

Statement of Preliminary Issues

PropertyIQ / Terralink

9 August 2013

Introduction

1. On 16 July 2013, the Commerce Commission (the Commission) received an application from PropertyIQ NZ Limited (PropertyIQ) seeking clearance to acquire up to 100% of the business and assets of Terralink International Limited (Terralink). The public version of the application can be accessed on the Commission's website at: <http://www.comcom.govt.nz/business-competition/mergers-and-acquisitions/clearances/clearances-register/detail/786>
2. This Statement of Preliminary Issues outlines the key competition issues the Commission currently considers will be important in deciding whether or not to grant clearance. The issues highlighted in this statement are based on the information available at the time of publication, and may change as the Commission's assessment of the application for clearance progresses. Therefore, the issues highlighted in this Statement of Preliminary Issues are in no way binding on the Commission.
3. The Commission invites interested parties to make comment on the likely competitive effects of the proposed merger. The Commission requests that parties who wish to make a submission do so by 23 August 2013.

The transaction

4. The Application received by the Commission (and therefore this Statement of Preliminary Issues) relates to PropertyIQ's proposed purchase of Terralink's business and assets.

Relevant parties

The acquirer – PropertyIQ New Zealand Limited (PropertyIQ)

5. PropertyIQ is a New Zealand based company which provides property information and related services. PropertyIQ offers a range of products including property reports to consumers and real estate professionals, customised data and analytical services to corporate customers, and the wholesaling of data sets. PropertyIQ is 50% owned by Quotable Value Limited (a Crown owned company) and 50% by RP Data New Zealand Limited.

The target – Terralink International Limited (Terralink)

6. Terralink is a private New Zealand company specialising in the provision of geospatial data and services, including a range of property information data sets, reports and services. Terralink provides its data and services to a variety of sectors, including central and local government, emergency services, telecommunications, real estate professionals and the banking sector.

Analytical framework

7. In the context of an application for clearance, the Commission must consider whether or not an acquisition substantially lessens competition in any market. The Commission's analytical framework for assessing whether an acquisition is likely to result in a substantial lessening of competition is described in the Commission's Mergers and Acquisitions Guidelines. The application of the guidelines depends on the facts in each case. In any assessment, the determination of the relevant market or markets may be an important tool. The Commission determines the relevant market or markets by identifying the areas where the businesses of the acquirer and the target overlap. The Commission then considers the relevant products and geographic regions that may be close substitutes from both a customer's and a supplier's point of view.
8. The Commission uses forward looking analysis to assess the degree of any potential lessening of competition in the relevant market or markets arising from a proposed acquisition. Therefore, the next step is to establish the two hypothetical future scenarios; with the acquisition and without the acquisition.
9. The impact of the acquisition is the difference in competition between those two scenarios.
10. The Commission analyses the extent of competition in each relevant market for both the with and without scenarios in terms of the following.
 - 10.1 Existing competition – the degree to which existing competitors compete and their ability to expand production in the event that the merged firm raises prices.
 - 10.2 Potential competition – the ability of businesses to readily enter the market on sufficient scale in order to provide competitive constraint.
 - 10.3 The countervailing market power of buyers – the potential for a business to be sufficiently constrained by purchaser's ability to exert an influence on price, quality and/or terms of supply.
 - 10.4 Coordinated behaviour – conditions that make market participants likely to collude either tacitly or explicitly.
11. A comparison of the extent of competition in the relevant markets both with and without the acquisition enables the Commission to assess the degree by which the

proposed acquisition might lessen competition. If the lessening is likely to be substantial, the Commission may not give clearance to the proposed acquisition.

Preliminary issues

12. The Commission is currently focusing the investigation on the following areas.

Market definition

13. The Application relates to both parties' involvement in the provision of property information data sets, reports and services. The Commission will define markets in the way that best isolates the key competition issues that arise from the merger.
14. PropertyIQ has submitted that the relevant market is for property and land information services, with this market further delineated into categories based on the product dimension of the market. The product categories identified by PropertyIQ are:
- 14.1 consumer property reports;
 - 14.2 property professionals information services;
 - 14.3 corporate property information services; and
 - 14.4 geospatial data services.
15. The Commission understands that the provision of property information data sets and analytics incorporate a broad spectrum of products and services. These range from wholesaling raw data sets to corporate clients and competitors in the property information and related services market(s), to off-the-shelf products for consumers and small corporate clients (such as real estate agents), to bespoke services and analytics provided to sophisticated corporate clients (such as banks, insurers, and government departments).

Existing competition

16. There are some businesses operating in the property information and analytics industry in New Zealand that provide similar services to PropertyIQ and Terralink. While these businesses provide some of the same data services, due to the varying requirements of customers, the products offered differ and are a mix of bespoke and 'off the shelf' solutions. We will assess the closeness of competition between these businesses' offerings and those of the merging parties.
17. PropertyIQ has submitted that post-acquisition the merged entity would continue to face strong competition from existing suppliers of property information and analytical services. PropertyIQ has also submitted that free data services (such as Google and Facebook) provide strong competitive constraint in New Zealand and will continue to do so post-acquisition.
18. The Commission will examine the extent to which existing competitors would be able to provide a competitive alternative to the merged entity for the provision of data

and analytics services and the wholesale supply of property information data sets in New Zealand.

Potential competition

19. PropertyIQ has submitted that it considers there are low barriers to entry in the information services markets because:
 - 19.1 data can be easily obtained through LINZ, government departments, councils, and other sources;
 - 19.2 new businesses can viably enter the market on a small scale; and
 - 19.3 related services can be bundled together to add value (ie, bundling property reports and property listings).
20. The Commission will assess the extent to which there are core “must have” data sets required by businesses in order to be able to create meaningful analytics, and whether these would be readily available to existing competitors, should they choose to expand, and to potential entrants.
21. In addition, the Commission will consider whether entry could occur on sufficient scale so as to provide effective competition to the merged entity.

Countervailing power

22. The Commission will examine the extent to which customers could and would provide their own data and analytics services in the event that the merged entity increased its prices or decreased the quality of its services. We will also consider the ability and likelihood of large customers sponsoring new entry.

Next steps

23. In line with the Commission’s Merger and Acquisitions Guidelines (available on the Commission’s website at www.comcom.govt.nz), the Commission has established a draft timeframe for consideration of the issues and PropertyIQ’s application for clearance. An extension of time was agreed to by PropertyIQ such that the Commission should make its final decision by 13 September 2013. To keep up to date with changes in relation to timing and to find relevant documents, visit the Clearance Public Register on the Commission’s website at:

<http://www.comcom.govt.nz/clearances-register/>
24. As part of its investigation, the Commission will identify the parties it believes will provide the best information to help it assess the preliminary issues identified above. The Commission will be contacting those parties over the next few weeks.
25. The Commission also invites submissions from any other parties who consider they have information relevant to the Commission’s consideration of this matter. If you wish to make a submission, please send it to the Registrar, at registrar@comcom.govt.nz with the reference PropertyIQ/Terralink in the subject

line of your email, or The Registrar, PO Box 2351, Wellington 6140 by **Friday 23 August 2013**. Please clearly identify any confidential information contained in the submission and provide contact details.