

GOOGLE-EYED

The impending float of the internet search-engine company is unusual and exciting, but some investors can sense a bubble re-inflating. **By Prue Clarke in New York**

The good old days of the internet boom are well and truly over. That was the blunt message the owners of Google, the world's leading internet search engine, gave to Wall Street as they unveiled plans to float their company in the hottest public offering since the peak of the dot-com bubble.

The dour warning was not a sign that Google might fail to make its debut as spectacularly as tech giants before it — analysts expect the market to value Google as high as \$US40 billion. Rather, it was a salvo heralding the company's determination to keep bankers out of the business. After months panting for Google's float, Wall Street is not sure what it has unleashed.

"Google is not a conventional company," says founders Sergey Brin and Larry Page. "We do not intend to become one." The pair, graduate computer students in their 30s, are set to become billionaires several times over when they offer about 10% of the company to investors later this year in the hope of raising \$US2.7 billion.

Brin and Page have long scorned Wall Street's traditions and practices. They agreed to float only when they had hatched a plan to protect their offbeat corporate culture from market demands. Their wacky plan to sell pre-float shares at auction is designed to put more shares in the hands of individual shareholders and fend off the banking elite. Two classes of shares will give insiders voting power over public investors to elect directors. There will be no quarterly guidance, and shareholders will be asked to "take a long-term view" when the company makes unprofitable short-term decisions.

"A management team distracted by a series of short-term targets is as pointless as a dieter stepping on a scale every half hour," Page wrote in a letter about the offering.

It was a sobering rebuke for big investors salivating at the thought of a Google-led revival of the days when hot floats were doled out to underwriters' favored clients. Amid the frenzy, shareholders often cashed

out with astronomical profits in a matter of days. In the 1999 float of the computer company VA Linux, shares jumped 700% on debut. Google wants none of that.

That is one aspect of this float that has commentators wondering whether the scramble among investment banks to underwrite the sale was worth the effort. Industry insiders say the underwriters, Morgan Stanley and Credit Suisse First Boston, will receive a fee of about 3% of the total offering, or \$US81 million — a far cry from the typical 7%. The lower fee reflects the banks' lighter workload. Google will need no flashy roadshow to sell the deal, nor does it need a complex valuation model to set the debut share price. The worry is that Google will set a precedent. For that reason, Goldman Sachs, for one, would not accept the lower fee to win the job of lead underwriter, according to one of its bankers, although it will participate in the float.

The slight might not be so bad if Google's prospects were not so tantalizingly like those of the mega-floats of the late 1990s. With net income of \$US106 million on revenue of \$US962 million last year — almost all from ads placed on its web site and the sites of its partners — the company should command a market valuation of \$US20 billion, and could top \$US40 billion if bubble maths come into play.

There are enough investors nurturing the dot-com dream to turn the float into a frenzy,



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says James Vanasek, of VN Capital Management, the New York value investors.

"A price tag of \$US20 billion is outrageous," he says. "It would take 20 years of sales, with no expenses, to recoup the purchase price. The company will grow but there are limits to how much

money they can make, especially once competition like Microsoft and Yahoo start battling them. The scarcity of shares on offer will drive the stock higher for a while. Then everyone will look around, realise how much it looks like those zany 1999 valuations, and it will drop to something much more sane."

The gathering frenzy around Google is fueling fears that a second internet bubble is inflating. The National Venture Capital Association says there were 13 venture-capital backed floats in the United States in the first quarter of this year and another 80 are in the pipeline. Just 29 companies floated in 2003. Venture capitalists say valuations are already rising to unreasonable levels and there is growing competition for deals. Despite Google's best efforts to instil sobriety into the float process, things seem likely to run out of control.

George Colony, of Forrester Research in Boston, says: "What I'm afraid of is that we are going to get a lot of very dubious floats coming up, prices too high, and we all know where that's going to lead." Doomsayers fear that Silicon Valley is on course for another round of irrational exuberance. ●

RED-HOT FLOAT

1 Google, the world's leading internet search engine, has taken a swipe at Wall Street by limiting the industry elite's access to the most-awaited public offering since the dot-com boom.

2 But the venture-capital industry fears that the Google frenzy will fuel a second internet bubble, signs of which are already showing.

3 Analysts say Google could attract a market valuation of more than \$US40 billion.