

Google Buys DoubleClick for \$3.1 Billion

By Louise Story and Miguel Helft

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Google reached an agreement today to acquire DoubleClick, the online advertising company, from two private equity firms for \$3.1 billion in cash, the companies announced, an amount that was almost double the \$1.65 billion in stock that Google paid for YouTube late last year.

The sale offers Google access to DoubleClick's advertisement software and, more importantly, its relationships with Web publishers, advertisers and advertising agencies.

For months, Google has been trying to expand its foothold in online advertising into display ads, the area where DoubleClick is strongest. Google made its name and still generates most of its revenue from search and contextual text ads.

DoubleClick, which was founded in 1996, provides display ads on Web sites like MySpace, The Wall Street Journal and America Online as well as software to help those sites maximize ad revenue. The company also helps ad buyers — advertisers and ad agencies — manage and measure the effectiveness of their rich media, search and other online ads.

DoubleClick has also recently introduced a Nasdaq-like exchange for online ads that analysts say could be lucrative for Google.

“Google really wants to get into the display advertising business in a big way, and they don't have the relationships they need to make it happen,” said Dave Morgan, the chairman of Tacoda, an online advertising network. “But DoubleClick does. It gives them immediate access to those relationships.”

The sale brings to an end weeks of a bidding battle between Microsoft and Google. Microsoft has been trying to catch Google in the online advertising business, and the loss of DoubleClick would be a a major setback.

“Keeping Microsoft away from DoubleClick is worth billions to Google,” an analyst with RBC Capital Markets, Jordan Rohan, said.

Acquiring DoubleClick expands Google’s business far beyond algorithm-driven ad auctions into a relationship-based business with Web publishers and advertisers. Google has been expanding its AdSense network into video and display ads online and is selling ads to a limited degree on television, newspapers and radio.

The sale also raises questions about how Google will manage its existing business and that of the new DoubleClick unit while avoiding conflicts of interest. If DoubleClick’s existing clients start to feel that Google is using DoubleClick’s relationships to further its own ad network, some Web publishers or advertisers might jump ship.

A highflying stock in the late 1990s, DoubleClick was an early pioneer in online advertising and was one of the few online ad companies to survive the burst of the dot.com bubble. In 2005, DoubleClick was taken private by two private equity firms, Hellman & Friedman and JMI Equity, in a deal valued at \$1.1 billion. Since then, the company has sold two data and e-mail advertising businesses and acquired Klipmart, which specializes in online video.

The company generated about \$300 million in revenue last year, mostly from providings ads on Web sites.

DoubleClick’s chief executive, David Rosenblatt, said a few weeks ago that a new system it had developed for the buying and selling of online ads would probably become the chief money maker within five years. The system, a Nasdaq-like exchange for online ads, brings Web publishers and advertising buyers together on a Web site where they can participate in auctions for ad space.

DoubleClick's exchange is different from the ad auctions that Google uses on its networks because the exchange is open to any Web publisher or ad network — not just the sites in Google's network. Offline ad sales have been handled through negotiation, but the efficiency of online auction systems has caused some advertising executives to consider using auctions for offline ads in places like television and newspapers. DoubleClick's new exchange could function as a hub for online and offline ad sales.