The Google IPO

Google, the world's most widely used search engine, filed for an IPO in April 2004. Founded in 1998 by Sergey Brin and Larry Page, Google grew rapidly in the internet space, due mainly to its superior search technology. With a core business in selling search-based advertising, by 2004 Google had shown impressive sales growth and handsome profit margins. According to its filing, Google generated US$961.9 million of revenue and US$106.5 million of net profit in 2003. It had been profitable since 2001.

Google decided to use the auction method to go public, a deviation from the book-building method that is primarily used in the United States. According to Brin and Page, an auction would provide a fair process for all investors and help to determine the share price that reflected a fair market valuation of Google. They believed that auction mitigates problems associated with unreasonable speculation, which can result in boom–bust cycles that may hurt investors in the long run. They also wanted their shares to be within reach for any investors, unlike book-built IPOs, which are available only to those who have special relationships with the underwriters. The lead underwriters of the Google IPO, Morgan Stanley and Credit Suisse First Boston, helped to decide on a preliminary price range of US$108 to US$135 a share. That range was later revised to US$85–95, and the number of shares offered was reduced after it became apparent that the IPO wasn't as popular as expected.

Google successfully went public on August 19, 2004, at US$85 per share, selling 19.6 million shares. The first-day closing price was US$100.34, resulting in an underpricing of 18.05% and US$300.7 million left on the table. The underpricing of 18% was about average compared to other US IPOs but low relative to other internet IPOs, especially those that went public during the bubble period of 1999–2000. Google managed to go public using the auction method because it waited six years until it was well established, became a household name, and had a record of positive earnings.

However, many industry watchers felt that Google did not fare well in its IPO because it chose the auction method. It started as a hot IPO, yet had to reduce its filing price range due to insufficient demand at the higher price range that was originally proposed. Some attributed the low demand to lack of participation by institutional investors. Others claimed that Google was sabotaged by investment bankers, who prevented their clients from bidding because it had chosen a method that offered them little benefit. Could Google have got a higher offer price and larger issue proceeds if it had used the book-building method?