

Anticipated acquisition by NortonLifeLock inc. of Avast plc

Summary of provisional findings

Notified: 3 August 2022

Overview

1. The Competition and Markets Authority (**CMA**) has provisionally found that the anticipated acquisition (the **Merger**) by NortonLifeLock inc (**NortonLifeLock**) of Avast plc (**Avast**) may not be expected to result in a substantial lessening of competition in the supply of consumer cyber safety (**CCS**) solutions in the UK.
2. This is not our final decision and we invite any interested parties to make submissions on these provisional findings by no later than 5pm on Wednesday 24 August 2022. We will take all submissions received by this date into account in reaching our final decision.

Background to these findings

Scope of the inquiry

3. The CMA's primary duty is to seek to promote competition, both within and outside the UK, for the benefit of UK consumers.
4. Following an initial 'phase 1' investigation, the Merger was referred for a more in-depth 'phase 2' investigation on 25 March 2022. The investigation considers the following:
 - (a) Whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation; and
 - (b) if so, whether the creation of that relevant merger situation may be expected to result in a substantial lessening of competition (**SLC**) within any market or markets in the United Kingdom (**UK**) for goods or services.

5. In determining the answers to these statutory questions, we have gathered information from a wide variety of sources, using our statutory powers to ensure that we have as complete a picture as possible, within the constraints of the statutory timetable, to understand the implications of this Merger on competition. The evidence we have gathered has been tested rigorously, and the context in which the evidence was produced has been considered when deciding how much weight to give it. We have applied a 'balance of probabilities' standard when assessing the evidence before us.

The Merger parties

6. NortonLifeLock is a global provider of consumer cyber safety (**CCS**) solutions under the Norton, Avira, BullGuard and LifeLock brands across the following three categories: security (software to protect devices against malware, viruses, etc); privacy (virtual private networks or 'VPNs', etc); identity protection (software to protect users against identity theft, etc).
7. Avast is another global provider of CCS solutions which it supplies under the Avast, AVG, CCleaner and HMA brands and across the same three categories.

The Merger

8. NortonLifeLock, through a wholly owned subsidiary, has agreed to acquire the entire issued and to be issued ordinary share capital of Avast. The Merger was announced on 10 August 2021 and its completion is conditional on clearance by the CMA.
9. The Parties have told us that the transaction rationale is to increase their scale and reach to a wider and geographically diversified global user base, to create a complementary product offering based on their respective strengths and to realise cost synergies.
10. In addition, the Parties told us that the Merged Entity will be better placed than either Party on its own to advance the quality and range of its product offerings. They told us that the synergies created will enable the Merged Entity to deploy more resources on innovation and growth.

Provisional findings

11. Our provisional view is that the Merger constitutes a relevant merger situation, as it would result in NortonLifeLock and Avast ceasing to be distinct enterprises and because our share of supply test has been met.

Market outcome if the Merger did not take place

12. In order to determine the impact that the Merger may have on competition, we have considered what would have happened had the Merger not taken place: this is the counterfactual.
13. For an anticipated merger such as this, we generally adopt the prevailing conditions of competition as the counterfactual against which to assess the impact of the Merger and, in this case, we have found no evidence to support a different counterfactual.
14. Our provisional conclusion is, therefore, that the counterfactual is the prevailing conditions of competition.

The market in which the Merger takes place

15. We have assessed the relevant market which the Merger may affect and we have provisionally concluded that the relevant market is the supply of CCS solutions for consumers and small and medium sized businesses (SMEs) in the UK.

How the market for CCS solutions works

Types of CCS solutions and their providers

16. The market for CCS solutions has developed from being focused on antivirus software for individual devices to including a broader range of software solutions which address the range of cyber threats faced by consumers and their growing need to manage online privacy and protect themselves against identity theft.
17. Consumers can choose from bundled products offering a mix of security, privacy and identity tools and also individual products, such as antivirus software, VPNs and password managers from a range of providers.
18. NortonLifeLock, Avast and some other suppliers of CCS solutions offer both standalone products and bundles of these. Some of these providers have expanded from the supply of security products into other areas, such as VPNs, while others have begun supplying products such as identity solutions and then expanded into the other areas. We have found a wide range of suppliers, operating in the UK and globally.
19. Many CCS solutions are offered across all of the main computer and mobile operating systems (**OS**): for computers, these are Microsoft Windows, Apple

MacOS and Google's Chrome; for mobiles, they are Apple's iOS and Google's Android.

20. We have also found that, increasingly, the OS for desktop or mobile devices have security, privacy or identity solutions built-in. Desktop and mobile OS have always had some built-in CCS solutions, such as antivirus protection, but increasingly they include other CCS solutions such as privacy and identity protection. These features may be marketed as part of the overall security of the platforms but they are not sold as separate CCS solutions.
21. The supply of CCS solutions is primarily focused on computers, and in particular on the Microsoft Windows platform. In recent years, Microsoft has developed its security application, Microsoft Defender and the quality of Defender which comes as part of Windows 10 and Windows 11 is rated by many consumer advice sources as equivalent in quality to the CCS solutions supplied by the Parties and other providers.
22. During the course of our investigation, in June 2022, Microsoft launched a broader CCS solution, Microsoft Defender for Individuals, as part of its M365 software package for consumers in the UK. Microsoft also now incorporates a VPN within its Edge browser.

Availability of free, as well as paid-for, products and other approaches to customer acquisition

23. CCS solutions are offered to consumers on both a free and paid-for basis. Some providers offer consumers a free product and then seek to sell them a more advanced or broader paid-for product. This 'freemium' business model relies on the provider's success in converting a proportion of its free user base to paid products. Avast has primarily followed this model, while NortonLifeLock owns Avira which is also a 'freemium' provider.
24. We have found that, once consumers have subscribed to a paid-for CCS solution and moved from any introductory low price to a full price product, they are likely to remain with the same supplier, renewing their subscription annually: retention rates are frequently as high as 80-90% amongst the leading providers. For this reason, competition amongst providers of CCS solutions is greatest at the point of customer acquisition.
25. Another important method of customer acquisition by CCS providers is to have a contract with a computer equipment manufacturer to include the CCS solution into new devices, such as laptops, to encourage some consumers to move to a subscription with them when the free offer expires.

Our competitive assessment

26. We have looked at whether the Merger would lead to a significant reduction in competition between the Parties by removing an important competitor and, in doing so, whether the Merged Entity would be likely to worsen its offering compared to the situation if the Merger did not take place. This is a horizontal, unilateral effects theory of harm.

Shares of supply

27. We have found that the Parties, together with McAfee are, by some distance, the largest suppliers of paid-for CCS solutions in the UK, collectively accounting for around three quarters or more of all supply from 2018 to 2021. We found that other providers' shares in the UK were much lower, with none having more than a 5% share of revenue or paying customers. In this respect, the Parties both have a strong position in this market.
28. However, while Microsoft Defender is not sold as a separate product and so does not feature in our shares of supply analysis, we have found that its UK user numbers are both very high and growing very fast.

Closeness of competition between the Parties and other providers

29. In order to assess how closely NortonLifeLock and Avast compete with each other and how closely they compete with other providers of CCS solutions, we have examined a range of evidence including the Parties' internal documents, consumer surveys that the Parties have carried out in the past, and other relevant data, such as the Parties' online advertising spend, as well as evidence from third parties.
30. This evidence has shown us that the Parties compete closely with each other, albeit that there are differences in their business models and areas of focus.
31. We have also found that they face competitive constraints from a range of other suppliers.
- (a) McAfee is a close competitor to the Parties and it is likely to be NortonLifeLock's closest competitor. As such, it exerts a strong constraint on the Parties.
- (b) We have also found that there are a number of other providers of CCS solutions which, despite being substantially smaller than the Parties and McAfee in the supply of CCS solutions in the UK, provide a range of alternative options for consumers and in aggregate exert a competitive constraint on the Parties. Alongside the Parties, these providers have

developed and improved their products over time to meet different and changing customer needs, with a range of alternatives, both free and paid, standalone and bundled, available to customers.

- (c) Microsoft has a unique position as the owner of the Windows operating system for which the Parties primarily supply CCS solutions to their customers. We have found that, through its established and new CCS applications, it exerts a material competitive constraint on the Parties. Our review of its broader strategy and plans relating to its new applications, particularly Microsoft Defender for Individuals, shows that this constraint is likely to strengthen further going forward.

Provisional conclusion

32. We have provisionally found that the anticipated acquisition by NortonLifeLock of Avast may not be expected to result in a substantial lessening of competition as a result of horizontal unilateral effects in the supply of CCS solutions in the UK.
33. We invite any parties to make representations to us on these provisional findings by no later than 5pm on Wednesday 24 August 2022. Parties should refer to the notice of provisional findings for details of how to do this. Please make any response to these findings by email to Norton.Avast@cma.gov.uk.