Competition & Markets Authority

Anticipated acquisition by Crowdcube Limited of Seedrs Limited

Provisional findings report

Notified: 24 March 2021

The Competition and Markets Authority has excluded from this published version of the provisional findings report information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [✂]. Some numbers have been replaced by a range. These are shown in square brackets. Non-sensitive wording is also indicated in square brackets.

Contents

Page

Summary

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 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.

Provisional findings

1. The reference

1.1 On 12 November 2020, the CMA, in exercise of its duty under section 33(1) of the Enterprise Act 2002 (the Act), referred the proposed acquisition (the Merger) by Crowdcube Limited (Crowdcube) of Seedrs Limited (Seedrs, and together, the Parties or Party where appropriate) for further investigation and report by a group of CMA panel members (the Inquiry Group).

1.2 In exercise of its duty under section 36(1) of the Act, the CMA must decide:

(a) whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation; and

(b) if so, whether the creation of that situation may be expected to result in an SLC within any market or markets in the United Kingdom (UK) for goods or services.

1.3 We are required to reach a final report by 23 June 2021.

1.4 Our terms of reference, along with information on the conduct of the inquiry, are set out in Appendix A.

1.5 This document, together with its appendices, constitutes the Inquiry Group's provisional findings published and notified to the Parties in line with the CMA's rules of procedure.[1] Further information can be found on our webpage.[2]

2. The Parties and the industry in which they operate

2.1 The Parties both provide equity crowdfunding (ECF) platforms to small and medium enterprises (SMEs) and investors in the UK. In this chapter, we provide an overview of ECF services as well as other forms of equity finance that are relevant for SMEs. We also provide background information on the Parties, their offerings, and the other ECF providers in the UK. This chapter considers the following:

(a) SMEs and their funding requirements;

[1] Rules of procedure for merger, market and special reference groups (CMA17), paragraphs 11.1–11.7.
[2] Crowdcube/Seedrs merger inquiry.

(b) Investors in SME equity and their investment options;

(c) Providers of equity finance to SMEs;

(d) SME and investor customers;

(e) The Parties and their operations; and

(f) An overview of other ECF providers.

SMEs and their funding requirements

2.2 There are around 2.7 million SMEs in the UK, of which around 70% have a turnover of less than £250,000.[3,4] These SMEs use a variety of different funding sources, including personal savings, funding from personal contacts, and external finance that may come in the form of debt or equity finance.

2.3 Personal savings are the most commonly used source of finance to establish a SME. The British Business Bank (BBB) has found that among SMEs that were started in the period from 2014 to 2019, around 72% of them used personal savings as a source of finance.[5] Equity finance from personal contacts, such as friends and family, is another source of financing used by SMEs. A survey by the BBB found that, of SMEs which currently use or have sought equity finance in the last three years, around 14% sought equity finance from a member of family or a friend.[6]

2.4 Various forms of external finance are also available to SMEs. Generally, these fall into two broad categories:

(a) **Debt finance**, where a SME can borrow a sum of money or an asset and repay it, together with interest, over an agreed period of time.[7] Debt finance is the most widely used form of external finance by SMEs in the UK. Common forms of debt finance are loans, overdrafts, and leasing or

---

[3] Office for National Statistics, Business Population Statistics, March 2020, table 9.
[4] HM Treasury Small and Medium Enterprise Action Plan, page 5. The UK government uses the following definition for SMEs: 'The UK Government adheres to the EU definition of an SME, which is: micro business = less than ten employees and turnover under €2 million; small business = less than 50 employees and turnover under €10 million; medium-sized business = less than 250 employees and turnover under €50 million'.
[5] British Business Bank, Business Finance Survey: SMEs, 2019, page 24. 185 SMEs surveyed.
[6] British Business Bank, Business Finance Survey: SMEs, 2019, page 50. 97 SMEs surveyed.
[7] Common debt finance products include; loans, overdrafts, credit terms, leasing, and hire purchase. British Business Bank, finance hub, other forms of finance.

hire purchase arrangements. Banks are a major provider of debt finance through bank loans and overdraft facilities.

(b) **Equity finance**, where a SME can sell ownership capital in the form of shares. The return for investors can be in the form of a capital gain and/or a dividend from the SME's distributable profits. The results of a survey by the BBB show that only around 1% of all SMEs currently use, or have sought, equity finance in the last three years.[8] The results of that survey also indicated that the reluctance of SMEs to give up control to new shareholders was the 'key barrier' to SMEs applying for equity finance.[9] The degree of control which SMEs will need to give up may vary depending on the specific source of equity finance.[10] The main sources of external equity finance available to SMEs are ECF, venture capital (VC) and angel investment.

2.5 The BBB has found that not all SMEs are able to access their preferred type of external finance or obtain the amount of finance that they want.[11]

2.6 Debt and equity finance for SMEs differ significantly in several ways, such as: debt typically being secured over additional security and covenants; debt interest being paid by SMEs before any dividends are paid to equity holders; and debt finance requiring the principal sum to be repaid by the end of a fixed period (in contrast with equity financing where there are typically no obligations for repayment or for dividends to be paid).

2.7 More specifically, the difference between ECF and debt finance is shown by our SME and investor questionnaire evidence, discussed in detail in paragraphs 6.98 to 6.165 and paragraphs 6.166 to 6.211 respectively, that shows that very few investor and SME customers of the Parties considered debt financing to be an alternative to using the Parties' ECF platforms.

2.8 SMEs often raise funds over a discrete time period known as an investment round. SMEs sometimes raise equity finance from more than one source within a single investment round on the same terms. For example, a SME may raise from a VC fund and from an ECF platform's investor base. This act

[8] British Business Bank, Business Finance Survey: SMEs 2019, page 50. 97 SMEs surveyed. This 1% includes SMEs that raised finance without the use of an external equity provider such as raising finance from within the business or from a friend or family member.
[9] British Business Bank, Business Finance Survey: SMEs 2019, page 67.
[10] Best Invest by Tilney Investment Management Services, What is a VCT?
[11] British Business Bank, Other Forms of Finance, 11 December 2020.

of funding from several providers as part of the same round is typically known as ‘co-investment’.

2.9 SMEs may be classified by the stage of their life cycle or ‘growth stage’. This is a subjective assessment of how one SME compares with another along a continuum over the life cycle of a SME and in practice a SME may share characteristics of more than one category. For example, the data platform, Beauhurst, classifies SMEs as Seed, Growth, Venture and Established.[12] SMEs may go through multiple funding rounds over their lifecycle. The BBB’s ‘The UK Business Angel Market 2020’ report explains that a SME’s growth stage is an important factor in determining the availability and appropriateness of potential sources of finance to it.[13]

Investors in SMEs and their investment options

2.10 SMEs rely on investors putting money into their businesses in the form of debt finance or equity finance. Investors may choose to invest in SMEs for a variety of reasons including: financial return, social impact, accessing shareholder ‘perks’ such as product discounts, and/or wishing to feel involved in a SME as it grows. We discuss the motivations of investors in more detail in paragraphs 6.173 to 6.183, where we consider the results of our investor questionnaire.

2.11 Investors can be categorised into different groups (some of which are based on regulatory criteria applied by the Financial Conduct Authority (the FCA)) including, amongst others:

- **Institutional investors**, which are corporate organisations which make investments;
- **‘High net worth’ investors**, comprising individuals who have confirmed that, amongst other terms, in the financial year immediately preceding the date of the investment, they had an annual income of £100,000 or more, or they held net assets of £250,000 or more;[14]
- **‘Restricted retail’ investors** (also referred to as retail investors), comprising individuals who have confirmed that they have not invested more than 10% of their net assets in the previous 12 months in non-

[12] Beauhurst Company Growth Life Cycles, 7 August 2019.
[13] British Business Bank, The UK Business Angel Market 2020, page 7.
[14] FCA, Conduct of Business Sourcebook, section 4.12.6.

readily realisable assets, and will not do so in the following 12 months;[15] and

- **'Self-certified sophisticated' investors**, comprising individuals who have confirmed that they have significant previous investment experience.[16]

2.12 Investors seeking to invest in SMEs may have several options to make their investment. One option is to invest into a VC fund that provides investments in multiple SMEs. Another option is to invest directly into a SME: for example, by investing into the business of a family member or friend; or, for high net worth individuals, it may be possible to invest as an angel, either individually or through an angel network. Investors may also choose to invest in other asset classes such as larger, publicly-listed companies through the stock market.

Providers of equity to SMEs

2.13 This section provides background information on the major sources of external equity finance available to SMEs.

Equity crowdfunding

2.14 Equity crowdfunding platforms are 'two-sided' online platforms that connect SMEs seeking equity investment on one side, with prospective investors willing to provide funding in return for equity on the other side.

2.15 ECF enables 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, crowdfunding can also be a marketing tool.[17] Investors in SMEs have a vested interest in the SME's success and can be an engaged 'fanbase'.[18]

[15] FCA, Conduct of Business Sourcebook, section 4.7.10.
[16] FCA, Conduct of Business Sourcebook, section 4.12.8. To be classified as a self-certified sophisticated investor individuals must confirm that one of the following applies: they are, and have been, a member of an investment network or syndicate of business angels for at least six months prior to the investment; or, they have made at least one investment in an unlisted company in the previous two years; or, they have worked in a professional capacity in the private equity sector, or in the provision of finance for SMEs in the previous two years; or, they are, or have been, a director of a company with an annual turnover of at least £1 million in the previous two years.
[17] Regulation 2020-1503, European crowdfunding service providers, 7 October 2020, paragraph 4.
[18] Simply Business, Crowdfunding: is it right for your small business?, 24 July 2020.

2.16 ECF platforms are open to an unrestricted pool of investors who receive investment propositions. These investors are predominantly individuals and include those who are not high-net worth individuals.[19] ECF platforms typically allow investors to acquire small amounts of equity as an investment in a SME. Typically an ECF funding round will involve a large number of small retail investors. For example, Crowdcube's and Seedrs average number of investments per raise in 2020 were [✄] and [✄] respectively.[20]

2.17 Some investors may not have any prior knowledge of the SME seeking finance; whereas others may already be aware of (or use) the SME's products or services. Some ECF platforms also have secondary market offerings which investors can use to transfer their shareholdings and exit their investments by selling their interest to other investors.[21]

2.18 ECF platforms often display a progress bar for each of the SMEs that is currently conducting a funding round on its platform. This progress bar shows the amount of investment that has been committed to the SME relative to the target amount to be raised set for the round. If the target raise amount is reached within the set timetable, then the SME will receive the funds from the investors that committed to investing in the SME in that funding round.[22] In the event of co-investment from other equity finance providers, the ECF platform may include co-invested finance in the progress bar. ECF platforms do not typically allow their customers to receive co-investment through other ECF platforms. An example of a progress bar is shown in Figure 2.1.

---

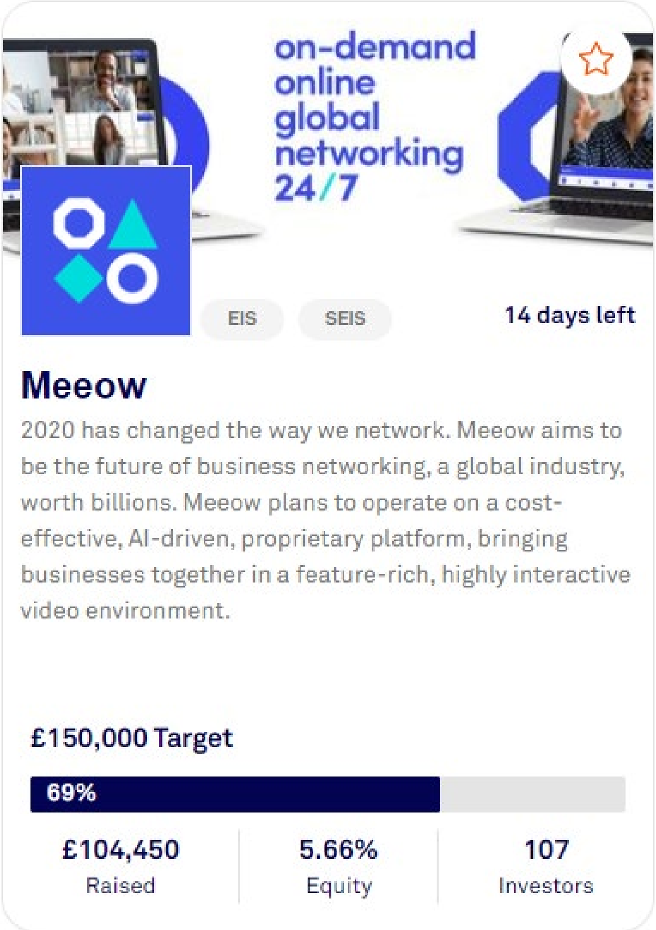
[19] Regulation 2020-1503, European crowdfunding service providers, 7 October 2020.

[20] These averages are calculated on the basis of the total number of investments made in 2020 and the total number of completed SME raises in 2020. However, some investments made in 2019 will have been into SMEs that completed their funding round in 2020, and some investments made in 2020 will have been into SMEs that completed their funding rounds in 2021. Additionally, data on the number of investments made by the Parties' investor customers in 2020 did not include investments made in December of 2020. We have assumed that the number of investments made in December 2020 were equal to the monthly average for 2020.

[21] Seedrs, Secondary market.

[22] For example see Seedrs website, What happens if a campaign does not reach its target?.

Figure 2.1: Investment opportunity advertised on Crowdcube's website on 2 December 2020



Source: Crowdcube website (accessed on 2 December 2020).

2.19 Before allowing a SME to raise equity on its platform, the ECF platform carries out due diligence on the SME to ensure that SMEs seeking equity finance meet the relevant regulatory requirements and are likely to be successful in raising equity. ECF platforms must also carry out due diligence on SMEs' 'pitches' to ensure that they are fair, clear and not misleading.[23] These pitches can be an important source of information for investors as many SMEs are required to file only annual accounts at Companies House[24] (or may be so small as to be exempt from annual filing requirements) so there may be little other information about the SME available to potential investors.[25]

2.20 Some ECF providers act as a nominee shareholder on behalf of investors. In this nominee structure, the ECF platform is registered as owning the shares in

---

[23] FCA, Conduct of Business Sourcebook, Chapter 4.
[24] See Companies House.
[25] FCA, The FCA's regulatory approach to crowdfunding over the internet, March 2014, paragraph 2.17.

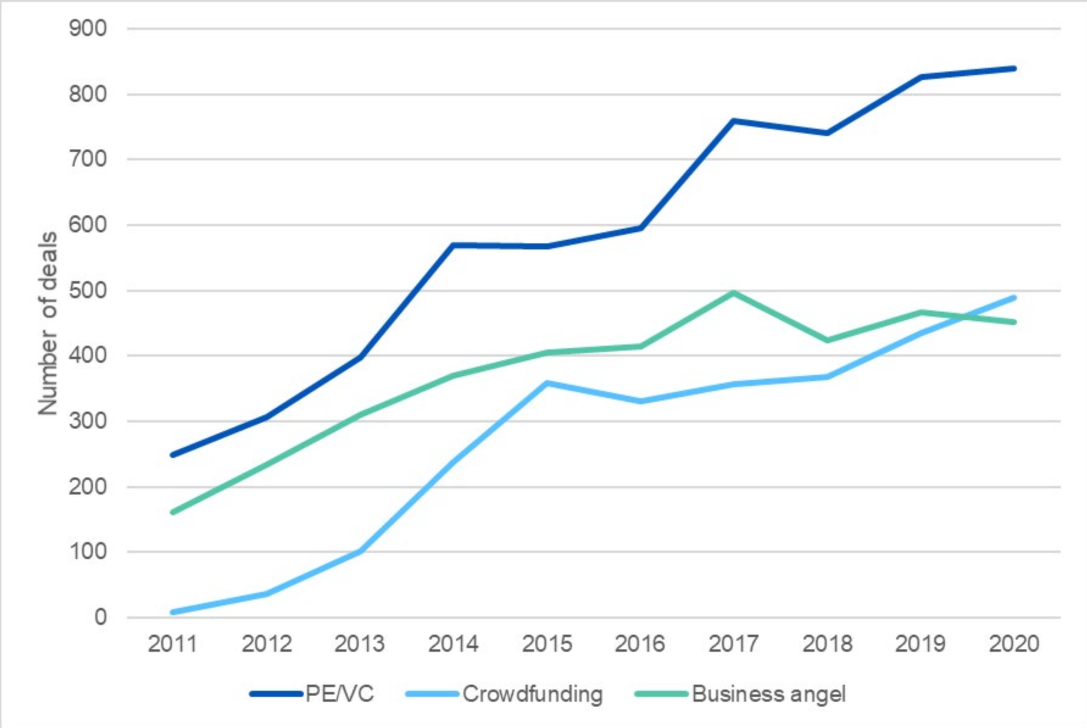
the SME acquired through its platform rather than each individual investor being separately registered as a shareholder in the SME. This practice can ease the administration of managing shareholdings for both the SME and the investor.[26] For investors that invest directly the ECF platform may also act as a share registrar.[27]

2.21 ECF platforms are a relatively new source of equity finance for SMEs and have been growing over the past decade. Figure 2.2 shows that the number of SME deals involving ECF grew from eight deals per year in 2011 to 489 deals per year in 2020.[28] This represents a compound annual growth rate of deals involving ECF platforms of 58% which is substantially higher than for deals involving Private Equity (PE)/Venture Capital (VC) and business angels that grew at rates of 14% and 12% respectively. The growth rate of deals involving ECF platforms has slowed in recent years, with a compound annual growth rate of 11% between 2017 and 2020. ECF platforms are involved in a particularly high proportion of Seed stage deals. ECF platforms were the most likely type of equity finance provider to finance Seed stage deals in 2019, with 50% of ECF deals going to Seed stage SMEs.[29]

---

[26] Thomas Reuters, Practice Law, Nominee Shareholders.
[27] Crowdcube, What Fees Does Crowdcube Charge for Raising Finance on the Platform?
[28] British Business Bank, Small Business Finance Markets 2020/21, page 91.
[29] British Business Bank, Small Business Equity Tracker 2020, page 22.

Figure 2.2: Number of UK SME equity deals per year by type of equity finance provider



Source: British Business Bank, Small Business Finance Markets 2020/21, page 91.

2.22 ECF platforms in the UK are subject to a range of financial and other regulations, including a requirement to obtain authorisation from the FCA to engage in regulated activities and financial promotions.[30] This means that ECF platforms must meet certain conditions including, amongst others, the maintenance of a specified level of capital resources,[31] often referred to as a 'regulatory capital requirement'.[32,33]

Angel investment (by individuals and syndicates of individuals)

2.23 Angel investors (otherwise known as business angels or angels) are individuals who invest their own money in SMEs with growth potential, in exchange for a minority shareholding stake (usually between 10% and 25%).[34]

[30] Financial Services and Markets Act 2000, section 19.
[31] FCA Handbook, COND 2.4 and Prudential Standards' module.
[32] UK implementation of the EU Capital Requirements Directive, Regulation (EU) No 2017/1129.
[33] The FCA told us that 'a firm breaching its minimum regulatory capital requirement is considered a serious breach of its FCA Threshold Conditions, which all authorised firms must meet at all times. If a firm is unable to come up with a credible plan to rectify the shortfall within a short time the FCA would take action, which could include cancelation of the firm's authorisation'.
[34] British Business Bank, What is equity finance?

2.24 Angel investors tend to be entrepreneurs or people with extensive experience in the business world.[35] One report by the UK Business Angels Association (UKBAA) shows that half of angel investors have five or more years of experience as an angel investor.[36] Angel investors typically make sizeable investments, as shown by a report from the BBB where the median initial investment by a business angel in 2018/19 was £45,000.[37]

2.25 Angel investors can invest alone, but often invest together as a syndicate (also known as an 'angel network').[38] This is where several angel investors pool their money and experience. Sometimes angel investors invest through online platforms and some of these specifically target opportunities for angel investors.[39] Around four out of five angel investors invested as part of a syndicate according to a report by the UKBAA,[40] with the median number of angels in a syndicate being around 50.[41]

2.26 Angel investors commonly offer mentoring and support, and SMEs that receive investment will generally benefit from the angel investor's time, skills, contacts and business knowledge.[42] A report by the UKBAA stated that the typical angel investor spends around one to two days each week advising the businesses they invest in and on average hold their investment for six years,[43] although some angel investors may be much less involved (so-called 'passive investors').

Venture capital finance

2.27 Venture capital (VC) providers invest in SMEs (and other businesses) using funds which they raise from individuals, institutions or from investment and pension funds. VC is a type of Private Equity (PE) finance provided by

---

[35] British Business Bank, How the changing relationship between Angels and VCs can work for your business. The BBB has defined business angels as 'an individual who has made at least one equity investment in a small unquoted business that is not owned by their spouse, child or grandchild. The investee business may be at start-up stage, or in the early stages of development, or more established and looking for further growth. The investment may be made by an individual acting alone, or through an angel syndicate, network or club' (The UK Business Angel Market 2020, page 10).
[36] UK Business Angels Association, The UK Business Angel Market 2018, page 7.
[37] British Business Bank, The UK Business Angel Market 2020, page 20.
[38] British Business Bank, Angel Investment, Finance Hub.
[39] For example, Angels Den.
[40] UK Business Angels Association, The UK Business Angel Market 2018, page 5.
[41] British Business Bank, The UK Business Angel Market 2020, page 27.
[42] British Business Bank, Angel Investment.
[43] UK Business Angels Association, The UK Business Angel Market 2018, page 7.

investors into SMEs, typically focusing on SMEs with the potential for very high growth.[44]

2.28 VCs carry out their own due diligence before investing. In general, VCs prefer to invest money in SMEs with at least some trading history and often provide strategic advice from an experienced new board member to help the SME grow, typically investing 'in cycles of between five and seven years', so that the VC can 'exit' from their investments with the expectation of generating a significant return.[45]

2.29 The BBB has stated that 'while VCs likely won't take part in the day-to-day running of your business, they will look to be involved in other ways, particularly when it comes to determining your strategy and direction. Often this means taking a seat on the SME's board'.[46] They will also usually require detailed information on the SME's financial projections and dividend policy prior to making any investment.

2.30 It is common for VC investments to be made through preference shares alongside ordinary shares in the business. This gives the VC greater security since preference shares typically rank ahead of ordinary shareholders in the event of a SME being wound-up.[47]

The Parties and their operations

2.31 In this section we set out background information on the Parties and their offerings to their customers.

Crowdcube

Background and financials

2.32 Crowdcube is a private limited company that operates an ECF platform. The company was incorporated in the UK in 2009.[48]

2.33 Crowdcube is yet to make a profit. Crowdcube had cumulative losses of around £[✂] million as at September 2019.

---

[44] British Business Bank, Analysis of UK VC Financial Returns, page 8.
[45] British Business Bank, What is venture capital?
[46] British Business Bank, What is equity finance?
[47] Best Invest by Tilney Investment Management Services, What is a VCT?
[48] See Companies House.

2.34 The turnover of Crowdcube in FY 2019 was £7.7 million worldwide, £7.2 million of which was generated in the UK.[49]

2.35 Table 2.1 outlines Crowdcube's revenue, total expenditure and operating profit between 2018 and 2020.

Table 2.1: Crowdcube's consolidated revenue, total expenditure and operating profit (2018–2020)

£ million

	Financial year ended		
	30 September 2018	*30 September 2019*	*30 September 2020*
Revenue	5.25	7.7	[✂]
Total expenditure	(8.25)	(10.32)	[✂]
Operating profit	(3.0)	(2.62)	[✂]

Source: Crowdcube (including: Crowdcube Limited, Annual report and financial statements for the year ended 30 September 2019).

2.36 Crowdcube told us that the increase in revenue from 2017 to 2018 (£[✂] million to £[✂] million) was a result of it launching more funding rounds for SMEs on its platform, doubling the quarterly launch count from approximately 50 SMEs to 100 SMEs. This carried on into 2019, in addition to an increase in larger raises which generated higher overall revenue per contract. However, Crowdcube submitted that [✂].

Product offering

2.37 Crowdcube offers a 'two-sided' online platform that connects SMEs seeking equity finance with investors looking to invest in SMEs. Crowdcube's offering has the typical features of an ECF platform discussed in paragraphs 2.14 to 2.21 above, such as: due diligence on SMEs and their pitches; a website that displays a variety of SMEs and tracks the progress of funding rounds; and administration activities related to managing the shareholdings of its investor customers.

2.38 Crowdcube introduced a nominee structure in 2016 whereby it holds shares on behalf of investors.[50] Crowdcube's website explains that its nominee structure facilitates a number of features for investment customers such as the ability to vote on resolutions, exercise pre-emption rights, and to transfer shares to another nominee investor.[51]

[49] Crowdcube Limited, Annual report and financial statements for the year ended 30 September 2019, page 24.
[50] Crowdcube response to the CMA's Issues Statement, 18 December 2020, page 5.
[51] Crowdcube website: What is a nominee? – Help Centre.

2.39 In August 2020, Crowdcube made an announcement to seek customers for a limited version of its planned secondary market offering. Crowdcube's secondary market offering, which it calls a 'Direct Community Offering', is focussed on later-stage SMEs. This offering is company-led so Crowdcube works directly with the company to agree which shareholders will sell their shares and at what price.

2.40 Crowdcube has a minimum investment amount of £10.[52] This is considerably lower than other forms of equity finance such as typical minimum investment amounts through an angel network.

2.41 Crowdcube charges customers on each side of its platform. [✂]. On the investor side Crowdcube charges an upfront percentage fee on the amount invested.

Seedrs

Background and financials

2.42 Seedrs is a private limited company that operates an ECF platform. The company was incorporated in the UK in 2009.[53]

2.43 Seedrs is yet to make a profit. Seedrs had cumulative losses of around £[✂] million as at 31 December 2020.

2.44 Table 2.2 outlines Seedrs' revenue, total expenditure and operating profit between 2018 and 2020.

Table 2.2: Seedrs' consolidated revenue, total expenditure and operating profit (2018–2020)

£ million

	Financial year ended		
	31 December 2018	*31 December 2019*	*31 December 2020*
Revenue	3.2	4.1	[✂]
Total expenditure	(7.2)	(8.3)	[✂]
Operating profit	(4)	(4.2)	[✂]

Source: Seedrs (including: Seedrs Limited Group Directors' report and consolidated financial statements for the year ended 31 December 2019).

[52] Crowdcube website: What is the minimum amount I can invest in a pitch? – Help Centre.
[53] See Companies House.

Product offering

2.45 Seedrs' product offering is very similar to Crowdcube's product offering. Seedrs offers a 'two-sided' online platform that connects SMEs and investors. Its offering has the typical features of an ECF platform discussed in paragraphs 2.14 to 2.21 above.

2.46 Seedrs offers a nominee shareholding service. Seedrs' website explains that this nominee offering has significant benefits for investor and SME customers.[54] Seedrs states that, for investors, it reduces bureaucratic hassle associated with the tracking of corporate events, attending meetings and issuing consents while also offering protection from SMEs that might take advantage of a 'disparate group of small investors' that do not have the ability to monitor or enforce shareholder rights. Seedrs states that, for SME customers, the inability to get consents and waivers from a disparate set of investors can be a barrier to procuring future investment from VCs and angels, while the nominee structure allows future investors to go through Seedrs rather than needing to contact all of the investors individually.

2.47 Seedrs also has a secondary market offering that has been available to investor customers since 2017. Unlike Crowdcube's secondary product (which is only available for a select group of SMEs) Seedrs' secondary market offering allows investor customers to buy and sell shares from any of the SMEs that raise on its site and these share sales can be either company or shareholder led. The listing of shares occurs on a monthly basis on the Seedrs' platform and occurs at scale with dozens of companies being listed simultaneously.

2.48 The same as Crowdcube, Seedrs has a minimum investment amount of £10.[55]

2.49 Seedrs earns the majority of its revenues by charging SMEs for raising on its platform. However, on the investor side Seedrs has a 'carry charge' where investors pay a percentage of the profits earnt on their investments rather than an upfront fee as charged by Crowdcube.

[54] Seedrs website: Nominee Structure in Equity Crowdfunding.
[55] Seedrs website: What is the minimum and maximum investment?

Other providers of ECF

2.50 In this section we provide background information on the other ECF providers that are either currently active or were recently active in the UK.

Syndicate Room

2.51 Syndicate Room is a venture capital provider that previously operated as an ECF provider and which had a minimum investment amount of £1,000. Since 2019, Syndicate Room no longer allows investors to choose the SME in which they want to invest; instead investors can invest in Syndicate Room's funds, which have shareholdings in a portfolio of businesses.

2.52 Syndicate Room's current offering is restricted to self-certified sophisticated investors or high net worth individuals and it now has a minimum investment amount of £5,000.

Envestors

2.53 Envestors describes itself as having both an ECF and angel investment network offering, focused on raising financing for start-up and early stage companies, with funding rounds between £200,000 and £2 million.

2.54 Envestors does not require a minimum investment amount; however, its investors are typically looking to invest upwards of £10,000.

Growth Capital Ventures

2.55 Growth Capital Ventures operates as a VC, ECF and angel investment network that invests in a small number of SMEs that are mostly seed stage fintech companies. Growth Capital Ventures has retail, professional and fund investors.

[✄]

2.56 [✄]

Crowd for Angels

2.57 Crowd for Angels describes itself as having an ECF offering. Its SME customers come from a range of sectors, although they are often consumer technology focused. Crowd for Angels expects all of the SMEs raising on its platform to be seeking a minimum of £50,000 in investment and to have business plans and financial forecasts.

2.58 Crowd for Angels accepts investments from high-net worth, sophisticated and restricted retail investors, with high-net worth individuals accounting for the majority of its investor customers. The minimum investment amounts are set by the company raising equity but are typically between £25 and £100.

3. The Transaction and relevant merger situation

3.1 In this chapter, we describe the transaction (including its background) and then assess whether it constitutes a relevant merger situation under the Act.

The Transaction

Background to the Transaction

3.2 [✄]

3.3 In late 2019, discussions recommenced, and non-binding heads of terms were agreed on 20 December 2019. The Parties submitted a Draft Merger Notice to the CMA on 17 January 2020. Following further discussions during 2020, on 2 October 2020, Crowdcube and Seedrs executed a binding implementation agreement for the Merger (the Implementation Agreement).

Transaction details

3.4 The Implementation Agreement provides for Crowdcube to acquire 'the entire issued and to be issued share capital' of Seedrs by way of a scheme of arrangement.

3.5 In return, Seedrs' shareholders will be allotted new shares in the Merged Entity by reference to an agreed exchange ratio whereby, on completion, existing Crowdcube shareholders will own approximately 60% of the Merged Entity, and existing Seedrs shareholders and ASA investors[56] will own the remainder.[57]

3.6 Existing ordinary shares in Seedrs will be exchanged for new ordinary shares in the Merged Entity. Existing preference shares in Seedrs will be exchanged for a class of preference shares in the Merged Entity.

[56] Advanced Subscription Agreements entered between the Parties and certain investors are termed as 'ASA Investors' where funding is received in advance for a discounted share price at a future funding round.
[57] 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.

Rationale for the Transaction

3.7 In this section we assess the Parties' rationale for the Transaction.

Synergies

Achieving scale for profitability

3.8 In their Final Merger Notice, the Parties told us that [✂]. They told us that this means being 'cash generative and, after ten years of operation, no longer requiring external capital to either serve their existing customers and market, or to enter new markets and develop new products'. They further submitted that 'as far as the Parties are aware, based on all market research available, no business has yet achieved profitability through crowdfunding activities'.

3.9 The Parties have stated that, in their view, greater scale is needed to achieve profitability. The Parties have submitted that it is doubtful whether profitability will be achieved by either of the Parties independently in the foreseeable future. [✂]

Combined customer portfolios

3.10 Crowdcube submitted that a larger combined portfolio of existing SME customers and pool of investors would allow the Merged Entity to provide a long term, [✂] marketplace which can serve as an alternative to traditional SME equity funders. The Merged Entity would have a combined portfolio of over 1,000 SME customers.

Revenue growth

3.11 Seedrs has identified four areas of potential synergy or revenue growth for the Merged Entity, as shown in Table 3.1 below.

Table 3.1: Crowdcube and Seedrs four areas of synergy or revenue growth

[✂]

Source: Seedrs.

3.12 Seedrs submitted that these four areas of synergy and growth will add £[✂] million in revenue at an additional cost of £[✂] million over two years.

Enhanced customer experience

3.13 Crowdcube told us that the Merger will result in synergies from the Parties' complementary product offerings, expertise, knowledge and experience, and therefore an improved customer experience.

Cost savings and efficiencies

3.14 Seedrs told us that it had identified four areas of potential savings and efficiencies arising from the Merger. This is shown in Table 3.2 below.

Table 3.2: Four areas of potential savings or efficiency arising from the Merger

[✄]

Source: Seedrs [✄].

3.15 We consider further the Parties' proposed synergies and efficiencies as part of our assessment of countervailing factors in Chapter 7.

Relevant merger situation

Jurisdiction

3.16 Under section 36 of the Act and our terms of reference (see Appendix A), one of the questions we are required to decide is whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

3.17 Section 23 of the Act provides that a relevant merger situation has been created if:

(a) two or more enterprises would have ceased to be distinct;[58] and

(b) one (or both) of the following conditions is (or are) satisfied:

(i) the value of the turnover in the UK of the enterprise being taken over exceeds £70 million (the 'turnover test');[59]

[58] As set out in section 24 of the Act.
[59] Section 23(1)(b) of the Act.

(ii) the Merger would result in the creation or enhancement of at least a 25% share of supply of goods or services 'of any description' in the UK, or in a substantial part of the UK (the 'share of supply test').[60]

Arrangements are in progress or in contemplation

3.18 In light of the Parties' signed Implementation Agreement (see paragraph 3.4 above), we are satisfied that the arrangements that would result in the Merger are sufficient to constitute arrangements in progress or in contemplation for the purposes of the Act.

Enterprises ceasing to be distinct

3.19 The Act defines an 'enterprise' as 'the activities, or part of the activities, of a business'. A 'business' is defined as including 'a professional practice and includes any other undertaking which is carried on for gain or reward or which is an undertaking in the course of which goods or services are supplied otherwise than free of charge'.[61] CMA2 explains the concept of 'enterprise' and in particular the considerations the CMA has regard to in deciding what constitutes an 'enterprise'.[62] As described in paragraphs 2.31 to 2.49 above, both of the Parties operate equity crowdfunding platforms for reward, in the form of fees paid by investors and businesses who use their respective platforms. We are therefore satisfied that each Party is an enterprise for the purposes of the Act.

3.20 The Act then provides that two enterprises 'cease to be distinct' if they are brought under common ownership or common control.[63] As a result of the Merger, as described in paragraph 3.4 above, Crowdcube would acquire all of the outstanding share capital of Seedrs. As such, both enterprises would be brought under the common control or common ownership of Crowdcube and, thus, cease to be distinct for the purposes of the Act.

3.21 The condition set out in paragraph 3.17(a) above is therefore satisfied.

Share of supply test

3.22 As noted at paragraph 2.44 above, Seedrs' UK turnover for the financial year ended 31 December 2019 was approximately £4 million. This is less than

---

[60] Section 23(3)–23(4B) of the Act.
[61] Section 129(1) and section 129(3) of the Act.
[62] Mergers: Guidance on the CMA's jurisdiction and procedure (CMA2), January 2014, paragraph 4.8.
[63] Section 26 of the Act.

£70 million and, thus, the turnover test not passed. We therefore considered whether the share of supply test is passed.

3.23 As noted in Table 6.2 below, the Parties overlap in the supply of ECF platforms in the UK with a combined share of supply of [90–100%] by volume (the number of UK SME deals made through ECF platforms in 2020) with an increment of [40–50%].

3.24 In their Final Merger Notice, the Parties submitted that 'equity crowdfunding' was not an 'economically sensible' view of the market. We note that the share of supply test is not an economic assessment of the type used in the CMA's substantive assessment. Therefore, the group of goods or services to which the jurisdictional test is applied need not amount to a relevant economic market[64] and the Act does not require the basis on which jurisdiction is asserted and the substantive competitive assessment to be linked. We note that the Parties both use the phrase 'equity crowdfunding' to describe a distinct set of services on their websites.[65] In our view, this is sufficient to find that the description is reasonable[66] and thus that the UK supply of equity crowdfunding platforms constitutes a suitable categorisation for jurisdictional purposes.

3.25 The condition set out in paragraph 3.17(b) above is therefore satisfied.

Provisional conclusions on relevant merger situation

3.26 In the light of the above, we have provisionally found that the Merger, if carried into effect, will result in the creation of a relevant merger situation. As a result, we must consider whether the creation of that situation may be expected to result in a substantial lessening of competition (SLC) within any market or markets in the UK for goods or services.

4. Counterfactual

4.1 The counterfactual is an analytical tool used to help answer the question of whether a merger has or may be expected to give rise to an SLC. It does this by providing the basis for a comparison of the prospects for competition with

---

[64] Mergers: Guidance on the CMA's jurisdiction and procedure (CMA2), January 2014, paragraph 4.56.
[65] See for example, Crowdcube website: About equity crowdfunding, 1 August 2019, and Seedrs website: What is Crowdfunding and Equity Crowdfunding?.
[66] Mergers: Guidance on the CMA's jurisdiction and procedure (CMA2), January 2014, paragraph 4.56 provides that, in exercising its wide discretion under the Act, 'the CMA will have regard to any reasonable description of a set of goods or services'.

the merger against the competitive scenario without the merger. The latter is called the counterfactual.[67]

4.2 We may examine several possible scenarios to determine the most likely and, thus, appropriate counterfactual, one of which may be the 'prevailing conditions of competition'. A 'prevailing conditions of competition' counterfactual is not static and does not imply that the conditions of competition are expected to remain exactly the same as in the situation prior to the merger being contemplated by the Parties (which we refer to below as the 'pre-merger' situation). Instead, the 'prevailing conditions of competition' refers to the scenario where the firms in the market continue to compete in broadly the same manner that they had been pre-merger, including any evolution in their competitive offering, business model and customer propositions.

4.3 An example of a situation where the CMA may select a counterfactual different from the 'prevailing conditions of competition' is where the target would have exited the market (in whole or in part) absent the transaction under review.

4.4 In reaching a view on the appropriate counterfactual, we must determine what future developments we foresee arising absent the merger based on the evidence available to us. We seek to avoid importing into the assessment of the appropriate counterfactual any spurious claims to accurate prediction or foresight. Given that the counterfactual incorporates only those elements of scenarios that are foreseeable, it will not in general be necessary to make finely balanced judgements about what is and what is not included in the counterfactual.[68]

4.5 Events which occur during the CMA's review of a transaction, but which are not a result of it, can be incorporated into the counterfactual.[69] Where future events or circumstances are not certain or foreseeable enough to include in the counterfactual, the analysis of such events can take place in the assessment of competitive effects.[70]

---

[67] Merger Assessment Guidelines, paragraph 4.3.1.
[68] Merger Assessment Guidelines, paragraphs 4.3.2 and 4.3.6.
[69] See, in this regard, *BSkyB v CC* (Cases 1095/4/8/08 and 1096/4/8/08) [2008] CAT 25, paragraph 138.
[70] Merger Assessment Guidelines, paragraph 4.3.2.

4.6 Where there is more than one possible alternative scenario, the CMA will select the counterfactual it considers would be the most likely scenario to have arisen absent the merger.[71]

4.7 During the course of our investigation, the Parties made submissions that the appropriate counterfactual in this case is not the 'prevailing conditions of competition.' Instead:

(a) Seedrs submitted that: 'In light of the financial position …, there is no plausible path to continued competition between Seedrs and Crowdcube beyond the very short term. One of the two of us will run out of cash before profitability can be achieved, and that will be the end of that firm's business'.[72] It submitted that: [✂].

(b) Crowdcube submitted that: 'Absent the proposed [M]erger, at least one of the parties will be compelled to discontinue trading, causing significant disruption to many SMEs, a loss of likely synergies and efficiencies, and an undermining of competition in equity finance provision'.[73] It submitted that: 'In the absence of the proposed [M]erger, Crowdcube will continue with its strategy of seeking SME customers for financings, growing its revenue and seeking to achieve an economically sustainable base of operations that will allow it to break even. However, absent the merger, [✂]' and that 'this change of strategy would be a major reorientation of business focus'.[74]

4.8 As these submissions raised the prospect of at least one of the Parties exiting the market, either completely or in part, in order to assess whether the Merger may be expected to give rise to an SLC, we have assessed which of the following three potential counterfactual scenarios is the most likely and, thus, the appropriate counterfactual in this case. These are:

(a) **Scenario 1: Exiting firm.** Under this scenario, absent the Merger, one or both of the Parties would have exited the market. The CMA's guidance sets out the test that we must apply in assessing whether this scenario is a likely counterfactual (see paragraph 4.10 below).

(b) **Scenario 2: Partial exit.** Under this scenario, absent the Merger, one or both Parties would have significantly re-orientated their business models,

[71] Merger Assessment Guidelines, paragraph 4.3.6.
[72] Seedrs response to the CMA's Issues Statement, section 4.4.
[73] Crowdcube response to the CMA's Issues Statement, 18 December 2020, section 1.
[74] Crowdcube response to the CMA's Issues Statement, 18 December 2020, section 3.2.

such that they would no longer compete with each other for, at least, a substantial sub-set of customers.

(c) **Scenario 3: Prevailing conditions of competition.** Under this scenario, absent the Merger, both of the Parties would have continued under separate, independent, ownership. As noted above, this counterfactual is not static and incorporates the continued dynamic evolution of the market, and potentially any foreseeable financial restructuring or re-orientation of the Parties' business models, so long as the firms in the market continue to compete in broadly the same manner that they have been pre-Merger.

4.9 We have considered and set out our provisional views on each of these potential counterfactual scenarios below.

The 'exiting firm' counterfactual scenario

Framework for assessing the 'exiting firm' counterfactual scenario

4.10 As noted above, a potential alternative counterfactual to the prevailing conditions of competition is the 'exiting firm' counterfactual scenario. The CMA's guidance sets out the three-limb cumulative test that the CMA will apply when deciding whether the 'exiting firm' scenario is a likely counterfactual in a particular case. Looking at the first two limbs, in essence, for the CMA to select the 'exiting firm' scenario as a likely counterfactual, we must be satisfied that:

(a) **Limb 1:** One of the merging parties would have exited (through failure or otherwise) absent the transaction; and

(b) **Limb 2:** Subject to Limb 1 being satisfied, that there would have been no alternative purchaser of the exiting firm or its assets.[75]

4.11 For completeness we note that, if Limbs 1 and 2 are satisfied, the CMA's guidance provides that, as a third limb, we will consider what would have happened to the sales of the exiting firm.[76]

4.12 The CMA's guidance also notes that, in relation to Limb 1, [✂], the CMA will consider whether the relevant firm would have failed to meet its financial obligations in the 'near future', including because it is unable to sucessfully

---

[75] Merger Assessment Guidelines, paragraph 4.3.8.
[76] Merger Assessment Guidelines, paragraph 4.3.8(c).

restructure itself and/or obtain funding to avoid such failure.[77] In those circumstances, where the available evidence does not show that this is likely to be the case, in the absence of other relevant considerations, the Limb 1 test will not be satisfied.

4.13 [✂][78]

4.14 The CMA's guidance does not specify a period for the 'near future' or a 'foreseeable' future time horizon for the purposes of assessing the most likely counterfactual. This is because the CMA's ability to foresee future developments depends on the specific facts and circumstances of the case and the evidence available to it. However, we note that, in general, the longer the time horizon, the greater the likelihood of intervening events disrupting anticipated future developments, making them less certain and more speculative. The guidance is clear, as noted above, that the counterfactual should only include foreseeable developments; that is, future developments that are 'sufficiently certain' that we can 'predict with some confidence'[79] and 'avoid[ing] spurious claims to accurate prediction or foresight'.[80]

Parties' views on the 'exiting firm' counterfactual scenario

[✂] views on the 'exiting firm' counterfactual scenario

4.15 [✂]

4.16 [✂]

[✂]

4.17 [✂]

4.18 [✂]

[✂]

4.19 [✂]

4.20 [✂]

---

[77] Merger Assessment Guidelines, paragraph 4.3.14.
[78] [✂].
[79] Merger Assessment Guidelines, paragraph 4.3.2.
[80] Merger Assessment Guidelines, paragraph 4.3.6.

4.21 [✂]

4.22 [✂]

[✂]

4.23 [✂]

4.24 [✂]

4.25 [✂]

4.26 [✂]

4.27 [✂][81]

4.28 [✂]

[✂]

4.29 [✂]

[✂] views on the 'exiting firm' counterfactual scenario

4.30 [✂]

CMA assessment of the 'exiting firm' counterfactual scenario

4.31 In light of [✂] submissions ([✂]), we considered it appropriate to assess whether the 'exiting firm' scenario is a likely counterfactual in this case.

Limb 1: Would [✂] have exited absent the Merger?

4.32 As noted in paragraph 4.12 above, to find that the 'exiting firm' scenario is a likely counterfactual in this case we need to be satisfied that Limb 1 of the test is passed ie that [✂] would have exited the market, absent the Merger. In this case, as noted in paragraph 4.7(a) above, the [✂]. Therefore, taking account of the relevant considerations in our guidance (set out in paragraph 4.12 above), [✂] absent the Merger, the available evidence must show that [✂] would have been unable to:

[81] [✂].

(a) meet its financial obligations in the ‘near future’; and

(b) avoid such a failure to meet its financial obligations, including by:

(i) successfully restructuring itself; and/or

(ii) obtaining external funding.

4.33 We have set out our provisional assessment of whether Limb 1 is passed below. In advance of this, and by way of context to our assessment, we have set out below:

(a) a timeline of the key events leading up to the Implementation Agreement;

(b) [✄]; and

(c) a snapshot of [✄] pre-Merger and recent financial position.

Timeline of key events leading up to the signing of the Implementation Agreement

Table 4.1: [✄]

[✄]

Source: [✄].

[✄]

Table 4.2: [✄]

[✄]

Source: [✄].

4.34 [✄]

4.35 [✄]

4.36 [✄]

[✄]

4.37 [✄]

4.38 [✄][82]

[82] [✄].

4.39 [✂]

4.40 [✂]

[✂]

4.41 [✂][83]

[✂]

4.42 [✂]

4.43 [✂][84]

4.44 [✂]

[✂]

4.45 [✂]

4.46 [✂]

4.47 [✂]

4.48 [✂]

[✂]

4.49 [✂]

4.50 [✂]

4.51 [✂]

[✂]

4.52 [✂]

4.53 [✂]

---

[83] [✂].
[84] [✂].

[✂] pre-Merger and recent financial position

4.54 [✂][85]

4.55 [✂]

4.56 [✂]

Table 4.3: [✂]

[✂]

Source: [✂].

4.57 [✂]

4.58 [✂][86]

4.59 [✂]

4.60 [✂]

4.61 [✂]

Does the available evidence show that [✂] would have been unable to meet its financial obligations in the 'near future'?

4.62 To inform our assessment of whether [✂] would have been unable to meet its financial obligations in the 'near future', absent the Merger, we have considered below: [✂].

[✂]

4.63 Where a firm is failing to meet its financial obligations, this will normally be because it is insolvent. In this case, none [✂].

4.64 As noted at paragraph 4.54 above, [✂]. In the context of Limb 1 of the exiting firm counterfactual test set out at paragraph 4.12 above, the state of [✂] pre-Merger and recent management accounts, in our view, do not suggest [✂].

4.65 Instead, as noted at paragraph 4.18 above, [✂].

4.66 [✂]

---

85 [✂].
86 [✂].

4.67 [✂]

4.68 [✂]

4.69 [✂]

[✂]

4.70 [✂]

4.71 [✂]

4.72 [✂]

Table 4.4: [✂]

[✂]

Source: [✂].

4.73 [✂][87]

4.74 [✂]

- *[✂]*

4.75 [✂][88]

4.76 [✂]

4.77 [✂]

4.78 [✂]

4.79 [✂]

4.80 [✂]

4.81 [✂]

4.82 [✂][89]

4.83 [✂]

[87] [✂].
[88] [✂],
[89] [✂].

4.84 [✄]

- *[✄]*

4.85 [✄]

4.86 [✄]

4.87 [✄][90]

4.88 [✄]

Summary of the CMA's assessment

4.89 For the reasons set out above, the available evidence, when considered in the round, does not show that it is likely that [✄] would have [✄] failed to meet its financial obligations in the 'near future'.

4.90 [✄]

Does the available evidence show that [✄] would have been unable to restructure itself successfully?

4.91 [✄]

4.92 [✄]

4.93 [✄]

4.94 [✄]

4.95 [✄]

4.96 [✄][91,92,93]

Summary of the CMA's assessment

4.97 For the reasons set out above, the available evidence, when considered in the round, does not show that it is likely that that [✄] would have been unable to restructure itself successfully.

---

90 [✄].
91 [✄].
92 [✄].
93 [✄].

Does the available evidence show that [✂] would have been unable to obtain additional funding?

4.98 We sought evidence on the availability to [✂] of external sources of capital through a review of [✂] internal documents as well as [✂].

4.99 [✂]

[✂]

- *[✂]*

4.100 [✂]

4.101 [✂]

4.102 [✂]

4.103 [✂]

4.104 [✂]

4.105 [✂]

4.106 [✂]

4.107 [✂]

- *[✂]*

4.108 [✂][94]

4.109 [✂]

4.110 [✂]

4.111 [✂]

4.112 [✂]

[✂]

4.113 [✂]

[94] [✂].

- *[✂]*

4.114 [✂]

4.115 [✂]

4.116 [✂]

4.117 [✂]

- *[✂]*

4.118 [✂]

- *[✂]*

4.119 [✂]

4.120 [✂]

[✂]

4.121 [✂]

Provisional conclusion on Limb 1 of the 'exiting firm' scenario

4.122 For the reasons set out above, we do not consider that the available evidence, considered in the round, shows that [✂] would have exited the market absent the Merger. In our view, the evidence does not show that [✂] would have [✂] in the near future absent the Merger. Even if it did, [✂]. [✂]. Therefore, we provisionally conclude that Limb 1 of the exiting firm counterfactual test, set out at paragraph 4.12 above, is not satisfied.

Limb 2: Would there have been no alternative purchaser of [✂] or its assets?

4.123 As noted at paragraph 4.10 above, the three-limb test in our guidance, for assessing the exiting firm counterfactual, is cumulative. Therefore, as our provisional view, for the reasons set out above, is [✂] Limb 1 of this test it is not necessary for us to reach a view on Limb 2 and Limb 3 of the applicable test. However, [✂], we have gathered evidence, [✂], related to Limb 2 of the test. We have therefore assessed below whether the available evidence allows us to conclude that Limb 2 of the test is satisfied i.e. it shows that there would have been no alternative purchaser of [✂] or its assets.

4.124 [✄].[95] Therefore, consistent with the approach set out in the guidance, to find that the 'Limb 2' test is satisfied, we must [✄].

4.125 [✄]

4.126 [✄]

4.127 [✄]

4.128 [✄]

4.129 [✄]

4.130 [✄]

[✄]

4.131 [✄]

[✄]

4.132 [✄]

4.133 [✄]

4.134 [✄]

4.135 [✄]

CMA assessment of Limb 2

4.136 [✄]

4.137 [✄]

4.138 [✄]

Provisional conclusion on Limb 2 of the 'exiting firm' scenario

4.139 We accept that [✄]. However, in our provisional view, this evidence does not [✄]. We therefore provisionally conclude that Limb 2 of the exiting firm counterfactual test set out at paragraph 4.10(b) above is not satisfied.

---

[95] [✄].

Provisional conclusion on the 'exiting firm' counterfactual scenario

4.140 Based on the available evidence, our provisional conclusion is that neither Limb 1 nor Limb 2 of the exiting firm counterfactual test (see paragraph 4.10 above) is satisfied, for the reasons set out above. On this basis we provisionally conclude that the exiting firm scenario is not a likely counterfactual to the Merger.

4.141 As these tests are cumulative, (meaning that, strictly speaking, the failure to pass the Limb 1 test alone would be sufficient for us to conclude that the exiting firm scenario was not a likely counterfactual in this case), we have therefore not considered the third limb of the test.

Scenario 2: Partial exit

4.142 As noted at paragraph 4.8(b) above, under this scenario, absent the Merger, one (or both) of the Parties would have significantly re-orientated its business model, such that it no longer competed, at all, with the other Party for, at least, a substantial sub-set of customers. We have assessed below whether the available evidence shows that this is a likely counterfactual to the Merger.

Parties' views on the 'partial exit' counterfactual scenario

[✄] views on the 'partial exit' counterfactual scenario

[✄]

4.143 [✄]

[✄]

4.144 [✄]

[✄]

4.145 [✄]

4.146 [✄]

[✄]

4.147 [✄]

Figure 4.1: [✄]

[✄]

Source: [✄]

Figure 4.2: [✄]

[✄]

Source: [✄]

[✄] views on the ‘partial exit’ counterfactual scenario

4.148 [✄]

CMA assessment of the ‘partial exit’ scenario

4.149 Having considered the submissions above and the available evidence, we are not currently persuaded that either of the Parties would have re-orientated their business to result in a ‘partial exit’ scenario, absent the Merger.

4.150 [✄]

4.151 [✄][96]

4.152 We expand below on the reasons given in sub-paragraphs (b)(ii) and (b)(iv).

[✄]

4.153 [✄].

4.154 [✄]

[✄]

4.155 [✄]

4.156 [✄]

[✄]

4.157 [✄]

[96] [✄].

4.158 [✂]

4.159 [✂]

4.160 [✂]

4.161 [✂][97]

Economies of scale

4.162 As set out in paragraph 3.8, the Parties told us that the rationale for the Merger is to reach a minimum efficient scale.

4.163 [✂]

[✂]

4.164 [✂]

4.165 [✂]

Table 4.5: [✂]

[✂]

Source: [✂]

4.166 [✂]

4.167 [✂]

Provisional conclusion on partial exit counterfactual

4.168 For the reasons set out above, we provisionally conclude that the 'partial exit' scenario is not a likely counterfactual to the Merger, in this case.

Scenario 3: The prevailing conditions of competition

4.169 Under this counterfactual, both of the Parties would have continued to compete in broadly the same way as they did pre-Merger, absent the Merger. As noted above, this counterfactual is not static and incorporates the continued dynamic evolution of the market, and potentially any foreseeable financial restructuring or re-orientation of the Parties' business models, so

[97] [✂].

long as the firms in the market continue to compete in broadly the same manner that they have been pre-Merger.

4.170 As such, this counterfactual includes scenarios where firms adapt their competitive offerings and business models and respond to competitive and other pressures (including funding pressures). Such adaptations of competitive offerings and business models could include for example:

(a) Seeking to orientate the business towards [✂].

(b) Introducing internal processes to allow it to be more selective of the SMEs seeking smaller raises that are being accepted as customers;

(c) Adjusting its approach to pricing; and

(d) Expanding and/or refining its service and product offers by building on its experience in ECF platforms to provide additional services.

CMA's assessment

4.171 For the reasons set out above, we have provisionally concluded that the two alternative possible counterfactual scenarios in this case – namely, the 'exiting firm' scenario and the 'partial exit' scenario – are not likely counterfactuals in this case. That is, we have provisionally found that the available evidence does not show that either of the Parties would have likely exited the market, wholly or in part, absent the Merger.

4.172 Instead, we provisionally find that it is likely and therefore most likely that, absent the Merger, the Parties would have continued to compete with each other in broadly the same manner that they had been pre-Merger.

4.173 Looking at the Parties' financial position (see paragraphs 4.55 and 4.151(a) above), we think it is more likely that they would have the ability to continue competing for the foreseeable future. This continued competition may involve some restructuring by one or both of the Parties and/or the obtaining of additional funding by one or both of the Parties.

4.174 For the reasons set out at paragraphs 4.149 to 4.167, we do not think it is likely that this would result in either Party no longer competing for a subset of their pre-Merger customers. As explained above, based on the available evidence, it does not appear to be an economically sensible strategy for either Party to partially exit and stop competing for particular cohorts of customers.

4.175 We therefore provisionally find the 'prevailing conditions of competition' is the most likely counterfactual in this case.

4.176 Even though we did not consider that the 'exiting firm' and the 'partial exit' scenarios were sufficiently certain to be the most likely counterfactuals in this case, we do recognise that [✂]. While we cannot incorporate these scenarios into our counterfactual, our guidelines allow us to consider such scenarios in the context of the competitive assessment of the Merger.[98] We have done so in Chapter 6 below.

Provisional conclusion on the counterfactual

4.177 For the reasons set out above, we provisionally conclude that the 'prevailing conditions of competition' is the most likely counterfactual and, thus, the appropriate counterfactual to the Merger in this case.

5. Market definition

Introduction and approach

5.1 Market definition provides a framework for assessing the competitive effects of a merger.[99] It is a useful analytical tool, but not an end in itself, and identifying the relevant market involves an element of judgement.

5.2 In practice, the analysis of market definition and competitive effects will overlap, with many of the factors affecting market definition being relevant to the assessment of competitive effects and vice versa. Therefore, market definition and the assessment of competitive effects should not be viewed as two distinct analyses. The CMA's aim when identifying the relevant market is to include the most significant constraints on the behaviour of the merger firms (eg the most significant competitive alternatives available to the customers of the merger firms), as these will be the immediate determinants of the effect of the merger.[100]

5.3 However, the CMA recognises that the boundaries of the market may be blurred, particularly when products are differentiated, and, as such, it takes into account in its assessment the strength of the constraints between products in the relevant market and from products outside the relevant market.

[98] Merger Assessment Guidelines, paragraph 4.3.2.
[99] In this document we use the expressions 'market definition' and 'frame of reference' interchangeably.
[100] Merger Assessment Guidelines, paragraph 5.2.1.

Product market definition

Parties' views

5.4 The Parties submitted that 'they overlap in the field of equity financing for SMEs across the UK'. The Parties further submitted that equity financing for SMEs 'is the narrowest realistic service market by reference to which the proposed [M]erger should be assessed'.

5.5 The Parties submitted that this market is made up of VC firms (including public sector bodies), formal and informal angel investor groups, and ECF platforms, although 'it also increasingly includes financial institutions and blockchain-technology platforms (offering "cryptocoin" or tokens representing equity)'.[101]

5.6 Crowdcube submitted that 'the different modes of operation of these different types of finance provider reflect different terms as a basis for supplying the same product, equity finance, and such differences are part of the tapestry of competition in providing equity finance to SMEs'.[102]

5.7 The Parties submitted that 'equity funding is often achieved by means of co-funding as between different types of equity provider'. The Parties further submitted that co-investment 'can be regarded as indicating substitutability rather than complementarity' in relation to ECF.

5.8 The Parties submitted that there are 'no distinct markets for seed-stage, venture-stage or growth-stage equity financing'. The Parties further submitted that 'many firms, including the Parties, are active to a significant extent in both seed-stage and later-stage funding, and the lines between stages are blurred and constantly changing'.

Our assessment

5.9 When assessing the relevant product market, we begin by selecting a candidate market as a starting point and then assess whether the relevant market should be widened, or segmented, from this basis. When selecting a

[101] In response to the CMA's Issues Statement (published on 4 December 2020), Crowdcube and Seedrs submitted data on 'lost SME opportunities' to support the view that the relevant market is wider than the supply of ECF platforms. Seedrs also submitted data on third-party press articles and commentary to support the view that the relevant market is wider than the supply of ECF platforms. We consider these submissions in paragraphs 6.244 to 6.274 and paragraphs 6.275 to 6.277.
[102] Crowdcube response to the CMA's Issues Statement, 18 December 2020, section 4.3.

candidate product market, we include at least the substitute products of the merging firms.

5.10 The Parties overlap in the supply of ECF platforms to SMEs and investors in the UK and, as such, we consider this is an appropriate candidate product market for assessing the competitive effects of the Merger. ECF platforms, such as those operated by the Parties, are two-sided online platforms and provide a 'matching' service (in addition to other related services) whereby SMEs are connected with potential investors via the platform and a transaction between both sides (an equity investment in a SME) is facilitated by the platform. We discuss below how we consider that there are indirect network effects so that each side of an ECF platform values the presence of more users on the other side (see paragraphs 6.27 to 6.30).

5.11 In this section we consider whether:

(a) the product market should be defined on the basis of the SME and investor sides of the ECF platform separately or, alternatively, as a single market comprising the supply of ECF platforms to both sides;

(b) the product market (as defined under sub-paragraph (a) above) should be widened to include other alternative funding sources to ECF platforms, such as VC providers and Angels; and

(c) the product market (as defined under sub-paragraphs (a) and (b) above) should be segmented by reference to SME development stage (eg seed-stage, venture-stage or growth-stage).

Competition to attract SMEs and investors onto ECF platforms

5.12 We have considered whether the market should be defined on the basis of the two sides of the platform separately or on a single basis.

5.13 The evidence we reviewed shows that the main mode of competition between ECF platforms is to attract SMEs onto the platform and that the opportunity to invest in SMEs is a key factor driving investors' choice towards ECF platforms.

5.14 First, the Parties' submissions indicate that competition for SMEs is the main way that they compete. The Parties submitted that 'SMEs seeking investment may be regarded as the 'primary customers' since 'potential investors have a vast range of investment options of which SME investment is a small sub-set only'. The Parties further submitted that they 'generate revenue primarily by charging a commission to SMEs on the capital raised through each round of funding'.[103]

5.15 Second, consistent with the views submitted by the Parties, the internal documents that we reviewed indicate that, on the whole, the main focus of competition for the Parties is to attract SMEs to their platforms (see paragraph 6.95). The Parties' monitoring and benchmarking activity (in relation to each other and third-parties) appears to mainly focus on SME-side variables (such as number of SME deals) and the Parties compete with each other over SME-side competitive variables, including SME fees, although there is evidence of competition over product features used by investors as well.

5.16 Third, third-party evidence indicates that investors are primarily attracted to ECF platforms by the presence of SMEs rather than other features of these platforms (see paragraph 6.178). The most common reason why investors responding to our questionnaire choose to invest through either of the Parties is because they see it as a good way to access a specific SME investment opportunity (see paragraph 6.174). Access to a range of SME investment opportunities ranks as the second most common reason (see paragraph 6.175).

5.17 Taking this evidence together, we consider that it is appropriate to analyse the effects of the Merger by reference to a single product market comprising the supply of ECF platforms to both SMEs and investors rather than to consider defining separate product markets for each of SMEs and investors. The assessment of market definition in the next sub-section (see paragraphs 5.18 to 5.30) and our competitive assessment in Chapter 6 reflect the greater focus of competition on the SME side.

Providers of equity finance other than ECF platforms

5.18 We have considered whether it is appropriate to widen the product market to include other equity funding sources, such as VC and angels, in the same product market as ECF platforms. We have set out the main characteristics of these equity finance providers in Chapter 2. In this sub-section, we look at demand-side substitutability between ECF platforms and these sources of equity finance before looking at supply-side factors.

[103] Both Parties also charge investors although those charges represent [✂] of their respective revenues.

Demand-side substitutability

5.19 To assess the extent of demand-side substitutability, we have considered evidence on equity finance providers' product offerings, SMEs' reasons for using ECF platforms, their views on substitutability, and evidence from the Parties' internal documents.

5.20 First, ECF platform providers have a differentiated product offering compared to other sources of equity finance.[104] ECF platforms enable SMEs to market and sell equity stakes to a wide range of prospective investors through an online platform (see paragraph 2.15). Investors do not get board seats or significant control of the company. ECF platforms are opened to an unrestricted pool of investors that typically acquire small amounts of equity (see paragraph 2.16). On the other hand, VC providers and angels often require some type of strategy control (eg board seats). VC providers may also require more stringent terms than ECF platforms.[105] On the investor side, these other sources of equity finance tend to focus on more experienced investors (see paragraphs 6.217 and 6.220) and the types of investments made are usually a single/few large investments. In some cases, they impose minimum investment requirements (see paragraph 6.218).

5.21 Second, and in support of the point above, generally SMEs appear to choose ECF platforms over other equity finance providers for specific features, which differentiate ECF platforms from other sources of equity funding. In particular, the reasons why SMEs responding to our questionnaire selected ECF platforms were mainly connected with features that are distinctive to ECF platforms, including that it allows a connection with investors and/or it provides a form of marketing/public relations benefit for the SME's business (see paragraphs 6.116 to 6.121).

5.22 Third, generally SMEs do not perceive alternative sources of equity finance as close substitutes to ECF platforms. SMEs' responses to our questionnaire indicate that the Parties are each other's strongest alternative option (see paragraph 6.123). A significant number of SMEs said that they used an ECF platform because they had no alternative option, either in general, or because of the Coronavirus (COVID-19) pandemic (see paragraphs 6.117 and 6.121). Some SMEs related their small size to their having very limited alternatives to the Parties (see paragraph 6.124). The evidence from diversion ratios that we

---

[104] See Chapter 2.
[105] VC providers will expect preference shares and significant rights and consents. FMN, paragraph 15(d)(v)–(vi).

assess in Chapter 6 is also consistent with this evidence (see paragraphs 6.125 to 6.143).

5.23 The Parties submitted that co-investment[106] can be regarded as indicating substitutability rather than complementarity in relation to ECF platforms. We found that co-investment relates to a substantial minority of SME deals in our sample (see paragraph 6.145). None of the SME respondents that had received co-investment mentioned that they 'traded off' investment through the Parties against other forms of investment (see paragraph 6.146). When co-investors were involved with a deal, around half of SMEs responded that they paid fees to the Parties in respect of co-investment received from other providers and around half did not (see paragraph 6.147). Finally, we did not find evidence in the Parties' internal documents demonstrating a competitive dynamic between either Party and a co-investment partner (see paragraph 6.92).

5.24 Hence, co-investors do not appear to impose a competitive constraint on the Parties through the prospect of lost sales revenue and co-investment is largely a complement rather than a substitute. We discuss evidence on co-investment in more detail in Chapter 6.

5.25 Fourth, other equity finance providers, such as VC providers and angels, are much less frequently monitored or benchmarked in the Parties' internal documents than ECF platforms (see paragraph 6.84). Further, in the very small number of documents where they are mentioned, these are high-level comparisons. We have also found an absence of broader discussions of competition with these other providers in the Parties' internal documents (see paragraph 6.86).

5.26 Taken together, this evidence shows that other sources of equity finance are not a close substitute to ECF platforms and demand-side substitutability between ECF platforms and other sources of equity finance appears limited.

Supply-side factors

5.27 The boundaries of the relevant product market are generally determined by reference to demand-side substitutability alone. However, we may consider a wider market definition on the basis of supply-side factors in certain cases.[107]

---

[106] See paragraph 2.8.
[107] Merger Assessment Guidelines, paragraph 5.2.17. First, if the same firms compete to supply different products and the conditions of competition between the firms are the same for each product. Second, if

We have assessed evidence on the conditions of competition across different equity finance services and on supply-side substitutability in relation to ECF platforms.

5.28 The conditions of competition are different between ECF platforms and other sources of equity finance. First, most ECF platforms only provide ECF and do not provide a range of other equity finance options. Similarly, VC providers and angels tend to focus only on one source of equity finance and do not provide access to ECF. Second, in a number of internal documents the Parties position VC and angels as 'partners' or 'customers' (see paragraph 6.91). Third, hardly any VC or angels that responded to our questionnaire saw the Parties as competitors (see paragraph 6.223).

5.29 Further, the evidence shows that other equity finance providers have a limited ability and incentive to quickly switch capacity to ECF. As we set out in Chapter 7, there is evidence of a number of significant barriers to entry into the supply of ECF platforms in the UK (see paragraph 7.39). Further, in recent years, there has been no entry at scale and we have not seen evidence of plans for entry into the supply of ECF in the UK, including by any of the potential entrants mentioned by the Parties (see paragraph 7.40).

5.30 Overall, we consider that the evidence set out above on demand-side substitutability and supply-side factors shows that the competitive constraint exerted by other sources of equity finance on ECF platforms is much weaker than that exerted by ECF platforms on each other. As market definition is intended to capture the closest and most relevant constraints on the merging parties' products, we consider that the relevant product market includes only the supply of ECF platforms and should not be widened to include other sources of equity finance, such as VC and angels. However, we assess the strength of the constraints exerted by other equity finance providers on the Parties in Chapter 6 as part of the competitive assessment.

Segmentation within the market for ECF platforms

5.31 We have considered whether the product market for ECF platforms should be segmented by reference to the SME development stage.

5.32 On the demand side, there is evidence suggesting that earlier stage SMEs may have fewer alternatives for raising equity than later-stage SMEs. For

production assets can be used by firms to supply a range of different products that are not demand-side substitutes, and the firms have the ability and incentive quickly (generally within a year) to shift capacity between these different products depending on demand for each.

instance, some SMEs responding to our questionnaire related their small size to their having very limited alternatives to the Parties (see paragraph 6.124). However, a number of SMEs across a range of different raise sizes considered the Parties to be close alternatives and that alternatives to the Parties were limited and/or not as close (see paragraph 6.124).

5.33 On the supply side, most of the internal documents that we reviewed (see paragraph 6.61) did not distinguish between competition for SMEs on the basis of the SME development stage, although we saw some examples of the Parties distinguishing between SMEs according to deal size (see for example paragraph 6.64(c)).

5.34 Overall, we consider that the evidence above does not indicate a clear, substantial discontinuity between the conditions of competition and the competitive constraints for different groups of SME customers to justify a segmentation of the product market on the basis of the SME development stage. We therefore consider it appropriate to include all types of SMEs within a single product market. However, we consider any relevant differences in the competitive constraints between different groups of SME customers in Chapter 6 as part of the competitive assessment.

Parties' further submissions

5.35 In response to the CMA's Annotated Issues Statement and the Working Papers, the Parties submitted that:

(a) The CMA's emerging analysis results in a paradox, because it defines a product market for ECF but also implies that each Party can win business from the wider equity SME funding market.

(b) CMA evidence is consistent with the market being the provision of equity finance to SMEs rather than the supply of ECF platforms. First, only a minority ([✂]%) of SMEs responding to the CMA's questionnaire considered that they had no option other than ECF. Crowdcube submitted that this implies that [✂]% of SMEs have other equity finance options available apart from ECF. Second, weighted diversion ratios indicate greater strength of competition from other equity finance providers than that suggested by the CMA.

(c) The Merged Entity could not identify and price discriminate or apply a special treatment to SMEs that lack alternatives.

(d) The data on 'lost SME opportunities' submitted by the Parties is also consistent with the market being wider than the supply of ECF platforms.

(e) In addition, Crowdcube submitted that the CMA had not based its assessment on product market definition on the '"hypothetical monopolist" test logic set out in the CMA's merger assessment guidelines'. In particular, it has not assessed whether it would be profitable for 'a monopoly provider of ECF services to increase its prices materially above competitive levels'.

5.36 With respect to the first point, we consider the 'alleged paradox' in paragraphs 6.278 to 6.292.

5.37 With respect to the second point, we consider the Parties' submissions on SME evidence and diversion ratios in paragraphs 6.118 to 6.140.

5.38 With respect to the third point, we consider that ECF platforms are able to identify early stage SMEs/smaller rises, and they can and do discriminate (over price or other terms) between customers. As evidence of discrimination, SMEs responding to our questionnaire indicated that negotiating with the Parties was common, in particular in relation to the fee rate (see paragraph 6.150). This is consistent with evidence from the Parties: for example, we note that '[✂]'. Seedrs submitted that SMEs engage in a two-stage process when choosing ECF. The first stage involves a general appraisal of the possible sources of funding. SMEs may be considering a range of options different from ECF. In the second stage, the SME is likely to have narrowed down its options to one or several channels. In our view, this provides the Parties with a further opportunity to identify those SMEs who may have fewer options or no options other than an ECF platform to secure investment.

5.39 With respect to the fourth point, we consider the Parties' lost opportunities submissions in paragraphs 6.244 to 6.274.

5.40 With respect to the fifth point, on the hypothetical monopolist test, we note that:

(a) When identifying the relevant product market, we have particular regard to demand-side factors (the behaviour of customers and its effects), and we also consider supply-side factors (the capabilities and reactions of suppliers in the short term) and other market characteristics.[108]

(b) We have used the 'hypothetical monopolist test' as a framework to check that the relevant product market is not defined too narrowly.[109] The

[108] Merger Assessment Guidelines, paragraphs 5.2.6 and 5.2.7.
[109] Merger Assessment Guidelines, paragraph 5.2.8.

hypothetical monopolist test is a framework to assess whether products or services are substitutes. There are different ways to gather evidence to inform this assessment of substitutability. In some circumstances, the CMA will, as set out in the Guidelines, consider whether the hypothetical monopolist could profitably raise the price of at least one of the products in the candidate market by at least a small but significant amount over a non-transitory period of time (eg by a 'SSNIP').[110] This is, however, only one possible source of evidence in applying the hypothetical monopolist test, and the CMA may depart from this approach, assessing whether the narrowest plausible candidate product market can be widened by reference to other evidence relating to demand- or supply-side substitutability.

(c) In applying the hypothetical monopolist test in this case, we have asked customers which suppliers they see as alternatives to the Parties, in order to assess demand-side substitutability between different types of suppliers.[111] We have also considered evidence from the Parties' internal documents and evidence on diversion ratios as set out in Chapter 6.

(d) We consider that the evidence we have used is probative of the actual requirements and preferences of customers and on how they perceive the alternatives to their existing suppliers. We have not asked directly how customers would respond to a SSNIP test because we considered that the evidence that is available in this case was a preferable and sufficient alternative means to determine whether the candidate product market should be widened, for several reasons, as set out in sub-paragraph (e) below.

(e) The supply of ECF platforms is a service where prices are negotiated individually with customers and there is also a high degree of service differentiation across customers. Further, price is just one parameter of competition amongst others, such as quality, range of SMEs and investor opportunities, and product development and innovation. Finally, ECF platforms are 'two sided' markets and, as such, the implementation of a SSNIP test is more complicated, as prices charged to each set of customers take account of the need to get both sets 'on board'.[112]

---

[110] Small but significant non transitory increase in price. Merger Assessment Guidelines, paragraph 5.2.20.
[111] The specific questions we asked to assess demand-side substitutability are presented in the relevant sections of Chapter 6.
[112] Merger Assessment Guidelines, paragraphs 5.2.10 and 5.2.11.

Provisional conclusion on product market

5.41 Our provisional conclusions on the relevant product market are set out below:

(a) The main mode of competition between ECF platforms is to attract SMEs onto the platform and the opportunity to invest in SMEs is a key factor driving investors' choice towards ECF platforms.

(b) There is limited demand-side substitutability between ECF platforms and other sources of equity finance, such as VC and angels. ECF platforms have a differentiated product offering compared to other sources of equity finance. SMEs appear to choose ECF platforms over other equity finance providers for their specific features, which differentiate ECF platforms from other sources of equity funding. Generally, SMEs do not perceive other sources of equity finance as close substitutes to ECF platforms. On the supply side, conditions of competition are different between ECF platforms and other equity finance providers and the evidence indicates that other equity finance providers have a limited ability and incentive to quickly switch capacity to ECF.

(c) We have not found a clear, substantial discontinuity between the conditions of competition and competitive constraints for different groups of SME customers to justify a segmentation of ECF platforms on the basis of the SME development stage.

5.42 Considering the above evidence, we have provisionally concluded that the relevant product market is the supply of ECF platforms to SMEs and investors. However, we assess the strength of the constraints exerted by other equity finance providers, such as VCs and angels, on the Parties in Chapter 6 as part of the competitive assessment.

Geographic market definition

Parties' views

5.43 The Parties submitted that the 'predominant area of overlap' between their activities 'is in the field of equity financing for SMEs in the UK'.

5.44 The Parties submitted that 'crowdfunding is generally specific to the country in which the SME raising the funds is located, ie investors on a crowdfunding platform are predominantly resident in the country of the fundraising company', which in both Parties' case 'is usually the UK'.

5.45 The Parties further submitted that 'there are no observed trends of changes in commission rates triggering a switch by SMEs to seeking fundraising abroad, or of any increase in investor fees causing investors to redirect their crowdfunding investments abroad'.

Our assessment

5.46 The evidence indicates that the geographic market is the UK. First, SMEs and investors responding to our questionnaire generally refer to UK-based ECF platforms when indicating alternatives to the Parties or when responding to our diversion question.

5.47 Second, our analysis of the Parties' internal documents found limited reference to non-UK ECF platforms. While we found a number of references to non-UK ECF platforms in monitoring documents, these were mainly in the context of the Parties assessing the case to expand their operations into non-UK markets (see paragraph 6.82). We did not find any documents indicating that the Parties perceive that they face competition from non-UK ECF platforms in relation to UK SMEs (see paragraph 6.83).

5.48 Third, when the Parties produce market shares in their internal documents these are generally calculated on a national basis using Beauhurst data.

Provisional conclusion on geographic market

5.49 We have provisionally concluded that the geographic market is the UK.

Provisional conclusions on market definition

5.50 We have provisionally concluded that the relevant market is the supply of ECF platforms to SMEs and investors in the UK.

6. Horizontal unilateral effects

Introduction

6.1 In this chapter we set out our assessment of our theory of harm in relation to the Merger.

6.2 The chapter is structured as follows:

(a) Assessment framework;

(b) Nature of competition;

(c) Competition between the Parties and with third-parties; and

(d) Provisional conclusion on horizontal unilateral effects.

Assessment framework

Approach to unilateral effects

6.3 We have investigated a single theory of harm; namely, horizontal unilateral effects. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged entity to worsen its offering profitably or not improve that offering as much as it would otherwise have done. In differentiated product markets, such as this one, our assessment of horizontal effects typically focuses on evidence of closeness of competition between alternatives (also referred to as closeness of substitution).[113] Horizontal unilateral effects are more likely where the merger eliminates a significant competitive force in the market or where customers have little choice of alternative supplier.[114]

Approach to evidence

6.4 We have gathered and taken account of a range of evidence in our assessment. We considered the views of the Parties, their internal documents, and their financial data. We also assessed the views of third-parties, including customers and competitors.

6.5 This evidence informs our assessment of the current competitive conditions in the market. As part of our forward-looking assessment, we have also considered the plans, strategies and forecasts of the Parties and third-parties. We have therefore considered both the static and dynamic aspects of the market in our assessment.

6.6 We set out briefly below the different types of evidence we have considered; our detailed assessment of the evidence is provided in the remainder of this chapter.

6.7 In considering the weight to be placed on each piece of evidence, we have taken into account factors such as the robustness of the data/methodology adopted, the interests of the party providing the information or view, the age of the information or document, context, author and recipient of a document, and the purpose for which it was produced. We have not relied on any one piece

---

[113] Where appropriate it can also include an assessment of variable profit margins and customer price sensitivity. Merger Assessment Guidelines, paragraph 5.4.9.
[114] Merger Assessment Guidelines, paragraph 5.4.12.

of evidence to inform our decision; rather, we have assessed all of the evidence together and in the round, including giving due regard to the extent that our view on the interpretation of a piece of evidence is corroborated (or not) by other evidence available to us.

Evidence from the Parties

6.8 We considered evidence from the Parties submitted during the phase 1 inquiry, responses to our informal and formal requests for information and documents during phase 2, virtual 'site visits', formal hearings, and other phase 2 submissions. We recognise that the Parties have an interest in the outcome of our inquiry. Therefore, as in any inquiry, in assessing views of the Parties, we have given due regard to a range of factors including the extent to which the views were corroborated by evidence they submitted and/or by other evidence available to us.

6.9 We have gathered and reviewed more than 300 internal documents. In doing so we assessed documents produced at the senior leadership and Board levels.

6.10 Internal documents provide a useful source of evidence as they reflect how the Parties assess the market in the ordinary course of business, and when making commercial and strategic decisions. They provide insights into such issues as the nature of competitor monitoring, the Parties' perceptions of third-party players, and the Parties' views of future developments.

Evidence from customers

6.11 We have gathered information from both SME and investor customers. This was primarily in the form of written questionnaires, supplemented by clarificatory calls. Our SME customer questionnaire received around 50 responses and our investor questionnaire received around 30 responses. Consistent with our approach in other cases where we have obtained comparable sample sizes, we have interpreted this evidence qualitatively, rather than drawing firm quantitative conclusions, and have assessed it alongside other evidence.

Evidence from third-party equity finance providers

6.12 We have gathered evidence and views on the nature of competition and the competitive conditions faced by the Parties from a range of providers, including ECF platforms, angels, angel networks, corporate services firms and VC firms. Our evidence comes mostly from written questionnaire responses and was supplemented by clarificatory calls. We sent questionnaires to more than 70 third-party equity finance providers and we received 19 responses.

6.13 Our Guidance explains that we may take into account the views of competitors and informed third-parties.[115] We recognise that some third-parties have an interest in the outcome of our inquiry. Therefore, as in any inquiry, when using third-party views as evidence, we have given due regard to a range of factors including: the incentives of the party giving that view; the extent to which the party had knowledge that was relevant to the subject areas being explored as part of our assessment, and the extent to which the view was corroborated by other evidence available to us.

Nature of competition

6.14 To aid our assessment of competitive effects, we have examined how customers behave in this market, the interaction between the two sides of ECF platforms and the parameters over which competition takes place.

Customer behaviour

6.15 SMEs are a diverse set of customers. They have varied requirements for the amount of equity they raise and the frequency of raising equity.

Distribution of raise sizes

6.16 Among the Parties' customers, in 2020, the average (median) raise size was £[✂] for Crowdcube and £[✂] for Seedrs. The distribution of raise sizes stretched from the smallest value raises of £[✂] for Crowdcube and £[✂] for Seedrs, to the largest value raises of £[✂] for Crowdcube and £[✂] for Seedrs. Table 6.1 indicates that there is a large range of raise sizes, from the low thousands of pounds up to multi-million-pound raises.

[115] Merger Assessment Guidelines, paragraph 5.2.15(a).

Table 6.1: SME raise size distribution (Crowdcube and Seedrs customers)

	Crowdcube		*Seedrs*	
Statistics	*Value (£ 000s)*	*Proportion of value of total deals at, or below, this level*	*Value (£ 000s)*	*Proportion of value of total deals at, or below, this level*
Min	[✂]	[✂]	[✂]	[✂]
1st quartile	[✂]	[✂]	[✂]	[✂]
Median	[✂]	[✂]	[✂]	[✂]
3rd quartile	[✂]	[✂]	[✂]	[✂]
Average (mean)	[✂]	[✂]	[✂]	[✂]
Max	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of Parties data.

6.17 SMEs that raise larger amounts are generally more valuable to the Parties because they make a greater contribution to fixed costs. ECF fees are typically proportional to the raise size and hence larger raises generate higher revenues.

Extent of repeat business

6.18 SMEs typically raise funding multiple times during the course of their growth. The Parties' SME customers are a mix of those that have previously made a raise with the respective Party and new customers. In 2020,[116] the proportion of Crowdcube's funding rounds that were for SMEs that had previously raised on the Crowdcube platform was [✂]%.The equivalent proportion for Seedrs' SME customers was [✂]%.These proportions are higher than the share of the Parties' customers in the overall population of SMEs in the UK,[117] showing that SMEs that have used the Parties before are more likely than other SMEs to use them in future.

6.19 Winning repeat business is important for the Parties. For example, Crowdcube said [✂]. And Seedrs said '[✂]'. We therefore expect that when an ECF platform makes an evaluation of the expected profitability of any particular SME's raise, this may include an (explicit or implicit) evaluation of the potential for repeat business from that customer.

6.20 Repeat business may be profitable for the Parties in two main ways. First, the direct costs of winning repeat business may be lower, for example through lower marketing and engagement costs, since the SME is already familiar with the platform. Second, repeat business, by its nature, involves a SME that has matured to a degree and therefore they will typically be making larger raises, which tend to be more profitable (see paragraph 6.17).

---

116 Data provided was YTD until mid-December 2020.
117 There are around 2.7 million SMEs in the UK (see paragraph 2.2) and the Parties serve <1,000 SME raises per year, suggesting a proportion of <1%.

6.21 However, Seedrs also submitted '[✂]'.

6.22 In a similar vein to SMEs, the Parties' investor customers are a mix of repeat customers, which have invested multiple times, generally in more than one SME, and new customers which have only invested in a single SME. Crowdcube told the CMA that it [✂] in a meaningful way as it does not consider this important to the business. Seedrs said that 'approximately [✂]% of investments by volume are made by repeat investors, and approximately [✂]% are made by first-time investors. However, first-time investors tend to invest higher amounts (often because their first investment is in a SME with which they are particularly familiar), so even excluding all Reflected investments,[118] roughly [✂]% of investments by value are made by repeat investors in a given year, with [✂]% made by first-time investors'.

6.23 This relatively high proportion of repeat investors shows that there are many 'loyal' ECF investors.

Co-investment

6.24 SMEs may raise equity from multiple sources at different points in their development and sometimes from multiple sources simultaneously as part of the same funding round. SMEs are unable to raise equity on multiple ECF platforms at the same time, but can receive investment through an ECF platform and other sources simultaneously. Investors may invest through multiple channels, including different ECF platforms, at the same time.

6.25 We estimated that around [✂]% of the value of investment rounds by Seedrs' SME customers in 2020 was 'reflected investment'. In response to our SME questionnaire, between 33–36% of responding SMEs had undertaken co-investment.

6.26 The role of co-investment in this market is relevant to our competitive assessment to the extent that it affects competitive dynamics. The finding that some SMEs seek to engage in co-investment suggests that at least some SMEs may view multiple sources of equity funding as complements rather than substitutes. The use of multiple differentiated channels suggests that there may be a benefit to SMEs from this differentiation. This is supported by evidence from our SME questionnaire (see paragraph 6.146). We found that such co-investment does not typically involve competition between the

[118] 'Reflected investment' is investment that is part of an investment round that is not made through a given platform, but is reflected on it to illustrate the progress of the round as a whole.

different sources of equity funding for the amount that SMEs would like to raise from each (see paragraph 6.146).

Interaction between the two sides of ECF platforms

6.27 The Parties' ECF platforms are two-sided platforms with the Parties competing to attract SMEs on one side and investors on the other. These two sides are inherently linked and the presence of customers on one side of the platform affects the other. In particular, the evidence suggests that these platforms are likely to experience indirect network effects, whereby the attractiveness of the platform for users on one side of the platform (eg investors) is increased by the presence of users (eg SMEs) on the other side of the platform, and vice versa. If an ECF platform attracts a SME it gains the revenue from that SME and also the revenue from the investors that are attracted to the platform to invest in that SME (and from investors who are attracted to the platform by the range of SMEs and invest in another SME). Consequently, when competing for business on one side of the platform, ECF platforms may consider the impact on the other side of the platform.

6.28 The competitive dynamics on the two sides are somewhat different, with some parameters of competition (eg service fees, service quality and some platform features) being set separately on each side, and some features being common to both sides (eg website functionality). The Parties' submissions and internal documents indicate that, on the whole, the main focus of competition for the Parties is on the SME side rather than the investor side (for example, based on internal documents, they monitor and benchmark each other and third-parties mainly in relation to SME-side variables, such as number of SME deals, and price competition mainly relates to SME fees – see paragraphs 6.63, 6.70 and 6.71).

6.29 Further, each SME can only raise on one platform for a given deal ('single homing'). On the other hand, investors can and do use multiple platforms ('multi-homing') and there are no fixed access fees (investor fees are proportionate to the size of the investment). Additionally, many investors are interested in a specific SME. Both these factors suggest that network effects for investors may not be as strong. With SMEs single homing and investors being able to multi-home, we would expect competition to be focussed mainly on the SME side (consistent with the factors discussed in paragraph 6.28).

6.30 Based on our assessment of the evidence, our provisional view is that competition between ECF platforms is mostly focused on the SME side of the market. ECF platforms compete to attract SMEs to their platform and in turn investors are attracted to the platform by the SME opportunities available. This is supported by evidence from the Parties themselves (see paragraphs 6.168 and 6.169) and investors (see paragraph 6.174). Therefore, the identities and quantity of SMEs on the Parties’ platforms can be considered a parameter of competition from the perspective of investors.

Parameters of competition

6.31 Competition can help to drive good outcomes for customers through exerting competitive pressure across the various aspects of suppliers’ offerings. In this section we consider how competition between providers of equity finance to SMEs occurs across each of price, quality, service, range, innovation and product development.

Price (fee rates and valuations)

Fee rates

6.32 The Parties earn revenues by charging fees to their customers. They 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).[119] There is evidence that the Parties compete over the level of fees charged to SMEs (see paragraph 5.14 and 6.150). We have seen little evidence as to the extent of competition, if any, over fees charged to investors.

Valuations

6.33 The price at which SMEs offer equity to investors is its valuation. It can be subject to negotiation. From a SME perspective, all else being equal, it would like to receive as much funding as possible for a given share of its business at the highest possible valuation. The reverse is true for investors.

6.34 Different sources of equity funding typically offer slightly different levels of valuation. ECF platforms generally have a more limited role in determining valuations (see paragraph 6.147(a)) than other forms of equity finance (eg individual angels). Differences in valuation are therefore a differentiating factor between ECF platforms and other forms of equity finance, and ECF platforms are typically seen as being able to provide higher valuations relative to other sources of equity finance (see, for example, paragraph 6.219(b)).

---

[119] For example, in respect of fees, Crowdcube charges SMEs [✂]. In contrast, Crowdcube charges investors [✂]. The Parties’ product features and quality of service are also different on each side of the market.

Quality and range of products and service

6.35 ECF platforms tend to be differentiated from other equity finance providers in the quality and range of products/services which they offer. For example, differences in quality/range can be found between ECF platforms. Crowdcube noted ‘[✂]’.

Range of opportunities

6.36 On each side of an ECF platform, the range of opportunities on the other side of the platform is a parameter of competition. For SMEs, the number and range of investors (eg retail and institutional) affects the attractiveness of the platform, both through determining the amount of equity investment that may be available and because of the marketing benefits associated with some of these potential investors also potentially being customers of the SME. For some investors, the range of SME opportunities (encompassing their number, sector, size and quality) affects the attractiveness of the platform.

Product development and innovation

6.37 Providers of ECF platforms compete in part through product development and innovation. The outcome of these processes can be seen in the different services and features that they offer, and contributes to their differentiation. For example, Seedrs operates a secondary market offering and Crowdcube has developed something similar, its Direct Community Offer (DCO), which allows early investors to sell or buy shares without the issuance of new equity. Crowdcube said ‘[✂]’. Other examples of product development include mobile apps and the nominee structure.

Summary of parameters of competition

6.38 On the basis of the evidence set out above, our provisional view is that ECF platforms compete over price, quality, range and service as well as product development and innovation. Competition on fee rates and terms appears to be particularly important on the SME side.

Competition between the Parties and with third-parties

6.39 In this section, we assess the strength of the constraints on the Parties from each other, other ECF platforms in the UK and ‘out-of-market’ equity finance providers.

6.40 In this section, we set out our assessment of the evidence as follows: (i) market shares; (ii) internal documents; (iii) customer evidence – SMEs;

(iv) customer evidence – investors; (v) third-party equity finance providers' evidence; (vi) other third-parties' views; (vii) the Parties' lost SME opportunity submissions; (viii) Seedrs' submissions regarding third-party press articles and commentary; and (ix) the Parties' submissions as to the CMA's alleged 'paradox'.

Market shares

6.41 As described in Chapter 5, we have defined a market for the supply of ECF platforms to SMEs and investors in the UK. As part of our assessment of horizontal unilateral effects, we have produced estimates of market shares in ECF platforms using data on SME deals in the UK provided by ECF platforms. We note that, while the CMA may use market shares as an initial indicator of the change in market power resulting from a merger, since this is a differentiated market we have given greater weight to evidence on closeness of competition.

Parties' views

6.42 The Parties submitted market share estimates based on the total investment value for equity finance for SMEs in the UK. They calculated total market size using alternative information sources that yielded different equity finance market sizes. They submitted that their combined market share in equity finance for SMEs in the UK in 2018 was 7.5% based on a market size of £3 billion and 3.4% based on a market size of £6.7 billion. They also submitted that the equity finance for SMEs market is 'highly diverse and fragmented'.

6.43 The Parties submitted market shares in equity finance for SMEs in the UK for different SME-size segments. They submitted that their combined market share in seed stage equity financing in 2019 would fall between 5%[120] to 9.9%,[121] while it would fall between 5.2% to 7.1% in venture stage and be less than 2% and 1% respectively in growth stage equity financing.

6.44 The Parties further submitted that ECF 'is a very small-scale activity as compared to the overall SME equity finance market'. The Parties did not submit a combined market share estimate for the ECF segment. They submitted that Beauhurst's 2019 report 'refers to only the Parties as ECF providers'. The Parties noted that this 'is due to a change in the business

[120] Using verified financing figures.
[121] Using announced financing figures.

model of Syndicate Room, which was previously regarded as the main other ECF provider'.

Our assessment

6.45 We considered producing market shares based on volume (number of SME deals) and value (amount raised in funding rounds). In principle, both measures may contain useful information about the competitive significance of providers in the ECF platform market. On the one hand, the Parties have strategies to win a range of smaller and larger deals, suggesting that volume-based measures provide a broad indication of competitive strength. On the other hand, we understand that larger deals tend to be more profitable for ECF platforms, which means that value-based measures provide information on competitive strength for the more profitable part of the market.

6.46 However, value-based measures raised some practical difficulties. The value of a deal may reflect co-investment and include amounts corresponding to sources of finance which are different from ECF which, in practice, is difficult to disaggregate. Using the total value of the deal without accounting for co-investment could bias market share estimates in the ECF market. Therefore, since we lacked reliable data on the value corresponding to ECF in each deal, we have produced market shares based on the number of deals.[122]

6.47 We have used the Parties' and third-party evidence to identify which suppliers to include in the ECF market:

(a) The Parties submitted that [✂]. Crowdcube also submitted that Crowd for Angels was an example of new entry that caters for angels but that also presents investment opportunities in the same way as the Parties do.[123]

(b) Envestors and Crowd for Angels submitted that they provide ECF services. SyndicateRoom told us that it exited from ECF in March 2019. Venture Founders and Angels Den submitted that they do not supply ECF.[124,125] Our evidence gathering from third-party equity finance

---

[122] The Parties have not made any specific submissions on the appropriateness of volume-based measures or the feasibility to disaggregate co-investment.
[123] Crowdcube response to the CMA's Issues Statement, 18 December 2020, paragraph 3.4.
[124] Venture Founders describes itself as a VC firm. On its website Venture Founders describes itself as one of the UK's leading investors in FinTech and Software as service scale-up businesses. Venture Founders has a portfolio of investments in 35 businesses which it has been building up since 2014 (see Venture Capital Investing | VentureFounders).
[125] Angels Den describes itself as having an angel network and VC offering. Angels Den supplied equity funding to [✂] SMEs in 2020. It describes most of its SME customers as being 'High-growth early-stage businesses' that come from a variety of different industries. Angels Den accepts investments from High Net Worth Individuals and Sophisticated Investors and has a minimum investment amount of £5,000 (see How To Invest In Startups | Angels Den).

providers revealed that Growth Capital Venture and Crowd2fund also provide ECF services.

6.48 On the basis of the information summarised above, we have included the following suppliers in the ECF platform market in addition to the Parties: Crowd for Angels, Crowd2fund, Envestors and Growth Capital Venture. SyndicateRoom has been included in the ECF platform market in 2018 only. Venture Founders and Angels Den have been excluded as they do not supply ECF.

6.49 We have produced market shares for the period 2018-2020 using information from the Parties and these other providers. Table 6.2 presents our estimates.

Table 6.2: Market shares of ECF platforms in the UK based on the number of deals, 2018-2020

(%)

ECF provider		*Market share*	
	2018	*2019*	*2020*
Seedrs	[30–40]	[40–50]	[50–60]
Crowdcube	[40–50]	[40–50]	[40–50]
Parties combined	[80–90]	[90–100]	[90–100]
Envestors	[5–10]	[5–10]	[0–5]
Growth Capital Venture	[0–5]	[0–5]	[0–5]
Crowd for Angels	[0–5]	[0–5]	[0v5]
Crowd2fund	[0–5]	[0–5]	[0–5]
Syndicate Room	[5–10]	-	-

Source: CMA analysis.
Note: SyndicateRoom exited ECF in March 2019.

6.50 According to our estimates, there were around [✂] SME ECF deals in the UK in 2020. The Parties have an extremely high combined market share of [90–100%] of total ECF deals in 2020. This combined share has increased over the last three years from [80–90%] in 2018. The increment arising from the Merger is very large, at [40–50%]. Other ECF platforms have very small market shares and some of them are specialised in specific industries. Our estimates are also consistent with Beauhurst's 2019 report, which yields an estimate for the Parties' combined market share of 96% in 2019.[126]

6.51 These market share estimates indicate that post-Merger the Parties will have a very strong position in the relevant market.

6.52 We have considered market share estimates alongside the body of evidence on closeness of competition between the Parties and the strength of the competitive constraint imposed on the Parties by alternative ECF platforms and by other 'out of market' sources of equity funding.

[126] Beauhurst, The Deal: Equity investment in the UK 2019, page 32.

Internal documents

6.53 This section summarises our analysis of the Parties' internal documents that we found relevant to the assessment of competition.[127]

6.54 We first summarise the Parties views' in relation to internal documents and then discuss our findings in relation to competition between the Parties and competition with third-parties.[128]

Parties' views

6.55 Crowdcube submitted that 'it is not yet at a stage of development where it can devote time and resources to producing long-term or high-level thought pieces about the evolution of its place in the market'; instead its internal documents are 'about day-to-day activities and competition between the Parties is a day-to-day matter'.[129] Further, Crowdcube submitted that Seedrs has a relatively similar business model to Crowdcube. On this basis, it is normal behaviour and to be expected that Crowdcube would take account of publicly available information concerning the market positioning and/or commercial terms of such a competitor. Crowdcube submitted that 'the fact that such comparisons have been undertaken by Crowdcube does not in any way indicate that competition to Crowdcube is in any way limited to Seedrs'.

6.56 Crowdcube submitted that 'analysis of Seedrs' performance and commercial strategy is mainly helpful to gauge Crowdcube's own performance. Crowdcube's competitive strategy and offering are more informed by the feedback received from customers as to what attractive service offerings are being made available by our competitors. For instance, Seedrs offered a nominee structure before Crowdcube did and Crowdcube had to adapt that model to be able to compete and win relevant business. Crowdcube also analyses other competitors' performance using third-party reports such as Beauhurst.

[127] In our requests for internal documents from the Parties we generally used the following definition: 'Internal documents refer to documents in any form (including, but not necessarily limited to, reports, presentations, studies, internal analyses, analyst reports, industry/market reports or analysis, including customer research and pricing studies) which have been prepared by or for, or received by, any member of the board of directors (or equivalent body) or senior management or the shareholders' meeting of [either Party] (whether prepared internally or by external consultants)'. The timeframes and precise definitions varied depending on each specific question, but our review mainly focused on documents prepared in 2018, 2019 and early 2020.

[128] In relation to third-party players, we focused our review in particular on any relevant references to providers identified by the Parties as competitors, while also seeking out any other relevant mentions of third-party providers or groups of providers in internal documents.

[129] Crowdcube response to the CMA's Issues Statement, 18 December 2020, section 4.6, paragraph 2.

6.57 Seedrs agreed that the documents highlighted in the CMA's Internal Documents Working Paper focus on competition with Crowdcube and submitted that ‘in [its] search for short-term actionable revenue opportunities, Crowdcube has represented the most obvious target of competitive activity’. However, Seedrs stated that ‘the documents put forward by the CMA (in its Annotated Issues Statement and Working Papers) form an exceedingly limited proportion of its internal strategic documents’. Seedrs submitted that ‘many of our other internal documents – including especially those focused on marketing and product – are fundamentally about how we compete in a broader SME equity market’. Seedrs further submitted that ‘we often do not name specific venture capital firms or angels in those documents, as we are competing with them more as a group than at an individual level’.

6.58 Seedrs submitted that ‘our competition with Crowdcube is rarely about [✂]. These factors occasionally come into the discussion in the case of [✂] – for whom we are often competing against a number of other funding sources as well – but in the vast majority of cases the competition is about [✂]. This is important because this basis of competition adds [✂], and so any decline in it following the Merger [✂].

6.59 We consider these submissions below in paragraphs 6.72, 6.73, 6.78, 6.86 6.87, 6.89, 6.90 and 6.92.

Competition between the Parties

Monitoring and benchmarking

6.60 We found that the Parties closely monitor each other’s competitive positioning and performance. For example, they do so by benchmarking against each other on measures including deal volume and investment raised, and by analysing the relative strengths and weaknesses of the two businesses. Of the many documents of this type that we identified, we set out an illustrative subset below.

6.61 Crowdcube documents showing monitoring and analysis of Seedrs include the following:

(a) A marketing strategy spreadsheet dated [✂].

(b) A slide deck dated [✂]. No other providers are mentioned in this document.

(c) A commercial team document dated [✂]. No other providers are mentioned in this document.

6.62 Seedrs documents showing monitoring and analysis of Crowdcube include the following:

(a) A Seedrs board level document dated March 2018 presented by Jeff Kelisky (Seedrs Chief Executive Officer) plots a number of equity providers and groups of provider on a chart (see Figure 6.1 below). [✂]. This document asks 'how will we compete' and in response lists capabilities including service delivery, market facing product capabilities, core investment platform and foundations.

Figure 6.1: [✂]

[✂]

Source: Seedrs.

(b) A Seedrs executive paper dated June 2018 is focussed on a head to head comparison of both Seedrs and Crowdcube in the first quarter of 2018, with respect to success rates (percentage campaigns that were live funded by either Party), deal volumes and deal investment. No other providers are mentioned in this document.

(c) A Seedrs spreadsheet [✂]. No other providers are mentioned in this document.

(d) A Seedrs marketing update to the board dated [✂]. No other providers are mentioned in this document.

6.63 Across all of the monitoring and benchmarking documents that we reviewed, on the whole, the main focus of this monitoring and benchmarking activity appears to be on SME-side variables. For example, we observe that benchmarking of SME deals won and campaign success rates mainly relates to SME customers, whereas press/media monitoring and investment raised may relate to the Parties' efforts to attract both investor and SME customers. This is consistent with our view that the two-sides of the Parties' platforms are closely linked (see paragraphs 6.27 to 6.30 above).

Win/loss analysis

6.64 We identified a number of documents in which the Parties assess reasons why they have won or lost SME deals against each other:

(a) A Crowdcube board level spreadsheet dated [✂]. Crowdcube does not analyse deals lost to any other providers in this document.

(b) A Seedrs board presentation dated [✂]. No other providers are mentioned in this document.

(c) A Seedrs board presentation dated [✄]. No other providers are mentioned in this document.

6.65 We note that, in the documents considered above, a range of factors is mentioned as driving wins/losses. These include reasons related to relationships, and reasons related to price (for example, '[✄]' at paragraph 6.64(a) and '[✄]' at paragraph 6.64(b)).

Competitive pressure faced and competitive strategies

6.66 A number of the Parties' internal documents directly discuss the types of competitive pressure that they perceive facing from each other, and their competitive strategies to compete against each other.

6.67 Crowdcube documents discussing competition with Seedrs include the following:

(a) A commercial team document dated [✄].

(b) A board level document dated [✄].

(c) A Crowdcube presentation to the Seedrs board dated [✄]. No other providers are named in this document.

6.68 Crowdcube documents referring to strategies that Crowdcube has developed to compete with Seedrs include the following:

(a) A commercial team spreadsheet dated [✄].

(b) A board level document dated [✄]. One other provider named in this document is Syndicate Room; [✄].

(c) A commercial and strategy team planning document dated [✄]. No other providers are named in this document.

6.69 Seedrs documents discussing competition with Crowdcube and/or strategies to compete with Crowdcube include the following:

(a) An executive paper dated [✄]. No other providers are mentioned in this document.

(b) A board presentation dated [✄]. No other providers are mentioned in this document.

(c) A board presentation dated [✄]. No other providers are mentioned in this document.

(d) A board presentation dated [✂]. No other providers are mentioned in this document.

6.70 We note that both Crowdcube's and Seedrs' documents set out above refer to competition with the other Party in relation to prices charged to SMEs, as well as to competitive strategies related to building relationships and partnerships. In addition, the Seedrs document at paragraph 6.69(d) shows a strategy to compete with Crowdcube on the development of product features.

6.71 The documents above refer to competitive parameters on the SME-side of the platform (for example, the references to SME-side pricing at paragraphs 6.67(a) to 6.67(c), 6.68(a) and 6.69(b) above), as well as to competitive parameters on the investor-side of the platform (for example, the nominee and secondary market features discussed in paragraph 6.69(d) above). The document at 6.69(d) above suggests that Seedrs views investor-side features as helping it to compete for SMEs.

6.72 We note Seedrs' submission that 'our competition with Crowdcube is rarely about [✂] … these factors occasionally come into the discussion in the case [✂][130] – for whom we are often competing against a number of other funding sources as well – but in the vast majority of cases the competition is about [✂]' which '[✂]'.This submission does not seem to be borne out by the evidence from internal documents above. As shown above, we have found references to price competition with Crowdcube in Seedrs' documents (and vice versa). These references do not appear to be restricted to large deals (for example, see the documents in paragraphs 6.67(b), 6.68(a) and 6.69(b)). We recognise that, from the documents that we have reviewed, other factors, including relationships, also appear to be an important part of competition for SMEs. In relation to sales and marketing, we consider that activity in these areas does not necessarily suggest that price and quality are unimportant; rather, sales and marketing are ways in which Seedrs communicates different aspects of its product offering, including aspects related to price and quality.

6.73 We note Crowdcube's submission in relation to internal documents that 'competition between the Parties' is a day-to-day matter' and Seedrs submission that 'in [the] search for short-term, actionable revenue opportunities Crowdcube has represented the most obvious target of competitive activity'. First, we note that day-to-day and short-term competition is highly relevant to our assessment of the competitive effects of the Merger. Second, in our view, the documents that we have reviewed show that the

[130] [✂].

Parties also compete on a longer-term basis. They show competition over the development of their product offerings and the similarity of the Parties' product development ambitions (discussed below in paragraphs 6.77 and 6.78) which, in addition to the Parties' submission that they compete in the short term, is also suggestive of close competition over the longer term. Third, Crowdcube did not submit other evidence to support the view that other providers are likely to be more significant competitors over time. We assess its submissions in relation to entry and expansion in Chapter 7.

Product development

6.74 A number of the Parties' internal documents set out their respective visions for developing the products and services that they offer to SMEs and investors.

6.75 The following documents refer to Crowdcube's ambition to broaden its services:

(a) A Crowdcube investor presentation, dated [✄].Services mentioned, both in relation to SMEs and investors, are the same as those mentioned in the paragraph 6.75(c) below.

(b) An investment fees document dated [✄].

(c) A board level document dated [✄].

6.76 The following Seedrs documents refer to Seedrs' ambition to broaden its services:

(a) A board presentation dated [✄].

(b) A slide deck aimed at Seedrs investors dated [✄].

6.77 While we recognise that there is some uncertainty around the implementation of the Parties' product development plans, the documents above indicate that both Parties have similar ambitions to broaden the services that they offer and serve to a wide variety of investor and SME needs. For example, the Parties' documents above suggest that each has plans to provide services to growing SMEs throughout their lifecycle. Both Parties refer to services allowing SMEs to better manage investments, to services that are aimed at enhancing investor relations, and to improved data and insights for investors.

6.78 We note Crowdcube's submission that its competitive strategy and offering are informed less by analysis of Seedrs and are 'more informed by the feedback received from customers as to what attractive service offerings are being made available by our competitors. For instance, Seedrs offered a nominee structure before Crowdcube did and Crowdcube had to adapt that model to be able to compete and win relevant business'.[131] In our view, this represents competition with Seedrs over product development. We also note that the Crowdcube document at 6.75(c) above dated December 2019 refers to plans for 'DCO full launch' in 2020 and that Crowdcube went on to launch this secondary market offer in August 2020.[132] As set out in Chapter 2, Seedrs also has a secondary market offer. While there are differences between the Parties' secondary offerings, we consider that Crowdcube's development of its DCO offering represents a further example of competition with Seedrs over product development.[133]

Competition with third-parties

Monitoring and benchmarking of third-party ECF platforms (as categorised by the Parties)

6.79 In relation to third-parties based in the UK that the Parties categorised as ECF platforms, we found a number of examples of Crowdcube monitoring SyndicateRoom and Venture Founders. We also found a number of examples of Seedrs monitoring SyndicateRoom. We set out illustrative examples of these documents below. We note that Syndicate Room no longer runs crowdfunding campaigns, having moved to a VC fund model in 2019, while Venture Founders submitted that it is a VC firm and does not supply ECF.

6.80 Examples of Crowdcube monitoring SyndicateRoom and/or Venture Founders include the following:[134]

(a) A board level spreadsheet dated [✂].

(b) A spreadsheet named 'Competitors deal log' dated [✂].

(c) A shareholder update document for the first quarter of 2018 [✂].

(d) A management team document dated [✂].

6.81 Examples of Seedrs monitoring SyndicateRoom include the following:[135]

---

[131] We note that Crowdcube did not submit examples relating to competitors other than Seedrs.
[132] Crowdcube blog post 'Introducing our new secondary product for later-stage companies', 20 August 2020 (accessed on 16 February 2021).
[133] Crowdcube noted in the Main Party Hearing with the CMA that in relation to their secondary market offering '[✂]'.
[134] Other examples of Crowdcube documents [✂].
[135] Other examples of Seedrs documents [✂].

(a) As also discussed above in paragraph 6.62(a), a Seedrs board level document dated March 2018 presented by [✂].

(b) A board level document dated [✂].

(c) An internal presentation on two UK focused brand awareness surveys completed in January 2020, dated [✂].

6.82 We found a small number of references to non-UK ECF platforms in the documents that we reviewed. These were mainly in the context of the Parties assessing the case to expand their operations in non-UK markets, including through partnerships with local ECF platforms in such markets. For example:

(a) A slide deck aimed at Seedrs investors dated [✂].

(b) A Crowdcube presentation [✂].

6.83 We note that one Seedrs document appears to suggest that [✂]. We did not find any documents indicating that the Parties perceive that they face competition from non-UK ECF platforms in relation to UK SMEs (we assess the Parties' submissions in relation to possible entry from overseas ECF platforms in Chapter 7).

Monitoring and benchmarking of VCs and angels

6.84 Aside from Syndicate Room and Venture Founders, we found only a very small number of documents in which Crowdcube or Seedrs monitored or benchmarked themselves to specific VCs or angels and we note that these were high-level comparisons. Examples of these documents are as follows:

(a) A Crowdcube document prepared for the Board, dated [✂].

(b) As also discussed above at paragraph 6.81(a), a Seedrs board level document dated March 2018 presented by Jeff Kelisky (Seedrs Chief Executive Officer) [✂].

(c) As also discussed above at paragraph 6.76(b), a slide deck aimed at Seedrs investors dated [✂].

6.85 Overall, based on the documents that we have reviewed that related to monitoring or benchmarking, SyndicateRoom was the ECF platform mentioned most often by both Parties. In the case of Crowdcube, Venture Founders was the next most mentioned platform after SyndicateRoom. In the case of both Parties, other specific equity providers, including angels and VCs, were mentioned in only a very small number of documents in a monitoring or benchmarking context.

6.86 Crowdcube has suggested that the wider equity market is fragmented and that information on non-ECF providers is less transparent, as compared to information on Seedrs.[136] We recognise that these considerations may make granular monitoring of a large number of individual VCs, angel investors and angel networks impractical. However, we noted that, whereas the Parties' documents discuss competitive pressure faced from each other and strategies to compete against each other (see paragraphs 6.66 to 6.69(d)), we did not find any similar evidence in relation to VCs or angels (either in relation to specific providers or as groups of providers).

6.87 We note Crowdcube's submission that 'it is not at a stage in its development where it can produce long-term or high-level thought pieces about the evolution of the market'.[137] Similarly Seedrs submitted that 'We are a small, loss-making business. Much as we would love to produce market-wide strategic analyses or spend time discussing the full scope of our business opportunities and threats, we do not have the resource to do so'.[138] We recognise that resource constraints may mean that Crowdcube and Seedrs have to prioritise their analysis of competitive threats. However, where resources are scarce, we consider there may be an incentive to focus on market players that most directly affect the business, and against whom wins and losses are more significant (as the gains from monitoring and analysing such players may be greater). In this regard, we consider that it is particularly informative that the Parties choose to focus most closely on each other in their documents. In addition, we note that the production of documents that discuss competition need not necessarily be resource intensive.

VCs and angels as an addressable market

6.88 We found that a number of Crowdcube and Seedrs internal documents refer to investment undertaken by VCs or angels as being an 'addressable market'. This is illustrated by the following documents:

(a) A Crowdcube presentation [✂].

(b) A Crowdcube 'UK Market Sizing Analysis' spreadsheet dated [✂].

[136] Crowdcube at the Main Party hearing stated that 'it is incredibly time consuming and energy sapping to try and report on and track the wider equity finance market because it is fragmenting'.
[137] Crowdcube response to the CMA's Issues Statement, 18 December 2020, section 4.6, paragraph 2.
[138] Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.3.1.2.

(c) A Seedrs board level marketing update dated [✂].

(d) A Seedrs slide deck aimed at Seedrs investors dated [✂].

6.89 We consider that, in broad terms, references to VCs and angels as an 'addressable market' may be consistent with the Parties' submissions that they are trying to disrupt the existing equity finance market, including by seeking to sell their ECF services to businesses that would typically use VCs or angels.[139,140,141] However, while these documents are indicative of the Parties' ambitions to expand, in our view this evidence is not informative of the extent of the constraints that they face from VCs/angels in the ECF platform market (we further discuss how expansion by the Parties may impact the constraints that they face at paragraphs 6.288 to 6.291).

6.90 We note Seedrs' submission that, aside from those documents describing competitive initiatives in respect of Crowdcube, 'many of our other internal documents – including especially those focused on marketing and product – are fundamentally about how we compete in the broader SME equity funding market. We often do not name specific venture capital firms or angels in those documents, as we are competing with them more as a group than at an individual level, but our competitive efforts are no less energetic as a result'. We identified and reviewed a number of Seedrs' documents relating to marketing and/or to product development.[142] In these documents, we found that some marketing and product initiatives are not positioned as a response to specific providers or groups of providers. For example, whereas Seedrs' [✂] is a specific initiative to compete with Crowdcube (see paragraph 6.69(d)), other initiatives such as Seedrs' [✂]. We recognise that some of the marketing and product initiatives in these documents, such as '[✂]', may in part be aimed at selling ECF services to businesses that would typically use VC or angel finance. However, we consider that these documents are not informative of the extent to which angels and VCs are close constraints on the Parties, particularly for customers that specifically want to use an ECF platform as part of their funding mix.

---

[139] Seedrs noted in the Main Party Hearing with the CMA that 'we are trying to break into this, this existing market…innovators break into existing markets to disrupt them' and that 'our addressable market…that we have a prospect of winning are those that currently sit within the venture capital, business angel and, to an extent, growth PE world'.
[140] Crowdcube noted in the Main Party Hearing with the CMA that 'we are trying to disrupt the incumbent space'.
[141] We consider that 'addressable market' also has another possible meaning when applied to angel investors, in that the Parties' platforms may be able to 'address' these players by encouraging them to channel their investments in SMEs through the Parties' platforms.
[142] Examples relating to product development include: [✂].

Co-investment and wider relationships with VCs/angels

6.91 We reviewed a number of documents in which the Parties position VCs and/or angels as partners or customers. This is illustrated by the following documents:

(a) A Crowdcube commercial team slide deck dated [✂].

(b) A Crowdcube commercial team spreadsheet dated [✂].

(c) A Crowdcube commercial team document, dated [✂].

(d) Crowdcube's 2020 Commercial Plan discusses [✂].

(e) A Seedrs marketing presentation related to the EIS100 Fund dated [✂].

(f) A Seedrs slide deck aimed at Seedrs investors dated [✂].

(g) A Seedrs slide deck dated [✂].

6.92 The Parties have suggested that their relationship with non-ECF providers is both cooperative and competitive; for example, Crowdcube submitted that it 'currently has to be prepared to work with the venture capital firm as a co-investor even as it competes to secure a share of the allocation'.[143] However, while we accept that there might be an element of competition with co-investors, we have not seen evidence in internal documents of a competitive dynamic between the Parties and a co-investment partner (and the Parties have not submitted evidence substantiating their views on this point). We also note that responses to our SME questionnaire were consistent with this assessment (see paragraph 6.146).

[143] Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.3.2.2, notes that 'SME equity funding is a market that is inherently characterised by "coopetition": putting aside the equity crowdfunding segment for a moment, every other type of provider in this market is in a regular mix of competition and collaboration with other providers (both of the same type and of different types)'. Crowdcube response to the CMA's Issues Statement, 18 December 2020, section 4.2, paragraph 1, notes that 'Crowdcube…currently has to be prepared to work with the venture capital firm as a co-investor even as it competes to secure a share of the allocation'. Crowdcube also noted in the Main Party Hearing with the CMA that 'we have this strange relationship with the … venture capital and institutional investment community, which is sort of frenemy … we require their support and partnership in order to secure allocations of deals that … they are financing, but we are also … competing with them for allocations of deals where they might want to finance the whole round and are rather reluctant to let an allocation be … made available to Crowdcube'.

Customer survey commissioned by Seedrs

6.93 We reviewed a document outlining a survey of Seedrs' entrepreneur/SME customers and investor customers conducted in 2017. We note the following findings in relation to SMEs:

(a) One of Seedrs' main [✂].

(b) In our view, the above indicates that Seedrs considered that at least some of its SME customers were at too early a stage for VCs to be appropriate.

(c) Another of Seedrs' main [✂].

(d) In our view, this suggests that Seedrs' SME customers value some differentiated factors (ie access to a large network) that are not offered by non-ECF providers such as angels and VCs.

6.94 The same document includes the following finding in relation to investor customers: '[✂]'.

Provisional conclusion

6.95 The documents we reviewed indicate that, on the whole, the main focus of competition for the Parties is to attract SMEs to their platforms. The Parties' monitoring and benchmarking activity (in relation to each other and third-parties) appears to focus mainly on SME-side variables (such as number of SME deals) and the Parties compete with each other over SME-side competitive variables, including SME fees, although there is also evidence of competition over product features used by investors.

6.96 The documents we reviewed show that the Parties compete closely with each other. We found that:

(a) the Parties closely monitor and assess each other's competitive positioning and performance: for example, by benchmarking against each other on number of SME deals and other measures; assessing why SME deals have gone to one Party or the other; and analysing their relative strengths and weaknesses;

(b) the Parties' internal documents discuss perceived competitive pressure faced from each other and strategies to compete against each other, including in relation to SME fees;

(c) the Parties compete over the development of their product offerings, with Crowdcube's secondary market offering being an example of this, and

have similar ambitions to broaden the services that they offer and serve a wider variety of investor and SME needs; and

(d) therefore, the Parties compete over short-term competitive variables (such as prices charged to SMEs) and over the longer-term development of their product offerings.

6.97 The documents we reviewed show that the Parties compete less closely with third-parties than they do with each other. We found that:

(a) the Parties undertake much more limited monitoring of third-parties, compared to their monitoring of each other. SyndicateRoom (which offered ECF services until 2019) was the third-party provider mentioned most often by both Parties, followed by Venture Founders (in the case of Crowdcube). Other specific providers, including angels and VCs, were mentioned in only a very small number of documents in a monitoring or benchmarking context;

(b) whereas the Parties' documents discuss competitive pressure faced from each other and strategies to compete against each other, we did not find any similar evidence in relation to players such as other third-party ECF providers, VCs or angels (either in relation to specific providers or groups of provider); and

(c) the Parties view angels and VCs as an 'addressable market' and have co-investment and partner relationships with these players in some settings. Through their submissions, the Parties have suggested that their relationship with non-ECF providers is both cooperative and competitive. However, while we accept there might be an element of competition with co-investors, we have not seen evidence in internal documents of a competitive dynamic between the Parties and a co-investment partner.

Customer evidence – SMEs

6.98 We collected evidence from a sample of SME customers of the Parties. We sent questionnaires to 100 of each of the Parties' SME customers.[144] We received questionnaire responses from 28 Crowdcube customers and 28 Seedrs customers.[145] We held follow-up calls with three of these

[144] When selecting these SME customers, we sought to select a sample of customers that was representative of the Parties' customers in terms of their size of amount raised. We split each Parties' SME customers into ten equally sized groups, based on the amount raised in the SME customers' most recent funding round. We then randomly selected ten SME customers from each of these ten groups for each of the Parties.
[145] Not all respondents answered every question, and hence base sizes may vary by question. [✂].

responding SME customers, where we sought clarifications on the information provided in their questionnaire response.

6.99 In this section, we first summarise a number of submissions the Parties have made in relation to evidence from SMEs and the CMA's approach on this case. We set out our response to these submissions. We then set out the results of our analysis in relation to the SME questionnaire evidence.

Parties' views

Appropriateness of sample

6.100 The Parties submitted that a survey covering their existing SME customers, but excluding the wider population of SMEs over which they compete, would be too narrow or would be biased.[146] They suggested that the CMA should consider the views of a wider set of SMEs including those that did not ultimately buy equity crowdfunding services.

6.101 In response to the CMA's Annotated Issues Statement and Working Papers, the Parties made a number of submissions.

6.102 Crowdcube disagreed with the CMA's decision to focus on the views and experiences of the Parties' SME customers, rather than a wider group of SME customers. Crowdcube said that the assumption that SMEs can be divided into Crowdcube customers and SMEs that have not yet used Crowdcube's services is a 'false dichotomy' since Crowdcube has to compete for every new deal. It therefore said that focussing on the views of previous SME customers, and not on the views of other SMEs for which the merged entity will also have to compete in order to survive, is unjustified in this context.

6.103 In addition, Crowdcube submitted that the CMA's SME questionnaire contained selection bias that does not enable an accurate picture of the dynamism and complexities of the equity finance market.

6.104 Seedrs submitted that the survey data on which the CMA is choosing to place significant reliance is based on just over 50 responses. It compared this number to the [✂] SME raises and [✂] lost SMEs during 2019-2020. It submitted that this represents a very limited survey and any conclusions derived from such a small sample must be inherently treated with caution.

[146] Crowdcube response to the CMA's Issues Statement, 18 December 2020, page 16 and Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.1.6.

Hypothetical questions

6.105 Crowdcube submitted that '[t]he CMA's survey asked Crowdcube's SME customers a hypothetical question about the decisions they think they would have made in an imaginary scenario in which Crowdcube had not been available. It is well known that the responses to hypothetical questions of this nature need to be interpreted with caution, since respondents' beliefs about how they would have behaved may not always be fully accurate'.

SME questionnaire results

6.106 Crowdcube submitted that '[✂]% of respondents considered that they had other equity finance options apart from equity crowdfunding, which is strong evidence in support of the relevant market being one for the provision of equity finance to SMEs, not limited to equity crowdfunding. Furthermore, Crowdcube has no way of identifying which SMEs are in the remaining [✂]% category, which means that the merged entity could not identify and apply discriminatory or special treatment to SMEs in this category, even if it wished to do so (which it would not)'.

6.107 Regarding the issue of some SMEs having no viable alternatives to ECF, Seedrs submitted that conclusions based on the survey should be treated with caution due to the small sample size. It also noted that the SMEs that said they did not have alternatives were a minority and that Seedrs does lose small scale SMEs to alternative providers of equity funding.

6.108 Crowdcube submitted that the CMA's SME questionnaire results showed 'that the aggregated level of diversion of Crowdcube SME customers, on a weighted basis, to venture capital firms, angels and angel networks, is appreciably higher than the diversion to Seedrs ([✂]% versus [✂]%), not taking into account other forms of equity finance […]. This supports the view that Crowdcube faces at least as much competitive pressure from third-party sources of equity finance as it does from Seedrs'.

6.109 Seedrs acknowledged that Crowdcube is a close competitor but also submitted that the CMA's survey showed significant diversion (at nearly [✂]%) to other channels apart from Crowdcube.

Our assessment

Appropriateness of sample

6.110 In relation to Crowdcube's submission that the views of a wider pool of SMEs would be relevant, we consider that the views of customers of the Parties are more likely to be probative of the constraints that the Parties face (see also paragraph 6.272).

6.111 Further, we disagree that focusing on SMEs that have previously raised with the Parties creates selection bias (paragraph 6.103), since these SMEs are best placed to comment on their experience of using the Parties and their perceived alternatives. Additionally, if previous customers of the Parties are more predisposed to using an ECF platform than SMEs in general (as is the case, see paragraph 6.18), then they are more likely to be future customers and hence the group of most interest when assessing the effects of the Merger.

6.112 With regards to the overall sample size, it covers around 10% of the Parties' customers. We are satisfied that this sample is sufficiently representative for us to draw inferences from it in this case. Consistent with our approach in other cases where we have obtained comparable samples, we have interpreted this evidence qualitatively, rather than drawing firm quantitative conclusions, and have assessed it alongside other evidence.

6.113 We have compared the characteristics of the respondents to the SME questionnaire with all of the Parties' SME customers that raised funding in 2020. For both Parties, we compared the total amount raised in the most recent round, the total valuation of the SME, and whether the SME had a business to consumer or business to business focus. Additionally, there were some characteristics that were held by only one of the Parties.[147] For Seedrs, [✂]. For Crowdcube, [✂]. We found that the sample of respondents to the questionnaire was broadly similar to the Parties' wider SME customer base on all of the metrics considered.

Hypothetical questions

6.114 We agree with Crowdcube (see paragraph 6.105) that the diversion questions in our customer questionnaire are hypothetical and accordingly require careful interpretation. As such, we are mindful that this evidence does not carry determinative evidential weight in isolation and we considered it in combination with the evidence from other questions in the customer questionnaire as well as other evidence we have gathered. In contrast to a large-scale customer survey which typically only allows for multiple-choice

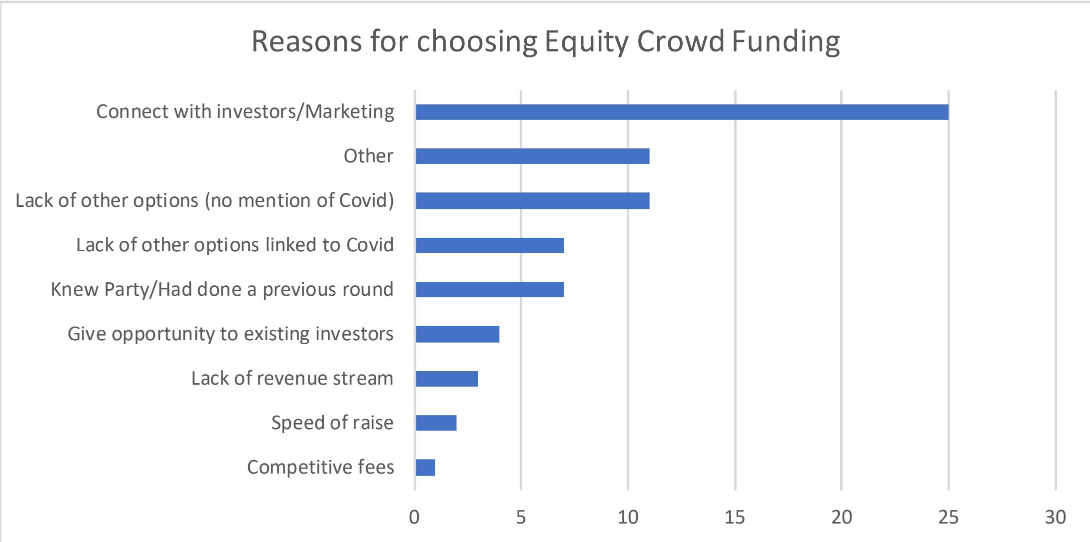
[147] The difference in characteristics held by each Party result from the differences in variables that Crowdcube and Seedrs choose to track internally for their business purposes.

questions, a detailed questionnaire, such as the one we used in this case, allows for more open questions where respondents can explain or qualify their views.[148] In this context, our views on diversion and the closeness of competition between alternatives are informed not just by the quantitative responses to the diversion question, but also by the more qualitative explanations provided in response to other questions. Further, we note that the CMA's Survey Good Practice document[149] makes it clear that hypothetical questions about what customers would do in the event of a change in a party's offering are used by the CMA in merger cases, and our approach in this case is consistent with that document and our past practice.[150]

Reasons for choosing an ECF platform

6.115 In order to better understand customer choices, and hence the alternatives available to them, we asked SMEs to explain why they had chosen an ECF platform for their recent raise of funds. The reasons respondents gave are shown in Figure 6.2.

Figure 6.2: Reasons for choosing ECF



Source: 53 responses to our SME questionnaire. (Phase 2 SME questionnaire, question 3: 'Thinking about when you most recently raised funds through [Party], please explain why you chose to raise these funds through an equity crowdfunding platform rather than from alternative source(s)'.)
Note: Respondents gave free text answers which we have placed into the above categories. Some respondents have been placed in multiple categories. Results contain customers of both Crowdcube and Seedrs.

[148] For example, we asked about SMEs' reasons for choosing an ECF platform with the following open question 'question 3: 'Thinking about when you most recently raised funds through [Party], please explain why you chose to raise these funds through an equity crowdfunding platform rather than from alternative source(s)'.
[149] Good practice in the design and presentation of customer survey evidence in merger cases, May 2018.
[150] For example, we used hypothetical diversion questions in *Sainsburys/Asda*, paragraph 7.57.

6.116 Figure 6.2 shows that the most common (25 out of 53) reason for SMEs to choose an ECF platform mentioned by respondents was because they saw it as a good way to connect with investors and/or that ECF was itself a form of marketing/public relations. For example, these SMEs gave reasons such as:

(a) 'Crowdfunding appealed as our business is B2C and this would also help us raise awareness of our product as well as raise money';

(b) 'I liked the concept of our customers … owning a part of what we do'; and

(c) 'Marketing benefits in that a multitude of small investors become great ambassadors for the company'.

6.117 Two commonly given reasons were that other options were not available (eleven out of 53) or that other options were not available due to the Coronavirus (COVID-19) pandemic (seven out of 53). The first of these reasons was typically given by those who said that VC and banks would not provide funds to the SME due to its size. The second of these reasons arose when a SME predicated the lack of available options on the Coronavirus (COVID-19) pandemic reducing the available sources of funds. Examples of the reasons given by SMEs who said no other options were available include:

(a) 'We tried for about a couple of years to raise funds through private equity, VC, angel, etc, but we were told we are too small for them to consider us'.

(b) 'Previous raises had been through a known network of High Net Worth Individuals and we felt we had exhausted this network. We tried angel groups without much success and had prequalified Seedrs as an option at an earlier point'.

(c) 'For an early-stage start up there are very few alternatives how to raise funding, especially during the COVID-19 era'.

6.118 With regards to Crowdcube's submission (paragraph 6.106) that since only eight[151] respondents said they had no other option, the remainder did have other options, we consider that, on their own, the responses to this question

[151] Since Crowdcube's submission, we have reconsidered the questionnaire responses and concluded three further responses can be classified in this category, and thus revised this number from eight (referred to by Crowdcube) to eleven.

do not give an indication of how close a substitute these other options were for the SME responding to this question.[152]

6.119 Multiple SME respondents indicated that knowing the Party already, having the opportunity to raise from existing investors, the lack of a revenue stream to be able to provide a return to investors in the short-term, or the speed of the raise, were reasons they had chosen an ECF platform.

6.120 The ‘Other’ category shown in Figure 6.2 contains a range of answers that were given by only one respondent each. These included that, [✂], that they could supplement capital raised from direct investors without complexity of change in terms or conditions, and that an ECF platform avoided the burden of debt-payments from debt crowd funding.

- *Summary of reasons for choosing an ECF platform*

6.121 Overall, the reasons given by SME respondents for selecting an ECF platform were mainly connected with distinctive features of ECF platforms (ie they allow a connection with investors) rather than features of the service over which an ECF platform may compete with other sources of funding (eg fee rates, speed of raise). Further, a significant number of SMEs said that they had no alternative option to using an ECF platform, either in general, or because of the Coronavirus (COVID-19) pandemic.

Perceived strength of alternatives

6.122 We asked SMEs to list the main alternative providers or types of providers that they considered the last time they raised funding using the Parties’ platforms, and to rank these on the basis of their closeness to the Parties’ platform they had used. This allows us to examine how close an alternative to the Parties SMEs consider a range of options to be. Table 6.3 and Table 6.4 below show the average ranking of a range of alternatives for Crowdcube and Seedrs customers respectively.[153]

---

[152] We note that these SMEs did not give a positive statement that they had other options available, they simply did not mention a lack of other options as a reason for choosing an ECF platform. Further, it is not clear that the respondents who referred to Coronavirus (COVID-19) reducing their options will have further options restored if, and when, the impact of the pandemic is reduced, or over what timescales.

[153] In our questionnaire we allowed respondents to answer this question with the type of provider or a specific provider. As a result, there is a long tail of alternative providers that may fall within the types of provider categories also mentioned in this table.

Table 6.3: Alternatives to Crowdcube mentioned by SME customers of Crowdcube

[✂]

Source: 28 Crowdcube customers' responses to the Phase 2 SME questionnaire. (Phase 2 SME questionnaire, question 7: 'Thinking about when you most recently raised funds through Crowdcube, what were the main alternative sources/providers to Crowdcube that you considered? Please list these alternatives and for each: Indicate on a scale from 1 to 5 how close an alternative to Crowdcube they were (where 1 is very weak and 5 is very strong)'.)

Table 6.4: Alternatives to Seedrs mentioned by SME customers of Seedrs

[✂]

Source: 25 Seedrs customers' responses to the Phase 2 SME questionnaire. (Phase 2 SME questionnaire, question 7: 'Thinking about when you most recently raised funds through Seedrs, what were the main alternative sources/providers to Seedrs that you considered? Please list these alternatives and for each: Indicate on a scale from 1 to 5 how close an alternative to Seedrs they were (where 1 is very weak and 5 is very strong)'.)

6.123 For Crowdcube customers, Seedrs was mentioned the most by SMEs ([✂]) and was given the highest average ranking in comparison to Crowdcube ([✂]). For Seedrs customers, Crowdcube was mentioned by far the most by SMEs ([✂]), but had a lower average ranking than Syndicate Room (although this was mentioned by only [✂] SMEs) and a slightly higher ranking than individual angels (although these were mentioned by only [✂] SMEs).

6.124 We have further considered whether the size of the amount raised impacts the options available to SMEs. Although questionnaire responses indicate that SMEs across a range of different raise sizes considered the Parties to be close alternatives and that alternatives to the Parties were limited and/or not as close, some SMEs related their small size to their having very limited alternatives. This was illustrated in views given by some SME respondents, for example:

(a) In relation to reasons behind its most recent round of funding, one respondent said '[o]ur own Friends, Family, Contacts had already invested and there was a limit to how much more we could raise from those sources. The only alternative for a company at our stage of development would have been institutional or trade investors and they are notoriously difficult to attract at this stage of a company's development, and terms are usually usury. There is therefore a "funding source gap" that can be filled by crowdfund platforms'.

(b) In relation to actively pursuing alternatives one respondent said '[w]e explored non crowdfunding avenues, but after two years of "No" and "you're too small", we decided to crowdfund'.

(c) In relation to VC being an alternative to an ECF platform one SME respondent said '[w]e're still slightly too early/small, but are getting more VC interest'.

Diversion

6.125 To better understand customers' views about the alternatives to the Parties, we asked customers what their likely actions would have been had the Party they used for crowdfunding not been available. The purpose of this question was to elicit information about what customers see as the closest alternatives to the products provided by the Parties. In differentiated product markets, such products are the most relevant competitive constraints on the Parties.

6.126 We have used responses to this question to estimate diversion ratios for customers of the Parties (ie those that have chosen an ECF platform), who are the most likely to be impacted by the effects of the Merger. Diversion ratios give an indication as to the strength of the constraint on the Parties from different alternative sources of funding. They are calculated separately for each Party, taking each Party's customers as a separate base point. The diversion ratio from Crowdcube to Seedrs is the proportion of Crowdcube's customers or revenues that would divert to Seedrs (if Crowdcube was not available). The diversion ratio from Seedrs to Crowdcube is the proportion of Seedrs' customers or revenues that would divert to Crowdcube (if Seedrs was not available).

- *Approach*

6.127 We asked customers what their likely actions would have been had the Party they used for crowdfunding not been available. This question was asked in two stages.

(a) First, we asked respondents whether they most likely would or would not have raised funds if the Party they had used was not available at the time of their most recent funding round.

(b) Second, we asked from where they most likely would have sought funding. We allowed for the possibility of replacing funding from the Parties with funds from several different sources, by asking respondents to attribute a proportion of funding to each source (eg 100% in the case of a single source). We also asked SMEs to categorise their answers into a list of different types of providers (eg individual angels, angel networks,

VC) and within those types to list the provider or providers that they would most likely have used.[154]

6.128 We have used the answers to these questions to produce the following analysis:

(a) Diversion behaviour;

(b) Unweighted diversion ratios; and

(c) Revenue weighted diversion ratios.

- *Diversion behaviour*

6.129 Table 6.5 below shows the proportion of the Parties' SME customers that would not have sought funding in the event that the Party they had used had not been available, the proportion that would have sought funding from a single source of finance, and the proportion that would have replaced the funding using multiple sources of funding.

Table 6.5: SME customer diversion by single and multiple source

			(%)
	Crowdcube	*Seedrs*	*Total*
Would not have raised funding	[10–20]	[0–5]	[5–10]
Would have diverted to a single source of alternative financing	[40–50]	[60–70]	[50–60]
Would have diverted to multiple sources of financing	[40–50]	[30–40]	[40–50]

Source: 50 SMEs' responses to the Phase 2 SME questionnaire. (Phase 2 SME questionnaire, question 5: 'Thinking about when you most recently raised funds through [Party], if the [Party's] platform had not been available, what would you have been most likely to do instead?'.)

6.130 Table 6.5 shows that [✄] of Seedrs' customers and [✄] of Crowdcube's customers would have most likely sought alternative sources of funding. Across all the SME customers, [50–60%] would have sought further funding and used a single provider: however, for Crowdcube customers, [✄] would have sought to replace their funding from multiple sources; and for Seedrs' customers, [✄] would have sought to replace their funding from multiple sources.

6.131 As shown in Table 6.6 below, most SMEs would have sought funding to replace all of the funding that they got from the Party they raised through.

[154] The prompted options were: Venture capital firm or trusts(s), individual angel investor(s), equity crowdfunding platform(s), start-up loan provider(s), grant funding angel investment network(s), Debt crowdfunding platform(s), Corporate finance advisor(s) or brokers(s), rewards-based crowdfunding, block-chain technology platform(s), other forms of debt finance, other forms of equity finance, another option, would not have raised fund(s).

However, for each of the Parties there was one customer that would have raised more funding and one that would have raised less.

Table 6.6: SME customer diversion by amount of alternative funding

(%)

	Crowdcube	*Seedrs*
Would have raised more funding	[5–10]	[0–5]
Would have raised the exact same amount of funding	[80–90]	[90–100]
Would have raised less funding	[5–10]	[0–5]

Source: 45 SMEs' responses to the Phase 2 SME questionnaire.

- *Unweighted diversion ratios*

6.132 In Table 6.7 and Table 6.8 below we have estimated 'unweighted diversion ratios'. These are diversion ratios that treat each SME equally regardless of the size of its raise or level of its fees with each Party. They show the proportion of each Parties' customers that would divert to each alternative provider/class of alternative provider.

Table 6.7: Unweighted diversion of Crowdcube SME customers

[✂]

Source: 24 Crowdcube customers' responses to the Phase 2 SME questionnaire. (Phase 2 SME questionnaire, question 6: 'Thinking about when you most recently raised funds through Crowdcube, if the Crowdcube platform had not been available, what source(s)/provider(s) would you have been most likely to raise these funds from instead?'.)
[✂]

Table 6.8: Unweighted diversion of Seedrs SME customers

[✂]

Source: 20 Seedrs customers' responses to the Phase 2 SME questionnaire. (Phase 2 SME questionnaire, question 6: 'Thinking about when you most recently raised funds through Seedrs, if the Seedrs platform had not been available, what source(s)/provider(s) would you have been most likely to raise these funds from instead?'.)

6.133 We found a high level of diversion between the merging Parties and this was broadly symmetric: a [✂]% unweighted diversion ratio from Crowdcube to Seedrs and a [✂]% unweighted diversion ratio from Seedrs to Crowdcube. We consider that this is likely to be a lower-bound of diversion between the Parties since some customers responded that they would divert to a 'non-specific ECF' (ie the respondent referred to ECF but not to a specific platform), and a very high proportion of this diversion is likely to be attributable to the Parties (given there are few other ECF platforms and the majority of these are smaller and/or sector-specific) (see the market shares in Table 6.2). We consider the likely upper bounds for diversion between the Parties to be [✂]% from Crowdcube to Seedrs and [✂]% from Seedrs to Crowdcube.

6.134 After the other Party, we found that the second highest level of diversion to other equity funding providers was to angels. We found diversion to angels (including both individual angels and angel networks) of [✂]% for Crowdcube's customers and [✂]% for Seedrs customers, significantly lower than the diversion between the Parties. The level of diversion to other sources of funding was substantially lower.

- *Weighted diversion ratios*

6.135 Revenue-weighted diversion ratios are diversion ratios weighted by the fees paid by the SME customer, ie if a SME pays 50% of the total fees paid in the sample it would be given a 50% weight in the diversion calculations.

6.136 Revenue-weighting may more accurately capture the economic incentives on the Parties, since some customers are more valuable to the Parties than others (ie where they pay higher fees or provide the Parties with a higher margin). However, we recognise in this case that the fees paid by each SME are only an approximation of its importance to the Parties, given the externalities with the investor side (such that gaining a SME as a customer may also lead to revenues from investor fees) and because the margins associated with these fees may differ between differently-sized funding rounds. In addition, the fee from a single round may underestimate the lifetime value of a SME, given it may engage in repeat raises.

6.137 In this case, we consider there is merit in considering both unweighted and weighted diversion ratios. In Table 6.9 and Table 6.10 below we have estimated 'weighted diversion ratios'.

Table 6.9: Weighted diversion of Crowdcube SME customers

[✂]

Source: 24 Crowdcube customers' responses to the Phase 2 SME questionnaire. (Phase 2 SME questionnaire, question 6: 'Thinking about when you most recently raised funds through Crowdcube, if the Crowdcube platform had not been available, what source(s)/provider(s) would you have been most likely to raise these funds from instead?'.)

Table 6.10: Weighted diversion of Seedrs SME customers

[✂]

Source: 20 Seedrs customers' responses to the Phase 2 SME questionnaire. (Phase 2 SME questionnaire, question 6: 'Thinking about when you most recently raised funds through Seedrs, if the Seedrs platform had not been available, what source(s)/provider(s) would you have been most likely to raise these funds from instead?'.)

6.138 Compared to the unweighted diversion ratios, the weighted diversion ratio results also show a high level of diversion between the Parties, but this is less symmetric. For Crowdcube customers, the weighted diversion ratio to Seedrs is [✂]% (the unweighted estimate is [✂]%). For Seedrs customers, the weighted diversion ratio to Crowdcube is [✂]% (the unweighted estimate is

[✂]%). Allocating 'non-specific ECF' diversion to the Parties would increase [✂] the diversion from Crowdcube to Seedrs and increase [✂] the diversion from Seedrs to Crowdcube.

6.139 After the other Party, we found that the second highest level of weighted diversion to other equity funding providers was to [✂] ([✂]%) for Crowdcube and [✂] ([✂]%) for Seedrs. The level of diversion to other sources of funding was substantially lower.

6.140 Regarding the Parties' submissions (paragraphs 6.108 and 6.109) that diversion to other sources of equity funding is higher than to each of the respective Parties, we agree that there are significant levels of diversion to other types of equity funding sources in aggregate. However, in terms of closeness of competition, significant aggregate diversion to other sources does not change the observation that there are high absolute levels of diversion between the Parties, implying that they are close alternatives. Further, the diversion between the Parties is higher than to any other individual alternative or type of alternative (eg VCs in aggregate), implying that the Parties are each other's closest competitor.

- *Summary of diversion*

6.141 Diversion ratios tell us about customers' views as to their next-best alternatives. We draw the following conclusions from the above analysis:

(a) diversion between the two Parties is high in absolute terms, indicating that the Parties are close alternatives;

(b) diversion between the Parties is the highest, among all possible alternatives (including groups of alternatives such as individual angels/angel networks), indicating that the Parties are each other's closest competitors; and

(c) aside from the Parties, no other individual entity (that is, a named funding provider) has a high, or even moderate diversion.

6.142 We note that, despite some differences between the unweighted and weighted diversion ratios, broadly we observe a similar pattern in diversion based on these two measures as well.

6.143 We also recognise that it is possible that different sub-groups of customers may have somewhat different levels of diversion, reflecting different alternatives for these groups. Due to small sample sizes we have not calculated diversion ratios at a sub-group level, but other evidence in the questionnaire suggests that different groups of SMEs face somewhat different sets of alternatives (see paragraph 6.124).

Co-investment

6.144 To better understand the role of co-investment and the extent to which third-party equity providers co-investing on the Party's platform impose a competitive constraint on the Parties, we asked SME customers several questions about any investment from third-party providers that they received as part of their most recent funding round.

6.145 Responses to our SME questionnaire indicated that co-investment occurred in a substantial minority of SME deals, with [✂]% of Crowdcube's customers and [✂]% of Seedrs' customers receiving funds from another funding provider as part of their most recent funding round.[155]

6.146 We asked the customers that had received co-investment how they determined what proportion of funding to obtain from each provider.[156] Common reasons given for deciding how much to raise through the Parties and other providers were: making a decision based on capital requirements (mentioned by seven respondents); topping up through the platform or raising as much as possible (mentioned by four respondents); and matching funding from the Future Fund (mentioned by three respondents). None of the SME respondents mentioned that they 'traded off' investment from the Parties against other forms of investment.

6.147 We also asked a series of questions around how other parameters were set when co-investors were involved with a deal. These showed that:

(a) Deal valuations were set in a variety of ways including discussions with the Parties (mentioned by one respondent) and discussion with third-party co-investors (mentioned by three respondents); however, most commonly, deal valuations were determined independently from the Parties and third-parties: for example, by the SME undertaking internal

---

[155] Phase 2 SME questionnaire, question 11: 'Thinking about when you most recently raised funds through [Party], did you also raise funds from other providers as part of the same funding round? Raised funds from other providers (yes/no)'.
[156] Phase 2 SME questionnaire, question 12b: 'Explain how you determined how much to raise through [Party] and how much to raise from other providers'.

modelling (mentioned by four respondents) or by making comparisons with similar businesses (mentioned by two respondents).[157]

(b) The requirement to pay fees to the Parties in respect of co-investment differed between SMEs, reflecting a degree of negotiation between the SME and the Parties over fee rates (but not necessarily over raise value). Around half of SMEs did have to pay fees to the Parties in respect of co-investment received from other providers and around half did not.[158]

(c) Most SMEs that raised funds from other providers included those funds in the progress bar on the Party's website.[159]

Active consideration of alternatives and negotiations

6.148 We asked SMEs about the extent to which they had actively considered raising equity through an alternative funding provider, and if they had done so, whether they had negotiated with the alternative funding provider and/or the Parties.

6.149 Some SMEs actively considered both the other Party and third-parties when deciding whether to use an ECF platform. Out of the 53 SME respondents to our questionnaire, 19 SMEs had done background research on, or had spoken to, third-party alternatives and 20 had done background research on, or spoken to, the other Party (totals include four SMEs which had engaged with both third-parties and the other Party). Seven respondents stated that that they had negotiated with the other Party, compared to (only) one respondent which stated it had negotiated with an alternative funding provider.

6.150 Negotiating with the Parties was common, with [✂] Crowdcube customers and [✂] Seedrs customers stating that they had negotiated with the platform that they eventually used. The most common term of negotiation was [✂], which was mentioned [✂] times, followed by negotiotiations over whether and to what extent [✂], which was mentioned [✂] times. Other less commonly mentioned terms of negotiation were [✂] (mentioned [✂] times) and [✂] (mentioned [✂] times).

[157] Phase 2 SME questionnaire, question 12c: 'Explain how the valuation was set for the funding round'.
[158] Phase 2 SME questionnaire, question 12d: 'Explain why you did or didn't pay fees to [Party] in relation to funds raised from other providers'.
[159] Phase 2 SME questionnaire, question 12e: 'Explain whether you included funds raised from other providers in the [Party's] progress bar'.

Expected impact of the Merger for SMEs

6.151 We asked SME customers if they were aware of the Merger and what impact they expected the Merger would have on their business.[160]

6.152 A large majority of SME customers were aware, before receiving the questionnaire, that the Parties were proposing to merge.[161]

6.153 The customers responding to our questionnaire had mixed views on the impact of the Merger on their business. As shown in Table 6.11 below, [25–35%] expected a positive impact, [25–35%] expected a neutral impact and [20–30%][162] expected a negative impact. Some individual responses were 'mixed' with SME customers weighing up possible negative and positive effects of the Merger. Overall, slightly more customers expected a positive impact from the Merger than a negative impact.

Table 6.11: Expected impact of Merger on SME customers

(%)

	Crowdcube	*Seedrs*
Good	[✂]	[✂]
Neutral	[✂]	[✂]
Bad or Neutral	[✂]	[✂]
Bad	[✂]	[✂]
Don't know	[✂]	[✂]
Unclear	[✂]	[✂]

Source: 51 SMEs' responses to the Phase 2 SME questionnaire.

6.154 Two major themes were commonly mentioned by SMEs when explaining the expected impact on their business.

6.155 The first theme (which was mentioned by 20 SMEs) was that the combined business would have access to a larger pool of investors which would help SMEs raise more funding. Some examples of these responses are:

(a) 'If the platforms physically merge, it may allow us to appeal to a wider set of investors from both platforms without having to raise money and incur the costs of using both platforms individually. That may depend on how the merger comes into action and how it is set up for users'.

[160] Phase 2 SME questionnaire, question 13: 'Crowdcube and Seedrs are planning to merge. a) Before reading this questionnaire, were you aware that Crowdcube and Seers are proposing to merger? b) Would you expect the merger to have a good, bad or neutral impact on your business?'.
[161] 84% of respondents.
[162] [20–30%] is estimated by combining the 'Bad or neutral' and 'Bad' categorisations of Table 6.11.

(b) ‘Their combined database would be better to reach out to investors, merge their expertise and coverage’.

(c) ‘More community of investors together, more mkt [sic] resources, better technology and therefore better campaigns and potential results for companies looking to raise funds’.

6.156 The second theme (which was mentioned by 18 SMEs) was the loss of competition between the Parties. This was either mentioned explicitly with reference to there being no or limited alternatives to the Parties, or implicitly in reference to the Merger resulting in higher fees. Some examples of these responses are:

(a) ‘I think Crowdcube will increase their pricing if they don’t have a direct competitor’.

(b) ‘Because it’s much harder to negotiate with a single supplier than with two who both have potential business to gain’.

(c) ‘The Merger will reduce competition and, until the Merger, Seedrs has the lowest fee. We are fairly certain the Merger will lead to a significant increase in fees payable because the new combined entity will be a monopoly. When raising hundreds of thousands or millions of pounds, investors and companies need trust and that is usually only provided by established firms’.

6.157 Three respondents considered both possible positive and negative effects – for example, one, which thought that the Merger would have a neutral impact on its business, stated:

(a) ‘Good – greater investor base for us to access in one raise Bad – lack of competitive tension will likely drive up prices’.

6.158 There were 16 respondents that gave other reasons or views which covered a variety of different considerations. Two reasons given by multiple respondents were:

(a) The positive effect of the merged entity having access to Seedrs’ secondary market was mentioned by two Crowdcube customers, and one Seedrs’ customer was positive about the Merger increasing the size of Seedrs’ secondary market.

(b) Two customers mentioned that the Merger would help the Parties achieve a sustainable long-term business model.

6.159 Additionally, there were five respondents who do not plan to raise equity again through an ECF platform and therefore stated that the Merger would have a neutral impact on their business.[163]

Provisional conclusion

6.160 Overall, the evidence from SMEs shows that the Parties are close competitors and each other's closest competitors.

6.161 SMEs indicated that the most common reason for choosing to raise funds via an ECF platform was the marketing benefits of ECF, a differentiating factor from other types of equity funding.

6.162 A high proportion of SMEs responding to our questionnaire indicated that, if the Party they had used had been unavailable, they would have been most likely to use a different ECF platform (with most of these SMEs specifying that the alternative ECF platform would be the other Party). This diversion evidence is consistent with responses to qualitative questions, such as SMEs ranking the other merging Party as the closest alternative (Table 6.3 and Table 6.4) and SMEs' reasons for choosing ECF (Figure 6.2).

6.163 Significantly lower proportions of SMEs indicated that that they would have diverted to other equity funding sources as their next best alternative to the Party they had used (with angels being the most commonly mentioned of these), and these sources were also generally rated as a less-strong alternative. Individual third-party providers (that is, a named funding provider) received very low levels of diversion, indicating that no individual provider exerts a material constraint on the Parties.

6.164 SME respondents, who had engaged in co-investment, did not suggest that they 'traded off' investment from the Parties against other forms of investment, indicating that these co-investors did not impose a competitive constraint on the Parties through the prospect of lost sales revenue from customers diverting a larger proportion of funding to co-investors.

6.165 SME respondents to our questionnaire had mixed views on the impact of the Merger on their businesses. While some considered that the combined business would have access to a larger pool of investors, which would help SMEs raise more funding, some expressed concern that the Merger would lead to a loss of competition and, for example, price increases as a result. Some customers specifically indicated that they leveraged competition

---

[163] For example, [✂].

between the Parties to achieve better terms. Overall, slightly more customers expected a positive impact from the Merger than a negative impact.

Customer evidence – investors

6.166 We have collected evidence from a range of investor customers of the Parties. We sent questionnaires to 100 of each of the Parties' investor customers.[164] In total, we received 30 substantive responses; 14 from Crowdcube customers and 16 from Seedrs customers.[165]

Parties' views

6.167 Crowdcube submitted that there are two types of investors those with an affiliation for a specific SME and those without such an affiliation.[166]

6.168 Crowdcube said that [✂].

6.169 In relation to the findings of our investor questionnaire, Seedrs said [✂].

Our assessment

Characteristics of respondents

6.170 We sent our questionnaire to a range of investors covering different types of investor as classified by the FCA (eg 'every day', 'advised', 'sophisticated' and 'high net worth'),[167] different numbers of investments made over 2020, and total amount invested over the same period. All investors who responded were individual investors as opposed to institutional investors.

6.171 We have compared the characteristics of the respondents to the investor questionnaire with all of the Parties' investor customers that invested in 2020. For both Parties, we compared the proportion of the investors who are classified under different FCA categories, the total number of investments made on the platform in 2020, and the total amount invested on the platform.

---

[164] When selecting these investor customers, we sought to choose a range of different customers. We did this by splitting investor customers, that had made an investment in the prior six months, into groups based on the amount invested through the platform in 2020. These groups were: those that had invested below £200; those that had invested between £200 and £2000; and, those that had invested above £2000. We then randomly selected 33 investors from each of the first two groups and 34 from last group.
[165] We received a further seven responses that are not included in our analysis. Three of these were nil returns and four explicitly said they did not wish to discuss private decisions.
[166] Crowdcube response to the CMA's Issues Statement, 18 December 2020, page 21.
[167] See FCA handbook.

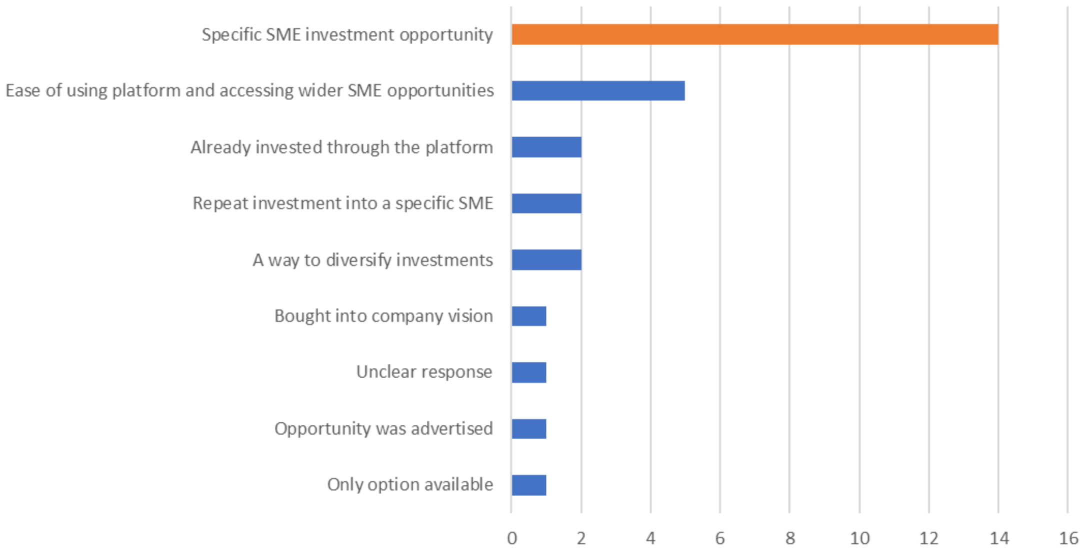
6.172 We found that the respondents to the questionnaire were broadly similar to the Parties' investor customers as a whole, although investors making larger investments are slightly over-represented relative to investors making smaller investments.

Investor decision making

- *Reasons for choosing to invest through either Crowdcube's or Seedrs' platform*

6.173 In order to better understand how investors make decisions, and hence the alternatives available to them, we asked investors to explain why they had chosen to invest in a SME opportunity through either Crowdcube or Seedrs. The unprompted reasons respondents gave to this question are shown in Figure 6.3.

Figure 6.3: Frequency of reasons given for choosing to invest through either Crowdcube or Seedrs



Source: 29 investors' responses to the Phase 2 Investor questionnaire. (Phase 2 Investor questionnaire, question 3: 'Please think about when you most recently invested in an SME through [Party]. What were the main reasons that you chose to invest through [Party] in that instance?'.)
Note: Respondents gave free text answers which the CMA has placed into the above categories. Results contain customers of both Crowdcube and Seedrs.

6.174 Figure 6.3 shows that the most common (14 out of 29) reason for customers to choose to invest through either Crowdcube or Seedrs was because they saw it as a good way to access a specific SME investment opportunity:

(a) A 'High Net Worth' individual gave their reason as 'the underlying start-up business seeking investment. The choice of platform is not a major factor for me unless they offer niche opportunities or features which I specifically want';

(b) A ‘Sophisticated investor’ gave their reason as ‘the company was appealing and looking to have a bright future ahead’; and

(c) [✂].

6.175 The second most common (5 out of 29) reason given was the specific features of the platform itself made it easy to invest, along with the access to a range of SME investment opportunities. Examples of the reasons given by these investors include:

(a) ‘Easy way to invest’;

(b) ‘Easy overall experience and accessible minimum investment entry threshold’; and

(c) ‘Easy, good opportunities and affordable’.

6.176 Some respondents (4 out of 29) indicated that they had already invested through the platform or in the SME itself. For example, one investor stated that their investment was part of ‘follow on rounds from previous investments made on Seedrs’.

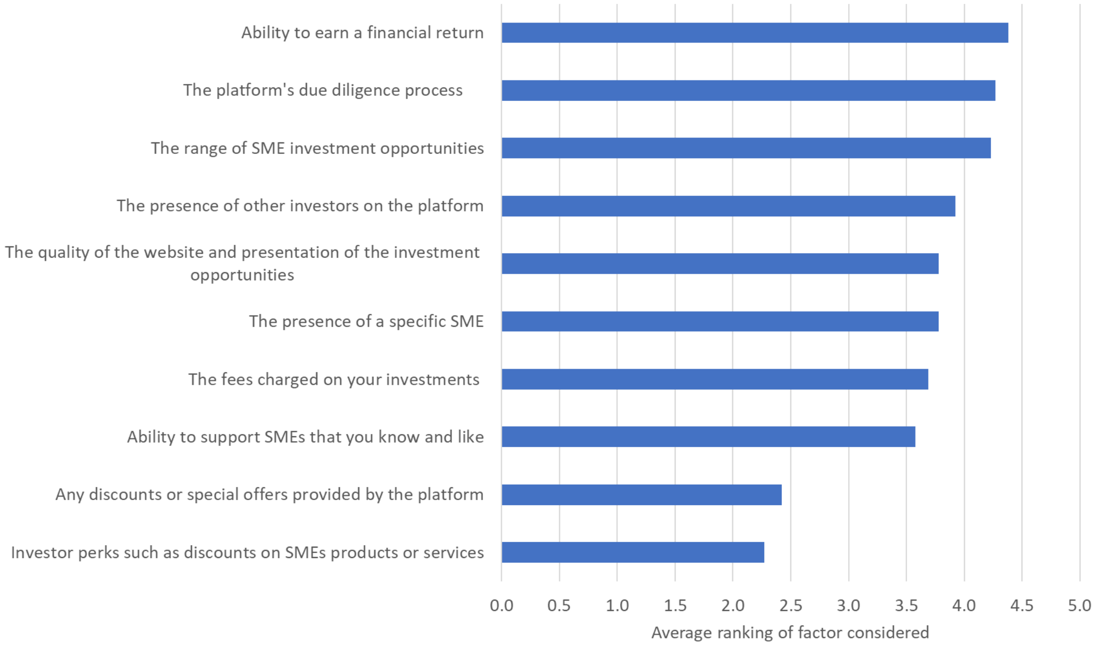
6.177 Finally, some respondents (6 out of 29) gave alternative reasons for investing in the platform – for example, two stated it was a way for them to diversify their investments. Another stated they invested as they had ‘bought into’ the platform’s vision to help smaller businesses.

6.178 Overall, the responses to this question tend to indicate that investors are primarily attracted by the presence of specific SMEs rather than other features of a platform. This suggests that, at the point of investment, investors did not see other ways to invest as close substitutes. Further, some of the qualitative responses suggest that smaller-scale or ‘every-day’ investors may be investing in the SME principally to support it, rather than as a financial investment seeking a return.

- *Factors which are important when deciding between ECF platforms*

6.179 In order to better understand the most important factors to investors, when deciding between investing through different ECF platforms, we asked investors to rank the relative importance of factors relevant to the decision-making process. A graph summarising these prompted responses is shown below in Figure 6.4.

Figure 6.4: Average ranking of importance across factors considered when choosing between alternate ECF platforms



Source: All averages are based on 26 investors' responses to the Phase 2 Investor questionnaire except for the factors '[t]he presence of a specific SME', '[t]he quality of the website and presentation of investment opportunities' and '[t]he presence of other investors on the platform', which are based on 27 responses. (Phase 2 Investor questionnaire, question 6: 'When considering which equity crowdfunding platform to use, please explain how important the following factors are in your decision-making process (on a scale from 1-5, where 1 is 'not important at all' and 5 is 'very important')'.)
Note: Results contain customers of both Crowdcube and Seedrs.

6.180 In a similar manner to Figure 6.3, Figure 6.4 shows that investors consider 'the presence of a specific SME' to be an important factor when considering their decision between ECF platforms, with an average ranking of 3.8.

6.181 However, there are four factors which are considered more important in investor decision-making in this instance, namely: the 'ability to earn a financial return' (4.4); 'the platform's due diligence process' (4.3); 'the range of SME investment opportunities' (4.2); and 'the presence of other investors on the platform' (3.9). The relatively high rankings of the latter two factors (compared to other factors) suggest that direct (ie the presence of more investors) and indirect (ie the presence of more SMEs on the other side of the ECF platform) network effects are important for some investors.

6.182 Furthermore, there are four factors which are considered to be less important than the presence of a specific SME, namely: 'the fees charged on investments' (3.7); 'the ability to support SMEs that you know and like' (3.6); and factors relating to discounts provided on either the platform or SME's products (2.4 and 2.3 respectively).

- *Summary of investor decision making*

6.183 Overall, we see that investors mainly chose a specific ECF platform due to wanting to invest in a specific SME opportunity. We note that, when prompted with a list of potentially relevant factors, investors also rank other platform-specific factors, such as the platform's due diligence process and the presence of a range of SMEs/other investors on the platform, as well as the ability to earn a financial return, to be important in deciding between platforms.

Diversion

6.184 As discussed above in paragraph 6.125 for SMEs, to better understand investors' views about the closeness of competition between alternative investment options, we asked them what their likely actions would have been had the Party they invested through not been available. We have used responses to this question to estimate diversion ratios.

6.185 We outline below our specific approach to estimating diversion ratios.

- *Approach*

6.186 We asked customers what their likely actions would have been had the Party they used to invest not been available. This question was asked in two stages.

(a) First, we asked what they would have done with the money invested, allowing them to select a single most-likely alternative.[168]

(b) Second, we then asked how close an alternative they considered the option they selected to be to the Party's platform which was used, allowing them to rank the alternative option selected from one to five, where one indicates that the alternative selected is weak and five indicates that the alternative selected is strong.

[168] The prompted options were: Kept money and not invested, Invested through a block-chain technology platform(s), Invested in managed funds, Directly invested in the SME (not through an equity crowdfunding platform), Invested through an Angel investment network(s), Invested in a venture capital firm or trust(s), Donated to an SME through a donations platform, Invested in stock market, Invested through a different equity crowdfunding platform(s), Invested through a rewards-based crowdfunding platform, Invested in peer-to-peer loans, Invested through a debt crowdfunding platform(s), Invested in bonds, Other equity investment, Other debt investment.

6.187 We have used the answers to these questions to produce the following analysis:

(a) Unweighted diversion ratios; and

(b) Diversion ratios weighted by the amount that the investor had invested into a SME through the Party's platform.

- *Unweighted diversion*

6.188 In Table 6.12 and Table 6.13 below we have estimated unweighted diversion ratios. These are diversion ratios that treat each investor equally regardless of the amount they have invested through each Party. They show the proportion of each Party's customers that would divert to each type of alternative investment opportunity.

Table 6.12: Unweighted diversion of Crowdcube investor customers

[✂]

Source: 13 Crowdcube investors' responses to the Phase 2 Investor questionnaire. (Phase 2 Investor questionnaire, question 4: 'Please think about when you most recently invested in an SME through Crowdcube. If the Crowdcube platform had not been available, what would you most likely have done with that money instead'.)
Note: [✂].

Table 6.13: Unweighted diversion of Seedrs investor customers

[✂]

Source: 15 investors' responses to the Phase 2 Investor questionnaire. (Phase 2 Investor questionnaire question 4: 'Please think about when you most recently invested in an SME through Seedrs. If the Seedrs platform had not been available, what would you most likely have done with that money instead'.)
Note: [✂].

6.189 For Crowdcube, we note a [✂] level of diversion to [✂] of Crowdcube investors selected this option if they were not able to invest through Crowdcube. The second-highest diversion for Crowdcube investors is to Seedrs, at [✂].

6.190 For Seedrs, we note a [✂] level of diversion to [✂] and not invested if they were not able to invest through Seedrs. The second-highest diversion for Seedrs investors is to Crowdcube, at [✂].

6.191 We also see that when investors have noted either Party as an alternative they would divert to, on average, they rated this as a strong alternative.

- *Weighted diversion ratios by amount invested*

6.192 Weighted diversion ratios are diversion ratios weighted by the amount invested in a SME through the platform. For example, if an investor accounts for 50% of the total amount invested in the sample it would be given a 50% weight in the diversion calculations.

6.193 As discussed above at paragraph 6.136 for SMEs, this type of weighting may more accurately capture the economic incentives on the Parties, since some customers are more valuable to the Parties than others, given the amount they invest through the platform and the subsequent revenue the Parties could raise from larger investments. However, we recognise in this case that the amounts invested by investors are only an approximation of their importance to the Parties, given that:

(a) We have not weighted by revenues earned from each investor, which may not be directly proportional to the amount invested by an investor, [✂].[169]

(b) Our estimation of the amount invested by investors in the SME through the platform, as part of their most recent investment, is based on the midpoint of options selected in response to Q3 of the questionnaire.[170]

6.194 Weighting the diversion results by amount invested makes some difference to some of the diversion estimates. However, weighting the diversion results by amount invested does not change the most likely diversion destination for either Party, and [✂]. [✂].

- *Summary of diversion*

6.195 Diversion ratios tell us about customers' views as to their next-best alternatives. The most significant points we draw from this analysis are:

(a) the most common next-best alternative for Crowdcube customers is [✂], whilst for Seedrs customers it is [✂]. We observed this was the case on both a weighted and unweighted basis;

(b) on an unweighted basis, the second-best alternative for investors of each of the Parties was the other Party (if we assume that the majority of diversion to 'non-specific' ECF platforms can be attributed to the Parties for the same reasons as discussed above in paragraph 6.133); and

---

[169] [✂].

[170] Phase 2 Investor questionnaire, question 3: 'Please think about when you most recently invested in an SME through [Party]. How much did you invest in the SME through [Party]?' The options were 'Less than 250 pounds', 'Between 250 and 500 pounds', 'Between 500 and 1,000 pounds', 'Between 1,000 and 5,000 pounds' and 'More than 5000 pounds'. Note that we have used 5,000 pounds for the last category in our analysis.

(c) weighting the diversion results by amount invested [✂]. [✂].

Other ECF platforms considered in the past 12 months

6.196 We also asked investors whether or not they have used or considered using other ECF platforms in the past 12 months.[171]

6.197 We note that 14 out of 26 investor customers of the Parties indicated that they had considered or used one or more other ECF platforms in the past 12 months. [✂], whilst [✂]. We have analysed these responses below in Table 6.14 and Table 6.15, analysing for each customer group:

(a) the set of ECF platforms mentioned;

(b) the frequency with which they were mentioned; and

(c) the number of investments made through these alternatives when mentioned.

6.198 Table 6.14 and Table 6.15 below show that, when asked about actual usage of alternative ECF platforms, customers of the Parties most frequently mention the other Party. Furthermore, when mentioned, the number of investments made on the other Party is high, where [✂]. Likewise, [✂].

Table 6.14: Crowdcube investor usage of other ECF platforms in the past 12 months

[✂]

Source: Crowdcube investors' responses to the Phase 2 Investor questionnaire.
Note: [✂].

Table 6.15: Seedrs investor usage of other ECF platforms in the past 12 months

[✂]

Source: Seedrs investors' responses to the Phase 2 Investor questionnaire.
Note: [✂].

---

[171] Phase 2 Investor questionnaire, question 5: 'Have you used, or considered using, equity crowdfunding platforms other than [Party] in the past 12 months? If you have, please specify which platform(s) you have used, or considered using, and, for each platform used, how many investment you have made through the platform in the past 12 months'.

Expected impact of Merger for investors

6.199 We asked investor customers if they were aware of the Merger and what impact they expected the Merger would have on them.[172]

6.200 A majority of investor customers (17 out of 29) were aware that the Parties were proposing to merge before receiving the questionnaire.

6.201 The customers responding to our questionnaire had positive or neutral views on the impact of the Merger; but no investor stated that the Merger would lead to bad outcomes. Further information can be seen in Table 6.16 below.

Table 6.16: Expected impact of the Merger on investor customers

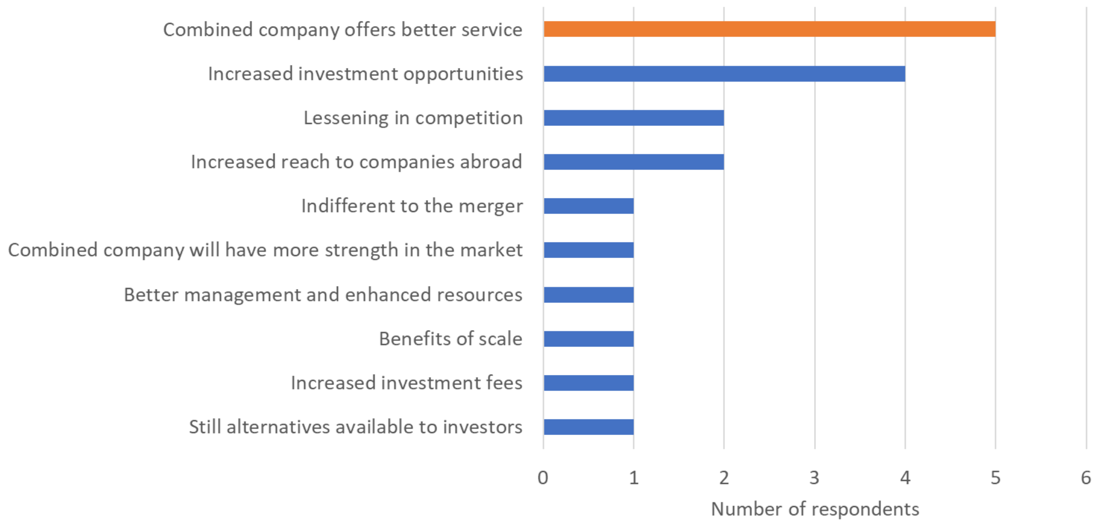
Impact of Merger	*Crowdcube number*	*Seedrs number*
Good	[✂]	[✂]
Neutral	[✂]	[✂]
Bad	[✂]	[✂]
Don't know	[✂]	[✂]
Unclear response	[✂]	[✂]

Source: 29 investors' responses to the Phase 2 Investor questionnaire.

6.202 We have also considered the main themes mentioned when investors gave a reason (or reasons) to explain their view on the expected impact of the Merger. These themes are summarised in Figure 6.5 below.

[172] Phase 2 Investor questionnaire, question 8: 'Crowdcube and Seedrs are proposing to merge. a) Before reading this questionnaire, were you aware that Crowdcube and Seers are proposing to merge? b) Would you expect the merger to have a good, bad or neutral impact on you as an Investor?'.

Figure 6.5: Reasons given explaining the expected impact of the Merger on investor customers



Source: 28 investors' responses to the Phase 2 Investor questionnaire. (Phase 2 Investor questionnaire, question 8: 'Crowdcube and Seedrs are proposing to merge. a) Before reading this questionnaire, were you aware that Crowdcube and Seers are proposing to merge? b) Would you expect the merger to have a good, bad or neutral impact on you as an investor? c) Why do you think that?'.)
Note: 28 respondents gave free text answers which the CMA has placed into the above categories. Number of respondents does not add up to 28 since we have excluded 10 responses which replied 'N/A' given that in the previous question they stated that they 'Don't know' the expected impact. Furthermore, three responses provided unclear responses and so have also been excluded. Furthermore, some respondents have been placed in more than one category. Results contain customers of both Crowdcube and Seedrs.

6.203 The two most commonly mentioned themes were that the combined company could offer better service and that there would be increased investment opportunities.

6.204 The first theme (which was mentioned by five respondents) was that the combined business would enhance the service offering to investors. For example:

(a) One investor described the merger as leading to a 'chance for best of both worlds';

(b) Another investor described the Parties as having 'a similar strategic goal so if both collaborate and work towards improving and developing their merger, this should promise positive outcomes theoretically and hopefully literally'; and

(c) Another investor described the impact as leading to an 'easy to manage portfolio, better website with features'.

6.205 The second theme (which was mentioned by four respondents) was that the combined business as a result of the Merger would lead to increased investment opportunities. For example:

(a) One investor described the Merger as leading to an 'expanded choice of investment opportunities';

(b) Another investor described the Merger as leading to 'more opportunities for investment'; and

(c) Another investor described the Merger as leading to 'more investment choices'.

6.206 There were five respondents who gave 'competition-related' explanations of the impact of the Merger. However, the responses are mixed as to whether there will be a lessening in competition. For example:

(a) One investor noted that 'less competition gives platforms more power to modify unilaterally terms and conditions';

(b) Another investor noted that 'there also is the danger of the smallest common dominiator [sic]… it really depends on the motives of the people behind this merger';

(c) However, one investor noted that 'there still appears [sic] to be alternative platforms available and "sophisticated investors" should be adept at finding the ones which offer the best opportunities with the best terms'.

6.207 Finally, a further five respondents either stated that they were indifferent to the Merger, or gave other reasons – for example, one investor stated that the Merger would lead to better management or enhanced resources; another investor stated it would allow the Parties to better access SMEs abroad.

6.208 In addition to the responses to our questionnaire, we received a submission from a regular investor through both platforms. The investor was concerned about the Merger because, in their opinion, 'the resulting entity will be able to raise fees with impunity. Investors will have to accept higher fees because the resulting entity is the only place to find opportunities'.

Provisional conclusion

6.209 Overall, we see that investors mainly chose their respective platforms based on wanting to invest in a specific SME opportunity and that the range of SMEs is important for some investors. The identities and quantity of SMEs on the Parties' platforms can therefore be considered a parameter of competition from the perspective of investors. Competition for investors is driven by (or second order to) competition to win SMEs. We note that, when prompted with a list of potentially relevant factors, investors also rank factors such as the platform's due diligence process and the presence of a range of SMEs/other investors on the platform, as well as the ability to earn a financial return, to be important in deciding between platforms.

6.210 We have found evidence that the Parties are close competitors for investors, although it appears that investors have closer alternatives to ECF platforms than do SMEs. The most common next-best alternative was [✄] in the case of Crowdcube's investor customers and [✄] in the case of Seedrs' investor customers. However, the other Party was the second or third most common next-best alternative stated by investor customers (with this result varying depending on whether investor responses were weighted by amount invested or not). In addition, we note that the other Party was stated as the next-best alternative far more commonly than any other individual alternative platform or provider.

6.211 The customers responding to our questionnaire had positive or neutral views on the impact of the Merger; but no investor stated that the Merger would lead to bad outcomes.

Third-party equity finance providers' evidence

6.212 We have collected evidence from several equity funding providers that may compete, to a greater or lesser extent, with the Parties. The Parties submitted a list of companies that they considered to be competitors, including companies we consider to be 'out of the market'. We drew on this submission and sent a questionnaire to 71 third-party providers of equity finance and related services and received 19 substantive questionnaire responses.[173]

Parties' views

6.213 Crowdcube told us that few third-party equity finance providers identified themselves as competitors to the Parties in response to the CMA's questionnaire because competitors do not 'see [Crowdcube] as competitors because – […] we lose against them for so much and […] looking at it from the point of view of somebody looking to raise finance, people want to raise finance from VCs because of the certainty of funding. They know that if they go to a VC, if they get that VC interested, they are going to get that finance, whereas if they go, [to] other forms of finance, including equity crowdfunding, it is much less certain. So that is where we find it really hard to compete with those bigger funds'.

[173] We also received seven non-substantive responses. These were responses that did not complete the questionnaire but did provide a brief comment. Two of these did not have time to complete the questionnaire but did not have concerns about the Merger. [✄]. We had five other responses, three of which said they did not compete with the Parties, one said it did compete with the Parties for corporate services and one said it was not familiar with the Parties. In the rest of this section we refer only to the substantive responses (unless specified).

6.214 Seedrs submitted that it was not surprised that, in response to the CMA's questionnaire, few third-party equity finance providers identified themselves as competitors to the Parties. Seedrs told us that, '[✄]'.

Our assessment

Characteristics of respondents

6.215 The respondents provide a range of different services and some provide multiple services meaning they do not exclusively fall into a single category. However, in terms of how they self-identified (including some firms in multiple categories):

(a) Ten identified as angel networks;

(b) Nine identified as VCs;

(c) Four identified as ECF platforms;

(d) Three identified as 'other';

(e) Two identified as DCF (ie, debt crowdfunding) platforms; and

(f) Two identified as corporate services firms.

6.216 We assess these firms in the round for each group, rather than focusing on individual firms. We do not discuss DCF or corporate services further since these services do not involve equity finance.

Features of third-party equity finance providers

- *Angel networks*

6.217 Ten of the respondents are either wholly or in part angel networks. They indicated that their investors are typically sophisticated investors, high-net worth individuals, professional investors or family offices. They have a mixed approach to restrictions on investors (eg whether membership is required or whether there are minimum investment amounts), with some having no firm restrictions and others having specific criteria.

6.218 In terms of scale of individual investors' investment, three respondents mentioned that they had minimum investment levels of [✄] respectively (ie levels materially higher than those of the Parties who do not require a minimum investment amount).

6.219 Among all the angel network respondents, several of them highlighted a range of differences between their businesses and the Parties. These included:

(a) Two of the respondents indicated that the Parties are technology driven and have a superior platform.

(b) Two of the respondents indicated that the valuations offered by the Parties are both high and non-negotiable, which was a difference from how they operate.

(c) Two of the respondents said that the Parties have access to a wider pool of investors.

(d) One of the respondents said that it provides a much more involved opportunity for its members during diligence, investment and post investment.

- *Venture Capital*

6.220 Nine of the respondents are either wholly or in part venture capital firms. They gave a mixture of answers as to whether their investor access was restricted. One of the respondents mentioned that it had “managed capital” which means that its investor customers can make investments more quickly and with less administration. Another respondent highlighted its strengths relative to the Parties as ‘[s]upport for SMEs through training, leadership coaching, talent sourcing, follow on funding (subject to performance) and industry/investor network’.

6.221 One of the respondents said that Crowdcube does not seek the same terms as a typical VC fund investor, for example, it mentioned in particular that VC fund investors may seek preference shares.

- *ECF platforms*

6.222 Four of the respondents said they identified as ECF platforms. They told us that they were similar to the Parties but highlighted some differences. [✂]. They also highlighted some of their own features which are different from that of the Parties such as [✂].

Views on competition with the Parties

6.223 We asked third-party equity finance providers whether they competed with the Parties. 7 out of 19 of the respondents said that they compete with at least one of the Parties. Of these seven:

(a) One said that '[For SMEs] Around 25% of our clients would consider crowdfunding, as such we compete with Crowdcube and Seedrs. [For investors] This is less competitive as investors can register on our platform as well as Crowdcube and Seedrs';

(b) One said 'we compete but our investors are on higher value pledges';

(c) One said 'for origination we compete, as when a company is looking for funding, they have different choices';

(d) One said '[✂]';

(e) One said 'we are a direct competitor offering similar products and SME pitches';

(f) One said 'we believe [we compete] closely with both companies because we offer ECF, but [✂]'; and

(g) One said '[✂]'.

6.224 We note that four of the seven respondents are ECF platforms. We also note that the seven respondents generally operate at a small scale within the provision of equity to SMEs. Four had completed six or fewer SME raises during 2020 and two had completed 20-30 raises; one did not provide information on the number of SME raises in 2020.

6.225 12 out of 19 of the respondents said that they do not compete with the Parties or that they are not close competitors. Of these twelve:

(a) Five explicitly said they did not compete with the Parties. For example, one said 'I would say we do not compete in the slightest with Crowdcube. Crowdfunding platforms tend to lend themselves more to retail/consumer propositions. We are focused on [✂]';

(b) Five said that they are not a 'close competitor';

(c) One said that the Parties were complementary to its offering. It saw the Parties as competing more roundly with "many and varied seed stage focused funds, EIS and other tax-based retail investment funds, angel networks and the plethora of funding options (equity and debt) for non-VC style companies (e.g. It saw the Parties as competing more roundly with 'many and varied seed stage focused funds, EIS and other tax-based retail investment funds, angel networks and the plethora of funding options (equity and debt) for non-VC style companies (eg small product-based businesses, retail outlets etc)'; and

(d) One, an angel network, implied it did not compete but did not say so explicitly. It said “start-ups choose whether to try crowd funding or angel investment. It said ‘start-ups choose whether to try crowd funding or angel investment. It is not a question of “competing for business’.

6.226 We also asked third-party equity finance providers whether they expected to become a more or less close competitor to the Parties over the next two years.

(a) Nine respondents did not expect there to be a change in the degree of competition with the Parties.

(b) Seven respondents (three of which are ECF platforms) expected to become closer competitors to the Parties in future. One of these said ‘[a]s Crowdcube/Seedrs earlier deals mature and their technology platform provides further advantages to investee companies, it is likely that their number of later stage deals in later stage companies increase, in which case there will be some element of increased competition’. Another said ‘[m]ight become more competitive if their combined brand attracts a greater volume of deals over time. We do not anticipate this will be significant due to our differing remit”. Another said: ‘[✂]’. Another said ‘[✂]’.

(c) Two respondents expected to become a less close competitor to the Parties; one because it was ‘[✂]’ and the other said it expected to be ‘less close’.

(d) One respondent did not consider that crowd funding and angel investment competes.

Views on co-investment

6.227 We asked third-party equity finance providers whether they had supplied funding to SMEs that also received funding through Crowdcube or Seedrs. Respondents told us that this form of co-investment had arisen on a limited or infrequent basis.

(a) Eight respondents said they had not undertaken any co-investment. One said that ‘Crowdcube/Seedrs do not appear to like concurrent fundraisings with other platforms’.

(b) Seven respondents said they had undertaken co-investment for one or two SMEs either with Crowdcube or Seedrs, or both.

(c) Three respondents said that they had undertaken co-investment for between three and five SMEs either with Crowdcube or Seedrs.

(d) [✄].

6.228 We also asked third-party equity finance providers for the reasons that SMEs had engaged in co-investment. Among respondents who said at least some co-investment had taken place:

(a) Three indicated that they were existing investors in the SME and the crowdfunding was a supplement to this;

(b) Two referred to the SME wishing to gain the marketing benefits from crowdfunding;

(c) One referred to the SME being unable to raise sufficient funds through crowdfunding;

(d) One referred to the use of crowdfunding as opening up the investor base; and

(e) One referred to SMEs finding initial funding with itself, before it could go live on the Parties' platforms.

Views on the Merger

6.229 Third-party equity providers gave a diverse set of views and comments on the Merger.

6.230 Six of the respondents explicitly said the Merger would have no impact on their business. None of the others stated whether it would have a positive or negative impact on their business.

6.231 Regarding the effect of the Merger on the ECF platform market more generally, five respondents thought the Merger was needed for the Parties to survive and four thought the Merger would lead to a 'dominant' provider in the market (and explicitly used the word 'dominant' or 'dominance');

6.232 Overall, four gave responses which were clearly supportive of the Merger; the others did not state a clear position of being supportive or not supportive.

Provisional conclusion

6.233 Overall, we consider that the evidence from other providers of equity finance indicates that there is limited competition with the Parties.

6.234 The majority (12 out of 19) of these providers thought they did not compete closely with the Parties.

6.235 The ECF platforms that we heard from (Envestors, Growth Capital Venture, Crowd for Angels and Crowd2Fund) told us that they did compete with the Parties, although in some cases this was only for a small portion of their customer base. We note that these providers are small in scale and/or specialised and much smaller than the Parties (see paragraph 6.224).

6.236 Other third-party providers of equity finance (including angels and VC firms) generally said that they do not compete with the Parties.

6.237 Nine third-party equity finance providers did not expect there to be a change in the degree of competition with the Parties, while seven said they expected to become closer competitors to the Parties in future. Three of these are already ECF platform and are small in scale. The others did not list specific plans to enter into ECF.

6.238 Co-investment between the third-party respondents and the Parties arose on only a limited or infrequent basis, suggesting that any competition for the share of the total amount of co-investment during a funding round is not a common occurrence.

Other submissions

6.239 Separately from our third-party questionnaires, we also received three submissions from third-parties supportive of the Merger going ahead: the UK Crowdfunding Association, Innovate Finance, and [✂].[174]

6.240 Broadly, these parties submitted that:

(a) The existence of competition between ECF and other forms of financing would ensure sufficient competition in the future, for example:

(i) '[T]he market for equity financing extends well beyond the boundaries of ECF itself' and 'Crowdfunding platforms compete directly with a range of funders in terms of both "hard" and "soft" features of their offer'.

---

[174] We note that the UK Crowdfunding Association and Innovate Finance are membership bodies which include the Parties as their members. The Compliance Director of Seedrs is listed as a Director of the UKCA on its website: see UK Crowdfunding Association Directors | UKCFA.

(ii) '[E]ven a single strong crowdfunding platform (like the Merged Entity) would face competition from other investment platforms'.

(b) There is a need for scale to promote the development of the overall funding environment for UK businesses, for example:

(i) One third-party submitted that a single strong crowdfunding platform would 'improve the infrastructure for funding across the UK'. This third-party also submitted that a wide pool of crowdfunding platforms will only be possible if the economic growth of the strong players active in the market is encouraged, thereby encouraging others into the market.

(ii) According to a different third-party, 'the whole sector recognises the need for scale to operate effectively and sustainably in the highly competitive market for business finance'. The combination of the Parties would 'serve to accelerate the positive impact their sector is having on the way in which SMEs can raise finance and individual investors can find new sources of risk adjusted returns on their capital'.

(iii) Finally, another third-party expects that 'by joining forces [the Parties] can build a bigger and better proposition for entrepreneurs'. It also submitted that 'any value that may come from their rivalry will be far outweighed by the benefits that entrepreneurs will reap from their combination and growth'.

6.241 In relation to competition between ECF platforms and other forms of financing, we recognise that there is some competition between ECF platforms and other sources of equity funding, but, as set out in paragraph 6.294(i) below, we do not consider it to be particularly close competition or sufficient to offset the loss of close competition between the Parties that would result from the Merger in circumstances where we are concerned about the potential for higher prices, reduced quality, and less innovation as a result of the Merger (see paragraph 6.298 below).

6.242 In relation to the benefits of a scaled-up player in ECF, we recognise that the Merger may bring some benefits to SMEs and we consider the potential customer benefits from the Merger in our assessment of countervailing factors (see, in particular, paragraph 7.58).

6.243 We acknowledge the importance of the fintech sector to the UK economy and that ECF has developed to play an important role in the financial ecosystem by helping SMEs to grow. The CMA must consider the statutory question of the impact of the Merger on competition and whether it leads to an SLC,[175] including whether any efficiencies arise from the Merger. To the extent that an SLC is found, the CMA may have regard to relevant customer benefits attributable to the Merger that would be lost as a result of any remedial action proposed. In any event, a less competitive fintech sector will ultimately mean less innovation and dynamism, slower productivity growth, worse outcomes for customers (for example, in the form of higher prices) and a sector less able to take advantage of global growth opportunities. In addition, competition between close rivals benefits customers in the short-term and drives longer-term innovation making businesses stronger and more able to compete on the global scale.

The Parties' submissions in relation to lost SME opportunities

6.244 Crowdcube and Seedrs each submitted an analysis of 'lost SME opportunities' ie prospective SME customers that the Party had sought to win, but that had ultimately raised funding elsewhere or not at all. The submissions include an assessment of the fundraising decisions that these SMEs ultimately took and, where known, the provider or type of provider that each SME raised with.

6.245 Both Parties undertook this analysis for the purposes of the CMA's investigation. For example, Seedrs [✂]. Relatedly, the Parties explained that they had limited internal information on these lost opportunities prior to starting the analysis. For example, Crowdcube said: '[✂]'.

Crowdcube

6.246 Crowdcube's analysis included the following steps:

(a) Crowdcube identified and reviewed an [✂].

(b) Crowdcube then [✂].

(c) Following this research, Crowdcube's assessment was [✂].

6.247 In relation to [✂].

[175] Formally, to decide 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', section 36 of the Act.

6.248 Crowdcube's assessment of the wider set of [✂] opportunities (which includes those that did not go on to raise finance) was that '[✂]'.[176]

6.249 Crowdcube's assessment of [✂].[177] Crowdcube's assessment of the destination of the [✂].

Table 6.17: Crowdcube's analysis of lost opportunities that it identified as having gone on to raise funding (percentages added by the CMA)

[✂]

Source: Crowdcube.

6.250 Crowdcube said that its results and data demonstrated that 'there is a wide choice of alternative forms of financing for all types of SME companies and SMEs at all stages of development, including seed stage, have alternative types of equity financing available to them'.[178]

Seedrs

6.251 Seedrs' analysis included the following steps:

(a) Seedrs examined [✂] SMEs in 2019 and up to mid-Q4 of 2020.

(b) Seedrs identified these deals [✂],[179] and then conducted research on what happened to each company using a combination of public records and the Beauhurst database.

(c) The [✂] deals comprised [✂] who did not sign an engagement letter with Seedrs, and [✂] that did sign an engagement letter but did not launch a campaign on the Seedrs platform.

6.252 Seedrs described the [✂] SMEs as those that it had 'made a serious attempt to attract to the Seedrs platform'.[180] It stated that 'campaign qualified leads' are 'businesses we qualified as attractive targets based on an initial lead and whom we would engage in an active sales process in order to recruit them to the Seedrs platform'.[181] It stated that SMEs not making it to this stage include 'a much wider set of SMEs that dismissed equity crowdfunding as an option at

---

[176] Crowdcube response to the CMA's Issues Statement, 18 December 2020, section 4.4.1.
[177] Crowdcube response to the CMA's Issues Statement, 18 December 2020, section 4.4.1.
[178] Crowdcube response to the CMA's Issues Statement, 18 December 2020, section 4.4.1.
[179] [✂].
[180] Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.1.2.
[181] Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.1.3.

a sufficiently early stage in their analysis that they never even came into our funnel'.[182]

6.253 Seedrs' assessment across all [✂] lost SMEs (including those that did not go on to raise funding) was that 'only [✂]% were lost to another equity crowdfunding platform'.[183] Seedrs submitted that: 'This data puts clear numbers behind the point [that] SMEs look across the market of equity funding providers when raising capital, and they select the provider—be it venture capital, angel investors, an equity crowdfunding platform or others—that best aligns with their priorities at that time'.[184] Seedrs' assessment of the destination of the [✂] lost opportunities was as follows:

Table 6.18: Seedrs' analysis of all lost opportunities (including pre and post engagement letter losses and those that did not go on to raise funding)

[✂]

Source: Seedrs.

Our assessment

6.254 In this section, we first discuss the data submitted by the Parties, before considering the results presented by the Parties regarding the destination of the SMEs and presenting a sensitivity analysis on these results.

Parties' data regarding assessment made by SMEs and reasons for losses

6.255 In relation to the data submitted, we note that the lost opportunity analysis was undertaken by the Parties for this investigation and largely relies on public information, including from subscription databases, rather than contemporaneous records. Therefore, the Parties do not appear to generally track the lost opportunities in the normal course of business and have made a largely retrospective assessment of the destination of the lost SMEs.

6.256 We consider that a key limitation of the data submitted is that they contain very limited information - either contemporaneous or retrospective – regarding how the SMEs considered the different funding providers' offers and why they did not use the services of the Party in question. Seedrs' submissions include only a broad categorisation of the destination of each SME, relating either to the type of funding raised, or to other reasons such as 'didn't raise', 'unclear'

182 Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.1.5.3.
183 Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.1.5.1.
184 Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.1.5.2.

or ‘qualified out’ based on due diligence or suitability. Crowdcube’s submissions similarly include broad categorisations of the destination of each SME.

6.257 As set out at paragraph 6.246(b), Crowdcube did also submit some brief references to (and extracts from) its internal records, such as sales notes. These were included for only a small proportion of its SME opportunities ([✂]). In our view, none of the notes submitted provided firm evidence of SMEs being lost due to competition from non-ECF providers or other sources of funding. Rather, many of these notes do not address the extent of any competition between other providers and Crowdcube at all, and a number of these notes suggest that the SME was lost for reasons unrelated to competition.[185] Illustrative examples of these notes are as follows: [✂].

6.258 In our view, the very limited information regarding how the SMEs considered the different providers’ offerings, and why they did not use the services of the Party, means that little can be inferred from this evidence on the extent of competition between the Party and other providers.

6.259 On this point, the Parties have suggested that the fact of their having actively engaged with SMEs that went on to raise elsewhere is, in itself, demonstrative of competition. For example, Crowdcube stated that ‘all [✂] opportunities analysed in that data involved SMEs which were actively engaging in discussion with Crowdcube and had at least one other option for equity finance, and so clearly represent a significant focus of competition for the provision of equity finance’. Seedrs similarly stated that the ‘decision to go to that [alternative] funding channel is the critical point in demonstrating the set of funding providers against whom we compete’.

6.260 We recognise that, from the Parties’ perspective, these were well developed SME opportunities that they considered to be realistic potential customers. However, based on the above data, it is unclear, from a customer perspective, the extent to which the Party had been closely traded-off against other providers. We note that customer purchasing decisions, particularly when products/services are differentiated as in this case, often involve an initial stage where a customer explores a wide range of offers, and, once suitable offers are identified, a second stage where it more closely trades-off and/or

[185] For example, the reason at paragraph 6.257(e) suggests that the SME considered ECF as complementary funding to other sources, and the reason at paragraph 6.257(f) appears to be that the SME did not get a grant.

negotiates with a smaller number of shortlisted providers.[186] In general, with differentiated products, we expect providers to face closer competition (and a stronger competitive constraint) from the subset of providers that customers view as closer substitutes and actively trade-off against each other. Accordingly, we have focussed our evidence-gathering on customers of the Parties to assess closeness of competition between non-ECF sources of equity funding and the Parties' ECF platforms.

6.261 Even taking at face value the Parties' submissions that these SMEs actively engaged with that Party (for example, through repeat discussions) before raising elsewhere, in our view, this would not in itself demonstrate that competition took place between the Party and the other provider(s). Rather, some of these SMEs may simply have explored ECF and, in light of its differentiated characteristics as compared to other types of equity finance, decided that an alternative type of finance was more suited to their needs at that time.

The proportion of SME opportunities going to different funding providers

6.262 As set out above, results reported by the Parties include Crowdcube's assessment that [✂] SMEs (including those that did not go on to raise finance) raised with another crowdfunding provider and Seedrs' assessment that [✂] SMEs (including those that did not go on to raise finance) raised with another ECF provider.

6.263 We consider that, where a SME has not gone on to raise finance at all, then, in many cases, the 'loss' of the SME is likely to have been for reasons unrelated to competition. For example, these SMEs may simply have decided that the timing was not right for them to raise finance (of any kind). For this reason, we do not consider that Crowdcube's finding that [✂] SMEs used crowdfunding, or Seedrs' finding that [✂] SMEs used ECF, can be relied upon as providing an indication of the competitive constraints faced by the Parties. These results are therefore not discussed further.

6.264 As set out above, Crowdcube also reported the proportion of lost SMEs that raised finance that did so with another crowdfunding provider: [✂] SMEs.

---

186 Similarly, Seedrs submitted that SMEs' customer journey is a 'two-stage process, involving firstly a general exploration of whether or not to engage with equity crowdfunding, and then – if through that "gate" – a closer appraisal of different options'. Seedrs further submitted that, in the first-stage, it 'will work to convince the business of the advantages of equity crowdfunding over other types of funding channels' whereas, at the second-stage, its role is 'to attempt to persuade the SME of the advantages of Seedrs over other equity crowdfunding platforms'.

Seedrs did not report the proportion of SMEs that went on to raise funding elsewhere that used an alternative ECF provider. Based on our calculations, [✂] SMEs in the Seedrs' data-set used an alternative ECF provider, when considering only SMEs that went on to raise elsewhere.[187] Notwithstanding the broader concerns over the quality of the data discussed above (see paragraphs 6.255 to 6.260), and taking these results at face value, in our view these results are broadly consistent with other evidence, including internal documents and the CMA's SME questionnaire, in showing that the Parties are close competitors for a significant number of SMEs.

6.265 We also calculated a sensitivity analysis on the Parties' results having excluded certain SMEs on a cautious basis. First, for the reasons discussed in paragraph 6.263 above, we excluded SMEs not identified as having gone on to raise finance. Second, we excluded SMEs categorised as having raised finance, but where the type of provider was marked as 'unclear' or the destination was 'unknown'. This is because, in our view, these data do not add useful information (as they do not provide information on the funding sources/providers that the SME was lost to) and their inclusion means that the proportion of SMEs that went on to raise through particular funding sources/providers may be understated. Third, we excluded SMEs that were qualified out (on account of due diligence or suitability) because, in our view, it is clear that the loss of these SMEs was not due to competition from alternative funding sources. We applied these screens as follows:

(a) in the Crowdcube dataset, for the purposes of our sensitivity, we excluded [✂] SMEs where the type of provider through which the SME raised funding was marked (by Crowdcube) as 'unclear'; and

(b) in the Seedrs dataset, for the purposes of our sensitivity, we excluded [✂] SMEs that were identified (by Seedrs) as not having gone on to raise funding, SMEs where the SME destination was 'unknown', and SMEs that were qualified out by Seedrs.

6.266 The results of our sensitivity analysis are as follows:

[187] [✂].

Table 6.19: CMA analysis of Crowdcube's lost opportunity data*

Destination of lost SME opportunities (excluding those where unclear if raised, or where unclear what type of provider SME raised with)	*Number of SME opportunities (and as a % of total)*
Crowdfunding†	[✂]
Angels	[✂]
VC	[✂]
Other/debt	[✂]
Total	[✂]

Source: CMA analysis of Crowdcube data.
* [✂]

Table 6.20: CMA analysis of Seedrs' lost opportunity data*

Destination of lost SME opportunities (excluding those not identified as having gone on to raise funding, those where the destination was unknown, those that were qualified out)	*Number of SME opportunities (and as % of total)*
Equity crowdfunding platform	[✂]
Raised from VC/Angels/Other Investors	[✂]
Total	[✂]

Source: CMA analysis of Seedrs data.
* [✂].

6.267 As compared to the Parties' results, a materially higher proportion of lost SMEs went on to raise with another ECF provider when a more cautious approach to the data is taken (for example, [✂]% for Crowdcube and [✂]% for Seedrs under our sensitivity, as compared to [✂]% for Crowdcube and [✂]% for Seedrs in the results set out at paragraph 6.264).

6.268 Crowdcube submitted that excluding companies where the source of the raise was unclear 'is likely to under-state the number of deals lost to other (non-crowdfunding) types of equity finance provider', given high levels of public transparency around crowdfunding raises. We recognise that crowdfunding deals are subject to relatively high levels of transparency and we have used our sensitivity as an upper bound estimate of the proportion of Crowdcube SME opportunities that were won by other crowdfunding providers.

6.269 In our view, taken at face value, both the Parties' results in relation to SMEs that went on to raise finance and our sensitivity analysis suggest that the Parties are close competitors for a significant number of SMEs, consistent with other evidence including internal documents and the CMA's SME questionnaire.[188]

[188] We refer here to the Parties' results regarding the proportion of lost SMEs that raised finance that did so with another crowdfunding/ECF provider (see paragraph 6.265).

6.270 We note that, for both the Parties' results and our sensitivity, the proportion of lost SMEs that raised with the other Party is lower compared to the proportion of the Parties' actual customers that identified the other Party as their next best option in response to our questionnaire, where [✂]% of Crowdcube's and [✂]% of Seedrs' actual SME customers said they would divert to the other Party (see paragraphs 6.132 to 6.138).[189]

6.271 This is consistent with what we would expect because, whereas all respondents to the SME questionnaire are actual customers of ECF services and therefore have identified these as being a good fit with their needs, the lost opportunity sample includes SMEs that did not buy ECF services and at least some of these are likely to have judged ECF to not be a good fit for their business.

6.272 Both Crowdcube and Seedrs submitted that the CMA should undertake a wider 'survey' of these lost SMEs.[190] As discussed in paragraph 6.98, the CMA collected evidence from a sample of SMEs that had used the Parties' services (we sent questionnaires to 200 SME customers and received 56 responses in total). We focused on the Parties' actual SME customers because the views and experiences of actual customers are more likely to be probative of the constraints that the Parties face and their incentives to raise prices (or worsen other competitive variables) post-Merger, as compared to those of prospective customers that did not use the Parties' services. This is particularly the case where the Parties have the ability to discriminate between customers in their pricing (see paragraph 5.38). In addition, we note that, in this case, a significant proportion of SMEs using the Parties' services are repeat customers (in 2020, the proportion of Crowdcube's funding rounds that were for SMEs that had previously raised on the Crowdcube platform was [✂]% and the equivalent proportion for Seedrs was [✂]%); this further indicates that current/past customers of the Parties are a more probative proxy for future customers of the Parties' services who would be affected by the Merger. For these reasons and because, as set out above, both the Parties' results in relation to SMEs that went on to raise finance and our sensitivity are broadly consistent with other evidence, including the CMA's

[189] We present here our lower-bound estimates of diversion between the Parties (ie before any respondents that said they would divert to a 'non-specific ECF' are allocated to the Parties), with the lower of these weighted and unweighted results being presented first. Allocating all of the 'non-specific ECF' diversion responses to the Parties provides upper-bound estimates of diversion between the Parties of [✂] and [✂].
[190] Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.1.6. Crowdcube response to the CMA's Issues Statement, 18 December 2020, section 3.1.

SME customer questionnaire,[191] we considered that contacting the 'lost SMEs' listed in the Parties' submissions was unnecessary.

Provisional conclusion

6.273 Overall, our assessment is that only limited weight can be put on the Parties' 'lost opportunity' submissions as evidence that is informative of the competitive constraints exerted on the Parties' ECF platforms by alternative equity funding providers/sources of finance. This is because the data contain 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, based on the data, it is not clear whether the Parties' ECF platforms 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.

6.274 In any event, notwithstanding the concerns over the quality of the data, and taking the Parties' results and the CMA sensitivity at face value, these results are broadly consistent with other evidence, including internal documents and the CMA's SME questionnaire, in showing that the Parties are close competitors for a significant number of SMEs.

Seedrs' submission regarding third-party press articles and commentary

6.275 Seedrs has submitted that third-party press coverage has 'made clear that the services that platforms like Seedrs and Crowdcube offer are competitive alternatives to, rather than a distinct market from, other SME equity funding firms'.[192] Seedrs provided ten extracts, from which we provide three examples below:

(a) 'Alongside the more traditional venture capital houses, there has been a sharp rise in new crowdfunding and peer-to-peer lending platforms, such as Crowdcube and Seedrs, and seed funds like Seedcamp and Entrepreneur First'.[193]

---

[191] We refer here to the Parties' results regarding the proportion of lost SMEs that raised finance that did so with another crowdfunding/ECF provider (see paragraph 6.264).
[192] Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.2.1.
[193] Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.2.2, Britain will retain its golden spirit of enterprise if we keep backing entrepreneurs, City A.M., 5 July 2016.

(b) 'Until very recently, anyone running a private company in the UK would have automatically turned to the private equity or venture capital sectors when looking for their first slice of equity capital. But ... online crowdfunding platforms are now more likely to provide the financing such companies are looking for'.[194]

(c) 'You've got some inspirational market insight and created the killer idea for a business … But what about the investment you'll need to get it up and running? ... there are various different sources ... #5 Angel investors ... #6 Equity crowdfunding ... #7 Investment funds'.[195]

6.276 When considering this press commentary both on a 'stand-alone' basis and alongside other types of evidence (such as the Parties' internal documents), our view is that Seedrs' submission is not persuasive that other types of equity finance are close alternatives to ECF, for the following reasons:

(a) First, we note that the majority of extracts provided by Seedrs state other types of SME equity finance as being alternatives to ECF. However, this does not provide evidence that these alternatives are close substitutes to ECF from the perspective of SMEs. In only two of the extracts provided by Seedrs we found some evidence of SMEs switching between ECF and other forms of equity finance;

(b) Second, even when the extracts show some evidence of switching, the basis on which the SME switched is unclear. There is only one instance (out of the ten extracts) where we see indicative evidence that a SME may have switched to ECF from an angel due to a comparison of valuation terms indicating a degree of competition;

(c) Finally, when considering this evidence alongside the Parties' internal documents that focus on monitoring of press mentions (as discussed previously in paragraph 6.60), monitoring of this type of press commentary, which involves other types of SME equity finance, does not feature in the internal documents we have reviewed. Instead, the Parties focus predominantly on each other when monitoring how they are perceived by third-parties such as the press.

[194] Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.2.2, How Crowdfunding Took On Private Equity and Won, Forbes, 10 February 2017.
[195] Seedrs response to the CMA's Issues Statement, 18 December 2020, paragraph 2.4.2.2, seven funding choices when it comes to financing your start-up, Smallbusiness.co.uk, 22 July 2020.

6.277 In addition to the points made above, we note that we have found other evidence from third-party analyst reports and articles comparing the Parties against only each other and indicating the Parties are viewed as each other's closest competitors in the marketplace.[196] 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'.[197] 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'.[198]

The alleged 'paradox'

Parties' views

6.278 The Parties submitted that the CMA's emerging analysis, as set out in the CMA's Annotated Issues Statement and Working Papers, demonstrated a 'paradox' to which there was no logical or rational frame that could square this 'paradox' with a conclusion that the Merger would lead to an SLC.

6.279 Seedrs described the alleged 'paradox' as follows:

(a) 'If the supply of equity crowdfunding platforms is taken as the relevant market – as the CMA held at phase 1 and appears inclined to maintain at phase 2 – then that is a market that (for the foreseeable future) can only sustain one entity which has a chance of achieving profitability. This is absolutely clear from the economics and the maths that underlie them'.

(b) 'However, the CMA's emerging thinking (including regarding a counterfactual based on prevailing conditions of competition) also suggests a view that both merger parties can be profitable on their own. For that to be possible, it would require each party to take a larger share of the wider SME equity funding market, which would mean that it must be competing in that wider market – where the parties have limited share of the market – and that they need to continue to compete and succeed in that wider market to survive'.

---

[196] 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.
[197] See smallbusiness.co.uk, How I used Seedrs to raise money for my doorbell business, 3 August 2017.
[198] See cheesable blog: Seedrs vs Crowdcube – Our crowdfunding campaign: Part I, 25 October 2016; and Seedrs vs Crowdcube Part II – Key lessons for UK crowdfunding campaigns, 28 February 2017.

(c) ‘Both of those positions cannot logically be true at the same time: either the merger parties operate within a putative market of equity crowdfunding, in which case it is certain that at least one of the parties will fail [✂]; or, the parties operate in a wider SME fundraising market, in which case the parties have only very modest market share and face ample competition’.

Our assessment

6.280 Before considering the alleged ‘paradox’ in detail, we first highlight that the statutory question that the CMA must answer when reviewing a merger is to assess the impact of the merger on competition.[199] This means that our focus is on assessing the constraints on the Parties’ offerings and on ensuring that the Parties’ customers, which in this case are emerging businesses seeking to secure equity financing on competitive terms, can continue to benefit from the lower prices and better services that competition between the Parties produces. We further note that a finding that such constraints from other parties are weak is not inconsistent with the Parties attempting to grow their business in the future and expanding the current ECF market, as we explain below.

Sustainability of ECF

6.281 Regarding the first part of the alleged ‘paradox’; we do not agree that ‘it is clear from the economics and the maths that underlie them’ that the market, as we have defined it (see paragraph 5.50), can only sustain one entity.

6.282 As noted at paragraph 4.10 above, the CMA will consider the question of whether a firm would have exited the market, absent the merger, as part of its counterfactual analysis. In this case, for the reasons set out in detail above (paragraphs 4.171 to 4.177), our provisional view, based on the available evidence, is that the appropriate counterfactual is the ‘prevailing conditions of competition’ under which both Parties would have continued to compete in broadly the same manner that they had been pre-Merger for the foreseeable future (and hence more than one entity will continue in the market).

[199] Formally, to decide 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’, section 36 of the Act.

6.283 The Parties (paragraphs 6.279(a)) and some third-parties (paragraph 6.240(b)(ii)) have submitted doubts about the ongoing viability of ECF in the UK.

6.284 While we recognise that the Parties are not profitable and there is inherent uncertainty about the future prospects for the Parties in the UK, this is not uncommon in relatively 'young' markets (such as ECF) and in the digital space. In any case, we consider that there is no basis, on the evidence before the CMA in this investigation, to conclude that the market can sustain only one player.

6.285 We have no reason to believe that the ECF market and one or both Parties cannot continue the path of sustained growth seen in the past. Past growth of ECF in the UK has been strong (see paragraph 2.21). The Parties' grew (measured by number of deals in UK) by [✂]% (Seedrs) and [✂]% (Crowdcube) respectively between 2019 and 2020.[200] We also note that there is a large pool of SMEs in the UK (see paragraph 2.2) and currently only a minority of them seek equity funding (see paragraph 2.4(b)).

6.286 Further, we have not seen compelling evidence that the market is characterised by material economies of scale, in a manner that means only one ECF platform can be viable in the market. The Parties' submissions in relation to cost savings from the Merger (see paragraphs 3.14 and 7.56) do not demonstrate that only one ECF platform can be viable and we note that there are small-scale ECF platforms currently operating in the market. Additionally, we note that the Parties submitted that, post-Merger, new entrants would be attracted to the market (see paragraphs 7.19 and 7.20), which would seem to contradict a view that the ECF market is only viable for one platform.

6.287 Notwithstanding the considerations above and our provisional view on the appropriate counterfactual, we have also considered the consequences of a possible future failure of one of the Parties on our competitive assessment in paragraph 6.320.

Expansion of ECF

6.288 Regarding the second part of the alleged paradox; we disagree that if one or both Parties is successful in further expanding its ECF business, this

[200] CMA analysis based on data submitted by Crowdcube and Seedrs.

necessarily means that other forms of equity funding will be a close and strong competitive constraint longer-term.

6.289 In expanding their business, ECF platforms may gain future customers that were not previously familiar with ECF as well as providing further funding rounds for those that have used ECF previously.

6.290 The Parties are developing and have grown a (relatively) new market. Expansion of their business may involve attracting SMEs from other equity funding sources and/or attracting SMEs new to equity funding (eg, new or small SMEs). New customers, including those attracted from other equity funding sources, may come to value the differentiation of ECF platforms and may not consider other equity financing sources as a close alternative to ECF.[201] Further, SMEs new to equity funding may not be able to achieve funding from wider sources.[202]

6.291 We also note that the potential for ECF platforms to offer different fee rates to different customers (see, for example, paragraph 6.150) means that, even if the Parties were to face stronger constraints from other equity funding sources in the future for some new customers, the constraints may be weak for other customers, especially those that have no alternative to ECF.

Provisional conclusion

6.292 In our provisional view, for the reasons set out above, the alleged 'paradox' postulated by the Parties is not in fact a paradox. In our view, the available evidence does not show that one or both Parties would have exited absent the Merger, that the ECF market can only sustain one entity, or that other forms of equity funding will be a close competitive constraint longer-term.

Provisional conclusion on unilateral effects

6.293 In our competitive assessment, we have considered the degree of competition between the Parties and with third-parties, including those inside and outside the market. We have looked at a range of evidence, which we have then considered in the round to reach our conclusion as to whether the Merger may be expected to result in an SLC in the market for the supply of ECF platforms to SMEs and investors in the UK.

---

[201] Given our assessment of the competitive constraints from non-ECF equity finance providers, see paragraphs 5.18 to 5.41 above.
[202] See paragraphs 6.117 to 6.118 in relation to those SMEs who responded to our questionnaire who considered ECF was likely to be their only funding option.

Our findings on horizontal unilateral effects

6.294 Our findings can be summarised as follows:

(a) As the two main ECF platforms in the UK, the Parties' product offerings are very similar; as set out in Chapter 2, both use online platforms to match SMEs seeking to raise equity funding with a large number of potential investors. The two sides of the Parties' platforms are closely linked and the main focus of competition for the Parties is to attract SMEs to their platforms. The Parties have developed competing product features; for example, as Crowdcube has noted, Seedrs offered a nominee structure before Crowdcube did and Crowdcube had to adapt that model to be able to compete and win relevant business. In addition, both Parties now offer a direct investment option and a secondary market offering.

(b) The Parties' market shares in the supply of ECF platforms to SMEs and investors in the UK, calculated in terms of ECF deals, are [50–60%] for Seedrs and [40–50%] for Crowdcube. This gives the Merged Entity an extremely high combined share of supply of [90–100%] of ECF deals in 2020, with a very large increment arising from the Merger. Their combined share has increased over the last three years from [80–90%] in 2018. Other ECF providers have very small market shares (Envestors, Growth Capital Venture, Crowd for Angels and Crowd2Fund have a combined share of [0–5%]) and some of these providers are specialised; for example, Growth Capital Venture mostly works with fintech companies and Crowd for Angels' customers are often technology-focused.

(c) Out-of-market providers of equity finance to SMEs include VCs and angels. These groups of providers are large in aggregate and varied in terms of their focus. Their offerings to SMEs are differentiated from those of ECF platforms. For example, unlike ECF platforms, VCs and angels often require some type of strategy control (eg board seats), while VCs may require more stringent terms than an ECF platform.

(d) The internal documents that we have reviewed show that the Parties compete closely with each other and less closely with third-party providers. In the documents that we have reviewed:

(i) The Parties closely monitor and assess each other's competitive positioning and performance. They compete over short-term competitive variables (such as prices charged to SMEs), over the longer-term development of their product offerings, and they have similar ambitions to further broaden the services that they offer and serve a wider variety of investor and SME needs.

(ii) The Parties undertake much more limited monitoring of third-parties. SyndicateRoom was the third-party provider mentioned most often by both Parties in their internal documents, followed by Venture Founders in the case of Crowdcube (the Parties identified these as ECF platform, although these providers submitted that they do not currently have an ECF business model). Other specific providers, including angels and VCs, were mentioned in only a very small number of documents in a monitoring or benchmarking context.

(iii) The Parties specifically discuss perceived competitive pressure faced from each other and strategies to compete against each other. We did not find any similar evidence in relation to third-party players such as other ECF platforms, VCs or angels (either in relation to specific providers or groups of providers).

(iv) The Parties view angels and VCs as an 'addressable market' and have co-investment and partner relationships with these players in some settings. We did not find any documents indicating a competitive dynamic between either Party and a co-investment partner. Responses to our SME questionnaire were consistent with this finding.

(e) The evidence that we gathered from SMEs is consistent with the internal documents evidence in showing that the Parties are close competitors, and each other's closest competitors, and that other providers of equity finance are less-close competitors. In particular:

(i) First, based on responses to our SME questionnaire, SMEs appear to choose ECF platforms over other equity finance providers for their specific features, which differentiate ECF platforms from other sources of equity funding. For example, the most common reason for choosing to raise funds via an ECF platform was related to the marketing benefits of ECF platforms, a differentiating factor from other types of equity funding such as VC and angel funding.

(ii) Second, in response to our diversion question, for both Parties' SME customers, the highest diversion was to the other Party, indicating that the Parties' are each other's closest alternative [30–45%] of Crowdcube's and [45–50%] of Seedrs' SME customers said they would divert to the other Party).[203] Depending on the Party and on whether results were weighted or unweighted, the next highest levels of diversion were to angels or VCs (except in the case of the Crowdcube unweighted results, where the next highest level of diversion was to [✄]). However, aggregate diversion to angels and VCs was significantly lower than diversion between the Parties [20–30%] of Crowdcube's and [30–40%] of Seedrs' SME customers said they would divert to either [✄], while [5–30%] of Crowdcube's and [✄] of Seedrs' customers said that they would divert to [✄]).[204] These results indicate that, from the perspective of SME customers, angels and VCs are less-close alternatives to the Parties, compared to the closeness of the Parties to each other. Individual third-party providers received very low levels of diversion, indicating that no individual provider exerts a material constraint on the Parties.

(iii) Third, responses to other qualitative questions in our SME questionnaire, including a question that asked SMEs to list and rank their main alternatives, also indicated that the Parties are each other's closest alternative.

(f) SME respondents to our questionnaire had mixed views on the impact of the Merger on their businesses. While some considered that the combined business would have access to a larger pool of investors, which would help SMEs raise more funding, some expressed concern that the Merger would lead to a loss of competition and, for example, price increases as a result. Some SME customers specifically indicated that they leveraged competition between the Parties to achieve better terms. Overall, slightly more SME customers expected a positive impact from the Merger than a negative impact.

(g) We considered the Parties 'lost opportunity' submissions and decided to put limited weight on these. This is because the data contain 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, based on the data, it is not

---

[203] We present here our lower-bound estimates of diversion between the Parties (i.e. before any respondents that said they would divert to a "non-specific ECF" are allocated to the Parties), with the lower of these weighted and unweighted results being presented first. Allocating all of the "non-specific ECF" diversion responses to the Parties provides upper-bound estimates of diversion between the Parties of [40–50%] from Crowdcube to Seedrs and [60–70%] from Seedrs to Crowdcube.
[204] These ranges comprise the weighted and unweighted diversion results, with whichever was lower being presented first.

clear whether the Parties' ECF platforms 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. Notwithstanding these concerns, we note that both the Parties' results and the CMA sensitivity analysis are broadly consistent with other evidence, including internal documents and the CMA's SME questionnaire, in showing that the Parties are close competitors for a significant number of SMEs.[205]

(h) Responses to our investor questionnaire suggest that the Parties are close competitors for investors, although it appears that investors may have closer alternatives to the Parties than do SMEs. We note that:

(i) Investors mainly chose their respective platforms based on wanting to invest in a specific SME opportunity and that the range of SMEs is important for some investors.

(ii) In response to our diversion question, the highest diversion was to [✄] in the case of Crowdcube's investor customers and [✄] in the case of Seedrs' investor customers. However, the second or third highest diversion ratio was to the other Party (with this result varying depending on whether investor responses were weighted by amount invested or not). In addition, diversion to the other Party was far higher than to any other individual alternative platform or provider.

(iii) The investor customers responding to our questionnaire had positive or neutral views on the impact of the Merger; but no investor stated that the Merger would lead to bad outcomes.

(i) The evidence that we gathered from third-party angels, VCs and other equity providers is broadly consistent with the other evidence set out above, in that most of these providers (12 out of 15 out-of-market providers) considered that they did not compete with the Parties or that they are not close competitors with them. The four third-party ECF platform that we heard from (Envestors, Growth Capital Venture, Crowd for Angels and Crowd2Fund) told us that they did compete with the Parties. However, as noted above, most of these players have very low market shares in ECF platforms, do not appear to be closely monitored by the Parties based on our internal document review, and were not

[205] We refer here to the Parties' results regarding the proportion of lost SMEs that raised finance that did so with another crowdfunding/ECF provider (see paragraph 6.264).

commonly mentioned by SME customers as a strong alternative to the Parties or as the next-best alternative to the Parties.

6.295 Overall, our provisional view is that this evidence, taken together, shows that the Parties are close competitors in the supply of ECF platforms 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) primarily to win SME customers and improving longer-term competitive variables (including the development of new product features) valued by SMEs and investors.

6.296 Third-party ECF platforms have very small market shares relative to the Parties and impose only a very limited constraint on them. Other equity providers including angels and VCs provide a moderate constraint on the Parties in aggregate, but are a less-close alternative to the Parties, and as such 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 third-party provider appears to exert a material constraint on the Parties.

6.297 For the reasons given above, we are concerned that the removal of one Party as a competitor is likely to significantly reduce competition. 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 deteriorate other aspects of its offering to SMEs, such as the quality of its products and services. Further, the Parties compete over product features that benefit both SMEs and investors (in some cases, competition over a single product feature benefits both sides at once). Therefore, 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.

6.298 Finally, given the close linkages between the sides of the platform, if the merged entity were to offer less competitive terms to customers on one side of the platform, this could adversely affect customers on the other side. In particular, a deteriorated offer to SMEs (for example, higher prices) leading to fewer SMEs using the merged entity's ECF platform could in turn reduce the number of investment choices available to investors. Investors who are attracted by specific SMEs would lose out as they would no longer be able to invest through the merged entity's platform in those specific SMEs no longer raising equity with it; and investors who value the range of available SMEs may lose out from any reduction in the total range of SMEs raising equity via the merged entity's platform.[206]

Summary of provisional conclusion

6.299 For the reasons given above, we 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.

6.300 We have considered whether there are any countervailing factors (such as entry or expansion by third-party providers, or efficiencies) which would be timely, likely and sufficient to prevent this SLC, in Chapter 7.

Future developments

6.301 The Parties have made submissions around potential future changes to their businesses if the Merger did not proceed.

6.302 In our discussion of the counterfactual in Chapter 4, we set out our provisional view that the most likely, and therefore appropriate, counterfactual is the 'prevailing conditions of competition'. In this regard, (as noted at paragraph 4.2 above) we note that the 'prevailing conditions of competition' counterfactual is not static and incorporates the continued dynamic evolution of the market, and potentially any foreseeable financial restructuring or re-orientation of the Parties' business models, so long as the firms in the market continue to compete in broadly the same manner that they have been pre-Merger. Accordingly, the assessment set out above, in this chapter, has used the available evidence to compare the Merger against this counterfactual.

6.303 Notwithstanding our provisional conclusion as to the appropriate counterfactual and the provisional conclusion we have reached in paragraph 6.299 above, given the Parties are facing financial challenges which may cause changes in the nature of their offerings over time, for completeness we have considered how, if at all, these potential future developments, if they were to eventuate, would affect our competitive assessment.

[206] In light of multi-homing by investors (and the absence of fixed access fees when they do so), we consider that the size of the total range of SMEs using the Parties' services is likely to be more important for investors than the extent to which they can access these SMEs in one place.

Parties' views

6.304 Crowdcube submitted that '[…] absent the [M]erger, at least one of these two businesses will in all likelihood fail – [✂]'.[207]

6.305 Crowdcube submitted that '[t]he "prevailing conditions of competition" will in effect therefore mean a [✂]'.[208]

6.306 Crowdcube submitted that the failure of either of the Parties would damage the viability of ECF as a whole. It said '[✂]'.[209]

6.307 Crowdcube submitted that '[✂]'.

6.308 Crowdcube also submitted '[✂]'.

6.309 Seedrs submitted that [✂]. It submitted that [✂].

6.310 Seedrs submitted that it could see one of two possible scenarios emerging in future – either there would be one surviving firm or no surviving firms.[210]

Our assessment

6.311 In light of the submissions made by the Parties, we have considered whether the following possible future developments could affect the constraint that the Parties exercise on each other or the extent to which they are constrained by other suppliers in the market:[211]

(a) A weakening of the competitive position of one or both Parties;

(b) A reorientation of business activity to focus on a sub-set of SMEs by one or both Parties; and

(c) Market exit by one Party.

A weakening of the competitive position of one or both Parties

6.312 If one or both of the Parties continues in the market but in a financially constrained position, this could affect its competitive offering. For example, with greater financial constraints it may be less able to invest in developing its

---

[207] Crowdcube response to the CMA's Issues Statement, 18 December 2020, page 11.
[208] Crowdcube response to the CMA's Issues Statement, 18 December 2020, page 14.
[209] Crowdcube response to the CMA's Issues Statement, 18 December 2020, page 14.
[210] Seedrs response to the CMA's Issues Statement, 18 December 2020, section 4.4.
[211] Note, in this section we do not comment on, or quantify, the likelihood of any of these future developments, except to note that we consider the possibility of market exit to be less likely than a counterfactual of prevailing conditions of competition, for the reasons set out in Chapter 4.

future offering, and/or it may have to cut certain costs which may reduce the quality and service levels it can provide.

6.313 In such a situation, we expect that financial constraints may lead to a weakening of the competitive position of one or both Parties rather than a fundamental change in the service provided by the Parties. Namely, we would anticipate that both Parties continue to operate in the ECF platform market in the UK and in so doing would remain each other's closest competitor. While the strength of the constraint that they place on each other may weaken to an extent, it is likely to remain the most important competitive constraint, since the evidence we have seen does not suggest that alternative sources of equity funding represent a strong constraint on the Parties' ECF platforms. In our provisional view, we would still expect that the Merger would lead to an SLC relative to a situation where one or both Parties are weakened but remain in the market.

A reorientation of the business activity to focus on a sub-set of SMEs by one or both Parties

6.314 Given the financial position of the Parties, it is possible that in future they might focus on segments of the market which allow them to make the greatest contribution margin.[212] [✄].

6.315 If this situation arose, and one or both Parties repositioned themselves to focus on a sub-set of the SME market (eg [✄]), even though the Party may be smaller in scale in absolute terms, as the two most prominent ECF platforms in the UK, we consider that the Parties would likely remain each other's closest competitors.

6.316 We recognise that there are some differences in the competitive constraints faced for different types of SME customers (eg dependent on raise size or SME maturity). However, a number of SMEs across a range of different raise sizes considered the Parties to be close alternatives and that they had limited strong alternatives to the Parties (see paragraph 6.124 above). Therefore, for similar reasons as those for which we have considered it appropriate not to segment the ECF product market (see paragraphs 5.31 to 5.34 above), we consider that the constraint from other forms of equity funding on the Parties' ECF platforms is relatively weak across all SME segments, including SMEs with [✄].

[212] Our assessment of whether this scenario is the appropriate counterfactual is set out in Chapter 4.

6.317 Therefore, in our provisional view we would still expect that the Merger would lead to an SLC in this market relative to a situation where one of both of the Parties reorient their business to a sub-set of SMEs.

Market exit by one Party

6.318 If one or both Parties were to exit the market, then from the point of exit onwards, there would obviously not be an expectation of any loss of competition resulting from the Merger – since the competitive constraint of the exiting Party would be lost in either case.

6.319 As discussed in our assessment of the counterfactual in Chapter 4, we were not satisfied that one of the Parties would have exited the market, absent the Merger.

6.320 With regards to a potential future exit from the market by one or both Parties, we note the following:

- *(a)* First, we do not consider that immediate winding-up would be the most likely response to continued financial distress. We consider it is more likely that other forms of re-orientation (such as those discussed in paragraph 6.314 above) or alternative merger options, would be undertaken first;
- *(b)* Second, even if one of the Parties were to exit in the medium term, for the period both Parties continued to compete as ECF platforms we would expect there to be an SLC; and
- *(c)* Third, we do not accept, as the Parties' submissions imply, that any exit would necessarily be disorderly and therefore cause harm to their existing customers and the perception of ECF. The FCA requires both Parties as regulated entities to maintain winding-up plans in order, among other things, to protect client assets and ensure that any exit would be as orderly as possible.

Provisional conclusion

6.321 Overall, having considered the other possibilities for how the Parties' competitive positions may evolve or change in the future, we provisionally find that none of these developments would alter our provisional conclusion that the Merger may be expected to result in an SLC. We, however, do note that, as set out in our assessment of the counterfactual, in our view, these future developments are uncertain and not the most likely counterfactual to the Merger.

6.322 We have considered whether there are any countervailing factors (such as entry or expansion by other suppliers) which would be timely, likely and sufficient to prevent this provisional SLC, in Chapter 7.

7. Countervailing factors

7.1 The Guidelines state that, in considering whether a merger may be expected to result in an SLC, the CMA will consider factors that may mitigate the initial effect of a merger on competition (often known as countervailing factors), which in some cases may mean that there is no SLC. These factors include:

(a) the responses of others in the market (rivals, customers, potential new entrants) to the merger, for instance the entry into the relevant market of new providers or expansion by existing providers;

(b) the ability of customers to exercise buyer power;[213] and

(c) the effect of any rivalry-enhancing efficiencies arising as a result of the merger.[214]

Entry and expansion

Introduction

7.2 The Guidelines state that, as part of the assessment of the effect of a merger on competition, we look at whether entry by new firms or expansion by existing firms may mitigate or prevent an SLC.[215]

7.3 The Guidelines state that:[216]

> ‘In assessing whether entry or expansion might prevent an SLC, the Authorities will consider whether such entry or expansion would be:
>
> a) timely;
>
> b) likely; and

[213] The Parties have not made any submissions suggesting that their customers have the ability to exercise buyer power. Accordingly, we do not consider the exercise of any potential buyer power further in this chapter.
[214] Merger Assessment Guidelines.
[215] Merger Assessment Guidelines, paragraph 5.8.1
[216] Merger Assessment Guidelines, paragraphs 5.8.3 and 5.8.4.

c) sufficient.

Potential (or actual) competitors may encounter barriers which adversely affect the timeliness, likelihood and sufficiency of their ability to enter (or expand in) the market. Barriers to entry are thus specific features of the market that give incumbent firms advantages over potential competitors. Where entry barriers are low, the merged firm is more likely to be constrained by entry; conversely, this is less likely where barriers are high. The strength of any given set of barriers to entry or expansion will to some extent depend on conditions in the market, such as a growing level of demand.'

7.4 In this section, we first consider any potential barriers to entry and expansion, before assessing the evidence in relation to whether entry and/or expansion would be timely, likely and sufficient to prevent any SLC.

Barriers to entry and expansion

Parties' views

7.5 Seedrs submitted that there are four potential barriers to entry and expansion in the ECF segment. These are:

(a) Regulatory approval;

(b) Technological development;

(c) Acquisition of SME customers; and

(d) Acquisition of investor customers.[217]

Regulatory approval

7.6 Seedrs submitted that a number of the activities conducted by a UK-based ECF platform are regulated under the Financial Services and Markets Act 2000 (FSMA). A firm wishing to engage in these activities would therefore require authorisation by the FCA under Part IV of FSMA.

[217] Crowdcube told the CMA that barriers to entry are 'very low' and its software sales and marketing 'could be replicated quite simply by others, particularly other firms in the financial services space who can lean on operational infrastructure and regulatory compliance operations, whether that is in the UK or internationally'.

7.7 Crowdcube submitted that 'where platforms provide a ''nominee'' structure, further permission is required to hold client assets.

Technological development

7.8 Crowdcube submitted that '[e]quity crowdfunding requires a technology platform which can not only promote the SME pitches in a user-friendly manner on a website, but then requires an infrastructure to support that so that investments can be placed, AML [ie, Anti Money Laundering] checks completed, payments taken etc'.

7.9 Seedrs told the CMA that it built its own online facility; therefore, any new entrant would need to build or license the technology required to handle the various aspects of transactional activity inherent in raising capital for, and investing in, the equity of SMEs.

Acquisition of SME customers

7.10 Seedrs submitted that '[a]s a two-sided market place, an equity crowdfunding platform would need sufficient numbers of customers, which in turn would attract other customers… Acquiring these SMEs is largely a sales activity, involving one-on-one interaction with businesses that may be looking for funding'.

Acquisition of investor customers

7.11 Seedrs submitted that it is important 'to have an investor base that is ready to invest (or consider investing) in fundraising campaigns when they go live. Unlike SMEs, acquiring investors is primarily a marketing activity, involving digital and offline forms of advertising, PR and other brand awareness strategies'.

7.12 Seedrs further submitted that acquiring SME and investor customers has the potential to be a higher barrier for some new entrants. However, for entrants with an existing base of investors or those with strong connections with SMEs, the process would be much faster and cheaper. As a result, these competitors would pose a constraint from the outset.

7.13 In relation to entry costs, Seedrs told us that, when it entered, it incurred roughly £350,000 in start-up costs to obtain regulatory approval, build a working technology platform, and in recruiting SMEs onto its platform. Seedrs further submitted that, '[t]hat is not a tremendous amount of time or money to launch a regulated business, and it would be well within the reach of many new entrants to follow the same path that we did. Moreover, a new entrant today would almost certainly have a faster, and potentially a cheaper, experience in getting to market'. Seedrs submitted there is now precedent for online fundraising and investing in certain asset classes and that the FCA now has considerably more experience in dealing with start-up fintech firms, both of which were novel at the time of its inception.

7.14 In estimating costs for a new entrant, Seedrs submitted that this should be a shorter process and therefore less expensive. It estimated that 'a new entrant coming to the space from scratch would likely be looking at roughly a year to 18 months from inception to launch, with costs probably under £250k'. Furthermore, '[f]or entrants already established in related investment activities… this pre-launch phase would be quicker and easier still'.

Third-party evidence

7.15 We asked third-party equity finance providers about barriers to entry into the supply of ECF services. We received responses from a range of different firms including ECF platforms, angel networks, VC firms, and general corporate services firms such as share registrars. Respondents typically listed between one to three barriers, and typically indicated the scale of the barrier as being either 'high' or 'very high'. Their answers were given as free text and we have classified these into the following broad categories (although we note that there are some overlaps and interlinkages between these categories):

(a) Regulatory barriers – nine of the respondents mentioned that FCA approval is burdensome and considered it to be a form of barrier. For example, one respondent said '[referring to FCA approval] it requires significant work'. Another said, 'FCA regulation takes time and a firm must prove that they qualify under an extensive criteria list prior to being regulated'.

(b) Set-up costs – eight of the respondents referred directly or indirectly to set-up costs as a barrier to entry. For example:

(i) One respondent rated these as a 'very high' barrier to entry and said '[t]he regulatory and operational requirements are high relative to margin'.

(ii) One respondent said '[e]ach platform has raised quite a bit of money and this is always a challenge'.

(iii) Another respondent referred to the '[c]ost and complexity of building a suitable platform'.

(c) *Economies of scale* – seven of the respondents mentioned the importance of economies of scale.

(i) One respondent said '[f]rom our understanding, the business model for equity funding platforms has a number of challenges. A platform needs a very high volume of these usually small deals to turn a profit (or at least cover their fixed costs). Getting to this critical mass of good deal flow and large number of investors to fulfil those deals is very difficult'.

(ii) One respondent said '[e]quity crowdfunding platforms have poor margins. I believe this is one of the main reasons for the merger – they need to cut down costs as both have been burning through a lot of cash without getting close to a profit. Any new entrant faces the same problem unless they charge investors upfront (but then they will be less attractive compared to incumbents)'.

(d) *Network effects* – six of the respondents referred to barriers that are related to the network effects of a two-sided platform and the need to build sufficient levels of customers on each side to be viable. For example:

(i) One respondent said '[n]eed to be able to attract sufficient companies to offer to investors, and sufficient investors to give companies confidence that they will find investment'.

(ii) One respondent referred to the need to attract enough initial investors to the platform saying a potential entrant 'need[s] to offer something different. Technically this should not be guarantee [sic] returns particularly as this is patient capital where returns can take some time if at all. Many peer-to-peer debt providers have left the market due to difficulty in attracting lenders'.

(iii) Another respondent said 'I think it would be hard for a competing platform to enter and win SME business. The SMEs are attracted to CC [ie, Crowdcube] and Seedrs because of the scale they provide in exposure to a large marketing base. It will be hard for a new entrant to win over SMEs if they don't have a large investor base. And if you don't have SMEs than it's hard for you to win investors over'.

(e) *Brand* – six of the respondents indicated that building a trusted and known-brand was a barrier to entry. For example:

(i) One said '[i]t would take significant marketing effort and budget to increase brand awareness to compete with the merged company'.

(ii) Another said '[r]eputation is built through the trust and relationships with SMEs and if the engagement relies upon reputation and track record, this will take time for any new entrants to build to a sufficient level to grow deployment significantly'.

(f) *Existing competition/incumbency advantages of Crowdcube/Seedrs* – six of the respondents referred to the existing position of the Parties within the market as a barrier to entry, describing it as difficult to compete against them.

(i) One respondent said '[i]t is very simple: a big gorilla in a market place makes it harder for smaller players and especially new entrants'.

(ii) One respondent said '[t]here are [sic] already a huge oversupply of crowd funding platforms, mostly sub-scale and significant alternative competitive channels for fund raising'.

(iii) Another respondent said '[i]t would be difficult for a generalist (as opposed to sector-specific) equity crowdfunding platform [to] be able to launch successfully, whether or not the Crowdcube/Seedrs merger went ahead, as they are the two market leaders'.

(f) *Skill-set* – one respondent indicated that '[t]o develop and build a business able to compete with the merged company would require a lot of specialist knowledge of Financial Services, Legal Services and Technology. To build a team with this skillset would be very expensive'.

Past entry and expansion

7.16 We asked third-party equity finance providers whether they had attempted to enter or expand into the supply of ECF platforms in the UK in the past two years. Of those who responded, none had attempted entry/expansion into the supply of ECF services in the past two years.

7.17 The closest (and the only potentially relevant) response was from one third-party which said it had '[✂]. This has had below moderate success'.

7.18 One other third-party used to operate as an ECF platform but had since stopped doing so. It said '[we] used to do equity crowdfunding (with a minimum £1k investment per investor), but stopped doing any equity crowdfunding in March 2019'. [✂].

Potential entry and expansion

Parties' views

7.19 Seedrs submitted that 'it is important to remember that this is not a static market, and there is almost certain to be significant entry into the market generally and – if the Merger completes – the equity crowdfunding segment specifically'.

7.20 Crowdcube submitted that 'it would like to draw attention to examples of existing new entry and likely future entry from US crowdfunding platforms expanding into the UK market and by diversification of existing fintech platforms. Such new entry is also expected to increase should the merger proceed and after greater confidence has been generated in equity crowdfunding as a sustainable business model'.

7.21 Crowdcube submitted that there are existing examples of new entry by web-based technology platforms providing services to different elements of the UK equity funding market (eg catering for individual angels). As examples of this, Crowdcube submitted that 'some platforms cater for angel investors (for example Angels Den, Crowd for Angels, Envestors, Syndicate Room), but also present investment opportunities in the same way as Crowdcube and Seedrs do'. Crowdcube submitted that '[w]hile these may require relatively high minimum amounts to be invested (unlike the parties' platforms), they target the same types of SME as the parties and undeniably compete with the parties'.

7.22 Crowdcube submitted that '[i]n addition, there are more businesses providing technology solutions to SMEs, for example cap table providers (Capdesk, Globacap) and legal services (Seedlegals) who provide elements of the same services that the parties provide to SME customers and therefore exert competitive pressure. For example, both Seedlegals and Globacap provide funding round services that companies use as an alternative to crowdfunding or VC funding'.

7.23 Crowdcube submitted that there are three types of potential future entrants:

(a) 'Foreign crowdfunding platforms (predominantly United States (US) based) that are well funded and have clearly indicated a desire to expand into the UK and/or the EU';

(b) 'Existing financial services and/or fintech companies that decide to enter the crowdfunding market'; and

(c) ‘A new start-up entrant that is well funded and creates a better proposition (technically and commercial) than is already offered by Crowdcube and/or Seedrs’.

7.24 Crowdcube submitted that ‘[t]he first two of these types of entrant could enter the equity crowdfunding market irrespective of whether or not the proposed [M]erger proceeds. In addition, all three types of market entrants could (and would be incentivised to) commence equity crowdfunding operations if the profitability and sustainability of the model were first demonstrated by the parties’ combined business following implementation of the proposed [M]erger’.

7.25 Furthermore, Crowdcube submitted that if any of the potential entrants ‘were to attract a “marquee”[218] deal, it could be an anchor for them to grow and propel them to rapidly become a significant competitive threat’.

7.26 In response to the CMA’s Annotated Issues Statement and Working Papers, Crowdcube stated that it ‘would agree [with the CMA] that new entry is unlikely at present’ but, in its view, ‘new entry is likely from, for example, a US crowdfunding platform provider or an existing fintech platform operator into the equity crowdfunding segment’ and that ‘such new entry would then be likely in the relatively short term and the prospect of such new entry would itself contribute to avoiding any substantial lessening of competition’. Seedrs made a similar point: ‘[o]nce it is clear that there are profits to be made, however, the dynamics of markets mean that new entrant will arrive eventually and, often, very quickly’.

Potential entry by foreign crowdfunding platforms

7.27 Seedrs submitted that ‘[s]o far foreign platforms have not attempted to build a meaningful presence in the UK, largely because their domestic markets have been too underdeveloped to support international expansion. In particular, the unfavourable regulatory environment in most European countries, as well as in the United States, has made it exceptionally difficult for the equity crowdfunding platforms in those countries to achieve the kind of scale needed to expand abroad’.

7.28 Crowdcube submitted that a change in US regulations in November 2020 has made it easier for US companies to raise capital through crowdfunding by increasing the upper limit on the exemptions which are used by crowdfunding

[218] Crowdcube defines ‘marquee’ deals as financing campaigns by relatively established and well-known SMEs with a strong base of customers and supporters who want to invest in them.

platforms to conduct offerings under US securities law. Crowdcube submitted that this gains US crowdfunding platforms a competitive advantage over UK crowdfunding platforms (for whom a prospectus rule of €8 million applies). As a result of the change in regulations, Crowdcube submitted that US platforms can therefore derive more revenues from higher raises, added to the fact that US platforms operate in a market significantly larger than the UK market, Crowdcube anticipates that 'US crowdfunding platforms will soon be in a position to reach a minimum viable economic scale and therefore a much stronger position than EU and UK crowdfunding platforms, and that they will target expansion into the UK and EU markets'.

7.29 Seedrs submitted that EU regulatory changes which will apply from 10 November 2021 'creates a world-class equity crowdfunding regime for the entirety of the EU'.

7.30 Both Parties consider that the regulatory environment in the UK would be similar to that of the US or the EU and therefore would not act as a barrier to entry for existing foreign equity crowdfunding services firms. Additionally, a US entrant 'would be able to use its track record in financial services platform operations in the USA, and would cover its fixed costs for the UK more quickly than would a new UK start-up operation'.

7.31 Crowdcube submitted that an investment deck produced by Wefunder, a US based ECF platform, 'indicates clearly that Wefunder intends to expand into the European market later this year'. Further, Crowdcube submitted that 'Wefunder's predictions in this document are of such a scale that it must be assumed that their expansion plans cover the UK as well as the EU' and that 'it will clearly be a competitive challenge to existing UK equity crowdfunding providers including Crowdcube'.

Potential entry by diversification from fintech platforms

7.32 Crowdcube submitted that existing fintech platforms and equity investment platforms have significant retail investor databases and therefore would be able to achieve strong network effects from the outset, including the ability to attract larger raises. Crowdcube submitted that, as a result, some existing platforms, such as Hargreaves Lansdown and Fidelity, both of which have well developed technology, could be adapted to crowdfunding.

Third-party evidence

7.33 We asked third-party equity finance providers about their plans for future entry/expansion, including whether those plans would be affected by the Merger.

7.34 Four of the respondents were ECF platforms already present in the market. None of these respondents had clear plans for substantial expansion; where they did have plans to expand, this was to a modest level. For example, one said '[w]e continue to target expansion through the acquisition of investors and seek to establish a greater foot print in the digital assets space, lowering our average investor age. This will allow the funding of more deals or larger deals. […] We aim to target six SMEs equity fundraises this year, excluding debt and other funding mechanisms'.

7.35 With regards to the effect of the Merger on their expansion plans, they said it would have either no effect, or gave reasons which would reduce the extent of competition they had with the Parties. They said:[219]

(a) 'we would hope to have greater collaboration with Crowdcube/Seedrs';

(b) 'plans not affected';

(c) 'we would focus on earlier stage SEIS businesses'; and

(d) 'the planned merger will potentially negatively impact us, as it will create a single monopoly for raising crowdfunding finance with interesting deals seemingly choosing them'.

7.36 Aside from existing ECF platforms, none of the 15 other respondents indicated that they had plans to enter into the supply of ECF services. Most did have plans to expand more generally, albeit that the scale of such expansion was typically unquantified. Two respondents did quantify this: one [angel syndicate] referred to plans to increase membership by [✄]% over the next two years; the other [a VC] said '[w]e are seeking to increase our rate of new investment into SMEs from [✄] to approximately [✄]'.

7.37 One respondent mentioned its plans could be affected by the Merger. It said '[t]he anticipated merger may impact us [ie, negatively] as [✄]'.

7.38 While most of the non-ECF providers of equity funding had plans to expand, only four (alongside three ECF platforms) expected to become closer competitors to the Parties in future (see paragraph 6.237).

[219] Responses to Q30: 'Explain to what extent (if any) you have plans for future expansion in the next two to five years and whether these plans are affected by the anticipated Merger. If possible, please could you estimate your sales and growth forecasts.'

Our provisional assessment

7.39 We consider that there is evidence of a number of significant barriers to entry into the supply of ECF platforms in the UK – those related to network effects, incumbency advantages and economies of scale appear to be particularly significant.

7.40 In relation to past entry, we acknowledge that two of the examples cited by Crowdcube (see paragraph 7.21) currently supply ECF (Envestors and Crowd for Angels); however, neither firm has achieved entry at scale and either focus on other services or are more specialised than the Parties. In relation to potential future entry, we have not seen evidence of plans for entry into the supply of ECF platforms in the UK, including by any of the potential entrants mentioned by the Parties.

7.41 With regards to entry from foreign platforms more specifically; while US providers may gain traction within the US, and the EU regulatory changes may also support the growth of EU providers, we have not seen evidence of plans for entry into the supply of ECF in the UK from overseas firms.

7.42 With respect to the Wefunder entry plans submitted by Crowdcube (see paragraph 7.31), we note that these plans are explicitly targeted at entry into the EU market, where a new regulation is going to come into effect. The plans do not explicitly refer to entry in the UK – which would not be affected by the new EU regulation. In addition, even if the entry would include the UK, we do not consider it clear, based on the evidence, that entry by Wefunder would be timely and/or sufficient to offset the SLC we have provisionally identified given that it would be starting from a position of no presence in the UK.

7.43 In relation to expansion, we have not seen any evidence of substantial expansion plans from existing ECF platforms in the UK. These platforms (both individually and collectively) currently have significantly lower market shares than the Parties. We also note that a previous ECF platform, Syndicate Room, exited the ECF platform market in 2019.

7.44 Based on the above analysis, the CMA's provisional assessment is that entry or expansion would not be timely, likely and sufficient to prevent or mitigate the SLC that would be expected to arise in the supply of ECF platforms to SMEs and investors in the UK as a result of the Merger.

Rivalry-enhancing efficiencies

Introduction

7.45 As set out in the Guidelines, in order for any claimed efficiencies to be found to be rivalry-enhancing such that they may prevent or mitigate a potential SLC, the evidence must lead the CMA to expect that the following cumulative criteria would be met – specifically:

(a) the efficiencies must be timely, likely and sufficient to prevent an SLC from arising (having regard to the effect on rivalry that would otherwise result from the merger); and

(b) the efficiencies must be merger specific, ie a direct consequence of the merger, judged relative to what would happen without it.[220]

7.46 Efficiencies may broadly be characterised as supply-side efficiencies, such as cost savings, or demand-side efficiencies,[221] such that the attractiveness to customers of the merged firm's products increases as a result of the merger.[222]

Parties' views

Supply-side efficiencies

7.47 In Chapter 3 we set out the Parties' stated rationale for the transaction, including potential synergies, cost savings and efficiencies.

7.48 Crowdcube submitted that it expects the Merger will lead to efficiencies in three key areas:

(a) **Technology platform:** the merged company will have one technology platform and accordingly the development and maintenance of that platform will be more efficient, and a duplication of costs will be avoided.

(b) **Regulatory costs:** the combined company's regulatory capital requirement will be lower than the sum of the two companies' regulatory capital requirements.

---

[220] Merger Assessment Guidelines, paragraph 5.7.4.
[221] Merger Assessment Guidelines, paragraph 5.7.6.
[222] Merger Assessment Guidelines, paragraph 5.7.15.

(c) **General administration and marketing:** the merged company will achieve efficiencies by having a smaller fixed costs base (ie office costs, staff costs and marketing spend).

7.49 Crowdcube submitted that ‘by reducing operating costs, these efficiencies will improve the resources available to the combined business as compared with that of each party separately. Such efficiencies will therefore contribute towards the combined business reaching a minimum efficient scale and sustainability and continuing to improve the product and service offering of the combined business to customers and investors’.

Demand-side efficiencies

7.50 The Parties have submitted that the Merger gives rise to demand-side efficiencies – in terms of both enhanced product features (eg, combining Seedrs’ secondary market offering with Crowdcube’s mobile app) as well as a larger overall funding pool for SMEs and investors.

7.51 Crowdcube submitted that the Merged Entity will provide a ‘sustainable marketplace’ and a ‘scaled up crowdfunding offering’. Crowdcube submitted that ‘Crowdcube’s and Seedrs’ platforms have a number of product features that when combined following the proposed [M]erger will offer clear advantages both to investors and to SMEs looking to raise equity finance through the combined platform’. Seedrs submitted that ‘[t]he Merger will allow the combined platform to offer a better service, with more choice and richer features, for SMEs and investors than either of the parties can provide today’.

7.52 Seedrs submitted that, post-Merger ‘SMEs will have access to the substantially deeper pool of liquidity that comes from having Seedrs’ and Crowdcube’s investor bases all sitting on one platform’. Furthermore, ‘[w]hile there are some investors who are registered with both platforms, there are many who currently invest only through one of the two. A combined platform will substantially increase the number of investors viewing, and therefore the amount of capital available to, each SME customer; [i]nvestors, meanwhile, will have access to a significantly wider range of investment opportunities all in one place… and benefit from having a greater choice of potential investments’.

Third-party evidence

7.53 In our SME questionnaire, we asked SMEs about their views on the Merger, including whether they envisaged any benefits arising from it. A material proportion (20 out of 51) said that the combined business would have access to a larger pool of investors which would help SMEs raise more funding. For example:

(a) 'If the platforms physically merge, it may allow us to appeal to a wider set of investors from both platforms without having to raise money and incur the costs of using both platforms individually. That may depend on how the merger comes into action and how it is set up for users'.

(b) 'Their combined database would be better to reach out to investors, merge their expertise and coverage'.

(c) 'More community of Investors together, more mkt [sic] resources, better technology and therefore better campaigns and potential results for companies looking to raise funds'.

Our provisional assessment

7.54 We consider that the Parties have not provided sufficient evidence to demonstrate that any claimed efficiencies meet the criteria set out in our Guidelines (see paragraph 7.45). We also note that the Parties are by far the largest suppliers of ECF platforms to SMEs and investors in the UK and, as a result, any efficiencies claimed would have to be particularly significant to offset the reduction in rivalry that would result from the Merger.

7.55 In relation to supply-side efficiencies: as stated in the Guidelines, the CMA is more likely to take cost savings into account where efficiencies reduce marginal (or short-run variable) costs as these tend to stimulate competition and are more likely to be passed on to customers in the form of lower prices. The CMA will not in general give as much weight to savings in fixed costs because they may often represent private gains to firms and are less important in short-run price formation, although reductions in fixed costs may play an important role in longer-term price formation.[223]

7.56 Based on the evidence we have reviewed, any cost savings which may be achievable by the Merger appear to relate mostly to indirect fixed costs.[224] As such, we consider that these fixed costs savings are unlikely to stimulate competition. Further, we consider that the Parties have not provided sufficient evidence to substantiate how savings in such costs could be achieved and result in lower fees per deal.

[223] Merger Assessment Guidelines, 5.7.9.
[224] See, for example, the following exchange at the Crowdcube hearing: [✂].

7.57 Crowdcube submitted that the CMA should take these fixed cost savings into account on the basis that, [✂]. However, [✂].

7.58 In relation to demand-side efficiencies: the CMA acknowledges that there is the potential for some customer benefits arising from the Merger. For example, consistent with the Parties' submissions, SMEs told the CMA that the combined business would have access to a larger pool of investors which would help SMEs raise more funding (a 'network effect'). At the same time, we note that investors are not currently limited to a single platform and hence investors which use either platform can easily invest in a SME via the other platform ('multi-homing'). Additionally, most investors are attracted to a particular ECF platform by the presence of a specific SME in which they wish to invest. As a result, we would expect that many investors that are willing to invest in a SME are already able to identify and invest in that opportunity in the status quo. Accordingly, it is not clear to us that such network effects would be strong enough to mitigate the SLC.

7.59 With regards to the Parties' submission that the merged entity will offer a better proposition to customers by combining features of the two Parties' platforms, we have seen evidence that competition between the Parties has driven product development/innovation in the past (for example, it has contributed to the development of the nominee structure and 'secondary market' offerings – see paragraph 6.37). A loss of such competition may reduce future product development/innovation. We also note that these purported demand-side efficiencies are not merger-specific as the Parties have been able to develop their products independently and can be expected to continue to do so in the future.

7.60 Taking all of the above into account, the CMA's provisional assessment is that any merger efficiencies will not be such as to mitigate or prevent the SLC that would be expected to arise as a result of the Merger in the supply of ECF platforms to SMEs and investors in the UK.

Provisional conclusion on countervailing factors

7.61 For the reasons set out above, the CMA's provisional conclusion is that there are no countervailing factors which would mitigate or prevent the SLC that would be expected to arise as a result of the Merger in the supply of ECF platforms to SMEs and investors in the UK.

8. Provisional decision

8.1 We have provisionally concluded that the anticipated merger between Crowdcube and Seedrs will result in the creation of a relevant merger situation.

8.2 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.