A Google IPO, with caveats

Top Web search engine said to name bankers, but with lower take and eye toward individuals.

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By Andrew Stein, CNN/Money staff writer

NEW YORK (CNN/Money) - It's likely to be one of the biggest public stock offerings in the United States, but Google's widely awaited IPO will be notable for other reasons as well.

Such as: Google may not actually be so crazy about the idea, the investment banks doing the deal are doing it at a big discount, and smaller, individual investors may actually get a shot at the stock at the initial public offfering price -- and over the Internet.

While an IPO may bring certain benefits -- like raising capital -- it also brings more scrutiny and the added expense and legal requirements of filing with regulators.

But for Google, which has been very tight-lipped about its current or future business plans, its own growth may have forced its hand.

Securities regulations mandate that once a company reaches a certain size, it must publicly disclose its financial information. So in the case of Google, it's more of a "why not?" decision, said Peter Astiz, a securities attorney and partner with law firm Gray Carey.

"If Google is going to take all these steps to prepare to file their public information, they might as well get the benefits of going public," he said.

Most companies that can go public do so as soon as possible in order to raise additional capital and expand, Astiz added. "But Google is different because it has enough cash and it could wait."

The fact that Google isn't really hot for an IPO put it in a good position to name its terms, as bankers have been eager to land a deal that may be one of the largest tech offerings since the bubble collapsed. CSFB and Morgan Stanley are reportedly the two houses that will co-lead the offering.

"The banks have got to press the deal in favor of (Google)," said David Menlow, president of research firm IPOfinancial.com. "It's a delicate balance, but in this situation, the corporate finance department gets the gold medal."

As the stock market stabilized late last year, offerings began to pick up leading to 40 deals in the first quarter of 2004 that raised $6.8 billion, according to Thomson Financial. That's up from five deals a year earlier that raised $525 million.

And among investment banks, Google's bankers Morgan Stanley and CSFB, according to the *Wall Street Journal*, are on top. Morgan led the way, raking in $2.6 billion in the first quarter. CSFB came in second, according to Thomson, with $729 million in IPO proceeds.

A spokeswoman from CSFB said the firm doesn't have a comment about any potential banking deal with Google. A Google spokeswoman declined to comment. Morgan Stanley didn't return calls seeking comment.

Calling the shots

Although the Google deal will likely solidify Morgan Stanley's (MWD: Research, Estimates) and CSFB's lead atop the investment banking tables, Google's size and ambivalence towards Wall Street may alter the characteristics typical of investment banking deals.

A bank will typically receive 7 percent of the value of the initial public offering, but it's likely to be much lower with Google due to the reported size of the offering, which could exceed $20 billion, according to Richard Peterson, chief market strategist with Thomson Financial, which tracks IPO deals.

"In these multi-billion deals, it's very unlikely they would get 7 percent," he said. "The highest percentage with a recent billion-dollar deal came with AT&T Wireless, which was 5.4 percent."

Although the lower percentage may crimp the margins on the banks' take from the Google deal, it's only good news when you get something like this, said Gray Carey's Astiz.

"It's such a big deal that their margins won't be dramatically different -- [the banks] will still make a lot of money."

Once the bankers take Google public, they're in good position to get follow on work from secondary stock offerings, debt offerings and credit lines.

"For the banker, this is a door opener," said IPOfinancial's Menlow. "It's the beginning of many transactions to come."

IPOs for average Joes?

Another difference in the Google deal is that the company's expected to issue stock to individual investors, possibly via the Internet, which miffed some bankers, according to a report in the *Wall Street Journal*.

Typically, big customers such as institutional investors or corporate executives get the lion's share of IPO stock from the investment banks seeking to woo clients.

Still, Google's eye toward individuals isn't likely to start a trend, according to IPOfinancial's Menlow.

"It would be a nice gesture for issuers to consider individual shareholders," he said. "But companies want to put the stock in the strongest hands possible with the fewest transactions possible -- so I don't see it becoming a trend."

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