MARKETWATCH

Amazon may walk away from deal to buy iRobot, but there's still hope for a tech M&A revival this year

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By Therese Poletti

The current scrutiny of anti-competitive business tactics by Amazon.com Inc. by both U.S. and European Commission regulators has put its pending acquisition of Roomba maker iRobot at risk, but there are hopes that tech M&A will come back this year nonetheless.

This week, Amazon (AMZN) missed a deadline to file concessions to the EU that would allay any concerns the regulators have about its pending $1.4 billion acquisition of iRobot Corp. (IRBT). IRobot makes the popular Roomba robotic vacuum cleaner, which sells for about $225 on Amazon.

In September, the U.S. Federal Trade Commission filed a vast lawsuit against Amazon, alleging that the company is a monopolist and harms consumers by favoring its own products over those by third-party sellers on its giant e-commerce site. It did not mention the iRobot deal in its 172-page complaint, but it did note Amazon's expansion through acquisitions.

After opening an investigation into the deal in July, in late November the EC said it wanted assurances that Amazon would not harm competition while offering iRobot's Roomba and other products on its website by engaging in "foreclosing strategies." The deal has been approved by regulators in the United Kingdom.

"I think the larger issue is the FTC antitrust suit that was filed in September, along with 17 state attorneys general," said Ben Rose, president and founder of Battle Road Research in Lexington, Mass. "The lawsuit is general commentary about Amazon's third-party relationships. ...So that aspect is clearly right in the crosshairs of what iRobot is, and what it would bring to Amazon and its quiver of smart-home products."

Some analysts believe that instead of spending the reduced sum of $1.4 billion, down from $1.7 billion as previously negotiated, Amazon may just let the deal lapse. The companies agreed to a lower price in July,

"It's a lot of speculation, but it could be they are willing to walk away," said Dan Newman, president of Futurum Research. "Amazon doesn't have a robotic vacuum product, but a robot with telemetry can be built. Amazon may ultimately believe there may be another way to capture this market."

Shares of iRobot jumped 4.4% on Thursday, ending a five-day selloff that saw the stock fall 19%. Shares are down 35% over the past 12 months.

Rose, of Battle Road Research, said the robotic vacuum market that iRobot pioneered is now cluttered with at least a dozen competitors, one of the key reasons for the company's falling sales in the past several quarters. He believes Amazon was more interested in iRobot's navigation and mapping abilities to create a map of a consumer's home, if the customer gave permission - data that would meld with its vision of a smart home.

"Amazon's interest lies in this smart navigation/mapping that can be used in a variety of areas, as opposed to 'we are going to buy the market-dominant home-cleaning robot,'" Rose said. Amazon has a home security and monitoring robot with mapping abilities called Astro, now available by invitation-only for $1,600, but it is not mapping as many homes as the Roomba.

But even if Amazon's deal for iRobot ultimately collapses, it is not necessarily a sign of another terrible year for tech M&A deals. Ted Smith, the president and co-founder of Union Square Advisors in New York, said 2023 saw a 50% plunge in deal values, to about $264 billion. Regulatory scrutiny may now be focused on Big Tech, but he said other companies are beginning to look for deals.

"For the biggest companies - Big Tech, the Magnificent Seven - doing deals of a meaningful size will be difficult," Smith said. However, "there are a lot of buyers out there returning to M&A in a meaningful way."

This week's news that Hewlett-Packard Enterprise (HPE) agreed to buy Juniper Networks (JNPR) for $14 billion could be a sign of similar deals to come. The conviction among many that the Federal Reserve will start to ease interest rates later this year could also contribute to better deal flow, as will the need for private equity to provide returns to their investors.

"All those are factors will embolden the traditional acquirers to come back into the game," Smith said, adding that companies like Adobe Inc. (ADBE), Salesforce.com Inc. (CRM) and IBM Corp. (IBM), to name a few, will likely return to M&A.

IRobot could face the future alone, but Rose isn't worried about the company, which currently has no Wall Street coverage because of the pending Amazon deal. "They have been through tough times before in their history. They know how to run a tight ship, when a tight ship needs to be run," he said.

-Therese Poletti