

Groupon Inc. (GRPN)

\$16.19 (As of 07/09/20)

Price Target (6-12 Months): **\$14.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/15/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)
5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: D

Summary

Groupon is bearing the brunt of weak performance across North America owing to fewer customers, lower traffic, coronavirus crisis induced business impacts, and stiff competition in the Goods category, as evident from first-quarter results. The company has been trying to reduce dependence on goods deals and is shifting focus toward local services market. The transition to high margined local services market and lower customer traffic is hurting revenues. Weak consumer sentiment in Europe, particularly the U.K., and a customer shift toward lower margin Local offerings are weighing on profitability. Decline in billings and active customers is a headwind. Markedly, Groupon plans to exit the Goods category in North America by third-quarter 2020 and globally by the end of the year. Notably, shares have underperformed the industry on a year-to-date basis.

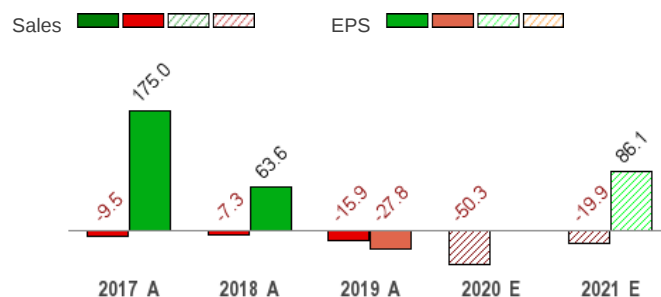
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$71.60 - \$9.60
20 Day Average Volume (sh)	2,800,904
Market Cap	\$463.6 M
YTD Price Change	-66.1%
Beta	1.69
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Top 33% (83 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.9%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	-620.0%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	245 E	225 E	231 E	254 E	883 E
2020	374 A	184 E	221 E	265 E	1,102 E
2019	578 A	533 A	496 A	612 A	2,219 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.72 E	-\$0.55 E	-\$0.16 E	\$0.41 E	-\$0.71 E
2020	-\$1.63 A	-\$2.63 E	-\$1.01 E	\$0.12 E	-\$5.10 E
2019	\$0.60 A	\$0.20 A	\$0.20 A	\$1.40 A	\$2.60 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/09/2020. The reports text is as of 07/10/2020.

Overview

Headquartered in Chicago, IL, Groupon Inc. (GRPN) operates a website that offers daily discount deals. Through its Local Deals, the company acts as a third-party marketing agent and sells vouchers known as Groupons, which users can redeem against products or services at merchant locations.

Groupon announced a plan to exit the Goods category and focus on local experiences marketplace (includes Things to Do, Beauty & Wellness, and Dining). Groupon plans to exit the Goods category in North America by the third quarter of 2020 and globally by the end of the year.

Groupon formerly offered deals through its online local commerce marketplaces in three primary categories: Local Deals, Groupon Goods and Groupon Getaways. Collectively, Local and Travel comprises the company's Services offerings while Goods is referred to as Shopping.

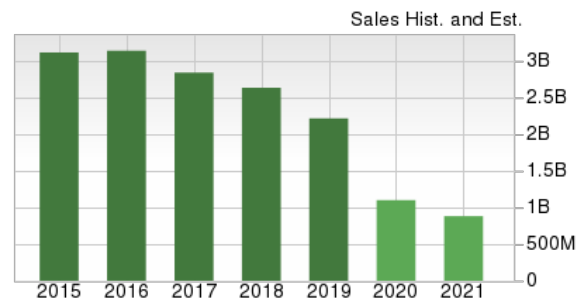
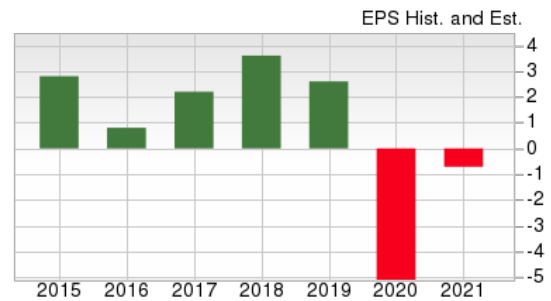
Local: This category includes offerings from local and national merchants, as well as local events. It also incorporates commission revenue and advertising revenue. The local offerings include activities like, beauty and spa, health and fitness, food and drink, home and garden and automotive. This offering also includes deals based on concerts, sports, theater and other live entertainment events.

Goods: This category involves transactions which includes selling merchandise inventory directly to customers. The Goods category provides customers the facility to find discounted merchandise across multiple product lines, including electronics, sporting goods, jewelry, toys, household items and apparel.

Travel: This category includes travel offers at both discounted and market rates, which incorporate hotels, airfare and package deals covering both domestic and international travel.

Groupon reported total revenue of \$2.22 billion in 2019.

As of Mar 31, 2020, the company had approximately 25.3 million active customers based in North America and 16.5 million active customers internationally.



Reasons To Sell:

- ▼ Groupon's business model makes it heavily dependent on daily deals, which is a major headwind. Since most of the offerings are consumer discretionary products, demand is heavily dependent on macroeconomic conditions. As redemptions are high and unused Groupons are low (revenues recognized upfront in daily deals, so an unused Groupon boosts the company's revenues), the transition is expected to negatively impact the top line in the near term.
- ▼ Moreover, Groupon needs to continue spending on generating awareness about its offerings, which will drive up costs. Further, the company is likely to incur sizeable expenses owing to the ongoing restructuring activities, which can weigh down on its profitability. Additionally, aggressive investments for mobile, infrastructure and product development will continue to drive operating expenses higher. Moreover, Groupon is investing quite a bit in the transition, which is expected to affect its near-term financials.
- ▼ Groupon is yet to earn significant profits since its inception. The company has accumulated deficit of \$1.246 billion as of Mar 31, 2020. Moreover, revenues have been on the decline in the last couple of years. Revenues have declined consistently from \$3.01 billion in 2016, to \$2.22 billion in 2019. Furthermore, restructuring plan to focus on domestic deals, directly contradicts the company's earlier business model per which it undertook rapid international expansion at the cost of profits. As such, the increased uncertainties even cast a shadow on the growth prospects from the increase in eCommerce spending on mobile devices.
- ▼ Intensifying competition remains a major headwind, which is also likely to hurt profitability. The company expects competition in eCommerce generally, and group buying in particular, to continue to increase. In addition, increasing presence of the social media companies in the e-commerce space can also pose serious challenges to Groupon's recovery as merchants are increasingly adopting these platforms to sell their products. Growing competition is anticipated to keep Groupon's pricing under tremendous pressure in the near term. Moreover, it reduces the company's bargaining power with the merchants.
- ▼ Groupon announced a plan to exit the Goods category and focus on local experiences marketplace (includes Things to Do, Beauty & Wellness, and Dining). The market's worth is estimated to be more than \$1 trillion. Intense competition in Groupon's Goods category, weak consumer sentiment in Europe, particularly the U.K., and a customer shift toward lower margin Local offerings is negatively impacting profitability.

Intensifying competition amid increased uncertainty remains a major headwind. The transition to high margined local services market and lower customer traffic adds to the woes.

Risks

- Groupon is trying to change the consumer perception of its brand as it transitions from a deals company to a marketplace company. For this, the company has outlined a new restructuring plan with focus on three key areas namely, marketing, international and shopping. The company now operates in 15 countries across the globe, down from 47 countries that it operated in the beginning of 2015. The shopping business is also being restructured with the lower-margin (specifically empty calories products) being de-emphasized to increase focus on higher-margin healthy food offerings. Most importantly, Groupon is ramping up its marketing activities especially in North America. Additionally, Groupon plans to reorganize its operations over the next couple of years that will improve its overall operating efficiency and reduce SG&A costs. In addition, the company is also working to improve its customer service experience while simultaneously enhancing the services it offers to merchants. We believe that the successful implementation of these initiatives will boost profitability in the long run.
 - As a part of its growth initiatives, Groupon is also forming strategic partnerships to expand its business. The company's partnership with Grubhub continues to enable customers to order food delivery from more than 80,000 restaurant partners of Grubhub via Groupon platform. Further, partnerships with ParkWhiz, CoreSource, American Express, Major League Baseball, among others are aiding Groupon to cater to just about any local need, consequently aiding it to rapidly penetrate the market. We believe that these partnerships will aid the company to rapidly penetrate the local market, which will drive top-line growth going ahead.
 - Groupon's policy of launching new products on a regular basis is a positive. The company's strategy of offering special deals prior to important events, like Thanksgiving, enhances its popularity. Freebies include over 30,000 digital coupons, codes, sales, giveaways and samples from over 6,000 brands spanning 245,000 merchant locations. Also, Groupon+ offering has been well accepted as the company is enhancing customer experience by investing in voucherless initiatives. Moreover, in August 2019, Groupon introduced Groupon Select membership program, for a monthly subscription of \$4.99, to bolster user engagement and generate repeat purchases by luring customers with extra savings and other perks. These initiatives are expected to favor growth prospects. It is currently operating in more than 500 markets.
 - The company, through its e-Commerce platform, offers numerous deals that can be accessed by users anywhere and at anytime. Users who search for these live deals generally tend to spend more. The company continues to invest in the platform to attract new merchants, which will drive popularity. Markedly, rising e-commerce spending on mobile devices is another positive for Groupon. Earlier, Groupon revealed that it intends to reduce the number of discounted deals to attract more merchants. Groupon's long-term prospects rest upon its ability to offer more innovative products and build a broader local eCommerce platform. The rollout of the company's new card-linked platform, Groupon+ that replaces the voucher system and makes discounting processes easy will be a tailwind in the long haul.
 - Groupon portrays a strong balance sheet. Groupon exited the quarter ending Mar 31, 2020, with cash and cash equivalents of \$666.9 million. As of Mar 31, 2020, the company had \$150 million of outstanding borrowings under \$400 million revolving credit facility. Cash balance as of May 31, 2020 was \$767.4 million. The cash balance is expected to aid the company pursue strategic acquisitions, and investment in growth initiatives.
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Last Earnings Report

Groupon Q1 Earnings Top Estimates, Revenues Miss

Groupon reported first-quarter 2020 non-GAAP loss of \$1.63 per share, narrower than the Zacks Consensus Estimate of a loss of \$2.01. Notably, the company reported a earnings of 58 cents reported in the prior-year quarter.

Revenues of \$374.2 million lagged the Zacks Consensus Estimate by 0.9% and declined 35% on a year-over-year basis (down 35% excluding foreign exchange effect).

Region-wise, North America revenues decreased 34.2% from the year-ago quarter to \$235.1 million. International revenues fell 37.2% (down 35.4% excluding foreign exchange effect) year over year to \$139 million.

Quarter Details

Service revenues were down 27.6% year over year to \$207 million. Product revenues slumped 42.9% to \$167.1 million.

Moreover, Local revenues of \$191.3 million declined 24.1% from the year-ago quarter. North America Local revenues decreased 20.9% and International Local revenues fell 32%, excluding foreign exchange effect.

Further, Goods revenues tumbled 38.2% year over year to \$195.9 million. North America Goods revenues plunged 45.5%. International Goods revenues declined 35.6%, excluding foreign exchange effect.

Travel revenues fell 64.4% year over year to \$9.7 million. North America Travel revenues plunged 66%. International Travel revenues declined 61.2%, excluding foreign exchange effect.

In the first quarter, gross billings were \$806.4 million, down 30.7%, excluding foreign exchange effect.

North America billings were \$526.7 million, down 31.5% year over year. International billings were \$279.7 million, down 29.3% excluding foreign exchange effect.

North America Local, Travel and Goods gross billings declined 21.8%, 63.4% and 42.5% on a year-over-year basis, respectively.

International Local, Travel and Goods gross billings declined 22.2%, 46.5% and 33.1% on a year-over-year basis, excluding foreign exchange effect, respectively.

Global units sold during the reported quarter declined 20% year over year to 29.8 million, primarily owing to the coronavirus crisis-induced negative impact on demand in the month of March, lower Goods sales, decrease in traffic and fewer customers. North America units were down 13% and 42% in Local and Goods, respectively. International units were down 13% in Local and 22% in Goods.

Customer Metrics

As of Mar 31, 2020, Groupon had approximately 16.5 million active customers internationally compared with 17.1 million at the end of the previous quarter.

Moreover, as of Mar 31, 2020, the company had approximately 25.3 million active customers based in North America compared with 26.5 million at the end of the prior quarter.

Operating Details

Gross profit in the first quarter came in at \$201.2 million, down 34% (down 34%, excluding foreign exchange effect) year over year.

International gross profit decreased 39% year over year, excluding foreign exchange effect, to \$57.5 million. Coronavirus crisis led negative impact on demand in the month of March, intense competition in Groupon's Goods category, weak consumer sentiment in Europe, particularly the U.K., and a customer shift toward lower margin Local offerings negatively impacted profitability.

International Local, Goods and Travel gross profit decreased 35%, 47% and 66% on a year-over-year basis, excluding foreign exchange effect, respectively.

Moreover, North America's gross profit fell 31% to \$143.8 million, primarily owing to fewer customers and lower traffic. North America Local, Goods and Travel gross profit decreased 23%, 52% and 74% on a year-over-year basis, respectively.

Adjusted EBITDA loss came in at \$22.5 million, compared with adjusted EBITDA of \$47 million reported in the prior-year quarter.

Selling, general and administrative (SG&A) expenses decreased 1.6% year over year to \$207.1 million in the reported quarter.

Marketing expenses declined 36% to \$60.1 million, primarily owing to lower offline marketing investments and accelerated traffic declines.

The company reported operating loss came of \$197.9 million, against operating income of \$2.2 million in the prior-year quarter.

Balance Sheet & Cash Flow

Groupon exited the quarter ending Mar 31, 2020, with cash and cash equivalents of \$666.9 million, down from \$750.9 million, as of Dec 31, 2019.

Quarter Ending 03/2020

Report Date	Jun 16, 2020
Sales Surprise	-0.91%
EPS Surprise	18.91%
Quarterly EPS	-1.63
Annual EPS (TTM)	0.17

As of Mar 31, 2020, the company had \$150 million of outstanding borrowings under \$400 million revolving credit facility.

The company utilized \$236.4 million of operating cash flow compared with \$201.4 million generated in the prior quarter.

Free cash outflow came in at \$247 million compared with \$185.9 million of free cash flow reported in the previous quarter.

Guidance

For second-quarter 2020, Groupon projects adjusted EBITDA loss between \$(45) million and \$(20) million.

Recent News

On Jun 29, Groupon adopted TransPerfect's GlobalLink platform to manage multilingual content across the organization. This will aid Groupon's in-house linguistic resources by giving them access to robust tools needed to manage the entire translation process.

On Jun 10, Groupon announced that company's board of directors has approved a reverse stock split of the Company's common stock at a ratio of 1:20, following approval of the split by the company's stockholders. The reverse split became effective from the same day.

On Apr 13, Groupon announced that its board of directors has adopted a limited duration shareholders rights plan due to coronavirus-related uncertainties in the market. The plan will enable the board to fulfill fiduciary duties on behalf of all stockholders to prevent any unfair takeover of the company.

On Mar 25, Groupon announced that Rich Williams will no longer be serving as CEO, with Aaron Cooper, the company's North America division president, being appointed interim CEO by the board of directors.

On Mar 2, Groupon announced partnership with Redeem to offer voucher less booking and enhance mobile redemption experience for users.

On Feb 18, Groupon announced a plan to exit the Goods category and focus on local experiences marketplace (includes Things to Do, Beauty & Wellness, and Dining). The market's worth is estimated to be more than \$1 trillion. Groupon plans to exit the Goods category in North America by the third quarter of 2020 and globally by the end of the year.

Valuation

Groupon's shares have plunged 66.1% in the year-to-date period and 76.7% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 48.5% and 21.4% in the year-to-date period, respectively. The Zacks sub-industry and sector were up 54.9% and 26.7%, respectively, in the past year.

The S&P 500 index is down 1.4% in the year-to-date period but up 6.1% in the past year.

The stock is currently trading at 0.47X forward 12-month sales compared with 4.82X for the Zacks sub-industry, 1.22X for the Zacks sector and 3.53X for the S&P 500 index.

In the past five years, the stock has traded as high as 1.12X and as low as 0.21X, with a five-year median of 0.75X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$14 price target reflects 0.4X forward 12-month sales.

The table below shows summary valuation data for GRPN

Valuation Multiples - GRPN					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.47	4.82	1.22	3.53
	5-Year High	1.12	6.02	1.22	3.53
	5-Year Low	0.21	3.17	0.82	2.52
	5-Year Median	0.75	4.67	0.96	3.04
P/B TTM	Current	2.42	8.94	5.62	4.34
	5-Year High	17.33	11.34	5.99	4.65
	5-Year Low	0.7	4.88	3.7	2.81
	5-Year Median	5.89	7.61	4.77	3.69

As of 07/09/2020

Industry Analysis Zacks Industry Rank: Top 33% (83 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
eBay Inc. (EBAY)	Outperform	1
Wayfair Inc. (W)	Outperform	2
Amazon.com, Inc. (AMZN)	Neutral	2
Alibaba Group Holding Limited (BABA)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	4
Shopify Inc. (SHOP)	Neutral	2
Wix.com Ltd. (WIX)	Neutral	3
Square, Inc. (SQ)	Underperform	5

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	GRPN	X Industry	S&P 500	AMZN	SHOP	WIX
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	2	2	3
VGM Score	F	-	-	D	F	C
Market Cap	463.61 M	2.60 B	21.19 B	1,587.42 B	121.96 B	14.79 B
# of Analysts	4	3.5	14	14	24	9
Dividend Yield	0.00%	0.00%	1.96%	0.00%	0.00%	0.00%
Value Score	D	-	-	D	F	F
Cash/Price	1.30	0.12	0.07	0.03	0.02	0.05
EV/EBITDA	0.14	6.65	12.56	41.79	-1,990.05	-339.26
PEG Ratio	NA	2.33	2.85	6.48	59.78	6.06
Price/Book (P/B)	2.40	5.26	3.00	24.32	40.09	70.14
Price/Cash Flow (P/CF)	3.41	24.06	11.41	47.47	NA	NA
P/E (F1)	NA	44.84	20.79	158.49	2,030.96	318.28
Price/Sales (P/S)	0.23	1.82	2.19	5.36	70.59	18.43
Earnings Yield	-31.50%	0.62%	4.52%	0.63%	0.05%	0.31%
Debt/Equity	1.14	0.31	0.76	0.36	0.04	1.73
Cash Flow (\$/share)	4.75	0.44	6.94	67.05	-0.60	-0.25
Growth Score	F	-	-	C	F	A
Hist. EPS Growth (3-5 yrs)	NA%	12.78%	10.90%	102.38%	NA	NA
Proj. EPS Growth (F1/F0)	-295.96%	-0.44%	-9.99%	-12.73%	70.69%	-20.32%
Curr. Cash Flow Growth	-29.11%	-5.32%	5.51%	31.33%	85.89%	-2,949.32%
Hist. Cash Flow Growth (3-5 yrs)	11.55%	11.55%	8.55%	49.26%	NA	11.92%
Current Ratio	1.07	1.72	1.30	1.08	9.45	1.58
Debt/Capital	53.28%	27.95%	44.46%	26.42%	4.15%	63.40%
Net Margin	-9.60%	-3.99%	10.62%	3.56%	-7.65%	-11.81%
Return on Equity	-16.63%	9.24%	15.75%	17.83%	-2.56%	-29.30%
Sales/Assets	1.42	1.05	0.55	1.42	0.55	0.75
Proj. Sales Growth (F1/F0)	-50.35%	0.00%	-2.52%	24.57%	36.96%	25.78%
Momentum Score	D	-	-	C	C	F
Daily Price Chg	-6.63%	0.00%	-1.52%	3.29%	2.23%	1.57%
1 Week Price Chg	-3.80%	2.67%	3.66%	7.33%	13.18%	8.35%
4 Week Price Chg	-21.33%	10.55%	0.36%	24.42%	43.43%	37.42%
12 Week Price Chg	-5.87%	36.29%	10.41%	32.16%	97.56%	141.42%
52 Week Price Chg	-76.67%	0.00%	-8.70%	59.05%	230.16%	104.98%
20 Day Average Volume	2,800,904	333,193	2,339,510	4,503,220	2,805,948	745,550
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.46%	0.00%	0.00%
(F1) EPS Est 4 week change	-620.00%	0.00%	0.00%	0.48%	0.18%	0.12%
(F1) EPS Est 12 week change	-620.00%	-6.06%	-7.77%	-28.47%	28.09%	-32.90%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	1.15%	0.19%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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