

Appendix A: Terms of reference

1. In exercise of its duty under section 22(1) of the Enterprise Act 2002 (the **Act**) the Competition and Markets Authority (**CMA**) believes that it is or may be the case that:
 - (a) a relevant merger situation has been created, in that:
 - (i) enterprises carried on by Facebook, Inc. have ceased to be distinct from enterprises carried on by GIPHY, Inc.; and
 - (ii) the condition specified in section 23(2)(b) of the Act is satisfied; and
 - (b) the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom for goods or services, including in the market for display advertising, and in the market for social media
2. Therefore, in exercise of its duty under section 22(1) of the Act, the CMA hereby makes a reference to its chair for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013 in order that the group may investigate and report, within a period ending on 15 September 2021, on the following questions in accordance with section 35(1) of the Act:
 - (a) whether a relevant merger situation has been created; and
 - (b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within any market or markets in the United Kingdom for goods or services.

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Competition and Markets Authority
1 April 2021

Appendix B: Conduct of the Inquiry

1. We published the biographies of the members of the inquiry group conducting the Phase 2 inquiry on our [webpage](#) on 1 April 2021 and an administrative timetable for the inquiry was published on 20 April 2021. At commencement of the inquiry, the statutory deadline was 15 September 2021.
2. On 27 April and 6 May 2021 members of the inquiry group, accompanied by CMA staff, attended virtual 'site visits' held via video conference with the Parties and their advisers. These arrangements were made because of the Coronavirus (COVID-19) pandemic and in accordance with the Government's associated guidelines.
3. On 5 May 2021, the CMA published an [Issues Statement](#) on the inquiry webpage setting out the areas which the Phase 2 inquiry would focus on.
4. We received written evidence from the Parties in the form of submissions and responses to information requests. A non-confidential version of the Parties [initial phase 2 submission](#) was published on the inquiry webpage on 11 June 2021. We also held separate hearings with each of the Parties on 15 and 16 June 2021.
5. Prior to the hearings, we sent the Parties a number of working papers (including non-confidential third party evidence) for comment. We also provided the Parties and third parties with extracts from our working papers for comments on accuracy and confidentiality. The Parties were also sent an annotated issues statement, which outlined our thinking. The Parties provided comments on those papers on 25 June 2021.
6. We invited a wide range of interested parties to comment on the Merger, including social media and messaging platforms, keyboard apps, and GIF providers, investors and potential investors in GIPHY, advertising companies and brands familiar with GIPHY's 'Paid Alignment' advertising services. A number of third parties provided us with information by telephone or video conference hearings as well as by responding to supplementary written questions. We published a [summary of third party calls](#) on the inquiry webpage on 30 June 2021. Evidence was also obtained from third parties using written requests. Evidence submitted during Phase 1 was also considered at Phase 2.

7. Due to Facebook's delayed response to a section 109 notice requesting information, we paused the statutory timetable on 7 June 2021, pending receipt of the information sought. A [notice of extension](#) was published on the inquiry webpage. Following receipt of the outstanding information, we re-started the statutory timetable on 29 June 2021 and a [termination of extension](#) was published on the inquiry webpage. The timetable was stopped for a total of 21 days, extending the statutory deadline to 6 October 2021. An updated administrative timetable was published on the inquiry webpage on 30 June 2021 to reflect this extension.
8. The Initial Enforcement Order issued in Phase 1 continued in force and derogations were granted under it. A [Variation Order](#) was issued on 29 June 2021, varying the terms of the Initial Enforcement Order.
9. On 12 August 2021, we published a notice of provisional findings and a summary of our provisional findings on the inquiry [webpage](#). A non-confidential version of our provisional findings report was published on the inquiry [webpage on 16 August 2021](#). As we provisionally concluded that the completed merger had resulted in the creation of a relevant merger situation, and that the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition, a notice of possible remedies was also published on the inquiry [webpage](#). Non-confidential versions of a number of responses to our notice of possible remedies and our provisional findings have also been published on the inquiry [webpage](#). Summaries of these submissions can be found in Appendix H.
10. The CMA identified certain extracts of the Provisional Findings containing sensitive third party information that were assessed to be necessary to disclose to the Parties' external advisors within a confidentiality ring. Following the signing of the relevant undertakings required to protect the information, these extracts of the Provisional Findings were disclosed to certain of the Parties' advisors on 25 August 2021. The Parties submitted that the timing, and restricted nature, of this disclosure was prejudicial to the Parties' rights of defence,¹ and that as a result of this, the CMA has foregone the opportunity to carry out necessary investigatory steps and provide interested parties with the opportunity to comment on the evidence.²
11. The CMA has carefully considered all submissions it received. The CMA has the task under the Enterprise Act 2002 (the **Act**) of striking an appropriate balance between the need to disclose information to merging parties³ and the

¹ Parties' Response to Provisional Findings, paragraph 1.41.

² Parties' Response to Provisional Findings, paragraph 1.42.

³ Section 104 of the Act.

need to protect the confidential information of third parties.⁴ We have sought in this case to fairly balance the interests of confidentiality and the interests of disclosure in meeting our statutory duties, having regard to the case law and our published guidance. We are of the view that we have acted fairly and disclosed the gist of our case through the version of the Provisional Findings disclosed to the Parties, and the confidential extracts of the Provisional Findings disclosed to the Parties' external advisors within the confidentiality ring. The inquiry group gave full regard to the representations made by the Parties' advisors with respect to the disclosures prior to making any final decision on the substance of this case.

12. With regard to the timing of the CMA's disclosure, the CMA aims to make disclosures as soon as possible after the inquiry group has identified disclosure is appropriate.⁵ The inquiry group determined that the disclosure was appropriate as part of the Provisional Findings, and this reflects the nature, materiality and relevance of the information to the inquiry group's Provisional Findings. The Provisional Findings is the main consultation stage of a phase 2 merger inquiry, in accordance with section 104 of the Act, and it is typical for the CMA to disclose relevant third party evidence at that stage of the inquiry.
13. We consider that both the timing and the extent of this disclosure was sufficient to allow the Parties a reasonable opportunity to put forward facts and arguments and that they were in a position to properly formulate a response to the issues before we reached any conclusion that might adversely affect them.
14. On 10 September 2021, we issued a notice of extension due to the need to allow sufficient time to take full and proper account of comments that were received in response to our provisional findings and proposed remedies to allow a fully reasoned final decision in the statutory timeframe. This changed the statutory deadline to 1 December 2021.
15. A non-confidential version of our final report has been published on the inquiry [webpage](#).
16. We would like to thank all those who have assisted our inquiry.

⁴ Section 244 of the Act.

⁵ CMA Guidance (CC7), paragraph 8.3.

Appendix C: Jurisdiction shares of supply methodology

Introduction

1. This appendix explains the methodology and sources of data used to calculate shares in the supply of ‘apps and/or websites that allow UK users to search for and share GIFs’,¹ in order to determine whether the share of supply test is met for the purposes of establishing jurisdiction. We discuss the Parties’ submissions concerning our analysis, limitations of the data we used, and how we have addressed both of these.

Methodology and sources of data

2. Our share of supply estimates are presented in Table 1 in Chapter 3, Jurisdiction, and include each of the different types of apps/websites on which UK users can search for and share GIFs, namely: (i) GIF providers’ O&O platforms; (ii) digital communication and content sharing platforms (Facebook, Google Messages, Apple iMessages, and ‘other’ platforms); and (iii) general search engines. The metric we use is the average number of monthly searches by UK users (2020). Below we explain the methodology and sources of data used to calculate the shares in each of these segments.

GIF providers’ O&O platforms

3. We obtained data from GIPHY, Tenor, and Gfycat on monthly average GIF searches on their respective O&O platforms (including both websites and apps).
4. Holler does not maintain an O&O GIF search platform.

Digital communication and content sharing platforms

5. There are a very large number of digital communication and content sharing platforms available in the UK that enable users to search for and share GIFs (including, for example, social media and messaging platforms, smartphone keyboard apps, and other more specialised platforms that have in-built messaging features, such as dating, gaming, or payment apps).² In order to supply such a service, these platforms would need either to have their own

¹ For a full explanation of the description of services used, see Chapter 3, Jurisdiction. As elsewhere in the report, ‘GIFs’ includes video GIFs and GIF stickers.

² GIPHY and Tenor, the two largest providers of GIF libraries, facilitate an API or SDK integration with thousands of third party platforms, for example.

searchable library of GIFs, or to be integrated with a provider of a GIF library.³ The CMA's market testing (see Chapter 4, Industry Background, and Chapter 5, Market Definition and Market Power) found that the GIF library market is highly concentrated with only four players with any notable third-party reach (GIPHY, Tenor, Gfycat, and Holler), and that other platforms do not have their own in-house GIF libraries.^{4,5} This means that virtually all GIF searches supplied by digital communication and content sharing platforms to end-users are recorded (as API calls) by the upstream GIF providers. We considered that collecting data on the number of GIF searches from the small number of upstream GIF providers (GIPHY, Tenor, Gfycat, and Holler) was thus the most comprehensive and practicable approach to determining the average number of monthly searches by UK users. As discussed below (see from paragraph 22) these data are subject to some limitations. In light of this, we considered seeking UK data directly from all platforms potentially supplying the searches to end-users. However, we considered this was not practicable or necessary.⁶ In particular, Facebook told us that it logs API calls (ie searches) sent to its GIF providers (GIPHY and Tenor) [redacted], so we could not compare its share to others on this basis.

6. In the case of Google Messages and Apple iMessage – the smartphone messaging services provided by the two main mobile operating systems in the UK, which both allow users to search for and share GIFs – we collected the data directly from Google and Apple, respectively, as described below from paragraph 8. This is because the GIF searches they supply are not recorded by the upstream GIF providers due to the nature of the technical integration.

Facebook

7. We obtained from GIPHY and Tenor the number of GIF searches undertaken in the UK for each month during 2020 on Facebook platforms (Facebook Blue, Facebook Messenger, Instagram, and WhatsApp). GIPHY and Tenor

³ Note that general search engines, which do not have an in-house GIF library or an API integration with an external GIF library, but rather maintain an index of all webpages that are available on the internet, offer an alternative method by which users can search for GIFs. Our treatment of these is described below from paragraph 18).

⁴ Some social media and messaging platforms (including [redacted] and [redacted]) have their own animated sticker libraries; however, we found that these did not include GIF stickers.

⁵ As noted in Chapter 3, Jurisdiction, the Parties identified a small number of GIF providers that are not included in the CMA's share of supply estimates: Imgur, Gifbin, and Reaction GIFs. These platforms are not integrated with one of the larger GIF providers, and accordingly any searches undertaken on them would not be captured in the data we collected from GIPHY, Tenor, Gfycat and Holler. As explained further in Chapter 5, Market Definition and Market Power, we consider that these smaller providers are unlikely to have material search volumes in the UK and therefore are not likely to affect the Parties' share of supply.

⁶ In the data submitted to us, GIF providers disaggregated only part of their total traffic by third party platform, leaving the remainder aggregated as 'other' or 'rest of network'.

are the only two GIF providers with which Facebook integrates; thus, these data cover the totality of GIF searches on Facebook's services.

Google Messages

8. We obtained from Google data on the total number of video GIF searches in the UK on Google's Messages service in 2020 and divided this by 12 to calculate an average monthly figure.
9. Google Messages does not hold data on the number of searches for GIF stickers (or any type of stickers) in 2020; however, it was able to provide the total number of stickers (of all types) sent in the UK on Google Messages in 2020. To estimate an equivalent number of searches, we multiplied the total number of stickers sent by UK users by a factor of five – ie assuming that users searched for five GIF stickers for every sticker sent. We consider that this estimate is conservative (tending to over-estimate Google's share relative to the Parties') in two respects:
 - (a) Google did not disaggregate GIF stickers from non-GIF stickers, and we have assumed for the purpose of this calculation that all of its stickers were GIF stickers; and
 - (b) Even if all Google stickers were GIF stickers, it is unlikely that users make as many as five searches for every GIF sticker sent. Based on the CMA's calculations for WhatsApp (based on data submitted by GIPHY regarding the number of monthly GIF searches, and data submitted by Facebook regarding the number of WhatsApp messages sent containing a GIF over an equivalent time period, which we use as a proxy for number of GIFs sent), we estimate a ratio of [3<] searches to GIFs sent for WhatsApp.

Apple iMessage

10. We obtained from Apple data on the total number of GIF searches run on #images⁷ by users in the UK in 2020 (for iMessage) and divided this by 12 to calculate an average monthly figure. Apple was unable to provide a precise figure; however, it provided a range, of which we used the mid-point. In a sensitivity test, we used the highest end of the range; this made a negligible difference to the results, given Apple's very small share of supply of [0-5%].
11. The Parties challenged the proportion of GIF searches attributed to Apple on the basis that they considered the searches seemed low, given Apple's large

⁷ Apple's iMessage has an in-built feature known as '#images', through which GIF providers can make their GIFs available to users. Apple response to Phase 1 third party questionnaire.

share of mobile devices in the UK. We re-checked the search data provided by Apple, and Apple confirmed its accuracy. Furthermore, as a sensitivity test, we compared the ratio of GIF searches to messages for Apple to that of WhatsApp and Google Messages. Based on the figures submitted by Apple, we estimate there to be a ratio of 1 GIF search to approximately [X] messages.⁸ This ratio is consistent with the equivalent ratio of GIF searches to total number of messages sent that we calculated for WhatsApp (1 GIF search to [X] messages),⁹ and is higher than that for Google Messages (1 GIF search to [X] messages),¹⁰ indicating that the figures for Apple are highly plausible.

‘Other’ platforms

12. We included in our estimate of total supply all other platforms that integrate via an API or SDK with one or more of: GIPHY, Tenor, Gfycat, and Holler, using data submitted by these four providers.¹¹ As noted above, GIPHY, Tenor, Gfycat, and Holler are the only significant companies providing GIF libraries through an API/SDK integration, which means that virtually all GIF searches supplied by digital communication and content sharing platforms to end-users are recorded (as API calls) by these providers; thus, we considered this the most comprehensive and practicable approach to gathering the required data.¹²
13. The Parties submitted that presenting the shares of supply for all ‘other’ platforms integrated with GIPHY, Tenor and Gfycat in aggregate prevents the Parties from verifying the completeness of the list and provides no sense of the relative number of searches for GIFs across platforms using different providers, which they argued is highly relevant to the assessment of GIPHY’s importance to those partners. Given that thousands of platforms integrate with these GIF providers, and GIF providers were not able to fully disaggregate their respective lists of integration partners in the data submitted to us, we have presented these in an aggregated format. However, to be clear, the totality of all UK searches recorded by these GIF providers – except those

⁸ Apple submitted to the CMA that it estimates there were approximately [X] GIF searches of #images, and [X] iMessages sent, by users in the UK in 2020. The CMA took the ratio of the mid-point of each range (ie ratio of [X] to [X]).

⁹ For WhatsApp, we calculated this ratio on a global basis. We used total number of WhatsApp messages sent globally (data obtained from Facebook, relating to a one-week period in April 2021, which we multiplied by 4.3 to estimate monthly data). We used total GIF searches sent from WhatsApp to GIPHY (data obtained from GIPHY, relating to the month of March 2021, as April 2021 was not available) and multiplied this by two to account for the fact that WhatsApp is also integrated with Tenor and end-users are allocated one out of these two GIF providers at random; we therefore assumed that half of all GIF searches on WhatsApp are recorded by GIPHY.

¹⁰ For Google Messages, we calculated this ratio using data obtained from Google on numbers of GIF searches and stickers sent by UK users (the latter multiplied by five as explained above) and total number of Google Messages sent by UK users in 2020.

¹¹ See below from paragraph 22 for a discussion of the limitations of these data and how we addressed them.

¹² See Chapter 5, Market Definition and Market Power, for further discussion of these findings.

undertaken on their O&O platforms or on Facebook's platforms – are included.¹³ In our view, GIPHY's importance (relative to other GIF providers) to its integration partners is not relevant in the shares of supply analysis for the purposes of jurisdiction; GIPHY's share of supply in Table 1 of Chapter 3, Jurisdiction relates solely to its O&O platforms.

14. Platforms integrated with Holler are included on the basis of the average number of monthly searches, consistent with all other parties included in our analysis. We note that Holler also provides a 'suggestions' feature within some third party platforms. For example, a user typing a word in a message to a friend may receive an automatic suggestion of a GIF sticker relating to that word. We have not included such suggestions in the shares of supply as they do not relate to a user searching for a GIF.¹⁴
15. As noted in Chapter 5, Market Definition and Market Power, we also compared GIPHY and Holler by volume of content served: in the UK, Holler served only [X] of the amount of content served by GIPHY in 2020. Taking this into account, as well as the third-party evidence about the GIF market discussed in Chapter 5, we consider it highly credible that the platforms with which Holler is integrated supplied only a very small share of total UK searches.
16. [X] has an integration with Gfycat. However, [X] is not included in 'other platforms' because it has no GIF search functionality, and therefore does not fall within our description of services.¹⁵ [X].¹⁶
17. Nevertheless, we conducted a sensitivity test in which we added an estimate of GIF usage on [X] to the share of supply for 'other platforms', whereby each linked GIF was equated to one 'search'. We obtained from [X] the total number of Gfycat GIFs linked in 2020 in the UK and divided this by 12 to calculate an average monthly figure. This made negligible difference to the results (increasing the 'other platforms' share by less than [X] percentage points). We did not count user downloads of GIFs from [X] as this would not

¹³ Since we do not have a disaggregated list identifying every platform that integrates with GIPHY, Tenor, Gfycat, and Holler, we note that this 'other' share may possibly include some platforms that are not strictly covered by our description of services (for example, there is no way for users to share the GIF). To the extent this is the case, it would result in this share being over-estimated and hence the Parties' share being under-estimated.

¹⁴ The suggested content appears automatically on screen while the user is typing a message; it is not triggered by a user search or any other demonstrated interest in GIFs. However, even if all suggestions were included, the Parties' share would be [30-40%], still well above the 25% threshold.

¹⁵ See Appendix D: Market shares methodology, where we set out the Parties' submission with respect to excluding [X] traffic from Gfycat's share of supply in the market for searchable GIF libraries, and how we have addressed this.

¹⁶ [X] confirmed it is not possible to include an embedded GIF within a comment, as these appear merely as URLs.

be commensurate with our treatment of other parties, for which we include only searches (not any subsequent downloads or shares).¹⁷

General search engines

Google

18. As discussed in Chapter 3, Jurisdiction, we included in our analysis all UK searches run on Google Images that included as a search term 'GIF' or 'GIFs' (non-case-sensitive)¹⁸ and all UK searches run on Google Images using the filter 'Type: GIF' (which appears under the 'Tools' menu on Google Images), from both mobile and desktop. We also included all UK searches run on Google Web (ie the main search interface labelled as 'All') on a *mobile* device. We obtained both sets of data from Google.
19. For reasons explained in Chapter 3, Jurisdiction, we did not include searches run on Google Web from desktop. However, the volume of monthly searches on desktop for the term 'GIF' or 'GIFs' (non-case-sensitive) on Google Web is small (approximately [X]), compared to more than [X] for Facebook) and even if we included these searches in our share of supply calculations, the impact on Google's total share of supply would be less than [X].

Other search engines

20. We obtained from Bing (the next largest search engine after Google in the UK) data on the total number of searches for 'GIF' or 'GIFs' (non-case-sensitive) run on Bing Images in the UK in 2020, and divided these by 12 to calculate an average monthly figure.¹⁹ Following the same reasoning as described above for Google, we included all Bing Images searches because these can generate auto-playing GIFs in the results on both desktop and mobile.²⁰ We excluded all Bing Web ('All') searches because Bing informed us that the results appear as static thumbnails on both desktop and mobile.
21. We found that Bing's share of GIF searches (relative to the share of Google Search) was very similar to its relative share of the overall UK search market, according to the findings of the CMA's Market Study into Online Platforms and

¹⁷ [X] submitted that it does not maintain a record of user downloads of GIFs.

¹⁸ This includes any searches with multiple terms, of which at least one is 'GIF' or 'GIFs', eg 'basketball GIF'.

¹⁹ We also requested the number of searches using the 'Type: Animated GIF' filter; however, Bing was not able to provide these data in time. However, given Bing's comparatively very small search volumes, we do not consider this would make a material difference to the final results.

²⁰ Bing informed us that, on desktop, GIF results will always auto-play if the user has toggled on the 'Auto-play GIFs' setting, and that, on mobile, GIF results will auto-play if they comprise less than 30% of the results shown.

Digital Advertising (**Market Study**).²¹ According to the data submitted by Bing, it has approximately [8%] of the volume of Google's GIF searches in the UK. According to the evidence analysed in the Market Study, Bing has approximately 5.4% of the volume of Google's overall searches in the UK. Given the close correspondence between overall search and GIF search shares for Google and Bing, we assumed that, within the search engine segment, the share of supply held by the remaining much smaller search engines (such as Yahoo and DuckDuckGo) would similarly correspond to their overall UK search share of 2%. We therefore also added an estimate for these other smaller search engines on this basis.

Data limitations

22. As explained above, we used data from the GIF providers (GIPHY, Tenor, Gfycat, and Holler) on the search volumes of their API/SDK partners to calculate the respective shares of Facebook and 'other platforms' (ie the top and bottom rows of Table 1 in Chapter 3, Jurisdiction). As previously noted, we consider that collecting these data from the GIF providers is the most comprehensive and robust approach to estimating shares of supply. Nonetheless, the data are subject to some limitations. We discuss below the different factors that may affect the accuracy of these search volume data and how we have sought to account for any such limitations in order to have confidence in our share of supply estimates.
23. *Technical issues with GIPHY's data:* GIPHY noted with the figures it submitted a number of hypothetical issues that may render the data less accurate or consistent on month-by-month basis, including content issues, performance optimization, integration roll-outs, testing, and other anomalies. We do not consider, and have not seen any evidence suggesting, that such anomalies would systematically bias the shares of supply analysis. In addition, we calculated the sum total of monthly data across 2020 and calculated average monthly figures, which would help to smooth out any potential month-by-month inconsistencies.
24. *Caching* refers to the process whereby copies of data (the most popular GIFs, for example) are stored (or 'cached') in another location (eg on a server operated by the third party platform), rather than collected from the original source (the GIF provider's server or Content Delivery Network²²) each time

²¹ The Market Study found that Google's share of general search in the UK was 93% in 2019, and that it has persistently had a very high and stable share in the UK for many years, with Bing at 5% and Yahoo at 1% (the final 1% comprising all remaining small providers). Market Study, paragraphs 3.17 and 3.19.

²² A Content Delivery Network (**CDN**) is a geographically distributed group of servers which work together to provide rapid delivery of internet content. We understand that GIPHY uses a CDN called [Fastly](#).

they are requested.²³ The cached content needs to be refreshed (pulled through from the GIF provider's servers) only periodically, and therefore the GIF provider will not have a full record of all searches. [REDACTED]. It has not been possible for us to correct for the effect of caching. However, in calculating shares of supply, caching is unlikely to materially over-state the Parties' share of supply unless other platforms made significantly greater use of caching than Facebook does. We have not seen any evidence to suggest that this is the case – indeed, we note that at least one major platform ([REDACTED]) does not use caching.²⁴

25. *Proxying* refers to the process whereby third-party platforms use their own server to make the API request to the GIF provider, on behalf of the end user (and then feed the results back through to the end user). We are aware that this issue likely affects the UK-specific search data we have used because third party platforms' servers are not typically located in the UK. Thus, if a search originating with a UK user is proxied by the platform's server (which is based in a different country, such as the US), this search will not be recorded in the GIF provider's UK data.²⁵ GIPHY told us that it does not hold any information on the number of requests and proportion of traffic routed through proxy servers.²⁶ We observed that [REDACTED]. As noted above, [REDACTED]; we were therefore unable to use this as an alternative data source, or to cross-check GIPHY's and Tenor's data. However, we have not seen any evidence of systematic differences in rates of proxying between Facebook and other platforms. We do not consider that the use of proxying would result in a material over-statement of the Parties' share of supply.

26. In light of the data limitations discussed above, we undertook three robustness checks to confirm that the share of supply test is met:

(a) First, to check that Facebook's share was not materially biased upward, we calculated Facebook's UK share of supply relative *only* to the group of 'other platforms', as these represent the only shares that may be affected by the proxying issue.²⁷ Within this segment, Facebook's share is [REDACTED] (versus [REDACTED] for 'other platforms'). We compared this to Facebook's equivalent share of *global* searches using the (more reliable)²⁸ global-level search data submitted by each of the GIF providers, and found a share of [REDACTED] (versus [REDACTED] for 'other platforms'). The similarity between

²³ The rationale for caching is that the third party can send fewer requests to the API, with a reduced flow of data through their systems, which provides for faster loading and less risk of bottlenecks and outages.

²⁴ Facebook submitted that [REDACTED] as a way of generating faster responses.

²⁵ It should, in principle, still be recorded in the global data.

²⁶ GIPHY submitted that [REDACTED].

²⁷ In setting aside platforms that we know are not affected: the GIF providers' O&O, general search engines, Google Messages, and Apple iMessages.

²⁸ As noted above, global-level data should not in principle be affected by proxying.

these ratios supports our UK-specific shares; ie we are likely under-counting Facebook's searches to approximately the same degree as those of 'other platforms'.

- (b) Second, we estimated an alternative share of supply for the three largest platforms in the 'other platforms' segment for which we noticed apparent missing or anomalous data in the searches submitted to us by GIPHY: Snapchat, TikTok, and Twitter. We did so by estimating a different (and much higher) volume of searches for these three platforms than that used in the main results, as set out in the three steps below. We did *not* apply the same treatment to Facebook, meaning that these results (probably significantly) under-estimate Facebook's share.
- (i) We estimated these alternative figures for Snapchat, TikTok, and Twitter by analysing the data submitted by GIPHY according to an alternative 'content served' metric (see further discussion of this and other alternative metrics in Appendix D: Market shares methodology).²⁹ We are aware that the UK-specific content served data may also not be completely accurate; however, we consider that the data series appear to be more credible (ie higher absolute volumes and greater consistency over time, particularly for Snapchat, TikTok, and Twitter).
- (ii) We calculated the proportion of GIPHY's total content served to API/SDK partners accounted for by each of Snapchat, TikTok, and Twitter on a monthly basis during 2020. We selected the highest single monthly proportion from the 12 months for each of the three platforms.³⁰ We then assumed that each of Snapchat's, TikTok's and Twitter's proportions of total UK searches (ie the remainder of total searches, excluding these three platforms) equalled their respective proportions of total UK content served.³¹ On this basis, we calculated an estimate of each of their absolute UK search volumes.
- (iii) When these absolute search volumes are added back into the overall shares of supply analysis, they yield shares of [20-30%] for Snapchat, [5-10%] for TikTok, and [0-5%] for Twitter. On this basis, the Parties' combined share is [30-40%] – still well above the 25% threshold. As noted above, we consider this to be an implausibly low estimate of the Parties' share because we have not applied any similar treatment to

²⁹ It was not possible to analyse 'content served' by Tenor because Tenor was not able to submit such data to us.

³⁰ [30-40%] for Snapchat, [5-10%] for TikTok, and [0-5%] for Twitter.

³¹ Each platform's proportion of content served may not be a perfect proxy for its proportion of searches; however, generally there is a proportional relationship between the two metrics and we believe this is a reasonable method of estimation for the purposes of this robustness check.

the apparently missing Facebook searches; thus, even on highly conservative assumptions, the share of supply test is still met.

(c) Third, we considered the results of our analysis of shares of supply in the UK social media market (see Table 4 in Chapter 5, Market Definition and Market Power). GIFs are a tool for enhancing communication primarily on social media platforms (ie those included in Table 4); for example, all of GIPHY's 'Tier 1' API partners are [redacted].³² We found that the Facebook Group (Facebook Blue, Facebook Messenger, Instagram, and WhatsApp) had a 73% share of the UK social media platform market in 2020 by user time spent. We regard it as highly plausible, therefore, that Facebook's share of GIF searches in the UK is above 25%.

27. Based on the evidence and analysis set out above, together with these robustness checks, we are confident that the share of supply test is met.

Additional points raised by the Parties concerning the calculation of shares of supply

28. *How a single 'search' is defined:* In reference to the market shares analysis conducted for the economic assessment (in Chapter 5, Market Definition and Market Power), the Parties submitted that the definition of what constitutes a 'search' could skew the results. We note that this issue similarly pertains to the shares of supply analysis for the purposes of jurisdiction. The Parties submitted that, for example, on some platforms, one search would be represented by a user entering the term 'happy', whereas on other platforms, multiple searches may be sent through in real-time while the user is typing 'hap', 'happ', 'happy'. As with caching, it is not possible to determine precisely how prevalent such differences are.³³ However, we are of the view that these data points should be counted as 'searches', because they represent API calls being sent, initiated by a user searching for a GIF, to which the supplier returns GIF results it deems relevant.

29. *Samsung integration with GIPHY:* GIPHY has submitted that when a user opens a relevant Samsung app, GIPHY believes that Samsung makes approximately [redacted] API calls to GIPHY for specified key words it uses to populate its pre-selected search product, which generates this same number of 'searches' before the user has necessarily entered a search term. The

³² Defined by GIPHY in their inventory model as Facebook, Snap, ByteDance [TikTok] and Twitter.

³³ We understand that this feature is relatively common across the major platforms. We tested several of the main social media apps and found that GIF results were returned in real time (during typing) for Facebook platforms, Snapchat, and TikTok, for example, although not for Twitter. Furthermore, GIPHY submitted that, from its own analysis, the proportion of search strings that are under 3 characters in length (suggesting incomplete words being sent through) 'appears consistent across API partners, including Facebook'.

CMA has not been able to verify GIPHY's estimate with Samsung, or ascertain whether Samsung's API integration with Tenor (its other GIF provider) is configured in a similar way.³⁴ We understand that GIF providers typically have limited visibility or insight into such differences. However, we note that any inaccuracy arising from this effect will only under-estimate, not over-estimate, the Parties' share of supply. We have in any case undertaken a sensitivity test, in which we divided GIPHY's search volume from Samsung Keyboard by [$\frac{1}{2}$]. This resulted in the share of 'other platforms' falling to [20-30%] (from [40-50%] in the main results), and the Parties' combined share thereby increasing to [60-70%] (from [50-60%] in Table 1 of Chapter 3, Jurisdiction).

³⁴ In our view, it is reasonable to assume the API integrations would be configured in a similar way.

Appendix D: Market shares methodology

Introduction

1. This appendix explains the methodology and sources of data used to calculate shares of supply in each of the three markets: (i) supply of searchable GIF libraries (worldwide); (ii) social media (in the UK); and (iii) online display advertising (in the UK), and discusses their limitations.
2. In relation to social media and display advertising, we have taken a similar approach to calculating shares of supply in display advertising as in the CMA's Online Platforms and Digital Advertising Market Study (the **Market Study**), as this provides the most robust methodology, given data availability.¹

Supply of searchable GIF libraries

Methodology and source of data

3. We calculated shares of supply in the supply of searchable GIF libraries on the basis of average monthly API/SDK searches in 2020. Searches are a highly relevant measure of user engagement levels and are a key metric used by the GIF providers themselves (including GIPHY) to monitor how usage of their network is growing.²
4. We obtained from each of GIPHY, Tenor, Gfycat, and Holler internal data on the number of GIF searches conducted via all third party platforms integrated through API/SDK, summed these for the whole of 2020, and divided by 12 to obtain a monthly average figure. We summed these to estimate overall volume of global API/SDK searches of GIFs. Each provider's share was then calculated on the basis of this total.

Limitations and points raised by the Parties

5. The size of the market based on API/SDK searches may be slightly underestimated (by excluding some providers, beyond the four listed above, that may offer API/SDK integration). However, we believe that any excluded providers are very small and that their inclusion would have no material impact on GIPHY's share. As discussed further in the main report, third

¹ For further detail, the Market Study, [Appendix C](#).

² GIPHY cited number of search requests as one of its key performance indicators (KPIs) regularly reviewed by its Board and Management. GIPHY also used monthly search volumes in presentations to potential investors.

parties generally considered that Tenor is GIPHY's closest competitor and the only other alternative mentioned frequently was Gfycat.

6. [X] has an integration with Gfycat. In the Provisional Findings, we explained that we did not include Gfycat's traffic from [X] because Gfycat's search data do not include calls on its API by users of [X], since there is no search functionality on [X] for users to search for GIFs. We noted that we did not believe that including this traffic would materially change our findings, **given Gfycat's very small share** and in light of third party evidence presented in the Provisional Findings concerning the nature of Gfycat's position in the GIF market. The Parties submitted in response to our Provisional Findings that they disagreed with this claim (that the undercounting of Gfycat GIFs distributed via [X] would not materially change our assessment) since, in the Parties' view, [X] is extremely GIF heavy and is often listed as a GIF search engine. The Parties stated that, if millions of users download Gfycat GIFs posted on [X], then those downloads must count towards the number of Gfycat GIF delivered to users of downstream social networks, irrespective of whether Gfycat can count the impression.
7. We maintain that excluding [X] is correct in principle because no searches for Gfycat GIFs are generated via [X], since there is no GIF search functionality on [X]. [X] confirmed to the CMA that it does not offer the ability to search Gfycat's library on its platform. [X]. Nevertheless, we conducted a sensitivity test in which we added an estimate of [X] traffic to Gfycat's share of supply, whereby each linked GIF was equated to one 'search'. We obtained from [X] the total number of Gfycat GIFs linked in 2020 and divided this by 12 to calculate an average monthly figure. This made negligible difference to the results (increasing Gfycat's share by less than [X] percentage points). We did not count user *downloads* of GIFs from [X] towards Gfycat's share of supply as this would not be commensurate with our treatment of all other GIF providers, for which we include only searches (not any subsequent downloads or shares).³
8. We note that search volumes may be affected by several factors outside of the control of the GIF provider, including:
 - (a) *Caching*: whereby copies of data (the most popular GIFs, for example) are stored (or 'cached') in another location (eg on a server operated by the third party platform), rather than collected from the original source (the GIF provider's server or Content Delivery Network⁴) each time they are

³ [X] submitted that it does not maintain a record of user downloads of GIFs.

⁴ A Content Delivery Network (CDN) is a geographically distributed group of servers which work together to provide rapid delivery of internet content. We understand that GIPHY uses a CDN called [Fastly](#).

requested.⁵ The cached content needs to be refreshed (pulled through from the GIF provider's servers) only periodically, and therefore the GIF provider will not have a full record of all searches. GIPHY told us that it does not hold any information on the number of requests and proportion of traffic affected by content caching.⁶ It has not been possible for us to correct for the effect of caching. In terms of calculating shares, we note that caching would only be an issue insofar as it affects different GIF providers to materially different degrees (and therefore biases the results); we have not seen evidence that this is the case.

- (b) *Proxying*: whereby third party platforms use their own server to make the API request to the GIF provider, on behalf of the end users' request (and then feed the results back through to the end user). GIPHY told us that it does not hold any information on the number of requests and proportion of traffic routed through proxy servers. This issue should not materially affect shares of supply calculated on a global basis because the request is still counted by the GIF provider (albeit coming from a different server/location), although we note that it would reduce the accuracy of UK-specific shares of supply (since the servers of most major third party platforms are located outside of the UK).⁷
- (c) *How a single 'search' is defined*: The Parties submitted that the definition of what constitutes a 'search' could skew the results. They submitted that, for example, on some platforms, one search would be represented by a user entering the term 'happy', whereas on other platforms, multiple searches may be sent through in real-time while the user is typing 'hap', 'happ', 'happy'. As with caching, it is not possible to determine precisely how prevalent such differences are.⁸ However, we are of the view that these data points represent and should be counted as 'searches' because they represent API calls being sent, initiated by a user deliberately searching for a GIF, to which the supplier returns GIF results it deems relevant.
- (d) *Samsung integration with GIPHY*: GIPHY has submitted that, when a user opens a relevant Samsung app, GIPHY believes that Samsung makes

⁵ The rationale for caching is that the third party can send fewer requests to the API, with a reduced flow of data through their systems, which provides for faster loading and less risk of bottlenecks and outages.

⁶ We note that at least one major platform ([redacted]) does not use caching. Facebook submitted that Facebook surfaces sometimes [redacted] as a way of generating faster responses.

⁷ See discussion in Appendix C: Jurisdiction shares of supply methodology.

⁸ We understand that this feature is relatively common across the major platforms. We tested several of the main social media apps and found that GIF results were returned in real time (during typing) for Facebook platforms, Snapchat, and TikTok, for example, although not for Twitter. Furthermore, GIPHY submitted that, from its own analysis, the proportion of search strings that are under 3 characters in length (suggesting incomplete words being sent through) 'appears consistent across API partners, including Facebook'.

approximately [redacted] API calls to GIPHY for specified key words it uses to populate its pre-selected search product, which generates this same number of ‘searches’ before the user has necessarily entered a search term. The CMA has not been able to verify this hypothesis with Samsung, or whether its API integration with Tenor (its other GIF provider) is configured in a similar way.⁹ We understand that GIF providers themselves typically have limited visibility or insight into such differences. It is not possible to systematically quantify the potential bias (if any) on the shares of supply results (ie, the extent to which there may be a systematic and material difference between integrations across different GIF providers). However, with respect to Samsung in particular, we note that it integrates with both GIPHY and Tenor; we consider it reasonable to assume that its integration with Tenor would be configured a similar way. Thus, to the extent GIPHY’s share may be somewhat inflated as a result of this issue, the same is likely also true of Tenor, which accounts for the vast majority of the remainder of the market. Moreover, we have undertaken a sensitivity test, in which we divided GIPHY’s (but not Tenor’s) search volume from Samsung Keyboard by [redacted]. This resulted in shares of supply for GIPHY of [60-70%] (down from [60-70%] in the main results presented in Chapter 5) and Tenor of [30-40%] (up from [30-40%] in the main results), indicating no substantial impact to the results or our findings.

(e) *Other technical issues:* Finally, GIPHY submitted a number of hypothetical reasons why some parts of its data may be less accurate or inconsistent on a month-by-month basis, including content issues, performance optimization, integration roll-outs, testing, and other anomalies. We do not consider, and have not seen any evidence suggesting, that such anomalies would systematically bias the shares of supply analysis. In addition, we summed monthly data across 2020 and calculated average monthly figures for each GIF provider, which would help to smooth out any potential month-by-month inconsistencies.

9. We considered several alternative metrics, including:

(a) *Amount of content served* (ie returned by GIF providers on the basis of API search requests).¹⁰ **However, Tenor was unable to provide data on this basis.** We consider that this metric may be somewhat useful insofar as it indicates the maximum amount of content that could potentially be

⁹ In our view, it is reasonable to assume the API integrations would be configured in a similar way.

¹⁰ Each third party platform can specify in its API integration with GIPHY how many GIFs it wants returned for searches. For example, the Facebook API may request a search of the term “Simpsons”; in the API it can specify how many GIFs they want returned, up to a maximum of 5,000.

returned to users following each API search (and, as such, may be more closely linked to the concept of potential advertising inventory in the context of exposure to sponsored/promoted GIFs). However, content served by the GIF provider does not necessarily have a relation to how many GIFs the users actually saw or were served in the partner's application.¹¹ Furthermore, we regard this metric as providing only a slight increment to the information provided by number of searches. The two metrics appear to be highly correlated (according to data submitted by GIPHY, for instance, [§<]).¹² To the extent that the two metrics are *not* correlated, this is likely to be due to technical factors (eg how many items of content third parties specify in their APIs) that are not connected with user engagement. Content served is also likely to be artificially deflated by the practices of caching and proxying, in a similar way to search volumes.

- (b) *Number of GIFs actually selected/clicked.* We consider that this metric may be useful insofar as it offers an alternative view of user engagement (ie which provider's GIFs actually go on to be selected/clicked on by the user and therefore could be considered more engaging or relevant).¹³ However, the data available to GIPHY on this metric [§<]. Furthermore, GIPHY has submitted that even where [§<], they may not be reliable. In addition, Gfycat submitted that it does not maintain data on this metric.
- (c) *Number of GIFs posted/shared by users on third party platforms.* We consider that this metric may be somewhat useful insofar as it offers an alternative view of user engagement (ie which provider's GIFs actually go on to be shared by the user with others and therefore could be considered more engaging or relevant). As explained in the main report, we were not able to collect this data for the market as a whole. However, we were able to explore this metric in a limited way for GIPHY's and Tenor's relative shares¹⁴ of GIFs posted/shared on Facebook and Messenger during the period February to April 2021, based on data supplied to us by Facebook. We summed the total number of GIFs posted/shared on each of Facebook and Messenger during this period and calculated each provider's share of the total. As noted in the main report, the results suggest that GIPHY's share by searches (compared to Tenor's) may be over-estimated.

¹¹ This is because the number of search results displayed depends on a number of other factors such as the design of the user interface on each particular app/platform and how far down the user chooses to scroll.

¹² The CMA is not aware of the reason for this, but it appears to be due to a change in the way in which Instagram and some other partners began accessing the API (whereby they began to receive a higher number of GIF served per search than was previously the case).

¹³ As described in the main paper, on a qualitative basis, we heard consistently from third parties that the quality and relevance of GIPHY's content is very strong.

¹⁴ GIPHY and Tenor are the only two GIF providers with which Facebook currently integrates.

(d) *Size of library available to UK users (unique GIFs)*. We obtained from each of GIPHY, Tenor, Gfycat, and Holler data on the size of their libraries, as at April 2021. We place less weight on these figures as we do not consider this metric to be particularly informative for the purposes of the competitive assessment. While some third parties referred to the size of each provider as a differentiating factor (GIPHY was often mentioned as the largest), we understood such comments to refer more to the amount of high-quality content (including branded GIFs from major content producers) and also the scale of reach with major third party platforms than to the absolute number of GIFs in the library.

Social media

10. In line with our market definition for social media, we have included 10 of the largest social media and messaging platforms in our shares of supply calculations: Facebook (including Messenger), Instagram, and WhatsApp (the Facebook Group), and LinkedIn, Pinterest, Reddit, Snapchat, TikTok, Tumblr,¹⁵ and Twitter.
11. YouTube is not included in this analysis. This is because a range of evidence (including that reviewed for the purposes of the Market Study) indicated that YouTube does not impose a strong competitive constraint on Facebook, not least because there are important distinctions in how and why consumers use the respective platforms.¹⁶
12. The ‘zero-price’ nature of the services offered to consumers by social media platforms means we cannot calculate shares of supply on the basis of providers’ direct revenues from users. We consider that the time spent on a platform is the most appropriate metric for calculating shares amongst social media and messaging platforms as we believe it most accurately represents consumers’ engagement with a platform’s service. Given the high degree of consumer multi-homing between platforms, share of total user time spent is also a more useful measure for calculating shares than sheer number of unique visitors and the ‘reach’ of platforms.¹⁷

¹⁵ The CMA did not have access to Comscore data on Tumblr for the period March 2020 to March 2021; we have therefore used data for equivalent months from 2019 as a proxy.

¹⁶ See Chapter 5, Market definition and market power, for a full explanation of our treatment of YouTube.

¹⁷ However, as noted in the Market Study, these measures do also give an indication of platforms’ competitive strength, particularly given the importance of network effects in this market. As of March 2021, Facebook appears to have the largest number of unique monthly active users and ‘reach’ (defined as the ratio between Unique Visitors for a given entity and the total online audience) among the major social media platforms, except for YouTube. The limitations of other potential metrics, such as number of page views, are explained more fully in [Appendix C](#) of the Market Study.

Methodology and source of data

13. We have calculated each platform's share of total time spent using data supplied to us by Facebook sourced from the Comscore MMX Multi-Platform, which provides a uniquely comprehensive dataset that is measured in a consistent way across different online platforms.
14. Comscore delivers online audience measurement across different devices (desktop, tablet, smartphone) for different types of content (including page content, apps, video). Comscore is endorsed by UKOM, the body that sets and governs the UK standard for the online digital measurement industry.
15. Comscore uses a 'hybrid approach' known as 'Unified Digital Measurement' (UDM), combining both 'panel' and 'census' data, where:
 - (a) the panel data consists of recruited respondents who install metered software on their devices. Comscore's UK panel consists of roughly 130,000 users, including 66 thousand users for desktop and over 12 thousand users for mobile (tablet and smartphone); and
 - (b) the census data is measured by Comscore 'tags' that media owners apply to their content.

These two sets of data are unified by Comscore and de-duplicated, to create an overall view of individual consumer behaviour online.

Limitations

16. In the Market Study, the CMA identified several potential limitations in Comscore's methodology, namely:
 - (a) Comscore's methodology is complex and involves a combination of modelling and direct measurement. Comscore's modelling relies on assumptions, based on insights from panel and enumeration data sources. This modelling is likely to be less robust than direct measurement.
 - (b) Comscore's panel methodology could suffer from the same issues that affect online panels generally, ie the results generated from Comscore's panel may not be representative of the wider population as online panellists tend to be heavier internet or technology users.
 - (c) As media owners may choose which of their web pages/apps/videos to tag, not all web entities are measured using the census data. Additionally,

because the tags are applied at the discretion of the publisher, direct comparisons between sites is difficult.¹⁸

17. In the Market Study, the CMA noted that Comscore's previous response to us addressed some of these limitations.¹⁹
18. An alternative method would be to collect this data from each platform individually. In doing so during the course of the Market Study, the CMA found that different platforms measured time spent by their users in different ways, and thus Comscore's data provided a more internally consistent and accurate picture of the market. However, it noted that for parties whose methodology was deemed accurate, the user time spent related in their submissions was generally consistent with the values sourced from Comscore (Market Study [Appendix C](#), paragraph 64).
19. In the course of this Merger Investigation, we have been able to compare internal data on total time spent by users submitted to us by [X] to the equivalent data produced by Comscore for the period February 2020 to March 2021. [X].
20. The Parties submitted that Comscore's dataset understates the significance of some services that compete with Facebook. For example, Comscore has limited data collection on Apple applications (eg no data is collected on Apple's iMessage, which the Parties submitted to be a significant competitor of Facebook).
21. We acknowledge that the data presented in the main report do not provide a fully comprehensive picture of the social media and messaging market. However, in our view, the largest and most important competitors within the market, in line with the market definition, are well represented. Notwithstanding any remaining concerns we have relating to these limitations, we believe Comscore to be the most comprehensive and accurate source of data on consumer behaviour online available to us.²⁰
22. We did not have access to Comscore's data on Tumblr for the period March 2020 to March 2021; we have therefore used data for equivalent months from 2019 as a proxy. We tested an alternative approach of using the most recent data point available to us (February 2020). However, this made only a very small difference to Tumblr's shares (ie changing them from [0-5%] to [0-5%],

¹⁸ See Comscore's response explained in full in Market Study [Appendix C](#), para. 7.

¹⁹ See Market Study [Appendix C](#), para. 8.

²⁰ Comscore is widely used both within the industries we are examining and by other government bodies.

with no material difference to the overall picture of the market, given Tumblr's very small size relative to the other social media platforms).

Display advertising

Methodology and sources of data

23. As noted above, we have taken a similar approach to calculating shares of supply in display advertising as in the Market Study. We have calculated each party's share of total advertising expenditure (rather than Parties' revenues) in order to make like-for-like comparisons between the 'owned and operated' (O&O) segment and the open display segment.²¹ We conducted this analysis on an annual basis for 2020.²²
24. To estimate the total size of the display advertising market, we took the following steps:
 - (a) We estimated the size of the 'owned and operated' (O&O) segment, based on revenues generated by each platform from the sale of display advertising on its own properties. These revenue data were gathered directly from each of the largest O&O platforms: Amazon, Facebook, Instagram, LinkedIn, Pinterest, Snapchat, TikTok, Twitter, and YouTube.
 - (b) We estimated the size of the open display segment, based on the number and price of display adverts flowing through five of the largest ad servers (that together account for the large majority of the open display segment): Google AdManager, Google AdMob, Google AdSense, Taboola, and FreeWheel. The CMA gathered data on the number of ads (and for Google programmatic ads, their total value) directly from these companies. For ads for which the companies did not know the value (non-Google programmatic, Taboola, and FreeWheel), the CMA multiplied the number of ads by an estimate of price per ad to estimate total value of this sub-segment (see further explanation below).²³

²¹ 'Owned and operated' (O&O) platforms are vertically integrated in the sense that they run integrated sales functions for the sale of their own advertising inventory. In contrast, in the open display market, publishers and other content providers compete to sell advertising inventory using a wide variety of third-party intermediaries and exchanges. Using total advertising expenditure has the effect of including the fees charged by intermediaries in the open display channel for services that are similar to those provided in-house by owned and operated platforms. For O&O platforms, advertisers' expenditure and platforms' revenues are equivalent, as, by definition, no intermediaries are involved.

²² The data in the Market Study covered the period to the end of 2019. We thought it important to analyse data for 2020, given the unusual circumstances of the past year and potential impacts on the advertising industry.

²³ Non-Google programmatic ads are those that have arrived at Google ad servers from other routes, including via header bidding or directly from third-party ad networks or SSPs, and 'direct reservations', ie deals arranged directly between advertisers and content publishers.

- (c) We then added together the O&O and open display segments to estimate total market size.
25. The shares of Facebook, Instagram, and other major O&O platforms were then calculated using the revenue from the sale of display advertising on their own properties (ie their input into part (a) above) as the numerator and the combined total in part (c) above as the denominator.
26. In estimating the size of the open display segment described in part (b) above, we made several further calculations and needed to rely on certain assumptions.
27. First, this was necessary because Google is able to observe the price *only* of ‘Google programmatic’ ads and *not* the price of ‘non-Google programmatic’ ads.²⁴ Likewise, neither Taboola nor FreeWheel are able to observe the price of most ads flowing through their servers.
- (a) We therefore needed to make an assumption about the average price of these ads. We assumed the average price (on the basis of cost per thousand impressions [CPM]) is £1.96.
- (b) To reach this estimate, we separately examined the weighted average price of all display ads purchased by seven of the largest demand-side platforms (DSPs) during 2020.²⁵ Whilst there is considerable variation in the average CPM across DSPs, the weighted average CPM has remained relatively stable over time.²⁶
- (c) We then multiplied the total number of non-Google programmatic ads and those served by Taboola and FreeWheel by the average CPM (£1.96) to estimate the total value of this sub-segment of open display.²⁷
28. Second, it was necessary because Google programmatic ads incur fees by other intermediaries before entering the Google programmatic auctions (which

²⁴ Non-Google programmatic ads are those that have arrived at Google ad servers from other routes, including via header bidding or directly from third-party ad networks or SSPs, and ‘direct reservations’, ie deals arranged directly between advertisers and content publishers.

²⁵ Demand-side platforms (DSPs) provide a platform that allows advertisers and media agencies to buy advertising inventory from many sources. DSPs bid on impressions based on the buyer’s objectives and on data about the final user. For further detail about the digital advertising supply chain and the role of intermediaries such as DSPs, see Chapter 5 of the Market Study. The seven DSPs we included were: Xandr (previously known as AppNexus), Verizon, Beexwax, Adform, Adobe, TTD, and MediaMath. The CMA was unable to obtain updated data from the remaining three DSPs included in the market shares analysis of the Market Study. However, those seven from which we did obtain updated data accounted for 79% of the total value of ads purchased by the group of 10 in 2019, and we are therefore confident that our estimated CPM of £1.96 is robust, particularly as it is very close to the result obtained in the Market Study.

²⁶ The Market Study analysis found it to be approximately £2 in real terms for both 2018 and 2019.

²⁷ The CMA understands that Taboola ads are likely to be lower-value than this average; therefore applying this estimate will likely over-estimate Taboola’s share and hence under-estimate Facebook and Instagram’s shares.

Google has no visibility of and is therefore unable to provide data on). We have therefore made an upward adjustment to the ad values to reflect typical charges made by demand and supply-side intermediaries likely to have been deducted from the ad value before it reaches the Google ecosystem:

- (a) For expenditure related to ads sold through AdManager, we have assumed that they will have incurred a DSP fee and other buy-side fees (such as fees from media agencies, data providers and ad verifications service providers) prior to entering the Google ecosystem. Based on the analysis of adtech fees undertaken in the Market Study, we have assumed this to be 20% of total advertising spend.
- (b) For expenditure related to ads sold through AdSense and AdMob, we have assumed they incur other buy-side fees (such as fees from media agencies, data providers and ad verifications service providers), but not DSP fees, prior to entering the Google ecosystem. Based on the analysis of adtech fees undertaken in the Market Study, we have assumed this to be 5% of total advertising spend.
- (c) For expenditure related to ads sold through Open Bidding we have assumed that they have incurred both buy and sell-side fees before entering the Google ecosystem. Based on the analysis of adtech fees undertaken in the Market Study, we have assumed this to be 35% of total advertising spend.²⁸

Limitations

- 29. The main limitation of our analysis is that we rely on several assumptions (described above in paragraphs 26 to 28) derived from data relating to 2019: the upward adjustment values (to account for intermediary fees) and the number of non-Google programmatic ads served through Google AdManager.
- 30. To check the robustness of our results with respect to the upward adjustments described at paragraph 28 above, we applied a sensitivity test. The results are shown in Table 1. The base case applied the percentages described in paragraph 26, resulting in a share for the Open Display segment of 35%. The minimum case applied no upward adjustment, resulting in a share of 32%; the maximum case applied 1.5 times the upward adjustment value, resulting in a

²⁸ For further details about how each of these values were calculated, see analysis of fees in the adtech stack conducted in the Market Study, [Appendix R](#). It was not proportionate to re-estimate these values during this Merger investigation, as the exercise entails collecting and analysing data from a large additional number of intermediaries. We do not believe that these revenue shares would have materially changed between 2019 and 2020. Furthermore, the results of our sensitivity test suggest that a substantial increase or decrease in each of these values would not materially affect the findings.

share of 36%. The resulting shares for Facebook and Instagram (combined) range from 46% to 49% (around a base case of 47%). We consider that applying either the minimum or maximum estimate would not materially change our conclusions.

Table 1: Results of sensitivity test for upward adjustments

	Base case	Minimum (no upward adjustment)	Maximum (1.5 times the base adjustment value)
Market share of Open Display segment	35%	32%	36%
Market share of Facebook Group	47%	49%	46%

Source: CMA analysis

31. While the data we have gathered include ads flowing through the largest O&O platforms and ad servers representing the large majority of the open display segment, we recognise that they do not provide a total picture of the market.
32. The advertising revenue data we analysed pertains to the UK. In line with the approach taken in the Market Study, wherever possible, we identified UK-specific revenues based on the location of the end users (consumers viewing the ads). However, in a few cases, firms provided the data on an alternative basis: LinkedIn and Twitter (advertiser location); and Amazon (a combination of UK domains for displayed ads, user IP addresses, and location of the seller of record for the advertising space).
33. Despite these limitations, we believe that this is the most robust way to assess shares of supply in UK display advertising. In particular, there is no other comparable data source suitable for our purposes. The IAB's 'Adspend' data, which is the industry standard, has two significant limitations: (i) it does not provide a breakdown by individual platform (thus we could not identify the share of Facebook's O&O platforms); and (ii) it does not use actual revenue data for several major platforms – including Facebook and Google – but rather relies on modelled estimates.²⁹ Nevertheless, our estimate of the total market size (£7.1 billion) is reasonably similar to that arrived at by IAB in its 2020 Digital Adspend Study (£6.3 billion).³⁰
34. Our conclusion that the Facebook Group has retained a very substantial share in the UK display advertising market is further bolstered by the IAB's finding that social display is the fastest-growing ad format in the UK, up 19%

²⁹ See IAB (2018) 'Digital Adspend Study', p. 8.

³⁰ IAB (2021) '2020 Digital Adspend Study'.

between 2019 and 2020, whereas non-social display (including standard display banners) fell by 2% over the same period.³¹

³¹ IAB (2021) [‘2020 Digital Adspend Study’](#).

Appendix E: GIPHY's Timeline

Introduction

1. In the following, we consider how GIPHY's business model developed from 2013 up to the point of the Merger, focusing on the period from January 2019.

Pre-2019

2. GIPHY was launched and raised seed capital in 2013, and from 2014 to 2016, saw a significant rise in its valuation over four funding rounds (Series A to D). Over this period, and subsequently, GIPHY focused on building its brand and user base. In a January 2019 presentation, GIPHY describes itself as the 'Scaled Market Leader with Massive User Base', the '#1 GIF provider globally', and the '#8 top visited website in the US', and notes that '65% of 13-35 year olds in US know GIPHY' (GIPHY has also noted that 72% of Americans age 13-34 send or receive a GIF at least weekly).
3. A slide from the January 2019 presentation (Figure 1) illustrates GIPHY's rapid traffic growth from 2015 to 2019.¹

Figure 1: [X]

[X]

Source: [X].

4. GIPHY ran pilot tests of its Paid Alignment service in 2017. In 2018, it commenced offering Paid Alignment on its owned and operated (O&O) sites, earning [X] in revenue.

January and February 2019

5. In early 2019, [X] led a Series D1 fund raise for GIPHY. Below, we provide an overview of investor views of GIPHY around the time of the Series D1 fund raise, and then the circumstances of the fund raise.

¹ GIPHY's total monthly GIF searches via API/SDK partners increased [X] (see Chapter 4, Industry background, Figure 7). Its total monthly O&O search requests increased [X] (see Chapter 4, Industry background, Figure 13).

Investor comments on GIPHY around the Series D1 round

6. In [X], a GIPHY Series [X] Investment Memo from [X] summarised GIPHY's position, as shown in Figure 2, it recognised GIPHY's leadership and scale and noted that the ability to monetise remained a key question. In particular it noted that:

a. [X]

Figure 2: [X]

[X]

7. [X] also commented more broadly on GIPHY's business model at this time,² noting *inter alia*:

- a. GIPHY's market leadership and exclusive partnerships with Snap, Instagram, Tinder, Outlook, Slack and others.
- b. Demand by partner platforms to monetize messaging.
- c. Its view that dependence on Facebook is not a hurdle, as GIPHY can reach scale with other platforms.
- d. Challenges to new entrants competing against GIPHY in monetisation.
- e. The suitability of Paid Alignment for brand building advertising, the size of this market, and GIPHY's potential to enable clicking of sponsored GIFs.

Circumstances of the Series D1 fund raise

8. The Parties reported that the 2019 Series D1 round raised [X], and submitted that:

'The amount raised was smaller than GIPHY's Series C round, in early 2016, and [X]. Moreover, the Series D1 share price, [X].'

9. [X] commented in a [X] internal memo that 'In order to buy [X] of additional [X] to demonstrate the company's ability [X] is [X] an extension of the [X] round at [X] per share [X] with [X]. Other [X] insiders are also doing their

² [X] told us that with reference to the its internal documents cited in this Appendix that: 'This information reflects the limited knowledge of [X] about the business at the time of the investment. If we were to write an investment memo now, we would add some nuances to the wording we used at the time, as our understanding had evolved since our investment.'

[X] of the [X] for a total of [X]. We anticipate this termsheet catalyzing up to another [X] of demand from [X].’

10. In January 2019, [X] described the upcoming funding round as follows:

‘Alex is now looking to raise a [X] round to give one year of additional runway for the Company and demonstrate its monetization potential. After leading the Series B and C, [X] is offering to lead the current round with an additional [X] investment. Almost all existing investors are expected to participate leaving [X] for new investors.’

‘Giphy has received interest from other investors to participate in the upcoming round. The name of [X] was mentioned. These investors have relatively high minimum investment size requirements and could potentially take the full round. In this case, they would also require a board seat, but the CEO and other existing investors are reluctant to give a board seat for the small ownership post-transaction involved. As an alternative, [X] has submitted a term sheet offering an extension of the Series D round.’

11. **ICONIQ** told us that it spoke to GIPHY’s CEO, Alex Chung, in November/October 2018 but that **ICONIQ** quickly determined that GIPHY was not going to generate a minimum return on investment.’ **ICONIQ** noted in particular GIPHY’s ‘high burn rate, and the high execution risk associated with an immature business model.’
12. Alex Chung discussed the Series D1 funding round in an email exchange with [X] at GV, commenting:
- a. 14 December 2018: ‘[X]’
 - b. 28 January 2019: ‘[X]’
 - c. 15 February 2019: ‘[X].’
13. Alex Chung described the GIPHY 2019 funding strategy in a 5 February 2019 email to executives, stating: ‘[X].’ Mr Chung also explains that GIPHY has a high valuation for ‘venture’ investors, and will need to monetise around [X] in order to appeal to ‘growth’ investors (see Figure 3).

Figure 3: [X]

[X]

14. We note that the internal documents set out above from [X] and GIPHY [X]. The Series D1 funding round appears to have attracted the required investment from existing investors, while also raising almost USD 20 million

from new investors. It was successful in the sense of providing GIPHY with the capital it needed to develop its business up to 2020, at which point it hoped to be cash positive. However, [X] told us that ‘Raising funds from the [X] investors for the [X] round was [X]’.

Investors’ positions following the Series D1 fund raise

15. We asked larger GIPHY investors for details of discussions they have had with GIPHY about providing additional financing subsequent to the Series D1 fund raise (specifically since 1 July 2019). Several investors told us that they had not discussed providing any further funding to GIPHY, although we note their comments suggest that this did not necessarily reflect a lack of confidence in GIPHY’s prospects.
- a. Betaworks told us that ‘Betaworks is an early stage investor. We primarily invest in companies at the pre-seed and seed stages and occasionally in series A, as well as founding companies. From time to time, when informal discussions of the possibility of Betaworks providing additional financing to Giphy in any form occurred, since 1 July 2019, Betaworks would be invited to participate but we would generally abstain from participating in such financings due to the early stage investment focus of Betaworks.’
 - b. [X] told us that it ‘conveyed that it was [X] in leading another round of financing of GIPHY....it was clear at the time that any additional financing would need to be priced and led by someone [X].’
 - c. CMC said³ that from July 2019 ‘we were not able to invest more into GIPHY from our then current fund (at which point the fund had very limited available commitment).’
 - d. General Catalyst (GC) told us that ‘GC made clear to the company that we were not interested in providing more financing; however, GC indicated that if the company failed to find an investor or buyer we would look into a relatively small investment, perhaps in the range of \$1 million (at the time, the presently active venture capital fund managed by GC had deployed most of its investable capital and had very little remaining capital for additional investments.’⁴
 - e. [X] that it has not had any discussions, formal or informal, with GIPHY or other investors in GIPHY, regarding the possibility of [X] providing additional financing to GIPHY in any form since 1 July 2019.

³ CMC, Response to CMA s109 notice dated 2 June 2021, 16 June 2021.

⁴ General Catalyst, Response to CMA s109 notice dated 2 June 2021, 17 June 2021.

- f. [X] submitted that, following the conclusion of the [X] in GIPHY in [X]. Further comments in respect of [X] providing further funding to GIPHY absent the Merger are outlined in paragraph 51 below.
- g. DFJ Growth (DFJ) told us that, in terms of its appetite to invest further in GIPHY, it did not issue any term sheets or hold any formal discussions with GIPHY since 1 July 2019 regarding the possibility of DFJ leading any additional financings for GIPHY.⁵

Our view

16. We consider that, overall, leading investors appeared to be optimistic about the success of GIPHY's monetisation in early 2019, while recognising the risks. Their reasons for being positive about GIPHY's prospects included:
 - a. Its strong growth and market position.
 - b. Challenges to others entering in competition with GIPHY.
 - c. Advantages of Paid Alignment from an advertiser and platform perspective.
 - d. Evidence of demand from advertisers.
17. The risks identified by investors included:
 - a. That effective monetisation had not yet been demonstrated at scale.
 - b. Dependence on API partners, particularly Facebook.
 - c. Possible competition from Tenor.
 - d. GIPHY's high valuation.
18. The Series [X] round raised sufficient [X] for GIPHY to continue to develop its [X] plans over [X]. [X] comments (paragraph 10 above) suggest that this may have been because existing investors preferred a limited round, rather than going to larger investors. In any case, GIPHY appears to have reached a point where it needed to demonstrate its monetisation model with API partners.

May to December 2019

19. From mid-to-late 2019, GIPHY and its investors considered the options of a sale of GIPHY, or a further fund raise. Below, we describe the discussions

⁵ DFJ, Response to CMA s109 notice dated 15 June 2021, 22 June 2021.

around future funding, and the relevance of monetisation to this funding. We also describe internal documents discussing GIPHY's commercial performance at this time.

M&A and fund raise options

20. A May 2019 discussion paper prepared for GIPHY by Lazard asks '[X]'. The paper considers 'precedent case studies' including Google's acquisition of Tenor, and notes that post-transaction this is 'Not yet significantly monetized', but also that Tenor 'Sold sponsored GIFs to Dunkin Donuts, Domino's, Warner Bros. etc for \$100K - \$500K each'.
21. An August 2019 discussion paper, prepared for GIPHY by Allen & Co, notes that '[X]'. In considering the acquisition rationale for different companies, monetisation appears to be an important aspect of some potential acquisitions:
 - a. [X].
22. A September 2019 email exchange between Alex Chung, [X] and [X] discussed a recent (unsuccessful) sales pitch from Allen & Co to lead GIPHY's M&A process, and considered the alternatives of M&A and a fund raise.
23. Mr [X] commented 'Flag is that they [Allen & Co] won't run a hybrid process (sale and raise). While the goal is M&A, having the ability to seamlessly slide into a strategic raise is important and might be something we might decide we need'. Mr [X] commented 'I share the concern about them being unwilling to do a dual track process if the m&a doesn't work out.' Alex Chung commented: 'Perhaps we could explore M&A then switch to raise later. I do worry about not focusing on m&a and trying to dual track at the same time versus a dual phase. If we aren't able to find a good home with the m&a markets as they are now a large raise is going to be tough.'
24. GIPHY subsequently 'engaged with an investment banking deal team at JP Morgan to conduct a formal evaluation of its opportunities to raise financial capital through an external raise, external (debt) financing, a commercial partnership deal, or M&A opportunities (i.e., acquisition by a third party).'

Importance of monetisation for funding

25. Internal documents indicate that at this point, GIPHY considered that the prospect of monetising GIFs could be potentially an important aspect of its value to an acquirer or investor (consistent with the comments from Lazard and Allen & Co in paragraphs 20 and 21 above). In particular: A November

2019 'buyer outreach' document from GIPHY includes 'buyer-specific rationales' for twelve companies. Those for [REDACTED]:

a. [REDACTED]

26. We note that in the [REDACTED] rationale set out above, GIPHY [REDACTED]. In the [REDACTED] rationale, [REDACTED].
27. In addition, an October 2019 email exchange suggests that GIPHY considered its ability to monetise with [REDACTED] as a relevant consideration for potential acquirers. [REDACTED] emailed Alex Chung to report on a conversation with [REDACTED]. Mr Chung forwarded the email to Brad Zeff, and to [REDACTED] at JP Morgan who comments '[REDACTED].'

GIPHY commercial performance and prospects

28. In an 11 November 2019 revenue update, Peter Phillips (GIPHY COO) noted that October revenues were [REDACTED],⁶ but added that '[REDACTED].'
29. In a 19 December 2019 email exchange with GIPHY CFO Whit Richards, Alex Chung discusses a number of issues relating to GIPHY's future. While the discussion is wide-ranging, the following points from Mr Chung are of note:
- a. [REDACTED]:
- '[REDACTED].'
- b. A faster growth story is credible, and may secure for GIPHY the support it needs to become net positive in revenue:
- '[REDACTED].'
- c. GIPHY's business and longer-term prospects are strong:
- '[REDACTED].'
- d. Cost reduction carries risks at this stage.
- '[REDACTED].'
30. In the Main Party Hearing (Transcript page 32) Alex Chung commented on Mr Richards that: '...he was very pessimistic about any kind of prospects for large revenue gains, and I would -- and my job was to show him the one path that we could possibly do and let's focus on those, because that is the one path that will get investment and do all these things'. We consider that this

⁶ This was an improvement on September 2019, which had been about half way to target.

document overall shows a frank exchange of views, as one might expect between Mr Chung and his CFO. Moreover, Mr Chung's comments to us do not appear inconsistent with his comments from the document quoted above – he was setting out a path to success, but not one that was evidently without credibility.

Our view

31. Towards the end of 2019, GIPHY's monetisation business had grown more slowly than expected but was getting closer to target growth. While GIPHY had begun contemplating an M&A route, it was also looking at raising funds to continue developing monetisation independently (and instructed JP Morgan accordingly). It also considered that its monetisation was a potential aspect of value for an acquirer. At this stage, Alex Chung appeared confident in the longer-term prospects of GIPHY's business model, and was focused on communicating a credible growth plan to current and prospective investors, and not on cutting costs.

January to early March 2020

32. Following GIPHY's 23 January 2020 board meeting, an investor ([REDACTED]) commented in an email:

'based on what we heard at the board meeting last week, it seems like the [REDACTED] for 2020 is really a "baseline" or "core revenue" plan. It's focused on delivering growth through our direct selling efforts. In addition to that core (or baseline) plan, I'm wondering if we should incorporate some expectation for:

- [REDACTED]

- platform relationships with some of our strategic distribution partners ([REDACTED].) that brings multi-year bookings and rev share opportunities to Giphy.

It seems like we've become an important and valued media network for our large distribution partners, with tremendous audience reach and strong engagement. We've been footing the bill in order to get in a position to monetize our content network and our audience, so this is the year where we should start to realize the fruits of those labors with some of our distribution partners. It seems short-sighted to not include some expectations for (1) and (2) in our 2020 plan. If we don't create the expectation and start executing toward that goal, it will never happen.'

33. In a private response to this email, [REDACTED].
34. In a 3 February 2020 email exchange, John Toomey of GIPHY commented on GIPHY's success in generating revenue from [REDACTED], and noted: (i) that [REDACTED], and (ii) the success of '[REDACTED]' relative its other sales categories of '[REDACTED]' and '[REDACTED]'. Alex Chung forwarded the message to investors Lightspeed, DFJ and Betaworks with the comment '[REDACTED].'
35. An internal GIPHY email from Peter Philips (COO) to larger investors from 7 February 2020 notes that:

'[REDACTED]'
36. In a 22 February 2020 email exchange with Vishal Shah at Facebook, Alex Chung sets out three options for a commercial agreement with Facebook, of '[REDACTED]'.
37. In February 2020, [REDACTED] invited Alex Chung to attend and present at the [REDACTED] which was scheduled to take place on 10 March 2020. In this email, [REDACTED] states: '[REDACTED].'
38. As part of this invite, [REDACTED] noted that at the event, it would be 'featuring [REDACTED] of our high conviction companies' and it considered that the event would be a '[REDACTED].'
39. An internal GIPHY email from Peter Philips to the Board from 4 March 2020 comments that:
 - a. '[REDACTED]'.
 - b. 'Risks:
 - i. Hiring: [...]
 - ii. Coronavirus: this concern has been magnified in the last 24-48 hours...
 - iii. Stickers: Alex and Brad are deftly managing our corporate partnership opportunities, but [REDACTED]
 - iv. Revenue Diversification: [...]
 - c. Opportunities
 - i. Hiring: the right CRO can open new doors and step-change our revenue trajectory.
 - ii. Events: where there is risk there is also opportunity. We built an aggressive event and conference strategy for 2020 and remain

bullish that even if it is delayed [by COVID-19], we will continue to capture the attention of current and potential clients as soon as is feasible...

iii. MediaLink: ... We recently ... refocused the work solely on revenue and refreshed the working team to one that will spend almost all of its time opening more doors for our sellers.

iv. Incentivizing internal teams: [REDACTED].

d. I remain very optimistic about 2020...'

40. General Catalyst (GC) submitted that on 8 March 2020, its lead investor, [REDACTED] updated the GC investment team as follows:

'[REDACTED]. With that said, I am nervous here as this company will almost certainly receive negative surprises to its pipeline as Bustle already has ad spend pulls back. In addition, morale at the company is not stellar and I have my issues with the leadership. As a reminder JPM (Noah W) is running a dual process.'

41. We note that while [REDACTED] had some reservations about GIPHY and the risks it faced, he saw its commercial performance as positive in early 2020.

42. A 12 March 2020 email from Alex Chung to Cameron Smith (VP Revenue Strategy at GIPHY) and Peter Phillips (GIPHY COO) discusses the company's business trajectory, including its goal to '[REDACTED]'. The exchange does not discuss Coronavirus (COVID-19), although in a follow-up email, Mr Phillips comments that '...the current environment may alter the timelines but [...] we want to push as hard as possible in order to maintain our momentum.'

43. A 13 March 2020 GIPHY slide pack, 'GIPHY Board update call materials' includes 'COVID-19 Update' as an agenda item, and refers to 'Macro environment (COVID-19)' as a risk. However, it does not appear that the impact of Coronavirus (COVID-19) is fully reflected in GIPHY's financial projections at this point. The slide pack estimates gross revenues for 2020 at [REDACTED], while the five-year forecast is to reach revenues of [REDACTED].

44. Over this period, GIPHY had been talking to Facebook, [REDACTED] and [REDACTED] about funding options to secure its future viability (see paragraph 59b below). From 1 March 2020 to 3 March 2020, Facebook executives considered options including [REDACTED]. Nir Blumberger of Facebook subsequently told his colleagues (on 3 March 2020) that:

'[REDACTED].'

Our view

45. We consider that the internal documents indicate that GIPHY's monetisation model was developing positively in early 2020, with strong revenue growth having been achieved in the first two months of the year. In addition, at Board level, GIPHY continued to expect, as late as 13 March 2020, that it would grow very strongly over the next five years.
46. Nir Blumberger's account of Facebook's communication with GIPHY at this time suggests that GIPHY's seeking financing to continue independently was just an 'official angle' while its preference was for an acquisition. However, it is unclear: (i) whether this was in fact Alex Chung's and/or Brad Zeff's preference at this time, (ii) if so, whether this was also the preference of GIPHY's board, or (iii) the extent to which any such preference reflected early Coronavirus (COVID-19)-related market turbulence rather than GIPHY's underlying business prospects.

March to May 2020 (Coronavirus (COVID-19) to acquisition)

47. Among Coronavirus (COVID-19) developments in the US in mid-March 2020:
 - a. On 9 March 2020, the S&P 500 fell 7% at its opening, while the Dow Jones Industrial Average fell 7.8% over the day.
 - b. On 12 March 2020, most major US sports leagues, including the NFL, suspended their seasons. While the Dow Jones Industrial Average closed down an additional 10%, the NASDAQ Composite was down 9.4%, and the S&P 500 was down 9.5%.
 - c. On 13 March 2020, President Trump declared a national emergency, and the House of Representatives passed an aid package for affected workers and individuals.
 - d. On 15 March 2020, the US Centre for Disease Control and Prevention issued guidance recommending against any gathering of 50 or more people.
 - e. On 16 March 2020, President Trump issued guidelines urging people to avoid social gatherings of more than ten people and to restrict discretionary travel.
48. [X] commented that as a result of the Coronavirus (COVID-19) pandemic, there was greater hesitation from potential investors to contribute to GIPHY through rounds of funding. [X] also submitted that no draft term sheets were discussed or prepared in respect of [X] providing additional financing to GIPHY after 1 July 2019. [X].

49. [X] submitted that following the onset of the Coronavirus (COVID-19) pandemic, GIPHY experienced a significant impact on its [X]. This resulted in a [X]. [X] also submitted that the pandemic resulted in [X] investor interest in GIPHY. In a follow-up submission, [X] stated that GIPHY's efforts to raise financing which began in [X] '...became [X] when the COVID-19 pandemic hit. The pandemic led to a marked increase in [X], increasing GIPHY's [X] costs. It also saw both cancellations of [X] (much of which was tied to events such as [X] etc that were also cancelled) as well as a freeze on conversations for [X].'
50. Betaworks submitted that, following the onset of the Coronavirus (COVID-19) pandemic, advertising budgets were tightened, and discretionary advertising budgets were cut back significantly. As a result of this Coronavirus (COVID-19) effect, GIPHY's revenue trajectory changed quite dramatically by mid-April 2020, compared with mid-February 2020. Further, Betaworks commented that some investors were nervous about investing further capital given the uncertainty caused by the pandemic. However, it said that at the time when the Coronavirus (COVID-19) pandemic started, there were a number of options open to GIPHY, including a potential sale or investment by external third parties, including private equity firms and strategic investors.⁷ We asked Betaworks whether, absent the offer from Facebook, later-stage investors would have been prepared to put more cash into GIPHY to extend its runway for the next six to twelve months. Betaworks commented that: 'Yes, I do [think that]. I think that there were certain later stage investors I know who were keen to do that. One was going around board members and saying, 'Why do we not put in a term sheet?' Part of the job of these later stage investors is, when companies hit speed bumps, to help them get through.
51. [X] submitted that, following the conclusion of the series [X] investment in GIPHY in [X], it informed GIPHY that it would not have provided additional funding to GIPHY absent the presence of a strong external investor. However, [X] stated that in a scenario whereby GIPHY were unable to be acquired by a third party or receive additional capital via an external investor, the GIPHY management team, board and investors would have been left in the difficult situation of either (i) exploring additional ways to extend GIPHY's cash runway though cost reduction measures, and/or (ii) considering emergency financing options (including a further investment by [X]). [X] noted that the scale and form of any cost reduction measures and/or emergency financing options, if available, would have needed to be further explored, debated and negotiated by and among GIPHY's management team, board and investors in

⁷ Note of call Betaworks, 19 May 2021, page 14.

order to determine the best potential outcome for shareholders and employees.

52. On 27 March 2020, Alex Chung emailed larger investors to say: ‘Brad and I had a long call with FB Thursday afternoon and have an update that we need to discuss and get input from the board by Monday evening.’ [X] Facebook had made an offer to acquire Giphy for USD 300million. Following a meeting on 29 March 2020, [X] emailed attendees to set out the plan which they had agreed during that meeting:
- a. Task JP Morgan to explore M&A and investment from [X] and others over the course of the following week;
 - b. Messaging to Facebook as below (subject to JP Morgan’s advice); and
 - c. Convene a board meeting the following weekend to discuss options.
53. The final version of the agreed messaging⁸ to Facebook stated that:
- ‘We briefed the board this morning on your offer at \$300M [X].’
54. In a subsequent email in the chain, Mr Liew also commented: ‘[X].’ [X] of GC responded with his support for this approach.
55. In an email to Alex Chung on 29 March 2020, [an investment manager] [X], appeared to express strong support for the GIPHY business and its potential, noting: ‘[X].’
56. In the same email exchange, Alex Chung appears to indicate that GIPHY continued to have support from [X] despite the Coronavirus (COVID-19) challenges: ‘[X].’
57. [X].
58. As explained in detail in Chapter 6, Counterfactual, GIPHY signed a term sheet with Facebook on 7 April 2020. Following signing of the term sheet, GIPHY was subject to a broad ‘no-shop’ provision which prevented GIPHY from pursuing any acquisition or investment discussions with any other party.
59. The Parties submitted that an April 2020 GIPHY board pack shows that, in light of Coronavirus (COVID-19), GIPHY was considering cutting up to 100% of its revenue team. The Parties commented that ‘This is not a context which suggests GIPHY was set for major international growth’.

⁸ An earlier draft was revised in part to avoid sounding too negative towards the proposed acquisition.

60. A slide from the pack estimates the cost savings of a 25%, 50% and 100% cut in the revenue team, along with cuts in other areas. [REDACTED]. The slide pack does not indicate whether shutting down the revenue team was a recommended option. In other slides, it notes that:
- a. '[REDACTED]'.
 - b. 'Pre-Coronavirus (COVID-19), [REDACTED].'
 - c. '[REDACTED]'.
 - d. '[REDACTED].'
61. Glynn Capital spoke to Alex Chung on 17 April 2020. Glynn Capital submitted that Alex Chung had commented as follows:
- a. [REDACTED].
 - b. [REDACTED].
 - c. [REDACTED].
 - d. [REDACTED].
62. On 29 April 2020 the [REDACTED] Board signed a resolution approving the acquisition of GIPHY by Facebook, and noted that:
- a. '...the cash resources of GIPHY are running low and revenue generation is directly affected following the Covid 19 pandemic which is pushing advertisers to delay or cancel their marketing campaigns.'
 - b. '... GIPHY is struggling to raise additional financing from outside investors but received an acquisition offer from a leading internet company [...]. Given the terms of the offer, existing investors are currently favoring the acquisition offer over putting additional money in the business.'
63. In a call on 8 May 2020, Alex Chung informed the Glynn Capital team of the acquisition of GIPHY by Facebook, reportedly commenting:
- (a) '[REDACTED].'
 - (b) '[REDACTED].'
 - (c) '[REDACTED].'
64. Also on [REDACTED] referring to the acquisition and commented that:
- '[REDACTED]'

65. On [REDACTED] commenting:

'[REDACTED]'

66. A slide for a 12 May 2020 meeting of the Betaworks board of managers summarised the GIPHY situation as:

a. '[REDACTED].'

Our view

67. The view from investors was that GIPHY had made a strong start to 2020, capitalising on the efforts it had made to monetise in 2019. At the start of 2020, GIPHY was actively considering two options (i) M&A, and (ii) raising sufficient investor funding (potential in the form of licence fees) in order to continue developing its monetisation business independently.

68. Coronavirus (COVID-19) had a sudden and severe impact on GIPHY's short-term commercial prospects. However, even when it received a proposal for an acquisition by Facebook, GIPHY's board continued to explore the option of a fundraise, by means of investment from existing investors and from a commercial deal with Facebook, [REDACTED] or [REDACTED], in order to continue GIPHY as an independent business.

69. It is possible that GIPHY's board may have sought to keep open the option of a fundraise as a means to strengthen GIPHY's bargaining position with Facebook. However, it is also possible that GIPHY's board would have rejected a materially less attractive offer from Facebook in favour of raising a further round of funding. The internal documents from 29 and 30 March 2020 indicate that investors actively explored further financing options before deciding that they preferred the best M&A offer they could get (at which point they already had a \$300million offer from Facebook). We also note that investor views on whether they would have ultimately provided further funding to GIPHY appear to be influenced by the possibility of a sale of GIPHY to Facebook. However, in the absence of an opportunity to sell to Facebook, or any other purchaser, it is likely that investors would have looked to raise further funding for GIPHY to see it through the pandemic and to fund further expansion.

70. We consider that the April 2020 Board slide pack⁹ noted by the Parties indicates that GIPHY was seeing positive results to monetisation at the start of 2020, and that it was planning to respond to Coronavirus (COVID-19) by

⁹ The Parties have submitted that the April 2020 board deck was never shared with or presented to the GIPHY board.

driving its revenue growth where possible. GIPHY was also planning international expansion of elements of its monetisation (see Chapter 7, Horizontal Effects).

71. GIPHY's investors appeared to see the acquisition of GIPHY by Facebook – and the final price – as a positive outcome. However, this was in the context of the challenges presented by Coronavirus (COVID-19), and does not appear to have been driven by a sense that GIPHY's monetisation model had proved unworkable.

Appendix E: GIPHY's Timeline

Introduction

1. In the following, we consider how GIPHY's business model developed from 2013 up to the point of the Merger, focusing on the period from January 2019.

Pre-2019

2. GIPHY was launched and raised seed capital in 2013, and from 2014 to 2016, saw a significant rise in its valuation over four funding rounds (Series A to D). Over this period, and subsequently, GIPHY focused on building its brand and user base. In a January 2019 presentation, GIPHY describes itself as the 'Scaled Market Leader with Massive User Base', the '#1 GIF provider globally', and the '#8 top visited website in the US', and notes that '65% of 13-35 year olds in US know GIPHY' (GIPHY has also noted that 72% of Americans age 13-34 send or receive a GIF at least weekly).
3. A slide from the January 2019 presentation (Figure 1) illustrates GIPHY's rapid traffic growth from 2015 to 2019.¹

Figure 1: [REDACTED]

[REDACTED]

Source: [REDACTED].

4. GIPHY ran pilot tests of its Paid Alignment service in 2017. In 2018, it commenced offering Paid Alignment on its owned and operated (O&O) sites, earning [REDACTED] in revenue.

January and February 2019

5. In early 2019, [REDACTED] led a Series D1 fund raise for GIPHY. Below, we provide an overview of investor views of GIPHY around the time of the Series D1 fund raise, and then the circumstances of the fund raise.

Investor comments on GIPHY around the Series D1 round

6. In [REDACTED], a GIPHY Series [REDACTED] Investment Memo from [REDACTED] summarised GIPHY's position, as shown in Figure 2, it recognised GIPHY's leadership and

¹ GIPHY's total monthly GIF searches via API/SDK partners increased [REDACTED] (see Chapter 4, Industry background, Figure 7). Its total monthly O&O search requests increased [REDACTED] (see Chapter 4, Industry background, Figure 13).

scale and noted that the ability to monetise remained a key question. In particular it noted that:

- a. [REDACTED]

Figure 2: [REDACTED]

[REDACTED]

7. [REDACTED] also commented more broadly on GIPHY's business model at this time,² noting *inter alia*:
 - a. GIPHY's market leadership and exclusive partnerships with Snap, Instagram, Tinder, Outlook, Slack and others.
 - b. Demand by partner platforms to monetize messaging.
 - c. Its view that dependence on Facebook is not a hurdle, as GIPHY can reach scale with other platforms.
 - d. Challenges to new entrants competing against GIPHY in monetisation.
 - e. The suitability of Paid Alignment for brand building advertising, the size of this market, and GIPHY's potential to enable clicking of sponsored GIFs.

Circumstances of the Series D1 fund raise

8. The Parties reported that the 2019 Series D1 round raised [REDACTED], and submitted that:

'The amount raised was smaller than GIPHY's Series C round, in early 2016, and [REDACTED]. Moreover, the Series D1 share price, [REDACTED].'
9. [REDACTED] commented in a [REDACTED] internal memo that 'In order to buy [REDACTED] of additional [REDACTED] to demonstrate the company's ability [REDACTED] is [REDACTED] an extension of the [REDACTED] round at [REDACTED] per share [REDACTED] with [REDACTED]. Other [REDACTED] insiders are also doing their [REDACTED] of the [REDACTED] for a total of [REDACTED]. We anticipate this termsheet catalyzing up to another [REDACTED] of demand from [REDACTED].'
10. In January 2019, [REDACTED] described the upcoming funding round as follows:

² [REDACTED] told us that with reference to its internal documents cited in this Appendix that: 'This information reflects the limited knowledge of [REDACTED] about the business at the time of the investment. If we were to write an investment memo now, we would add some nuances to the wording we used at the time, as our understanding had evolved since our investment.'

'Alex is now looking to raise a [REDACTED] round to give one year of additional runway for the Company and demonstrate its monetization potential. After leading the Series B and C, [REDACTED] is offering to lead the current round with an additional [REDACTED] investment. Almost all existing investors are expected to participate leaving [REDACTED] for new investors.'

'Giphy has received interest from other investors to participate in the upcoming round. The name of [REDACTED] was mentioned. These investors have relatively high minimum investment size requirements and could potentially take the full round. In this case, they would also require a board seat, but the CEO and other existing investors are reluctant to give a board seat for the small ownership post-transaction involved. As an alternative, [REDACTED] has submitted a term sheet offering an extension of the Series D round.'

11. **ICONIQ** told us that it spoke to GIPHY's CEO, Alex Chung, in November/October 2018 but that **ICONIQ** quickly determined that GIPHY was not going to generate a minimum return on investment.' **ICONIQ** noted in particular GIPHY's 'high burn rate, and the high execution risk associated with an immature business model.'
12. Alex Chung discussed the Series D1 funding round in an email exchange with [REDACTED] at GV, commenting:
 - a. 14 December 2018: '[REDACTED]'
 - b. 28 January 2019: '[REDACTED]'
 - c. 15 February 2019: '[REDACTED].'
13. Alex Chung described the GIPHY 2019 funding strategy in a 5 February 2019 email to executives, stating: '[REDACTED].' Mr Chung also explains that GIPHY has a high valuation for 'venture' investors, and will need to monetise around [REDACTED] in order to appeal to 'growth' investors (see Figure 3).

Figure 3: [REDACTED]

[REDACTED]

14. We note that the internal documents set out above from [REDACTED] and GIPHY [REDACTED]. The Series D1 funding round appears to have attracted the required investment from existing investors, while also raising almost USD 20 million from new investors. It was successful in the sense of providing GIPHY with the capital it needed to develop its business up to 2020, at which point it hoped to be cash positive. However, [REDACTED] told us that 'Raising funds from the [REDACTED] investors for the [REDACTED] round was [REDACTED].'

Investors' positions following the Series D1 fund raise

15. We asked larger GIPHY investors for details of discussions they have had with GIPHY about providing additional financing subsequent to the Series D1 fund raise (specifically since 1 July 2019). Several investors told us that they had not discussed providing any further funding to GIPHY, although we note their comments suggest that this did not necessarily reflect a lack of confidence in GIPHY's prospects.
- a. Betaworks told us that 'Betaworks is an early stage investor. We primarily invest in companies at the pre-seed and seed stages and occasionally in series A, as well as founding companies. From time to time, when informal discussions of the possibility of Betaworks providing additional financing to Giphy in any form occurred, since 1 July 2019, Betaworks would be invited to participate but we would generally abstain from participating in such financings due to the early stage investment focus of Betaworks.'
 - b. [X] told us that it 'conveyed that it was [X] in leading another round of financing of GIPHY....it was clear at the time that any additional financing would need to be priced and led by someone [X].'
 - c. CMC said³ that from July 2019 'we were not able to invest more into GIPHY from our then current fund (at which point the fund had very limited available commitment).'
 - d. General Catalyst (GC) told us that 'GC made clear to the company that we were not interested in providing more financing; however, GC indicated that if the company failed to find an investor or buyer we would look into a relatively small investment, perhaps in the range of \$1 million (at the time, the presently active venture capital fund managed by GC had deployed most of its investable capital and had very little remaining capital for additional investments.'⁴
 - e. [X] that it has not had any discussions, formal or informal, with GIPHY or other investors in GIPHY, regarding the possibility of [X] providing additional financing to GIPHY in any form since 1 July 2019.
 - f. [X] submitted that, following the conclusion of the [X] in GIPHY in [X]. Further comments in respect of [X] providing further funding to GIPHY absent the Merger are outlined in paragraph 51 below.
 - g. DFJ Growth (DFJ) told us that, in terms of its appetite to invest further in GIPHY, it did not issue any term sheets or hold any formal discussions

³ CMC, Response to CMA s109 notice dated 2 June 2021, 16 June 2021.

⁴ General Catalyst, Response to CMA s109 notice dated 2 June 2021, 17 June 2021.

with GIPHY since 1 July 2019 regarding the possibility of DFJ leading any additional financings for GIPHY.⁵

Our view

16. We consider that, overall, leading investors appeared to be optimistic about the success of GIPHY's monetisation in early 2019, while recognising the risks. Their reasons for being positive about GIPHY's prospects included:
 - a. Its strong growth and market position.
 - b. Challenges to others entering in competition with GIPHY.
 - c. Advantages of Paid Alignment from an advertiser and platform perspective.
 - d. Evidence of demand from advertisers.
17. The risks identified by investors included:
 - a. That effective monetisation had not yet been demonstrated at scale.
 - b. Dependence on API partners, particularly Facebook.
 - c. Possible competition from Tenor.
 - d. GIPHY's high valuation.
18. The Series [X] round raised sufficient [X] for GIPHY to continue to develop its [X] plans over [X]. [X] comments (paragraph 10 above) suggest that this may have been because existing investors preferred a limited round, rather than going to larger investors. In any case, GIPHY appears to have reached a point where it needed to demonstrate its monetisation model with API partners.

May to December 2019

19. From mid-to-late 2019, GIPHY and its investors considered the options of a sale of GIPHY, or a further fund raise. Below, we describe the discussions around future funding, and the relevance of monetisation to this funding. We also describe internal documents discussing GIPHY's commercial performance at this time.

⁵ DFJ, Response to CMA s109 notice dated 15 June 2021, 22 June 2021.

M&A and fund raise options

20. A May 2019 discussion paper prepared for GIPHY by Lazard asks '[X]'. The paper considers 'precedent case studies' including Google's acquisition of Tenor, and notes that post-transaction this is 'Not yet significantly monetized', but also that Tenor 'Sold sponsored GIFs to Dunkin Donuts, Domino's, Warner Bros. etc for \$100K - \$500K each'.
21. An August 2019 discussion paper, prepared for GIPHY by Allen & Co, notes that '[X]'. In considering the acquisition rationale for different companies, monetisation appears to be an important aspect of some potential acquisitions:
 - a. [X].
22. A September 2019 email exchange between Alex Chung, [X] and [X] discussed a recent (unsuccessful) sales pitch from Allen & Co to lead GIPHY's M&A process, and considered the alternatives of M&A and a fund raise.
23. Mr [X] commented 'Flag is that they [Allen & Co] won't run a hybrid process (sale and raise). While the goal is M&A, having the ability to seamlessly slide into a strategic raise is important and might be something we might decide we need'. Mr [X] commented 'I share the concern about them being unwilling to do a dual track process if the m&a doesn't work out.' Alex Chung commented: 'Perhaps we could explore M&A then switch to raise later. I do worry about not focusing on m&a and trying to dual track at the same time versus a dual phase. If we aren't able to find a good home with the m&a markets as they are now a large raise is going to be tough.'
24. GIPHY subsequently 'engaged with an investment banking deal team at JP Morgan to conduct a formal evaluation of its opportunities to raise financial capital through an external raise, external (debt) financing, a commercial partnership deal, or M&A opportunities (i.e., acquisition by a third party).'

Importance of monetisation for funding

25. Internal documents indicate that at this point, GIPHY considered that the prospect of monetising GIFs could be potentially an important aspect of its value to an acquirer or investor (consistent with the comments from Lazard and Allen & Co in paragraphs 20 and 21 above). In particular: A November 2019 'buyer outreach' document from GIPHY includes 'buyer-specific rationales' for twelve companies. Those for [X]:
 - a. [X]

26. We note that in the [X] rationale set out above, GIPHY [X]. In the [X] rationale, [X].
27. In addition, an October 2019 email exchange suggests that GIPHY considered its ability to monetise with [X] as a relevant consideration for potential acquirers. [X] emailed Alex Chung to report on a conversation with [X]. Mr Chung forwarded the email to Brad Zeff, and to [X] at JP Morgan who comments '[X].'

GIPHY commercial performance and prospects

28. In an 11 November 2019 revenue update, Peter Phillips (GIPHY COO) noted that October revenues were [X],⁶ but added that '[X].'
29. In a 19 December 2019 email exchange with GIPHY CFO Whit Richards, Alex Chung discusses a number of issues relating to GIPHY's future. While the discussion is wide-ranging, the following points from Mr Chung are of note:
 - a. [X]:
[X].
 - b. A faster growth story is credible, and may secure for GIPHY the support it needs to become net positive in revenue:
[X].'
 - c. GIPHY's business and longer-term prospects are strong:
[X].'
 - d. Cost reduction carries risks at this stage.
[X].'
30. In the Main Party Hearing (Transcript page 32) Alex Chung commented on Mr Richards that: '...he was very pessimistic about any kind of prospects for large revenue gains, and I would -- and my job was to show him the one path that we could possibly do and let's focus on those, because that is the one path that will get investment and do all these things'. We consider that this document overall shows a frank exchange of views, as one might expect between Mr Chung and his CFO. Moreover, Mr Chung's comments to us do not appear inconsistent with his comments from the document quoted above

⁶ This was an improvement on September 2019, which had been about half way to target.

– he was setting out a path to success, but not one that was evidently without credibility.

Our view

31. Towards the end of 2019, GIPHY’s monetisation business had grown more slowly than expected but was getting closer to target growth. While GIPHY had begun contemplating an M&A route, it was also looking at raising funds to continue developing monetisation independently (and instructed JP Morgan accordingly). It also considered that its monetisation was a potential aspect of value for an acquirer. At this stage, Alex Chung appeared confident in the longer-term prospects of GIPHY’s business model, and was focused on communicating a credible growth plan to current and prospective investors, and not on cutting costs.

January to early March 2020

32. Following GIPHY’s 23 January 2020 board meeting, an investor ([REDACTED]) commented in an email:

‘based on what we heard at the board meeting last week, it seems like the [REDACTED] for 2020 is really a “baseline” or “core revenue” plan. It’s focused on delivering growth through our direct selling efforts. In addition to that core (or baseline) plan, I’m wondering if we should incorporate some expectation for:

- [REDACTED]

- platform relationships with some of our strategic distribution partners ([REDACTED].) that brings multi-year bookings and rev share opportunities to Giphy.

It seems like we’ve become an important and valued media network for our large distribution partners, with tremendous audience reach and strong engagement. We’ve been footing the bill in order to get in a position to monetize our content network and our audience, so this is the year where we should start to realize the fruits of those labors with some of our distribution partners. It seems short-sighted to not include some expectations for (1) and (2) in our 2020 plan. If we don’t create the expectation and start executing toward that goal, it will never happen.’

33. In a private response to this email, [REDACTED].

34. In a 3 February 2020 email exchange, John Toomey of GIPHY commented on GIPHY's success in generating revenue from [REDACTED], and noted: (i) that [REDACTED], and (ii) the success of '[REDACTED]' relative its other sales categories of '[REDACTED]' and '[REDACTED]'. Alex Chung forwarded the message to investors Lightspeed, DFJ and Betaworks with the comment '[REDACTED].'
35. An internal GIPHY email from Peter Philips (COO) to larger investors from 7 February 2020 notes that:
- '[REDACTED]'
36. In a 22 February 2020 email exchange with Vishal Shah at Facebook, Alex Chung sets out three options for a commercial agreement with Facebook, of '[REDACTED].'
37. In February 2020, [REDACTED] invited Alex Chung to attend and present at the [REDACTED] which was scheduled to take place on 10 March 2020. In this email, [REDACTED] states: '[REDACTED].'
38. As part of this invite, [REDACTED] noted that at the event, it would be 'featuring [REDACTED] of our high conviction companies' and it considered that the event would be a '[REDACTED].'
39. An internal GIPHY email from Peter Philips to the Board from 4 March 2020 comments that:
- a. '[REDACTED].'
 - b. 'Risks:
 - i. Hiring: [...]
 - ii. Coronavirus: this concern has been magnified in the last 24-48 hours...
 - iii. Stickers: Alex and Brad are deftly managing our corporate partnership opportunities, but [REDACTED]
 - iv. Revenue Diversification: [...]
 - c. Opportunities
 - i. Hiring: the right CRO can open new doors and step-change our revenue trajectory.
 - ii. Events: where there is risk there is also opportunity. We built an aggressive event and conference strategy for 2020 and remain bullish that even if it is delayed [by COVID-19], we will continue

to capture the attention of current and potential clients as soon as is feasible...

iii. MediaLink: ... We recently ... refocused the work solely on revenue and refreshed the working team to one that will spend almost all of its time opening more doors for our sellers.

iv. Incentivizing internal teams: [REDACTED].

d. I remain very optimistic about 2020...'

40. General Catalyst (GC) submitted that on 8 March 2020, its lead investor, [REDACTED] updated the GC investment team as follows:

'[REDACTED]. With that said, I am nervous here as this company will almost certainly receive negative surprises to its pipeline as Bustle already has ad spend pulls back. In addition, morale at the company is not stellar and I have my issues with the leadership. As a reminder JPM (Noah W) is running a dual process.'

41. We note that while [REDACTED] had some reservations about GIPHY and the risks it faced, he saw its commercial performance as positive in early 2020.

42. A 12 March 2020 email from Alex Chung to Cameron Smith (VP Revenue Strategy at GIPHY) and Peter Phillips (GIPHY COO) discusses the company's business trajectory, including its goal to '[REDACTED]'. The exchange does not discuss Coronavirus (COVID-19), although in a follow-up email, Mr Phillips comments that '...the current environment may alter the timelines but [...] we want to push as hard as possible in order to maintain our momentum.'

43. A 13 March 2020 GIPHY slide pack, 'GIPHY Board update call materials' includes 'COVID-19 Update' as an agenda item, and refers to 'Macro environment (COVID-19)' as a risk. However, it does not appear that the impact of Coronavirus (COVID-19) is fully reflected in GIPHY's financial projections at this point. The slide pack estimates gross revenues for 2020 at [REDACTED], while the five-year forecast is to reach revenues of [REDACTED].

44. Over this period, GIPHY had been talking to Facebook, [REDACTED] and [REDACTED] about funding options to secure its future viability (see paragraph 59b below). From 1 March 2020 to 3 March 2020, Facebook executives considered options including [REDACTED]. Nir Blumberger of Facebook subsequently told his colleagues (on 3 March 2020) that:

'[REDACTED].'

Our view

45. We consider that the internal documents indicate that GIPHY's monetisation model was developing positively in early 2020, with strong revenue growth having been achieved in the first two months of the year. In addition, at Board level, GIPHY continued to expect, as late as 13 March 2020, that it would grow very strongly over the next five years.
46. Nir Blumberger's account of Facebook's communication with GIPHY at this time suggests that GIPHY's seeking financing to continue independently was just an 'official angle' while its preference was for an acquisition. However, it is unclear: (i) whether this was in fact Alex Chung's and/or Brad Zeff's preference at this time, (ii) if so, whether this was also the preference of GIPHY's board, or (iii) the extent to which any such preference reflected early Coronavirus (COVID-19)-related market turbulence rather than GIPHY's underlying business prospects.

March to May 2020 (Coronavirus (COVID-19) to acquisition)

47. Among Coronavirus (COVID-19) developments in the US in mid-March 2020:
 - a. On 9 March 2020, the S&P 500 fell 7% at its opening, while the Dow Jones Industrial Average fell 7.8% over the day.
 - b. On 12 March 2020, most major US sports leagues, including the NFL, suspended their seasons. While the Dow Jones Industrial Average closed down an additional 10%, the NASDAQ Composite was down 9.4%, and the S&P 500 was down 9.5%.
 - c. On 13 March 2020, President Trump declared a national emergency, and the House of Representatives passed an aid package for affected workers and individuals.
 - d. On 15 March 2020, the US Centre for Disease Control and Prevention issued guidance recommending against any gathering of 50 or more people.
 - e. On 16 March 2020, President Trump issued guidelines urging people to avoid social gatherings of more than ten people and to restrict discretionary travel.
48. [X] commented that as a result of the Coronavirus (COVID-19) pandemic, there was greater hesitation from potential investors to contribute to GIPHY through rounds of funding. [X] also submitted that no draft term sheets were discussed or prepared in respect of [X] providing additional financing to GIPHY after 1 July 2019. [X].

49. [X] submitted that following the onset of the Coronavirus (COVID-19) pandemic, GIPHY experienced a significant impact on its [X]. This resulted in a [X]. [X] also submitted that the pandemic resulted in [X] investor interest in GIPHY. In a follow-up submission, [X] stated that GIPHY's efforts to raise financing which began in [X] '...became [X] when the COVID-19 pandemic hit. The pandemic led to a marked increase in [X], increasing GIPHY's [X] costs. It also saw both cancellations of [X] (much of which was tied to events such as [X] etc that were also cancelled) as well as a freeze on conversations for [X].'
50. Betaworks submitted that, following the onset of the Coronavirus (COVID-19) pandemic, advertising budgets were tightened, and discretionary advertising budgets were cut back significantly. As a result of this Coronavirus (COVID-19) effect, GIPHY's revenue trajectory changed quite dramatically by mid-April 2020, compared with mid-February 2020. Further, Betaworks commented that some investors were nervous about investing further capital given the uncertainty caused by the pandemic. However, it said that at the time when the Coronavirus (COVID-19) pandemic started, there were a number of options open to GIPHY, including a potential sale or investment by external third parties, including private equity firms and strategic investors.⁷ We asked Betaworks whether, absent the offer from Facebook, later-stage investors would have been prepared to put more cash into GIPHY to extend its runway for the next six to twelve months. Betaworks commented that: 'Yes, I do [think that]. I think that there were certain later stage investors I know who were keen to do that. One was going around board members and saying, 'Why do we not put in a term sheet?' Part of the job of these later stage investors is, when companies hit speed bumps, to help them get through.
51. [X] submitted that, following the conclusion of the series [X] investment in GIPHY in [X], it informed GIPHY that it would not have provided additional funding to GIPHY absent the presence of a strong external investor. However, [X] stated that in a scenario whereby GIPHY were unable to be acquired by a third party or receive additional capital via an external investor, the GIPHY management team, board and investors would have been left in the difficult situation of either (i) exploring additional ways to extend GIPHY's cash runway through cost reduction measures, and/or (ii) considering emergency financing options (including a further investment by [X]). [X] noted that the scale and form of any cost reduction measures and/or emergency financing options, if available, would have needed to be further explored, debated and negotiated by and among GIPHY's management team, board and investors in

⁷ Note of call Betaworks, 19 May 2021, page 14.

order to determine the best potential outcome for shareholders and employees.

52. On 27 March 2020, Alex Chung emailed larger investors to say: ‘Brad and I had a long call with FB Thursday afternoon and have an update that we need to discuss and get input from the board by Monday evening.’ [X] Facebook had made an offer to acquire Giphy for USD 300million. Following a meeting on 29 March 2020, [X] emailed attendees to set out the plan which they had agreed during that meeting:
- a. Task JP Morgan to explore M&A and investment from [X] and others over the course of the following week;
 - b. Messaging to Facebook as below (subject to JP Morgan’s advice); and
 - c. Convene a board meeting the following weekend to discuss options.
53. The final version of the agreed messaging⁸ to Facebook stated that:
- ‘We briefed the board this morning on your offer at [X].’
54. In a subsequent email in the chain, Mr Liew also commented: ‘[X].’ [X] of GC responded with his support for this approach.
55. In an email to Alex Chung on 29 March 2020, [an investment manager] [X], appeared to express strong support for the GIPHY business and its potential, noting: ‘[X].’
56. In the same email exchange, Alex Chung appears to indicate that GIPHY continued to have support from [X] despite the Coronavirus (COVID-19) challenges: ‘[X].’
57. [X].
58. As explained in detail in Chapter 6, Counterfactual, GIPHY signed a term sheet with Facebook on 7 April 2020. Following signing of the term sheet, GIPHY was subject to a broad ‘no-shop’ provision which prevented GIPHY from pursuing any acquisition or investment discussions with any other party.
59. The Parties submitted that an April 2020 GIPHY board pack shows that, in light of Coronavirus (COVID-19), GIPHY was considering cutting up to 100% of its revenue team. The Parties commented that ‘This is not a context which suggests GIPHY was set for major international growth’.

⁸ An earlier draft was revised in part to avoid sounding too negative towards the proposed acquisition.

60. A slide from the pack estimates the cost savings of a 25%, 50% and 100% cut in the revenue team, along with cuts in other areas. [REDACTED]. The slide pack does not indicate whether shutting down the revenue team was a recommended option. In other slides, it notes that:
- a. '[REDACTED]'.
 - b. 'Pre-Coronavirus (COVID-19), [REDACTED]'.
 - c. '[REDACTED]'.
 - d. '[REDACTED]'.
61. Glynn Capital spoke to Alex Chung on 17 April 2020. Glynn Capital submitted that Alex Chung had commented as follows:
- a. [REDACTED].
 - b. [REDACTED].
 - c. [REDACTED].
 - d. [REDACTED].
62. On 29 April 2020 the [REDACTED] Board signed a resolution approving the acquisition of GIPHY by Facebook, and noted that:
- a. '...the cash resources of GIPHY are running low and revenue generation is directly affected following the Covid 19 pandemic which is pushing advertisers to delay or cancel their marketing campaigns.'
 - b. '... GIPHY is struggling to raise additional financing from outside investors but received an acquisition offer from a leading internet company [...]. Given the terms of the offer, existing investors are currently favoring the acquisition offer over putting additional money in the business.'
63. In a call on 8 May 2020, Alex Chung informed the Glynn Capital team of the acquisition of GIPHY by Facebook, reportedly commenting:
- (a) '[REDACTED]'.
 - (b) '[REDACTED]'.
 - (c) '[REDACTED]'.
64. Also on [REDACTED] referring to the acquisition and commented that:
- '[REDACTED]'

65. On [REDACTED] commenting:

[REDACTED]

66. A slide for a 12 May 2020 meeting of the Betaworks board of managers summarised the GIPHY situation as:

a. [REDACTED].

Our view

67. The view from investors was that GIPHY had made a strong start to 2020, capitalising on the efforts it had made to monetise in 2019. At the start of 2020, GIPHY was actively considering two options (i) M&A, and (ii) raising sufficient investor funding (potential in the form of licence fees) in order to continue developing its monetisation business independently.

68. Coronavirus (COVID-19) had a sudden and severe impact on GIPHY's short-term commercial prospects. However, even when it received a proposal for an acquisition by Facebook, GIPHY's board continued to explore the option of a fundraise, by means of investment from existing investors and from a commercial deal with Facebook, [REDACTED] or [REDACTED], in order to continue GIPHY as an independent business.

69. It is possible that GIPHY's board may have sought to keep open the option of a fundraise as a means to strengthen GIPHY's bargaining position with Facebook. However, it is also possible that GIPHY's board would have rejected a materially less attractive offer from Facebook in favour of raising a further round of funding. The internal documents from 29 and 30 March 2020 indicate that investors actively explored further financing options before deciding that they preferred the best M&A offer they could get (at which point they already had a [REDACTED] offer from Facebook). We also note that investor views on whether they would have ultimately provided further funding to GIPHY appear to be influenced by the possibility of a sale of GIPHY to Facebook. However, in the absence of an opportunity to sell to Facebook, or any other purchaser, it is likely that investors would have looked to raise further funding for GIPHY to see it through the pandemic and to fund further expansion.

70. We consider that the April 2020 Board slide pack⁹ noted by the Parties indicates that GIPHY was seeing positive results to monetisation at the start of 2020, and that it was planning to respond to Coronavirus (COVID-19) by

⁹ The Parties have submitted that the April 2020 board deck was never shared with or presented to the GIPHY board.

driving its revenue growth where possible. GIPHY was also planning international expansion of elements of its monetisation (see Chapter 7, Horizontal Effects).

71. GIPHY's investors appeared to see the acquisition of GIPHY by Facebook – and the final price – as a positive outcome. However, this was in the context of the challenges presented by Coronavirus (COVID-19), and does not appear to have been driven by a sense that GIPHY's monetisation model had proved unworkable.

Appendix F- GIPHY's Paid Alignment model

Introduction

1. This Appendix considers the following aspects of the development and prospects of GIPHY's Paid Alignment model:
 - (a) Implications of GIPHY's capabilities (and limitations thereof) in monitoring and tracking its ads.
 - (b) Advertiser demand for GIPHY's Paid Alignment services.
 - (c) Prospects of achieving revenue sharing agreements with third party distribution partners.
 - (d) Success of GIPHY's O&O sites and their prospect as part of GIPHY's revenue generation strategy.
 - (e) [REDACTED].
 - (f) [REDACTED].
 - (g) GIPHY's sales/revenue team (including ongoing challenges in hiring a Chief Revenue Officer).
 - (h) [REDACTED].
 - (i) Risk of rivals or entrants replicating GIPHY's monetisation model.
 - (j) International expansion (advertising opportunities outside of the US), including expansion into the UK.

Monitoring and tracking

2. The Parties submitted that GIPHY's monetisation model was flawed, because advertisers on digital media wanted to monitor return on investment closely. The Parties submitted that:

'GIPHY could not provide traditional advertising return on investment ("ROI"), audience data and advertising metrics for proof-of-concept. Furthermore, because GIPHY lacked a meaningful user base of its own, it was unable to provide the recognizable constituent elements of a robust digital advertising business. Advertisers on digital media monitor closely the ROI from specific advertising opportunities. GIPHY's [P]aid

[A]lignment products (whether existing on its O&O products or on its API partners' services) did not demonstrate traditional digital advertiser ROI'.

'First, [P]aid [A]lignments did not offer so-called "*direct response*" ads, whereby a user performs a specific action in response to being shown the ad with the advertiser able to track the tangible economic value of that action (e.g., the user clicks the ad in order to buy a product).

Second, GIPHY's third party API ensured that it could provide a GIF search engine, not an advertising service. As a result, it was unable to supply basic audience data (which other services that own their inventory are capable of supplying) and, critically, it was unable to control third-party app environments and user experiences where promoted GIF content could run (since this would have to be implemented by its API partners on their services, not GIPHY's).

Finally, even on its O&O products, GIPHY did not collect the most basic data about its users to target advertisements in any way, which was becoming problematic as GIPHY sought to secure bigger advertising budgets.'

3. Below we present evidence concerning GIPHY's, and its investors', views about the implications of GIPHY's capabilities (and limitations thereof) in monitoring and tracking its ads for its prospects for monetisation at scale.

4. A [redacted] memo [redacted] sets out the need for GIPHY to build more sophisticated tracking capabilities [redacted]:

'[redacted].'

5. A similar point regarding the importance of ad measurement and analytics was made by the CEO of Starcom MediaVest (Publicis, an advertising agency that worked closely with GIPHY), according to notes from a call between them and DFJ Growth in 2016:¹

'GIFs are likely to continue growing as a shareable and emotive medium, but brands will only migrate to GIFs if they can curate the audiences and the content to support their messages, and only if they can get accurate measurement and analytics of the audience engagement and ad performance'.

¹ [redacted]

'Marketers will want to know if they can trust the measurement of the ad units and audience – supported by data and analytics to show it works - how do marketers know what they are getting in terms of viewability and audience engagement? ... will likely take 18 – 24 months to get this rolling and adopted with advertisers'.

6. A May 2019 GIPHY document discussing 'Ad tracking and Audience measurement in the O&O' notes that:

'[X]'
7. The document describes Ad ID as '[X]' and indicates that [X]:

'[X]'.
8. In a discussion of the analysis, which forms part of this same (above) '[X]'.
9. In March 2020, David Rosenberg (GIPHY's VP of Business and Corporate Development) listed seven priorities for GIPHY's business development in 2020. One of these was deploying [X] to key partners, aiming for agreements with [X], as well as 'some version of yes with [X]'. He also identified 'closing a big SDK partner' as an objective.
10. We consider this evidence to show that GIPHY's investors recognised early on that building a more sophisticated ad tracking system was necessary for success. Advertising IDs² were a critical part of facilitating such a system – GIPHY was able to track these for all users³ of its O&O app and platforms integrated via SDK (although not those integrated via API, which accounts for the large majority of traffic⁴). GIPHY aimed to reach agreements with Revenue Share and other partners to deploy [X], to incentivise app publishers towards its SDK, and to make these IDs a [X] from SDK developers.⁵ GIPHY also recognised that it could combine this data with purchased third-party data to provide rich demographic and interest data to provide a more attractive advertising product targeted at certain groups.

² The Google Advertising ID (**GAID**) and the Identifier for Advertisers (**IDFA**) are anonymised device identifiers used by Android and iOS respectively that allow advertisers and developers to track and identify a specific device, which is used as a close proxy for an individual. GIPHY was able to track GAID and IDFA for user interactions relating to GIPHY content, in terms of both users of GIPHY's app or users on platforms integrated with GIPHY via the Software Development Kit (**SDK**), but not via API. Note that individual users are able to 'opt out' of being tracked by these IDs.

³ Users would not be required to be registered with GIPHY. However, individual users can 'opt out' of being tracked by Advertising IDs in general – these would not be able to be tracked.

⁴ The only major partner that presently integrates with GIPHY via SDK is [X].

⁵ Pre-Merger, GIPHY allowed SDK developers to opt out of sharing the IDFA/GAID value.

Advertiser demand

11. In its Site Visit presentation, GIPHY noted that, '[X]'. In the 'GIPHY Story in Context' submission, the Parties state that:

'In 2017, GIPHY generated just USD [X] in annual revenue, deriving from early pilot tests. The following year, GIPHY commenced Paid Alignment services on its O&O products made available to users in the US. [X]. Almost one-third of these revenues (27%) were attributable to a single advertiser, [X] (for its [X] products). Much of the remaining revenues derived from advertisers testing GIPHY as an experimental source of advertising revenue.'

'[X].'

12. The Parties have commented on GIPHY's 2019 ad revenues of [X] that:

'[X].'

13. According to notes from a [X]:

'[X].'

14. A [X] investment memo (from [X] for the Series [X] round) refers to the fact that advertisers (over the past year since monetisation started) were happy with their campaigns and that [X] campaigns were [X]:

'Importantly, Giphy began monetizing in [X]. The company sold [X] in advertising at an average deal size of [X] and with a [X] close rate, including [X] deals with [X]. Advertisers were happy with the campaigns with a [X] in-year rebuy rate, [X] of [X] campaigns being rebuys and repeat buyers spending on average [X]. Clickthrough rates on sponsored gifs was [X] than typical social media click through rates. Giphy won 3 Cannes Lion awards for its ad campaigns and showed strong brand lift against control and against other social media'.

15. Correspondence from a representative of [X], an ad agency representing [X], noted her clients' enthusiasm for working with GIPHY:

'[X].'

'[X].'

16. In its investment confirmation memo of January 2019, [X] commented that, ‘Several campaigns of large brands from a diverse range of sectors prove that there is significant demand to advertise through GIF ads.’
17. In relation to the concern that GIPHY’s ads cannot achieve click-through to the brand’s website or a direct purchase opportunity, [X] (in the same January 2019 memo) commented that this was not necessary for brand awareness-type advertising:

‘There is no need to redirect users to a website in brand building advertising. Brand building advertising campaigns simply aim to capture the consumer’s attention and lift brand perception. As such, there is no need to click on these advertisements. Also, the brand building advertising market is sufficiently large given that US advertisers spend around ~\$70bn on tv ads, which also lacks the “click-factor”. To compare with other forms of non-click ads: US offline magazines are able to demand a CPM in the range of \$8-20, which is higher than our \$7.5CPM forecast. Lastly, Giphy could enable clicking of sponsored GIFs through actions such as a double-tap or triple-tap.’
18. Shortly before the full impact of the COVID-19 pandemic became apparent, in early February 2020, Peter Philips (COO) and Alex Chung sent updates to the Board and investors stating that [X]. See further detail regarding these exchanges in Appendix E: GIPHY Timeline.
19. As noted in Chapter 7, Horizontal effects (paragraph 7.78), a number of brands including [X] expressed concern or disappointment about GIPHY’s Paid Alignment business being closed.
20. We consider that this evidence suggests GIPHY and its investors believed that major brands were interested in GIPHY’s Paid Alignment services (see also the section on ‘GIF advertising model’ in Appendix I: Third Party Summary,⁶ and also the section below on advertisers actively inquiring about international opportunities). In the months prior to the pandemic, GIPHY regarded ad sales momentum as growing, particularly with respect to search content (ads that are served in response to searches, as opposed to presented in the ‘trending’ content). Investors saw GIPHY’s ads as suitable for building brand awareness, which was a sufficiently large market to be attractive to them.

⁶ This summarises the views of all advertisers with whom the CMA held calls during the inquiry, in which we note that the majority of advertisers were positive about their experience working with GIPHY and would have been willing to continue exploring this method of advertising.

Prospect of achieving revenue share agreements

21. The Parties have submitted that:

‘GIPHY could not demonstrate that a revenue-sharing API-dependent model was sustainable. Without its own user base, GIPHY’s only prospect for generating meaningful revenues was to find a way of splitting revenue with the third-party services on which it was dependent. ... Since the overwhelming majority of GIPHY traffic existed on its API partners’ services, GIPHY’s revenue-generating strategy effectively relied on monetising the actions of consumers of third-party services.’

‘Allowing an outside vendor like GIPHY to control any form of advertising within their services, in a way that generates significant revenue, is largely unprecedented among the large services GIPHY relied on for the large majority of its API distribution. Such partners have no reason to share revenue with a third party or experiment with unproven forms of advertising when the service has the ability to keep 100% of revenue from its existing and proven products. Revenue generation for GIPHY was simply not the value-add to GIPHY’s larger API partners.’

‘GIPHY would have been dependent on entering into revenue-sharing agreements with significant API partners to build a sellable ad-inventory. In reality, however, GIPHY struggled to sign any important revenue-sharing agreements. GIPHY’s biggest partners, including Facebook, [X].’

22. A 2016 opportunity memo⁷ prepared internally at DFJ Growth (an investor in GIPHY) sets out GIPHY’s reliance on distribution partners, including Facebook, as a key risk:

‘Distribution partner risk: A large part of Giphy’s usage is via API partners who distributed GIFs through their social channels. Giphy will likely need to share a percentage of ad revenue with these partners. These API partners could potentially stop working with Giphy or work with other GIF providers. Google and Facebook are two of the largest partner channels, and could build out internal GIF initiatives which would pose a serious challenge to Giphy.’

⁷ DFJ Growth (23 September 2016), Exhibit 1 – Giphy Investment Memo 9.23.2016.

23. In notes from a 2016 call between DFJ Growth and Facebook's Strategic Partnerships team (in which the latter provided a reference for GIPHY to the investor),⁸ the Facebook representative commented that:
- 'If organic and native to the user's experience, sponsored GIF ads should work. ... FB realizes their developer partners need to build their businesses and monetize their audience/users, and FB wants to support those efforts. ... [Facebook] [w]ouldn't necessarily expect a revenue share from Giphy – not focused on this, just want Giphy to be increasing traffic & engagement inside FB (more GIF search, sends, shares)'.
24. By 2019, GIPHY had entered into revenue share agreements with [REDACTED], which allowed GIPHY to run Paid Alignment advertising on these partners' inventory in the United States. [REDACTED] alone accounted for [REDACTED] in the months prior to acquisition.
25. In January 2020, Alex Chung met with Vishal Shah and Robby Stein at Instagram, and discussed (*inter alia*) monetisation possibilities. The meeting notes circulated by Mr Chung to GIPHY colleagues after the meeting comment that there was [REDACTED]:
- '[REDACTED]'
26. In February 2020, these discussions were continued. [REDACTED]:
- '[REDACTED]'
27. In a March 2020 internal Facebook email to Vishal Shah and others, Konstantinos Papamiltiadis (Vice President of Platform Partnerships at Facebook) noted that '[REDACTED]'. In the same exchange, Nir Blumberger commented that '[REDACTED]'.
28. In DFJ notes from a 2016 call with a representative of Twitter's Brand Strategy team,⁹ the latter commented that Twitter was in early informal discussions with GIPHY concerning monetization, that it was exploring a 'GIPHY + Twitter partnership to help brands achieve advertising goals', and that it was '[t]hinking of going to market with Giphy in an advertising co-sale partnership'. Likewise, in notes from DFJ's call with Twitter's BD Partnerships, the Twitter representative discusses options for monetising inside Twitter through branded/sponsored content, and is noted as saying that they would

⁸ DFJ Growth (October 2016), Exhibit 3 - GIPHY Reference Call Notes.

⁹ DFJ Growth, Exhibit 3 – Giphy Reference Call Notes.

like to see Giphy create GIFs for more live events (eg GIFs related to the Emmys), which would be a 'very compelling proposition for Twitter' ... 'Twitter will most likely want a revenue share (not sure how much)'.¹⁰

29. A GIPHY investment memo (from [X] for the Series [X] round) notes that securing initial revenue share agreements with the likes of [X] should help with securing agreements with [X] such as [X]:

'Giphy has its first few agreements with [X] (notably with [X]) and is beginning to traffic [X] with partner inventory in [X]. We anticipate that making those initial campaigns successful will lead to Giphy laddering up to similar agreements with the bigger [X] ([X]) to also be able to sell their inventory.'

30. In its January 2019 confirmation memo, [X] notes that:

- (a) As Giphy's leadership increases, the Company intends to leverage its position to negotiate exclusivity with partners. Giphy already negotiated exclusive partnerships with Snap, Instagram, Tinder, Outlook, Slack and many others.
- (b) '[T]here is clear demand by partner platforms to monetize messaging because (i) users spend significant time on this activity and (ii) it allows [them] to continue top-line growth through alternative ways of advertising as core apps are now approaching the ad load maximum. For example, Facebook has warned investors that ad load in the core app is at maximum. We believe that Giphy can solve this problem by offering a new way of monetization through GIF ads.'
- (c) 'Partner concentration is sufficiently dispersed for Giphy to meet our base case even without monetizing the largest partner platforms. While the Facebook Group indeed accounts for a significant portion of API traffic, there is still ~50% accounted for by other platforms. Considering that Giphy only needs to have monetization partnerships for ~27% of API traffic to achieve our base case, the exposure to Facebook is not a hurdle.' Indeed, this document shows that, in its base case for investment, [X] assumed that no traffic with Facebook platforms would be monetizable, and that GIPHY would monetize only 20% of traffic from Tier 1 partners (equivalent to signing an agreement with Snap).

¹⁰ DFJ Growth, Exhibit 3 – Giphy Reference Call Notes.

31. Correspondence between GIPHY and [X] (a keyboard app with whom GIPHY had a revenue sharing agreement) in February 2020 included a conversation regarding [X], in which [X] asked:

‘[X].’

32. In March 2020, GIPHY developed an 'illustrative Q&A', apparently for discussion with potential acquirers, which comments that:

‘[X]’

Our view

33. We note that while the leading social media platforms (Facebook, Snapchat and TikTok) sell their own advertising inventory, many digital publishers use intermediaries to sell their inventory to advertisers – with Google being the largest such intermediary in the UK.¹¹
34. We consider that the evidence set out above demonstrates that investors recognised a risk inherent in GIPHY’s dependence on its distribution partners to achieve mass reach. This risk was characterised as relating to the dependence of GIPHY’s revenue stream on its distribution partners, noting that these partners could simply decide to stop partnering with GIPHY, rather than a concern that distribution partners were, or would not be, interested in GIPHY’s advertising proposition. However, investors also noted that (i) achieving revenue sharing agreements with major partners such as [X] would help to demonstrate the viability of the model and could lead to further agreements with big platforms; and (ii) GIPHY was not totally reliant on Facebook Group platforms and was diversifying its distribution network (eg [X] base case for investment did not require a revenue sharing agreement to be made with any Facebook Group platforms). [X] – one of these alternative platforms, with whom GIPHY had successfully established a revenue sharing agreement – regarded it as lucrative and appears to have been keen to expand further to stickers.¹²
35. As regards the prospect of entering a revenue share agreement with Facebook or Instagram, the evidence is mixed. Facebook’s internal documents indicate that it was aware of the potential opportunity in monetisation. However, in the context of agreeing to share revenue with

¹¹ Market Study, paragraph 63.

¹² This is consistent with comments made to us by [X] in the Phase 2 third party call, in which [X] noted it was disappointed when GIPHY terminated the revenue share agreement due to the Merger.

GIPHY as a third party (pre-Merger), this opportunity was in tension with Facebook's desire to [REDACTED]. Shortly before the Merger, Alex Chung reported holding promising discussions with Instagram's leadership in which they were considered '[REDACTED]' to these ideas. However, we note that (as of February 2020) Vishal Shah remained [REDACTED].

O&O

36. The Parties submitted¹³ that: 'GIPHY allocated substantial capital and resources, for example, to products aimed at making its O&O products an entertainment destination. None of these attempts had successfully scaled, and since 2018 GIPHY's O&O traffic has stagnated, despite substantial team-wide efforts to grow O&O products.'
37. The Parties also submitted that '...even on its O&O products, GIPHY did not collect the most basic data about its users to target advertisements in any way, which was becoming problematic as GIPHY sought to secure bigger advertising budgets.'
38. A December 2018 investor slide pack from GIPHY projects O&O revenues at least doubling each year to [REDACTED] in 2020 (Figure 1).

Figure 1: GIPHY projected revenues, O&O and API, December 2018

[REDACTED]

39. In a January 2019 Confirmation Note, [REDACTED] carried out its own modelling of GIPHY's O&O growth, as shown in Figure 2. We note that this is considerably less ambitious than GIPHY's projections in September of that year (see below). Nevertheless, [REDACTED] note concludes that '...our analysis exhibits attractive returns to compensate the risks involved', suggesting that it did not consider its relatively less ambitious projection of O&O growth to weaken the case for investment in GIPHY.

Figure 2: [REDACTED] projection of GIPHY O&O growth, January 2019

[REDACTED]

40. In September 2019, GIPHY presented even more ambitious O&O projections to its board than it had used in December 2018 (Figure 3). Under these

¹³ Parties' Initial submission, paragraph 5.7.

assumptions, its O&O properties would account for USD [X] of its gross revenues – in 2023, while continuing to represent a [X] of GIPHY’s traffic.¹⁴

Figure 3: GIPHY O&O revenue projections, September 2019

[X]

41. In a December 2019 email exchange with GIPHY CFO Whit Richards, Alex Chung discusses a number of issues relating to GIPHY’s future. [X], the exchange also suggests that O&O growth remains a possibility, particularly through international expansion:

(a) Mr Chung: ‘[X].’

(b) Mr Richards: ‘[X]’

42. GIPHY’s slides for a 13 March 2020 Board call (ie shortly prior to the acquisition) showed O&O revenues for 2019 at USD [X], ie [X] which GIPHY had forecast in September 2019 (Figure 4).

Figure 4: GIPHY achieved O&O revenues

[X]

43. In the same slide deck, GIPHY presented forecasts for its O&O revenues in 2020 which were considerably scaled back from six months previously (ie September 2019) (Figure 5). At the same time, GIPHY assumed stronger API growth than in September 2019, so that its total gross revenue reaches USD [X] in five years (albeit in 2024, rather than 2023). We note that at this point GIPHY’s forecast growth for 2023 was around half of the level forecast by [X] in January 2019, and GIPHY did not expect a large increase in 2024.

Figure 5: GIPHY O&O forecast revenues, March 2020

[X]

44. [X].

45. In a 1 March 2020 email considering options to ensure GIPHY’s viability, Konstantinos Papamiltiadis of Facebook notes that ‘[X]’.

46. Taking this evidence in the round:

¹⁴ [X].

- (a) [REDACTED], after which it substantially reduced its longer-term forecasts of O&O revenues. [REDACTED] is supported by Facebook's comment (which appears to be informed by discussions between Facebook and GIPHY).
- (b) [REDACTED]. We also note that GIPHY was still thinking about ways to grow its O&O traffic in future, such as through international growth.

[REDACTED]

47. [REDACTED].

[REDACTED]

48. [REDACTED].

Figure 6: [REDACTED]

[REDACTED]

49. [REDACTED].

50. [REDACTED].

Figure 7: [REDACTED]

[REDACTED]

[REDACTED]

51. [REDACTED].

(a) [REDACTED]

(b) [REDACTED]

(c) [REDACTED].

(d) [REDACTED]:

(i) [REDACTED]

(ii) [REDACTED]

(e) [REDACTED].

(f) [REDACTED].

52. [X]

53. [X]

Figure 8: [X]

[X]

[X]

54. [X].

- [X]

55. [X]:

'[X].'

- [X]

56. [X].

- [X]

57. [X].

58. [X]:

(a) [X].

(b) [X].

(c) [X].

(d) [X].

(e) [X].

[X]

59. [X]:

'[X]'.

60. [X]:

'[X]'.
[X]

61. [X].

[X]

62. [X]:

(a) [X].

(b) [X].

(c) [X].

(d) [X].

[X]

• [X]

63. [X]:

(a) [X].

(b) [X].

(c) [X].

64. [X].

65. [X].

Figure 9: [X]

[X]

66. [X]:

(a) [X].

(b) [X].

67. [X]:

(a) [X].

(b) [X].

• [X]

68. [X].

• [X]

69. [X].

[X]

• [X]

70. [X].

71. [X].

• [X]

72. [X].

73. [X].

• [X]

74. [X].

[X]

75. [X].

76. [X]:

‘[X]’

77. [X].

78. [X].

79. [X]:

(a) [X].

(b) [X].

[REDACTED]

80. [REDACTED]:

(a) [REDACTED].

(b) [REDACTED].

81. [REDACTED].

Sales/leadership team

82. The Parties' written submissions have not commented in detail on any challenges GIPHY faced in building its sales team, although they noted that GIPHY acknowledged its sales team was inexperienced. In the Main Party Hearing, Alex Chung stated that, '[REDACTED]. This was before ... COVID had happened at all. [REDACTED].' In a third party call, [REDACTED] (one of GIPHY's main investors) told the CMA that, '[REDACTED].'

83. According to GIPHY's submission to the CMA, Alex Magnin (VP of Revenue since June 2017, whose role was to lead GIPHY's revenue strategy) departed in October 2019 to '[REDACTED]'. His replacement, Alexis Berger, was in post until January 2020, at which time she decided to leave the company as (according to GIPHY's submission) '[REDACTED]'. While GIPHY was not able to provide further detail or documentary evidence in relation to these departures, we note that in neither case is there evidence that the employee left due to foreseeing a fundamental impediment to GIPHY's success.¹⁵

84. An investment memo for [REDACTED] from [REDACTED] comments that GIPHY had recently appointed a Chief Financial Officer (CFO) but was still searching for a Chief Revenue Officer (CRO) and Chief Operations Officer (COO), [REDACTED]. Similarly, a memo by investor [REDACTED] from January 2019 notes that 'Giphy has been slow in adding to its exec team and is currently searching for a CRO and COO. The cofounder and President of the Company left last year. Giphy recently added a CFO and existing investors are helping with the recruitment of key members.'

85. In its Q3 2019 Board Update, GIPHY described its plan to continue '[REDACTED]', noting several recent hires in the revenue team, including a new Head of

¹⁵ We note that GIPHY also submitted that its Chief Technology Officer departed the company in February 2020, and its Chief Operations Officer and VP Business and Corporate Development both departed on 15 May 2020 (the date of the acquisition). GIPHY submitted that the latter two employees' departures were not related to the acquisition and both had previously decided to leave, although it did not provide documentary or other evidence to substantiate this point.

National Sales, Client Leads, and an AdOps Manager, among others. In October 2019, Peter Philips (appointed as COO during 2019) noted in an update to the Board that GIPHY had added three key hires to the revenue team: Director, Revenue Marketing; Director, Creative Strategy; and Senior Client Lead, East.

86. In an internal GIPHY email exchange dated December 2019, Whit Richards (CFO) comments to Alex Chung that he and Peter (Philips, COO) have built '[redacted]'.
87. Shortly after the departure of the VP of Revenue (in March 2020 – see paragraph above), GIPHY was anticipating hiring a Chief Revenue Officer, according to an internal GIPHY email from Peter Philips (COO) to the Board. This email suggested that GIPHY has been making some progress in developing its sales team, including engaging a senior sales consultant who intended to apply for the CRO role:

'[redacted]'.
88. GIPHY's Board Update as of 13 March 2020 indicates its plan to add [redacted].
89. Also in March 2020, [redacted] listed seven priorities for GIPHY's business development in 2020. One of these was to '[redacted]', ideally someone with experience building a 'partner focused growth strategy'.
90. We consider this evidence shows that, over the period 2019 to 2020, GIPHY faced challenges in hiring for its revenue team; in particular, it was still searching for a Chief Revenue Officer as of March 2020 (a search which had commenced prior to January 2019). However, GIPHY reported ongoing progress in adding key sales staff, including in a number of senior roles. As of December 2019, it described its revenue team as '[redacted]', and (pre-Merger) had been positive about the prospect of filling out a substantial sales force of 21 staff during the course of 2020. As of March 2020, GIPHY was anticipating hiring for the Chief Revenue Officer role (potentially hiring into this role an individual who had been performing well hitherto as a senior sales consultant). While two VPs of Revenue departed the company in 2019 and 2020 respectively, the reasons for their departure are not clear, and in neither case is there evidence that the employee left because they foresaw a fundamental impediment to GIPHY's success.

[redacted]

91. [redacted]:

‘[REDACTED]’

92. [REDACTED].

93. [REDACTED].

94. [REDACTED].

95. [REDACTED],

‘[REDACTED].’

96. [REDACTED].

97. [REDACTED],

‘[REDACTED].’

98. [REDACTED].

99. [REDACTED].

Risk of rivals or entrants replicating GIPHY's monetisation model

100. Some investors commented on whether rival entry was a business risk to GIPHY's monetisation plans. In assessing this risk, they had regard to GIPHY's leading position as a GIF provider; therefore, some of the material discussed below is also relevant to the broader question of replicability of GIPHY as a GIF provider. For a fuller analysis of the evidence relating to this broader question, see analysis of GIPHY's competitive position in Chapter 5, Market definition and Market power and barriers to entry and expansion in Chapter 9, Countervailing factors.

101. The Parties have not made a submission regarding replicability or the prospect of rival entry specifically in terms of the supply of advertising services by a GIF provider. Regarding substitutes in terms of GIF supply to third party platforms, the Parties have submitted that ‘Google’s Tenor is a perfect substitute to GIPHY’ and ‘there are a number of other GIF providers, including Imgur, Gfycat, Gifbin, Vlipsy, and Holler, all of whom offer a similar service to GIPHY (they all supply GIFs to third parties; they all have searchable libraries) and are free to use.’

102. In its investment memo of December 2018, [REDACTED] articulates what differentiates GIPHY from other providers, and why its capabilities would be ‘complex to develop and replicate for new entrants’, emphasising the timeliness and

cultural relevance of GIPHY's content (fostered through partnerships with major content providers and the in-house 'live team'), as well as high-quality regulation and quality control:

[REDACTED]

103. Similarly, [REDACTED] notes in a memo of January 2019 that:

'It is difficult to develop a GIF platform from scratch and offer the same volume and quality of GIFs as Giphy. Their GIF library is fully licensed and it took over 5 years to secure all official licenses. Both Google and FB have told that this would be cost prohibitive for them to secure. ... Furthermore, with Giphy increasingly closing exclusive platform partnerships, it will be difficult for new entrants to generate API traffic from high volume platforms Giphy has already partnered with. Additionally, Giphy's recommendation engine has been finetuned over time and replicating this will take time.'¹⁶

104. A 2016 opportunity memo¹⁷ prepared internally at DFJ Growth (another of GIPHY's investors) likewise notes the importance of GIPHY's early growth and market leading position in building partnerships with content providers, distribution partners, and brands/advertisers, in erecting barriers to entry/expansion for newer rivals:

'Explosive Growth Will Allow Giphy To Create A Barrier To Scale. ... Giphy's growth is important because, while there are few natural barriers to entry in this market and we have seen a number of Giphy clones emerge, we believe that content, advertising, and distribution partners will want to work with the leading GIF player. Brands/advertisers will want to advertise on the platform with the most scale, content owners will want their content to reach the widest audience, and distribution partners will want to work with a GIF partner that has the highest quality content.'

105. In notes from a 2016 call between DFJ Growth and Twitter's Senior Director of Corporate Development & Strategy (in which the latter provided a reference for GIPHY to the investor),¹⁸ the latter commented that while Twitter had integrated with both GIPHY and Riffsy [previous name for Tenor] for GIF supply, it had chosen to make an investment only in GIPHY. This was due to

¹⁶ The report further states: 'One expert who was at Twitter when it partnered with Giphy underlined that Twitter couldn't build a content library fast enough. Especially the licensing of all content would be particularly time consuming. Additionally, the inhouse development would require scarce resources from other departments (i.e. engineering) which were needed for higher priorities related to the core business.'

¹⁷ [REDACTED]

¹⁸ DFJ Growth, GIPHY Reference Call Notes (October 2016).

the scale of GIPHY's existing reach and its 'compelling creative vision' ('Riffsy wasn't thinking in the same way, GIPHY is more creative and inventive'). Twitter believed that GIPHY had a chance of becoming a 'meaningful brand' and 'destination'.

106. In our view, this evidence demonstrates that:

- (a) Investors regarded entry/expansion into the supply of GIFs as relatively easy at a technical level (ie cloning GIPHY's content library and building a basic search engine). However, they believed that it would be difficult for an entrant to achieve scale comparable to that of GIPHY, due to GIPHY's already strong position in the market (including its extensive relationships with brand partners and third party distribution partners).
- (b) Investors regarded GIPHY's offering as having several important and distinctive elements, including high-quality content forged through brand partnerships and its in-house creative team (allowing rapid reaction to timely cultural events), superior quality-control capabilities and licensing agreements, and a fine-tuned recommendation engine, all of which would require substantial time and cost to try to replicate.

International (including UK) expansion

107. The Parties have submitted that:

'[T]he discussions that GIPHY held with Brand Partners (or customers) revealed that [REDACTED].'

'Given the [REDACTED], and the impact of COVID-19 on GIPHY's ability to obtain finance and on advertising markets more generally, there is [REDACTED].'

108. GIPHY's internal documents indicate that in late 2019 and early 2020, GIPHY was discussing a number of international monetisation possibilities. GIPHY's Board Deck for Q1 2020 notes that '[REDACTED]'.

109. Below we set out evidence relating to GIPHY's plans and prospects for expanding monetisation internationally (including specifically in the UK), including views of brands and advertising agencies/platforms with whom GIPHY or its representatives had engaged in initial outreach.

Paid Alignment

110. In December 2019, GIPHY's staff discussed international distribution of potential inventory (ad impressions), noting that the majority of international

distribution was in 10 countries, of which the UK was one. One email noted that the UK accounted for [REDACTED] of GIPHY's total GIF inventory and was highlighted as one of six priority markets in which to service brands' international campaigns:

'[REDACTED].

Scenario #1 - servicing brand partners in the states that want to run Int'l campaigns [REDACTED].'

111. Also in December 2019, in another email exchange, senior members of GIPHY's staff suggested a trip to the UK to explore market appetite:

'[REDACTED]'

112. In January 2020, GIPHY's Sales team asked internally for approval to deploy a strategy to operationalise International Ads Delivery (ie capitalising on Paid Alignment ads already being run in the US and which content was available internationally but without being monetised). They noted that:

'[REDACTED].'

113. This same email lists numerous major brands that had made such inquiries, including [REDACTED], among others.

114. The document suggested that this expansion would be a 'low engineering lift' and require only two weeks.¹⁹

115. Following on from this, in February 2020, GIPHY's employees had an internal exchange in which they developed text for an international outreach message, indicating that Britain was regarded as one of the top five regions (in terms of available inventory) and signalling their intentions to come to the UK to begin a partnership:

'[REDACTED].'

116. One of the brands that had apparently expressed an interest in expanding its existing (US-based) campaign into the UK was [REDACTED], according to a GIPHY internal email exchange in February 2020:

'[REDACTED].'

¹⁹ As long as GIPHY was paid in USD by US-based entities, without staff physically present in international markets, and without dedicated servers.

117. In April 2020, GIPHY was in discussions with an advertising company in the UK ([REDACTED]), which reported interest in GIPHY's advertising model from UK-based brands including [REDACTED]. These discussions appear to have been halted from GIPHY's side as a result of the Merger.

'[REDACTED]'.

118. In the Hearing with GIPHY on 15 June 2021, Brad Zeff noted that this interest from advertisers was 'preliminary' and that it was 'difficult to expand monetisation into territories that you're, you're not active in, all right. We're a US company. We had no presence in, in the UK or anywhere else internationally... it was just premature to think about entering into any other international market'.

Banner advertising on O&O

119. In an internal GIPHY email exchange dated December 2019, Whit Richards (CFO) commented to Alex Chung that '[REDACTED]'. He also noted that, '[REDACTED]'.

120. In March 2020, GIPHY was in discussions with a European native advertising platform ([REDACTED]) regarding options to monetise GIPHY's O&O sites internationally. In an email to GIPHY in March 2020, [REDACTED] stated (in regard to creating native and stories advertisement placements on giphy.com), '[REDACTED]'.

Appendix G: GIPHY's data

Introduction

1. This Appendix summarises the data GIPHY is able to collect from its API/SDK partners. We summarise both the user-level and aggregate data available to GIPHY. Our summary is based on the Parties' submissions as well as our review of GIPHY's internal documents.
2. The Appendix is structured as follows:
 - (a) We describe the data that GIPHY collects (or is technically able to collect);
 - (b) We assess the advantage that GIPHY's data may bring to Facebook.

What data GIPHY collects

3. The overwhelming majority of GIPHY's traffic comes from the following sources: (i) GIPHY's website, (ii) GIPHY's mobile app / keyboard, (iii) partner API integrations, and (iv) partner SDK integrations.
4. GIPHY's API is a programmatic interface for partners to request GIPHY content. GIPHY's SDK (Software Development Kit) is a richer set of development tools. The SDK utilises the API to provide some functionality such as searching for GIFs¹ however it also provides broader functionality such as customisable User Interface templates and optimised loading.² [§<] integrate via API, others integrate via SDK. We understand that most major partners use API ([§<]). In general, SDKs allow more detailed, richer data collection, as set out below.

GIPHY's user-level data

5. Regarding individual level data that can be used to provide personalisation, either exactly or probabilistically, GIPHY captured the following pieces of information pre-merger in some or all its traffic, for all users.
6. **GAID / IDFA:** The Google Advertising ID (GAID, also known as Android advertising ID or AAID) and Identifier for Advertisers (IDFA) are anonymised device identifiers used by Android and iOS respectively that allow advertisers and developers to track and identify a specific device, which is used as a

¹ GIPHY confirm that the SDK [§<].

² <https://developers.giphy.com/docs/sdk>.

close proxy for an individual. It is analogous to a 'cookie' that is tied to a device. This is used by advertisers to target and measure effectiveness of user-level advertising.³ GIPHY's tracking capability using GAID / IDFA was only for user interactions with GIPHY's content, and only through the GIPHY app or an SDK integration. GIPHY was not able to use a GAID / IDFA to track activity in other apps that is unrelated to the GIPHY content. We note that, post-Merger, GIPHY discontinued the collection of GAID / IDFA values in its app and SDKs.

7. **IP Address / User Agent:** An IP address is a numerical label assigned to a device connected to a network. The user agent is a non-personal value containing information about the browser, operating system and device being used.⁴ IP address alone cannot be used to precisely identify a specific user as it can be obfuscated by proxying (in which the true information is replaced by different information), it can change over time, and it can be the case that multiple users on the same network can share an IP address. Despite this, it is often considered personal data⁵ and in the absence of proxying does provide capability to offer some personalised and location-based services.
8. GIPHY have stated in RFI responses that IP addresses are 'a very poor mechanism for identifying individuals' that 'do not support associations with high levels of probability'. However:
 - (a) an internal GIPHY analytics report notes that [REDACTED].
 - (b) It also appears reliable enough to have been used by GIPHY in some [REDACTED]; and
 - (c) In response to a question in an internal document regarding being 'able to monetize O&O and SDK traffic in a defensible manner', a GIPHY employee notes '[REDACTED]'.⁶ In this context, we acknowledge that the collection of useragent + IP address may also be valuable for identifying 'automated' traffic (also known as 'bot' traffic), and separating this from 'genuine' individuals.
9. We understand the ability to approximately identify individuals using the useragent and IP likely varies by API partner depending on the degree to which partners use proxying, for example, we understand that Snap, Signal

³ This is currently evolving with Google's and Apple's making OS changes around whether such identifiers are shared with apps on a default opt-in or opt-out basis.

⁴ An example user-agent field value, for Safari on iPad: 'Mozilla/5.0 (iPad; U; CPU OS 3_2_1 like Mac OS X; en-us) AppleWebKit/531.21.10 (KHTML, like Gecko) Mobile/7B405'.

⁵ <https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/key-definitions/what-is-personal-data/>.

⁶ GIPHY were using a third-party analytics platform [REDACTED] for measurement and tracking of the advertising performance.

and Twitter all limit the data shared with GIPHY through the use of proxies and caching (discussed in further detail below). However, an internal Facebook communication discussing the Merger suggests that, [REDACTED].

10. **Cookies:** [REDACTED].
11. GIPHY '**Random ID**': [REDACTED].
12. There are other forms of tracking mentioned in various documents, such as GIPHY's 'Analytics ID' or 'SessionID', however it appears that these may be inferior options for personal level tracking compared to any of the above capabilities, and we have not assessed these further.
13. In addition, for users who had a registered GIPHY account, GIPHY also captured information such as email addresses. [REDACTED].
14. To summarise the above, the following table outlines, for the major sources of traffic, where key personal identifiers were stored by GIPHY pre-merger.

Table 1: Overview of personal identifiers collected by GIPHY pre-merger, by source of traffic

[REDACTED]

Source: CMA analysis of the Parties' submissions. [REDACTED]

15. As the table shows, [REDACTED] Whilst the SDK volume is lower, it represents a material volume of traffic at [REDACTED] monthly searches.

GIPHY's aggregate data

16. GIPHY's data can provide some insights on overall usage statistics for each API/SDK partner. In particular, even in the absence of individual user identifiers, GIPHY may be able to observe the overall volume of GIF-related activity on the third party app, such as the volume of search requests, and requests for a GIF to be returned.
17. In the instance of APIs (the integration method used by most large partners), partners can obfuscate their users' activity. They can do this via two methods:
 - (a) **Proxying.** This allows the partner to obfuscate the IP address and any other relevant personal information of the end user. This does not distort aggregate usage statistics, it only protects the privacy of the users of the partner service.
 - (b) **Caching.** This is a mechanism by which API partners store their own copies of content provided by GIPHY's API. Caching 'memorises'

previous results to speed up answers to future search queries. It largely provides benefits but also comes with some possible downsides; for example, caching would not be effective if search results were personalised, or would need to be managed carefully if results changed often (eg if a particular GIF begins to suddenly trend). Implementing caching requires the storing, serving and maintenance of the content in liaison with the partner application, and is not straightforward to implement. GIPHY's pre-merger API terms allow content caching. We understand that implementing caching requires investment of material resources by the API partner and is more complex than not using caching at all. It follows that caching is more likely to be implemented by a larger partner that has the resources and incentives to do so. In contrast to proxying, caching would obfuscate the partner's usage statistics. GIPHY note: 'GIPHY does not have information on which of its API partners use content caching servers'.

18. Partners that use GIPHY's SDK have more limited options available to obfuscate activity. There are technically feasible solutions to perform proxying and caching, however they are more complex and we have not seen evidence to suggest that these are used by their SDK partners. Furthermore, a list of API/SDK partners provided by GIPHY suggests that apps using the SDK (as opposed to API) are significantly both more numerous and smaller companies.⁷ Therefore, we consider that smaller applications, particularly those using SDK, may be less likely or able to implement tools to obfuscate the data.
19. Through aggregate API and SDK traffic, GIPHY (and, post-merger, Facebook) may be able monitor usage trends on individual apps use of GIPHY content. For example:
 - (a) If a messaging app that uses GIPHY experiences growth, this may translate to a corresponding growth in GIPHY traffic.
 - (b) If a social media platform introduces a new feature that uses GIPHY GIFs, GIPHY may be able to use the volume of GIPHY traffic to estimate the growth in the popularity of this feature.
20. As an illustration, the following chart from GIPHY's board deck illustrates the type of aggregate information GIPHY API/SDK traffic data can provide.

Figure 1: GIPHY's aggregate data on third party apps

⁷ [redacted] - in 2020 it appears that [redacted] key API partners accounted for over 50% of all GIF & Sticker served traffic, whereas [redacted] indicates a minimum of [redacted] SDK partners.

[X]

21. The figure suggests that using the GIPHY API request data Facebook might be able to observe in real time the relative usage trends of certain competitor apps and/or features of apps to the extent that these have a GIPHY integration (note for example [X]).
22. However, such aggregate metrics can be imprecise for reasons beyond caching. For example, if an API or SDK partner fundamentally changes how they integrate with GIPHY (eg they add or remove a GIF related feature from their application, or increase the number of queries sent to GIPHY as the user types the search term), then usage will change materially even though the 'popularity' of the partner application may remain unchanged.

Data advantage to Facebook

23. Given the above, we consider whether Facebook may gain an advantage vis-à-vis its competitors in either one or both of the following ways:
 - (a) User-level data advantage. Would GIPHY's data enable Facebook to augment its existing user profiles?
 - (b) Aggregate data advantage. Would GIPHY's aggregate GIF traffic data add to Facebook's existing data sources used for competitor intelligence?

User-level data advantage

24. In the Market Study the CMA found that Facebook has a very large audience with over 43 million unique monthly active users in the UK, from which it collects very granular user data.⁸ Facebook can infer users' likely demographic attributes, preferences and behaviours from their interactions on its leading social media platforms, but also from their friends' and families' interactions. This enables Facebook to collect a greater quantity and variety of high-quality data that is useful to obtain insight on its audiences and to target advertising.⁹
25. Moreover, the reach of Facebook tools on third party sites and apps is extensive and far greater than that of other platforms – this data is used to provide precise targeting capabilities and attribution services to advertisers.¹⁰

⁸ Market Study, Appendix F.

⁹ Market Study, paragraph 5.308.

¹⁰ Market Study, Appendix F.

26. In principle, GIPHY’s user-level data, where obtainable via user-level identifiers described above, may provide information on users’ interests in popular culture or brands, and/or user moods and sentiments in real time. We are of the view that this is potentially an incrementally small amount compared to the richness of data Facebook collects both within its own ecosystem and across the wider web and app ecosystem through its own ad-tracking pixels and SDKs.

Aggregate data advantage

27. Our review of a selection of Facebook’s internal market intelligence reports suggests that Facebook’s analyses of competitor activity are sophisticated, detailed, and draw on a number of data sources. [REDACTED].
28. Facebook’s internal market intelligence reports quote MINT as the source of such analyses. We understand MINT to be an internal data tool that [REDACTED].¹¹
29. References in older market intelligence reports suggest that until 2019, MINT relied heavily on [REDACTED]. Onavo was shut down in 2019 following pressure from Apple regarding user privacy. A similar scheme still appears to exist known as Facebook Study, where ‘registered participants have agreed to share their apps usage data with Facebook and they are rewarded for taking part in the program’.¹² This captures data on user activity on apps, such as time spent, features used, advertising networks, demographic data and more.¹³
30. In more recent reports that we have seen, AppAnnie (a third party data provider) appears to be a primary third-party source of market intelligence data on competing messaging apps (as well the broader app ecosystem).
31. The intelligence reports we have seen often label data series extracted from MINT [REDACTED].
32. In addition to third party sources such as AppAnnie, we understand Facebook may in principle have some internal sources of data on other app usage. In particular, Facebook’s own SDKs have broad reach across the mobile ecosystem, as the Facebook login function is used by apps to allow users to log in without registering. Research commissioned for the ACCC’s Sep. 2020 ‘Digital Platform Services Inquiry’ found that Facebook’s advertising and

¹¹ Facebook listed 17 external market intelligence data sources they use.

¹² <https://www.facebook.com/facebookstudy>.

¹³ <https://www.facebook.com/facebookstudy>.

analytics SDKs were in 61% of the 1,000 most popular Android apps in Australia.¹⁴

33. We have found no indication in Facebook’s internal documents of the value of GIPHY’s SDK or API data to the MINT team specifically. However, an internal communication between Facebook employees discussing the public communication of the Merger suggests that Facebook could use GIPHY’s data to its advantage. An employee comments:

‘[redacted]’

34. As an example, the employee gives the possibility to infer how many 15 to 21 year old in Egypt are using Snap and the growth rate of such usage. The employee further explains that such inferences could be possible even if platforms use proxying, unless the platform is able to engineer highly sophisticated mechanisms to obfuscate the data, but also notes that there are easier ways to perform analyses like this.
35. On the one hand, the assessment above suggests that the GIPHY data may be of some value in understanding trends in the usage of apps or certain functionalities of those apps. This may help Facebook refine its existing estimates of competitor trends, particularly if GIPHY traffic data is available for apps where Facebook’s existing data has low precision.
36. However, the GIPHY data is limited:
- (a) It does not track time spent in apps;
 - (b) It will not give a reliable estimate of total users, as not all users of an app will engage with content provided by the API/SDK;
 - (c) The coverage of the GIPHY data is limited compared to sources such as AppAnnie that cover the entire ecosystem.
37. In summary, all of the above suggests that Facebook already has significant amounts of data on competitor apps. However, there are gaps and inaccuracies in these data. GIPHY’s data on the volume of GIF-related traffic on third party apps may serve as an additional tool to improve and refine Facebook’s existing estimates of competitor activity.

¹⁴ [ACCC Digital Platforms Service Inquiry, September 2020 – Interim Report.](#)

Appendix H: Third Party Submissions on the CMA's Provisional Findings

1. On 12 August 2021, the CMA published its provisional findings (**PFs**) on the acquisition of GIPHY Inc. (**GIPHY**) by Facebook, Inc. (**Facebook**) (the **Merger**). The CMA also published a remedies notice (**RN**) at the same time and invited interested third parties to submit their views on both documents. The CMA received and published submissions (**the submissions**) from the following organisations and individuals:¹
 - i. Americans for Tax Reform, a US based non-profit organization that describes itself as dedicated to the education and protection of American taxpayers in the United States and around the world and advocates for free-market policies in the United States and internationally (**ATR**);
 - ii. A joint submission from the Competitive Enterprise Institute, a US based non-profit think tank whose stated aim is to advance principles of limited government, free enterprise, and individual liberty, and the Adam Smith Institute, a UK based non-profit think tank which states that it works to promote neoliberal and free market ideas (**CEI/ASI**);
 - iii. Taxpayers Protection Alliance, a US based non-profit think tank which states that it works to educate the public as to the government's effects on the economy (**TPA**);
 - iv. Tom Spencer, Technology Policy Fellow at Young Voices, which describes itself as a non-profit talent agency and PR firm for pro-liberty students and young professionals based in the USA (**Young Voices**); and
 - v. A joint submission from Mr C Cennamo, of the Copenhagen Business School of Law, & D Sokol of University of Southern California (**Cennamo and Sokol**).²

¹ The CMA has published these submissions on its [case page](#).

² Carmelo Cennamo has done strategic work for and organised research-related events involving a number of platform companies, including Facebook. Daniel Sokol has done legal work for a number of platform companies, including Facebook.

2. This appendix provides an overview of these five submissions and considers the themes raised in the submissions, in particular relating to the following topics:
 - i. The CMA's Provisional Findings;
 - ii. the CMA's proposed remedy and Facebook's proposed behavioural remedy; and
 - iii. the perceived stifling of innovation and dynamism within the technology sector that may result as a consequence of the CMA's decision, and the perceived regulatory over-reach.
3. We have carefully considered these submissions and the issues they raise, and address each in turn.

The CMA's Provisional Findings

4. All of the submissions received by the CMA addressed market definition and the CMA's theories of harm as presented in the PFs. Four of the submissions also stated that they were not convinced as to the CMA's conclusion and evidential basis of the counterfactual. Given the overlap between the submissions on the Counterfactual and the CMA's findings on Horizontal Effects, we have addressed these submissions within the Horizontal Effects section below.

Market Definition

5. CEI/ASI submitted that the CMA had erred in its definition of the relevant market, arguing that this was too narrow, and that rather than 'searchable GIF libraries' users instead tend to search for GIFs via search engines such as Google.

CMA View

6. The CMA discusses the relevant market definition relating to services involved in the supply of searchable GIF libraries, and the position of GIPHY within that market, in Chapter 5, Market Definition and Market Power.

Theory of Harm 1 – Horizontal Effects

7. Both Young Voices and ATR stated that Facebook could not be a competitor of GIPHY as Facebook does not have a GIF database or a GIF search engine or search capabilities.

8. Four respondents submitted that they were unconvinced of the CMA's view that GIPHY could compete with Facebook in display advertising in the future. All commented that GIPHY was a loss-making business, and that the advertising business element of GIPHY's business was still in its nascency.
9. Three of the four submissions listed above also stated that the dynamic competition theory of harm proposed by the CMA in its PFs could lead to many start-ups being categorised as potential competitors.

CMA View

10. The CMA's PFs did not characterise Facebook as having its own GIF library (Chapter 2, the Parties, the Merger and Rationale describes the Parties' activities in more detail). In considering whether the CMA has jurisdiction to review the Merger, we estimated shares of supply on the basis of the Parties' overlap in the supply of apps and/or websites that allow UK users to search for and share GIFs. While the CMA did note that Facebook possesses a small sticker offering, this is distinguished from GIPHY's GIF sticker offering in Chapter 5, Market Definition and Market Power. Also in Chapter 5, Market Definition and Market Power, we find that Paid Alignment (GIPHY's sponsored GIF product) would be a close substitute for display advertising services of the type offered by Facebook. The CMA's horizontal theory of harm, as described in its PFs and in Chapter 7, Horizontal Effects, therefore relates to the provision of display advertising.
11. With regard to GIPHY's ability to compete with Facebook in future and its current financial status, this is discussed in detail in Chapter 6, Counterfactual and Chapter 7, Horizontal Effects.
12. Finally, the CMA notes in relation to its consideration of dynamic competition, that any assessment of dynamic competition is done on a case-by-case basis, relying on a variety of contextual factors, which in this case included GIPHY's position as a GIF provider and its efforts to develop its Paid Alignment business, as well as Facebook's significant market power in social media and display advertising (as discussed in more detail in Chapter 7, Horizontal Effects). More detail on the CMA's approach to assessing dynamic competition can also be found in the CMA's [Merger Assessment Guidelines](#).

Theory of Harm 2 – Vertical Effects

13. Four of the submissions also commented on the CMA's vertical theory of harm as reflected in its PFs. In particular, it was submitted that there was no economic rationale for Facebook to foreclose access to the GIPHY library, on the basis that there were other GIF providers in the market, and therefore

there was no profit motivation for Facebook to foreclose access. The submissions all noted Facebook's public statements that it would honour all GIPHY contracts currently in place.

14. Cennamo and Sokol addressed this further. They suggested a structure to analyse mergers in a digital context. They proposed looking at (a) whether the merger could create a 'strategic bottleneck to the consumer journey', ie does the merger create a situation whereby the acquirer now has control over a key input, and (b) whether the merger creates a structure which could lead to 'ecosystem failures' such as abuse of dominance. Cennamo and Sokol submitted that they do not believe the Merger creates either of these situations and that the CMA has produced no evidence of the integrated structure creating potential 'ecosystem failures'.
15. Finally, Young Voices submitted that there was no ability or incentive for any foreclosure theory of harm based on GIPHY's market power, as a result of Google's acquisition of Tenor, and Facebook's lack of incentive to reduce the supply of GIFs. Young Voices submitted that the Merger would in fact allow GIPHY to better compete with Tenor.

CMA View

16. With regard to the presence of other GIF providers in the market, and Facebook's ability to foreclose, this is discussed in detail in Chapter 8, Vertical Effects. We also found in Chapter 5, Market Definition and Market Power, that social media platforms have very limited close alternatives to GIPHY.
17. Regarding the Cennamo and Sokol submission, the CMA's analysis of mergers, including the structure that it will apply when assessing vertical theories of harm, is set out in detail in the [Merger Assessment Guidelines](#). In line with our Merger Assessment Guidelines, our assessment considers the importance of GIPHY's GIFs as an input, in light of the potential alternatives available, and the competitive effects of foreclosure. These correspond to some extent with the steps proposed by Cennamo and Sokol. However, the framework we have applied is that set out in our Merger Assessment Guidelines.
18. With regard to the Young Voices submission, we have considered whether the presence of Tenor prevents Facebook from foreclosing access to GIPHY in Chapter 8, Vertical Effects. Young Voices also says that allowing the Merger would allow GIPHY to better compete with Tenor. However, we note that GIPHY was already the market leader in the provision of GIFs, in competition with Tenor. We have considered whether rivalry-enhancing

efficiencies arise as a result of the Merger in Chapter 9, Countervailing Factors.

Remedies

19. All the submissions addressed the CMA's initial view on remedies as set out in the RN, and Facebook's response to the RN.³ All were supportive of behavioural remedies proposed by Facebook, which all third party respondents considered would address any potential vertical foreclosure issues the CMA had.

CMA View

20. Chapter 11, Remedies sets out in detail the CMA's assessment of the remedies proposed by Facebook.

Stifling Innovation and Regulatory Over-Reach

21. All of the submissions received by the CMA in response to its PFs and RN indicated that the CMA's intervention in relation to the Merger would in some way stifle innovation and dynamism in the technology sector.

22. Four of the submissions stated that by proposing to block the Merger, the CMA would disincentivize the development of potential start-ups, as this would potentially act as a barrier to start-ups being acquired by a larger firm. This is identified in the submissions as a common exit strategy amongst start-ups.

23. The CMA's intervention, it was submitted, would also:

- a) disincentivize investment in this sector, as investors would have lost the opportunity to profit from their investment by selling to a large platform; and
- b) disincentivize innovation, as less people would be incentivized to create a start-up for the reasons given above.

24. The CEI/ASI submission also suggested that there could be an additional dampening of innovation as some platform companies would be prevented from acquiring innovation (through the acquisition of innovative firms).

25. Some of the submissions argued that the impact would be particularly acute for the UK. Young Voices and ATR specifically linked the CMA's actions in

³ As published on the CMA's [case page](#).

relation to this Merger to the potential loss of investment in the UK technology sector.

26. Two of the submissions also suggested that in this case, the CMA was over-reaching its mandate. The CEI/ASI submission stated that by proposing to block this Merger, the UK was sending out a message that it would effectively be the world's 'policeman' for mergers. CEI/ASI also submitted that this could lead to rivalry between merger control agencies to assert control over what conditions are regarded as acceptable competition in various sectors.

27. ATR also stated that they were of the opinion that the CMA was deliberately targeting unpopular US firms and was 'weaponising' the merger control regime against US firms.

CMA View

28. The comments made by third parties on innovation and regulation need to be viewed in the context of the CMA's duties and legal powers and in light of the specific circumstances arising from Facebook's acquisition of GIPHY. The CMA is an independent non-governmental body, operating a merger control function as part of its duty to promote competition for the benefit of consumers.

29. The CMA's powers and duties are defined by the Enterprise Act 2002. Under the Act, the CMA has a function to obtain and review information relating to merger situations, and a duty to refer for an in-depth 'phase 2' investigation any relevant merger situation where it believes that it is or may be the case that the merger has resulted or may be expected to result in a substantial lessening of competition (**SLC**) in a UK market.

30. Following a reference for a phase 2 investigation, an independent Group of CMA panel members must publish a detailed report and determine whether: (i) there is a relevant merger situation falling within the UK merger control regime; (ii) that relevant merger situation has resulted, or may be expected to result, in an SLC; and if so (iii) it should take action to remedy any SLC identified.

31. As a result, in inquiries such as this one, the CMA has a legal duty to act when an SLC has been found, and this duty includes deciding whether to take action to remedy any SLC the Group identifies, and what action should be taken. Further information on the CMA's duties can be found in Chapter 1, the Reference, Chapter 3, Jurisdiction, Chapter 10, Conclusions and Chapter 11, Remedies.

32. We recognise that acquisition by a larger firm may be an exit strategy for a start-up, and that the availability of this option may reduce the risk to investors of providing funding for innovative firms. However, in the present case we have found that the Merger will give rise to an SLC in display advertising resulting from the loss of GIPHY as an important part of the dynamic competitive process. We have also found a further SLC in social media services, arising from Facebook's ability and incentive to foreclose its rivals. It is in light of these findings that we consider it necessary and appropriate to require Facebook to divest GIPHY.

Appendix I: Summary of Third Party Calls

Introduction

1. The Competition and Markets Authority (**CMA**) is investigating the completed acquisition by Facebook, Inc. (**Facebook**) of GIPHY, Inc. (**GIPHY**) (the **Merger**) under the merger control provisions of the Enterprise Act 2002.
2. In relation to the Merger, the CMA held telephone calls with twenty-one third parties during April and May 2021.
3. In particular, the CMA spoke to the following four categories of third parties:
 - (a) Social media and messaging platforms and keyboard apps (**Platforms**);
 - (b) GIF providers;
 - (c) Investors and potential investors in GIPHY; and
 - (d) Advertising companies and brands familiar with GIPHY's Paid Alignment services
4. The primary purposes of the CMA's calls with third parties was to understand:
 - (a) The third party's relationship with GIPHY and any other GIF library providers (and, if relevant, with Facebook);
 - (b) Whether the third party had ever considered acquiring or investing in GIPHY or any other GIF library provider, reasons for doing so or not doing so, and views on GIPHY's business prospects;
 - (c) The third party's views on the possibility for monetisation of GIF services, including any future plans to enter into advertising of any form, and the views of GIF providers on their current and potential revenue generation strategies;
 - (d) The third party's views on the importance of GIFs for the engagement of end-users on social media and messaging platforms, and any advantages and disadvantages of GIPHY in comparison to other providers;
 - (e) The competitive landscape for the provision of GIF libraries, including any barriers to entry or expansion;

- (f) The potential ability of GIF providers to access data about third party platforms (aggregated data) and end-users (individual data);
 - (g) The third party's views on the 'Paid Alignment' (or sponsored GIFs) model as an advertising channel, its role within brands' marketing strategy and its success to date or expectations of success; and
 - (h) The third party's views about the Merger.
- 5. This document provides an overview of comments made by third parties relating to the following key themes of the CMA's Inquiry:
 - (a) The competitive landscape in GIF supply;
 - (b) The importance of GIFs for user engagement;
 - (c) Data; and
 - (d) The GIF advertising model.
- 6. The third parties were also asked for their views on the Merger.

Competitive landscape in GIF supply

- 7. Market participants identified three mutually reinforcing pillars that are focal points of competition in GIF supply: (i) distribution (the network of partners through whose platforms the content is shared); (ii) content (a high-quality library that is growing and evolving in response to user requirements); and (iii) search (a sophisticated search algorithm to be able to serve the most relevant content to users). With respect to the second of these, the content, a small number of third parties considered that, in order to maintain a fresh and relevant library, it was important to have a balance between user-generated content and professional content from entertainment and media companies.
- 8. Most third parties characterised GIPHY as either being the market leader or having a very strong position (roughly on a par with its closest competitor, Tenor).
- 9. Platforms in particular identified the following as key competitive advantages of GIPHY:
 - (a) Its large and comprehensive repository of high-quality, branded content;
 - (b) The fact that GIPHY has secured extensive rights to distribute the content; and

(c) Its strong content moderation capability.

10. Most platforms were not aware of any competitors to GIPHY other than Tenor and, in a few instances, Gfycat. A small number of platforms named one or more smaller creative content providers, some of which do not provide GIFs, and none of which were characterised by those third parties as significant competitors to GIPHY.¹
11. A small number of third parties described GIPHY as superior (in one or more respects) to Tenor, for reasons including GIPHY's more comprehensive and engaging content (including GIF stickers) and better content moderation capability. Some third parties also described GIPHY and Tenor as very similar, variously mentioning their comparable library size and quality, and licensing of intellectual property rights. Another market participant viewed GIPHY and Tenor as similar in terms of content and distribution network, but regarded Tenor as having a superior search capability.
12. By contrast, no platform described Gfycat as a good alternative or close competitor to GIPHY. A small number of platforms told us that Gfycat is inferior in terms of the quality and/or volume of its library (particularly due to the fact that Gfycat is more reliant on user-generated content, whereas GIPHY has access to professional-quality branded content through its content partnerships), or due to the fact that Gfycat does not hold the same extensive licensing of intellectual property rights. Similarly, another market participant highlighted three key distinctions between GIPHY and user-generated content ("UGC") platforms such as Imgur or Gfycat: (i) GIPHY has a team of employees who create and upload content, whereas UGC platforms focus just on user-generated content; (ii) GIPHY has many more brand partnerships with entities such as movie studios; and (iii) GIPHY has a much more extensive network of distribution partners.

Switching between GIF providers

13. One third party commented that barriers to switching are low; most of its contracts are non-exclusive, and many platforms are integrated with more than one provider. Overall, most third parties that discussed ability to switch described it as quick and straightforward. However, one noted that it would require some technical resources to do so, and another noted that there would be some contractual and engineering costs, but it was unable to estimate their magnitude.

¹ The smaller content providers they identified were: RightGIF, Emoji, Bitmoji, and Songclip.

Barriers to entry

14. One third party noted that there was constant innovation in services relating to GIFs, stickers, and other creative content, and that it is possible for start-ups in this industry to come up with new and different ideas. However, another third party said that it would now be difficult for a start-up company to gain traction against the established GIF providers and that, currently, there do not seem to be any innovations on the horizon.
15. One third party told us that it would be viable for third party platforms to self-supply, given sufficient time, resources, and commitment. Platforms generally regarded self-supplying at a scale and quality similar to that of GIPHY as a major endeavour, which would require considerable financial resources, human resources, and time (in the order of several years). None of the platforms that the CMA spoke to had seriously considered self-supplying.

Importance of GIFs for user engagement

16. Most platforms said that it was difficult to precisely quantify the importance of GIFs to the engagement of end-users. However, one platform explained that GIFs are very important for user expression, as they are a concise and globally recognised form of communicating emotions, with the ability to add humour and flavour in ways that other content cannot. This platform noted that, due to competing platforms offering GIFs, there was an incentive for it to also continue offering them. Another platform commented that creative tools (including, but not limited to, GIFs and GIF stickers) were a base requirement to provide a competitive messaging product, and that removing its current GIFs would degrade its user experience. A small number of platforms also characterised GIFs as 'nice to have' but not critical or foundational to their growth or user engagement. One market participant described access to GIFs as a 'core utility' for today's communications platforms.

Data

17. Most platforms understood GIPHY to receive minimal data through their API integration, in most cases limited to the search query (ie keyword(s) or search term(s)) and IP address of the users. One platform told us that it was possible to implement proxying² but noted that some platforms may lack the engineering resources required to implement this.

² Whereby the request is shown as originating from the server of the platform such that the IP address of the individual user is not revealed.

18. A small number of platforms expressed concerns regarding the incremental aggregate data to which Facebook would have access via GIPHY's API/SDK integrations as a consequence of the Merger. They explained that these aggregate data could give Facebook unique insights into user and content trends (eg what search terms and cultural reference points are popular). One of these platforms was concerned that such data could also provide Facebook with an early signal of the growth trends of current and emerging rival platforms, which could be used to guide Facebook's strategic acquisitions.

GIF advertising model

19. In relation to GIPHY's Paid Alignment advertising services (promoted GIFs), third parties, including advertisers and investors, noted several distinctive and appealing features:
- (a) The ability to reach consumers in a messaging context, which is a space that is difficult for advertisers to access. Relatedly, one advertiser described GIFs as a more 'organic' form of advertising, stating that private messaging comes with an air of credibility.
 - (b) GIFs' unique 'niche' as a creative and consumer-based means of communication embedded in social media.
 - (c) Wide-scale and rapid distribution of content (considered by one advertiser to be better than that of television), meaning that advertisers can reach a large number of consumers in a short period of time.
 - (d) The perceived ability to target a younger audience (compared to some traditional media).³
 - (e) The looping nature of GIFs and their high 're-review rate', meaning that the content sticks in consumers' minds.
20. However, third parties also identified a number of challenges with this model:
- (a) Finding staff who understand both the technical and advertising aspects of the business.
 - (b) Facing a 'learning curve' in establishing this new form of advertising, for example, determining its value to advertisers, and building relationships with them.

³ However, one advertiser told us that GIFs are suitable for reaching a broad demographic, rather than targeting the youth segment specifically.

- (c) Finding a way for advertisers to get their messages into GIFs, given that users do not anticipate seeing adverts within their private messages, and ensuring that the content is sufficiently creative.
 - (d) Developing an advertising platform (including greater use of automated technologies), allowing for a smooth interface with advertisers and taking the model to scale.
 - (e) Enabling advertisers to measure their return on investment
21. One third party stated that GIPHY's monetisation approach (the Paid Alignment model) had been demonstrated to work. Another third party considered that GIPHY had an advertising product that could be very significant if executed well; however, this third party also considered it was clear that GIPHY was not yet close to a 'breakthrough' with its advertising model. No third party characterised the Paid Alignment model as fundamentally flawed, although most recognised some substantial challenges with achieving success at scale (as described above).
22. The majority of advertisers were positive about their experience working with GIPHY and would have been willing to continue exploring this method of advertising. However, one advertiser described it as a concept that never took off, lacking interest from consumers, leading it to end its partnership with GIPHY. Advertisers stated that their campaigns with GIPHY to date were a minor feature of their advertising strategy and represented a very small share of their budget. Advertisers were able to monitor key metrics such as number of impressions and cost-per-mille (CPM);⁴ however, attribution (eg linking GIF views to brand-related actions or purchases) was not possible. Advertisers generally viewed GIPHY as the only or leading provider of GIF-based advertising services. A few advertisers mentioned alternative GIF providers they believed may be offering advertising services, including Tenor, Holler, Inmoji and Bitmoji; in all cases, the advertiser had not partnered or seriously engaged with these potential alternatives.
23. In relation to GIPHY's plans to grow its advertising services by placing promoted GIFs on third party platforms, a small number of platforms told us they either had previously entered into, or would be amenable to exploring in future, revenue sharing agreements. Another platform mentioned that, while it is not currently looking to add new revenue lines into its business, it may be willing to consider such a proposal in the future.

⁴ CPM refers to cost per thousand impressions.

Views on the Merger

24. Most third parties did not have particular views on the competitive effects of the Merger. However, a small number of third parties explicitly highlighted they had concerns regarding ongoing access to GIPHY and Facebook's access to data.

Glossary of terms

the Act	The Enterprise Act 2002
API	Application Programming Interface
ARPU	Average Revenue Per User
CMA	Competition and Markets Authority
Commingling Remedy	Commingling remedy proposed by Facebook to address the horizontal theory of harm
Coronavirus (COVID-19)	The Coronavirus (COVID-19) pandemic
CPM	Cost-per-mille
DAU	Daily Active Users
Divestiture Trustee	An independent trustee appointed by the CMA to complete a divestiture
DMU	The CMA's Digital Markets Unit
Facebook	Facebook, Inc. ¹
Facebook Blue	The Facebook App
Final Report	This document, together with its appendices, which constitutes the Inquiry Group's findings
FMN	Final Merger Notice, as submitted to the CMA by the Parties in January 2021
GIFs	refers to both video GIFs and GIF stickers
GIPHY	GIPHY, Inc.
IEO	CMA's Initial Enforcement Order, imposed on 9 June 2020

¹ On 28 October 2021, Facebook, Inc. changed its corporate name to Meta Platforms, Inc., pursuant to an amended and restated certificate of incorporation filed with the Delaware Secretary of State. For the purposes of this document, we continue to refer to the company by its former name (Facebook, Inc. or Facebook), as this was the name used at the time of the acquisition of GIPHY, Inc.

Initial Divestiture Period	An appropriate timescale designated by the CMA for implementation of the divestiture
KPI	Key Performance Indicator
Licensing Remedy	A white label licensing remedy proposed by Facebook
Market Study	CMA's Market Study into Online Platforms and Digital Advertising
MAU	Monthly Active Users
Merged Entity	Facebook and GIPHY post-Merger
Merger	Completed acquisition by Facebook of GIPHY
Merger Assessment Guidelines	The CMA's Merger Assessment Guidelines (CMA129), published in March 2021
Merger Remedies Guidance	The CMA's Merger Remedies Guidance (CMA87), published in December 2018
No Ads Usage	Facebook's proposed undertaking not to use, without the consent of API Users, any individually identifiable user-level or aggregate data obtained through the GIPHY API for Facebook's advertising business in the UK
No Conditional Usage	Facebook's proposed undertaking that access to GIPHY's API would not be conditional upon sharing user-specific information with Facebook
O&O	Owned and operated
Open Access	Facebook's proposed undertaking to maintain access to GIPHY's library for existing and new API users under the same terms and conditions as pre-Merger
Open Access Remedy	The Open Access remedy proposed by Facebook to address the vertical theory of harm
Paid Alignment	An advertising model, such as the one offered by GIPHY, which gives brands and advertisers the ability to align their GIFs with popular search terms, or to insert their GIFs into a 'trending feed', such as GIPHY's 'trending feed' on its O&O channel, in exchange for a fee
Parties	Facebook and GIPHY

Provisional Findings	The provisional findings document notified on 12 August 2021, together with its appendices
RCB	Relevant Customer Benefit
Remedies Notice	Notice of Possible Remedies, published by the CMA alongside the Provisional Findings
Remedies Working paper	Working paper shared by the CMA with the Parties after consideration of representations made by the Parties and third parties in response to the Remedies Notice
Response to the Remedies Notice	Facebook's response to the CMA's Remedies Notice
RMS	Relevant Merger Situation
ROCE	Return On Capital Employed
RSU	Restricted Stock Unit
SDK	Software Development Kit
SLC	Substantial Lessening of Competition
TSA	Transitional Services Agreement
UGC	User Generated Content
WACC	Weighted Average Cost of Capital