Google's aborted deals show antitrust's long shadow over tech

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In recent months, Google showed interest in two companies, either of which would have been the biggest-ever purchase for the internet giant. And both times, the deals fell apart.

On July 22, the chief executive of Wiz Inc. told staff that the cybersecurity startup would reject a $23 billion offer from Alphabet Inc.'s Google and instead pursue an initial public offering. That came just weeks after Google shelved plans to buy HubSpot Inc., a $25 billion software firm.

A large reason the advanced talks between Google and Wiz failed, according to people familiar with the situation: a faulty software update from CrowdStrike Holdings Inc. that caused Microsoft Windows to crash on millions of devices around the world. That episode increased interest in—and the potential value of—companies that offer cloud security features, like Wiz, said the people, asking not to be identified discussing private matters.

But also looming over both of Google's failed deals was the specter of antitrust. Google has faced a litany of monopoly cases around the globe over the last decade, with scrutiny growing even after the company stopped pursuing as many deals. Now that Google is back on the market, it's once again dealing with the regulatory pressures that have scuttled multiple high-profile tech purchases in the past year.

In the U.S. and Europe, competition authorities have increasingly zeroed in on the tech sector for its economic sway and market power. European regulators have forced potential deals to undergo months of reviews, and Lina Khan, chair of the U.S. Federal Trade Commission, has aggressively gone after Silicon Valley in a way her agency never did before.

Wiz turned down the deal partly over concerns it would lead to a protracted approval process, Bloomberg News previously reported. One of the last big proposed tech takeovers—Adobe Inc.'s $20 billion overture to web design startup Figma—fell apart at the end of 2023 after clashes with regulators in the UK and Europe. A month later, Amazon.com Inc. dropped its bid to buy Roomba-maker iRobot for similar reasons.

Amazon's abandoned bid "spooked a lot of people," said Stefan Slowinski, global head of software research at BNP Paribas Exane. "Lina Khan had the impact of preventing some large M&A just by being present."

Those aborted deals followed an intense FTC probe over Big Tech's AI investments, and Microsoft Corp.'s lengthy, albeit successful, fight to get UK regulators to sign off on its purchase of Activision Blizzard.

"The first thing I thought of when I saw the CrowdStrike news was 'Oh, the 23 billion valuation for Wiz has just gone up a little bit,'" said Slowinski.

Still, if the Wiz deal had gone through, analysts think it would likely have been exposed to prolonged antitrust scrutiny, like most of Google's recent large deals. Spokespeople for Google and Wiz declined to comment.

In its first two decades, Google built many of its core properties, like YouTube and Android, through acquisitions, making gutsy bets on unproven technologies that ended up giving the company footholds in mobile computing, video and artificial intelligence.

After spending $3.2 billion on Nest, a connected-device manufacturer, in 2014, Google effectively stopped cutting big checks for consumer companies. Its last major move in that category—the $2.1 billion takeover of Fitbit Inc. proposed in 2019—took over a year to clear regulatory hurdles.

More recently, Google has focused its corporate development strategy on its cloud business. Under Thomas Kurian, Google's cloud chief, the unit has aggressively expanded its sales forces and product lines in order to compete with Amazon Web Services and Microsoft.

In 2019, a year after Kurian joined Google, the company agreed to spend $2.6 billion on cloud software firm Looker, and three years later, Google dropped $5.4 billion on cloud security provider Mandiant. Still, Google remains a distant third in the cloud market—a fact that the company likes to point to when dismissing claims that it's a monopoly threat in the sector.

Google never entered into detailed due diligence conversations with HubSpot, which provides customer management software, according to people familiar. But had the deal gone through, it would have immediately threatened HubSpot's leading competitor Salesforce Inc., given Google's "financial strength and AI expertise," according to a report from Bloomberg Intelligence.

An acquisition of Wiz, meanwhile, would have dwarfed Google's previous deals. Wiz sells technology that scans data stored in public clouds for potential security risks. The company would have been a natural fit for Kurian's cloud division and would have helped Google's cloud unit in a field where it lags behind competitors, people familiar with Google's strategy said.

But that possibility evaporated when Wiz CEO Assaf Rappaport told staff that the startup would focus on hitting $1 billion in annual recurring revenue and target an IPO, according to a memo viewed by Bloomberg News.

The company declined to comment further. Figma, the design startup, also said it would pursue an IPO after its Adobe deal fell through. Such announcements have reassured startup investors who have seen very few lucrative exits lately, and been shaken by watching regulators tank promising deals.

"With IPOs, you're the captain of your own destiny," said Haakon Overli, a partner with Dawn Capital, an enterprise software investing firm.

At the same time, many venture capitalists have accepted that selling a company to one of the larger tech firms will inevitably invite attention from antitrust busters, Overli added. "It's a known unknown."

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