Google's winning streak woos investors (Update)

September 15 2005

So far as Google is concerned, this could be the glory days of the Internet boom, before the high-tech bubble burst in 2001.

The much-anticipated official announcement by the Internet search engine Wednesday that it will press ahead with a second public offering of its shares has only increased its allure to Wall Street investors. In a statement, the company said that it will be offering 14,159,265 shares of its class A common stock for $295 per share, or about $4.2 billion worth of shares. In addition, the company said that the underwriters will have an option to purchase up to 600,000 more shares for over-allotments, which would then raise the proceeds to $4.3 billion.

The price is well over three times what the company had been priced at a year ago, when Google made its initial public offering with shares priced at $85. At its IPO last summer, the company succeeded in raising a total of $2 billion from issuing 19.6 million shares. The subsequent surge in the company's share price has made many of Google's employees millionaires, at least on paper.

The latest stock offering is expected to make those employees even wealthier as in trading on the Nasdaq exchange late morning Thursday, Google shares are trading at 301.31, which granted is lower than its all-time high of 317.80 posted in mid-July but still considerably above the offering price. Some analysts are concerned that the offering will only increase the number of shares of Google stock available and thus dilute its value, especially in the near term. Nevertheless, Wall Street remains generally upbeat not only about Google's share price continuing to go above the offering price, but it is also expecting the company to make full use of the capital it raises for future growth.

"We expect these funds to be used for capital expenditures and acquisitions. Google projects it will spend $700 million on (capital expenditure) in 2005. ... We believe some of this capital could be used to ready new offerings in the payments and classified areas, and to make acquisitions to introduce new services and expand internationally," said Scott Kessler, an analyst at New York-based credit-rating agency Standard & Poor's.

Certainly, even popular perception of the company is looking stellar. Earlier this month, Google founders Sergey Brin and Larry Page were voted the hottest business leaders of 2005 by glossy current events and fashion magazine Vanity Fair, above such tycoons as Microsoft's Bill Gates and Apple Computer's Steve Jobs. The Google leaders are each worth over $10 billion from selling part of their shareholding in the company last year, and their wealth is expected only to increase further with the latest round of stock sales.

There is, however, murkiness ahead for the company that seemingly can do no wrong right now. Earlier this week Google scored a major victory against Microsoft by hiring away the software company's former executive after much controversy, as Microsoft sued and Google countersued on whether Kai-Fu Lee would be able to work for the search engine or not without breaking any contract rules Lee had initially signed with Microsoft. A Washington state judge found that Lee can set up a research office in China and recruit software engineers if he does not use confidential information that he gained while at Microsoft. Still, Lee reported to Google's Mountain View headquarters this week, and no date has been publicly announced on when or if its Chinese research center will open.

Nevertheless, few, if any, expect Google to go the way of Baidu.com, at least in the near term. The company known as the Google of China saw its share price tumble 28 percent Wednesday after Goldman Sachs analyst Anthony Noto wrote in a research paper that the company was underperforming and that its value could not be justified, adding that the stock was worth $27 and at best $45. Baidu's price fell to $81 after traders began selling their holdings in the company after the report was released.