, we have seen that competition between the Parties has driven product innovation in the past to the benefit of customers, which would be lost if the Merger goes ahead. Accordingly, our provisional view is that any Merger efficiencies will not be such as to prevent or mitigate the SLC we have identified.

Provisional conclusions

33. We have provisionally concluded that the anticipated merger between Crowdcube and Seedrs will result in the creation of a relevant merger situation. We have also provisionally concluded that the Merger may be expected to result in an SLC in relation to the supply of ECF platforms to SMEs and investors in the UK.