

Finance 423

Corporate Financial Policy & Control

Professor Schwert

Quiz #1

1) *What were some of the unusual features of the Google IPO compared with a firm-commitment underwriting offering?*

The main feature of the Google IPO that was unusual compared with a firm-commitment underwriting offering was that it was a Dutch auction. This type of auction leaves out Investment Banks and attempts to have public investors bid on the shares themselves, without Investment Banking advising and selling. The intended benefit of a Dutch auction is that it should maximize the return to the company going public and early investors (ie, venture capitalists, angel investors, and other private shareholders) and not “leave money on the table”. Typically, Investment Banks will buy all the shares in an IPO from the issuing company, thereby guaranteeing a set amount of capital to the company, and then attempt to sell the shares a higher price to its clients. By eliminating the middleman, Google hoped to take that share of excess capital for themselves.

This Dutch auction was not very successful however. Without a built-in advantage for getting in early and a lack of transparency from the company on what they intended to do with the capital raised, it left large investors on the sideline which ultimately lowered the interest in the IPO.

2) *Google's stock price rose dramatically after the IPO. Why did this happen? Was this unusual compared with other "Dutch Auction" IPOs?*

Google's stock price rose dramatically after the IPO because a couple days leading up to the IPO, Google cut its price range to \$85- 95, from \$108- 135. At the time that Google cut its price range, new investors were prevented from bidding in the IPO because it was too late for them to register. As expected, this price cut allowed for a pop in the stock price once trading began.

This "Dutch Auction" was unusual compared with others because most have not been very successful. While people debate how successful Google's offering really was, it clearly did a better job going to the market than previous auctions.

