

# Alphabet Inc.'s partnership with Anthropic PBC

## Decision on relevant merger situation

ME/7108/24

### SUMMARY

1. Alphabet Inc (**Google**) has entered into a partnership with Anthropic PBC (**Anthropic**), which has resulted in Google acquiring certain rights with respect to the Anthropic business (the **Partnership**). Google and Anthropic are together referred to as the **Parties**.
2. Google is a US-listed multinational company active in several business areas, including in relation the development and commercialisation of foundation models (**FMs**). Google develops and supplies its own Gemini family of FMs and associated chatbot. It also supplies compute to FM developers and provides access to FMs (both its own and other third party FMs) through Google Vertex (**Vertex AI**).
3. Anthropic is a US-based Public Benefit Corporation, specialising in artificial intelligence (**AI**) safety and research and is the developer of the Claude family of FMs. Anthropic has raised capital through a variety of funding rounds from firms including Amazon, Menlo Ventures, Spark Capital, as well as Google.
4. The Parties offer, through Gemini and Claude, two of the leading FMs in an evolving market as well as downstream AI applications, such as chatbots. There is also a vertical relationship between the Parties as Google provides compute and distribution services to FM developers, including Anthropic. Google also offers various products and services in its ecosystem in which FMs (including its own) are currently or planned to be integrated, such as search.
5. The Partnership involves the following core elements:
  - (a) A series of acquisitions by Google of non-voting Anthropic shares.

- (b) Extension by Google of convertible debt financing to Anthropic via a series of convertible notes, which are convertible in certain circumstances to non-voting Anthropic shares.
  - (c) A non-exclusive arrangement for the supply of compute capacity by Google to Anthropic.
  - (d) A non-exclusive agreement to distribute Anthropic FMs on Vertex AI.
  - (e) Certain additional rights including consultation rights (and a right to advise and address Anthropic) on significant business issues.
6. Certain terms of the Partnership are set out in a side letter between the Parties (the **Side Letter**). The earliest iteration of the Side Letter was signed in October 2022, with the most recent version signed in August 2024. The CMA first became aware of the rights contained in the Side Letter on 18 April 2024 in the context of the CMA's Amazon/Anthropic merger inquiry.
7. The CMA has considered whether it is or may be the case that a relevant merger situation has been created as a result of the Partnership. A relevant merger situation arises when (i) two or more enterprises cease to be distinct, (ii) either the UK turnover test or the share of supply test is met, and (iii) in the case of a completed transaction, the reference is made not more than four months from the later of the merger taking place or material facts being notified.
8. In relation to the first criterion, two or more enterprises cease to be distinct if they are brought under common ownership and control. Control is not limited to acquisitions of outright voting control but may include situations falling short of voting control, including through the exercise of material influence. The CMA will consider factors such as the acquirer's ability to influence the management of the target's business including the strategic direction of the company and its ability to define and achieve its commercial objectives. Material influence is the lowest level of control that may give rise to a relevant merger situation, and requires a case-by-case analysis of the overall relationship between the acquirer and the target, having regard to all the circumstances of the case.
9. The CMA does not believe that Google has acquired material influence over Anthropic as a result of the Partnership. In its assessment, the CMA considered Google's commercial relationship with Anthropic through the Partnership as a whole, including by focusing on the following potential sources of influence in the round: through Google (i) exercising influence at shareholder and/or board level (including through its consultation rights); and (ii) being an important source of (a) compute; (b) distribution services through Vertex AI; and/or (c) funding. The CMA also reviewed a significant volume of the Parties' internal documents to establish whether Google may have the ability to exercise material influence in other

unspecified ways. The available evidence did not indicate that Google has the ability to exercise material influence over Anthropic through the Partnership.

10. In relation to the second criterion for jurisdiction, the CMA found that the UK turnover test was not met, as Anthropic's UK turnover does not exceed £70 million in the UK. The CMA considered whether the UK share of supply test could be met, including on the basis that the Parties currently offer two of the leading FMs globally. However, the CMA did not need to reach a conclusion on share of supply as the Partnership does not meet the first criterion.
11. The CMA does not therefore believe that it is or may be the case that a relevant merger situation has been created.
12. The Partnership will therefore not be referred under section 22 of the Act.