

Anticipated Acquisition by AlphaTheta Corporation of Serato Audio Research Limited

ME/7076/23

SUMMARY

OVERVIEW OF THE CMA'S DECISION

1. The Competition and Markets Authority (**CMA**) has found that the acquisition by AlphaTheta Corporation (**ATC**) of Serato Audio Research Limited (**Serato**), gives rise to a realistic prospect of a substantial lessening of competition (**SLC**) in relation to the supply of DJ software globally and DJ hardware globally.
2. The CMA refers to this acquisition as the **Merger**. ATC and Serato are together referred to as the **Parties** and, for statements relating to the future, the **Merged Entity**.
3. As the CMA has found that the Merger gives rise to a realistic prospect of an SLC, the Parties have until 9 May 2024 to offer undertakings in lieu of a reference (**UILs**) to the CMA that will remedy the competition concerns identified. If no such undertaking is offered, then the CMA will refer the Merger pursuant to sections 33(1) and 34ZA(2) of the Enterprise Act 2002 (the **Act**).

Who are the businesses and what products/services do they provide?

4. ATC is a Japan-based company that supplies DJ software globally for use on laptops and desktops under the rekordbox brand and DJ hardware under the Pioneer DJ and AlphaTheta brands. ATC also supplies WeDJ, a mobile/tablet-only DJ software app.
5. Serato is a New Zealand-based company that supplies DJ software for use on laptops and desktops under the Serato DJ brand.
6. The Parties overlap in the supply of DJ software for laptop and desktop applications globally. As a library preparation tool, DJ software is used to analyse

music before a performance and organise songs into playlists. As a performance tool, it is used to mix and edit music in a live performance setting.

7. There is also a 'non-horizontal' relationship between the Parties, because ATC supplies various types of DJ hardware equipment that works in compatibility with DJ software. The equipment that the CMA found to be relevant to its investigation were mixers, controllers, DJ players and all-in-one DJ systems, all of which have the capability to interoperate with DJ software.

Why did the CMA review this merger?

8. The CMA's primary duty is to seek to promote competition for the benefit of consumers. It has a duty to investigate mergers that could raise competition concerns in the UK, provided it has jurisdiction to do so. In this case, the CMA has concluded that the CMA has jurisdiction to review this Merger: each of ATC and Serato is an enterprise, they will cease to be distinct as a result of the Merger, and the share of supply test is met as ATC and Serato have a combined share of supply of over 25%, with an increment, by both revenue and volume, in the supply of DJ software for laptops and desktops in the UK.
9. ATC announced on 11 July 2023 that it had agreed to acquire Serato for a purchase price of USD 65 million. The Merger is conditional on receiving merger control clearance from the New Zealand Commerce Commission.

What evidence has the CMA looked at?

10. In assessing this Merger, the CMA considered a wide range of evidence in the round.
11. The CMA received several submissions and responses to information requests from the Parties. This included information about the nature of the Parties' businesses, how competition works in the sector, and the Parties' respective positions in the various DJ related product markets. The CMA also examined the Parties' internal documents, which show the rationale for the Merger, how they run their businesses and how they view their rivals in the ordinary course of business.
12. The CMA spoke to and gathered evidence from other market participants to better understand the competitive landscape and get their views on the impact of the Merger. In particular, the CMA received evidence from DJ software and hardware competitors, DJ hardware retailers and DJs (end-users).

What did the evidence tell the CMA...

...about the effects on competition of the Merger?

13. The CMA found that the Merger raises significant competition concerns as a result of three 'theories of harm' (ie, hypotheses about how the Merger could harm competition).
14. First, as a result of **horizontal unilateral effects in the supply of DJ software for laptops and desktops globally**. In general terms, the concern under horizontal unilateral effects relates to the elimination of a competitive constraint by removing an alternative that customers could switch to. In this case, the CMA is concerned that the Merger would eliminate competition between two major suppliers who already enjoy a strong position in DJ software (particularly Serato) and exert a strong constraint on each other. The Merged Entity would be the clear market leader, and the CMA found that the loss of competition between the Parties would not be offset by the constraint posed by either other suppliers of DJ software for laptops and desktops, or by suppliers of DJ software apps. The Merger could therefore result in increased prices and reduced quality and innovation for DJ customers.
15. Second, as a result of **the Merged Entity leveraging its strong position in the supply of DJ software globally to harm ATC's DJ hardware competitors (specifically, suppliers of mixers, controllers, DJ players and all-in-one systems globally)** by restricting or worsening their access to Serato's DJ software offering. Because compatibility with DJ software (and in particular Serato) is important for the competitiveness of DJ hardware products, this would harm ATC's DJ hardware rivals and reduce overall competition in the supply of mixers, controllers, DJ players and all-in-ones. The CMA found that the Merged Entity would have the ability to do so given the popularity of Serato's DJ software and the fact that the next main alternative software, rekordbox, is owned by ATC and not available for use on rival DJ hardware. The CMA also found that the Merged Entity would have the incentive to pursue this strategy given the high relative profitability of DJ hardware (where it could gain sales as a result) compared to DJ software (where it risks losing sales). ATC's strong position in the supply across all types of DJ hardware would incentivise DJs to switch to its products. The CMA considered that this would reduce overall competition across the various types of DJ hardware mentioned above, including by reducing quality, innovation and choice, or by increasing hardware prices for DJs. Maintaining the current constraint imposed by DJ hardware competitors on ATC is particularly important given ATC's strong position in DJ hardware.
16. Third, **ATC may gain access to its DJ hardware competitors' commercially sensitive information as a result of the Merger** because of the process that DJ

hardware competitors undertake with Serato to ensure interoperability between their hardware and Serato's software. The CMA's concern is that the current collaboration between Serato and DJ hardware suppliers that requires the exchange of commercially sensitive information, such as product prototypes, would be compromised. Post-Merger, ATC's DJ hardware competitors could be disincentivised to innovate or share information with the Merged Entity as this information could then be used by the Merged Entity in their own DJ hardware product development. In addition, even if DJ hardware rivals continued to provide commercially sensitive information to the Merged Entity post-Merger, the transparency over their product development could mean that the Merged Entity could reduce its own innovation efforts to stay only marginally ahead of its rivals. These actions could result in less innovation in the DJ hardware markets across the board and lower quality products for DJs.

What happens next?

17. As a result of the concerns outlined above, the CMA believes the Merger gives rise to a realistic prospect of an SLC. The Parties have until 9 May 2024 to offer UILs to the CMA that will remedy the competition concerns identified. If no such UILs are offered, or the CMA decides that any UILs offered are insufficient to remedy its concerns to the phase 1 standard, then the CMA will refer the Merger for an in-depth phase 2 investigation pursuant to sections 33(1) and 34ZA(2) of the Act.