Groupon Inc. (GRPN)

$0.86 (As of 04/16/20)

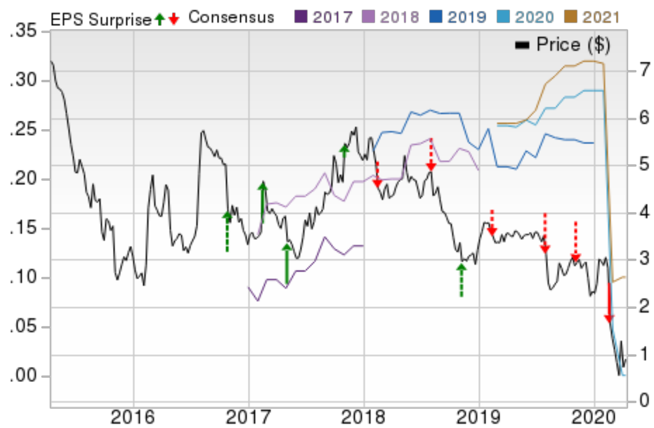
Price Target (6-12 Months): **$0.25**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/24/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: B | Momentum: B	

Summary

Groupon is bearing the brunt of weak performance across North America due to fewer customers, lower traffic and stiff competition in the Goods category. Markedly, 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 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. Stiff 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 an overhang on profitability. Decline in billings and active customers are a headwind. Shares of the company have underperformed the industry in the past one year.

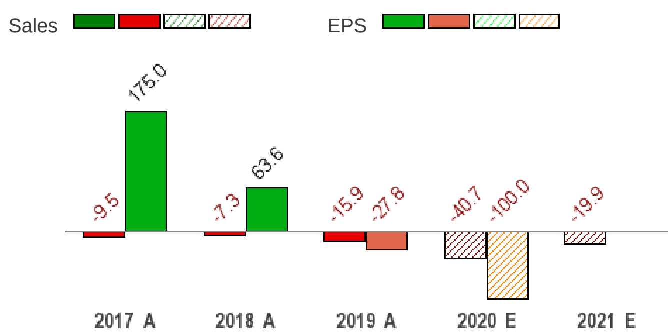
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$3.82 - $0.48**
20 Day Average Volume (sh)	**23,488,556**
Market Cap	**$487.6 M**
YTD Price Change	**-64.0%**
Beta	**1.71**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Internet - Commerce**
Zacks Industry Rank	**Top 22% (56 out of 253)**
Last EPS Surprise	**-58.8%**
Last Sales Surprise	**-11.5%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**05/05/2020**
Earnings ESP	**-166.7%**
P/E TTM	**7.2**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**0.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	249 E	257 E	275 E	302 E	1,053 E
2020	409 E	315 E	295 E	296 E	1,315 E
2019	578 A	533 A	496 A	612 A	2,219 A

EPS Estimates

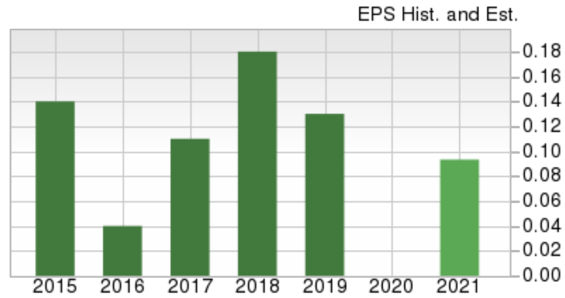
	Q1	Q2	Q3	Q4	Annual*
2021	$0.03 E	$0.01 E	$0.03 E	$0.08 E	$0.09 E
2020	-$0.03 E	-$0.02 E	$0.01 E	$0.04 E	$0.00 E
2019	$0.03 A	$0.01 A	$0.01 A	$0.07 A	$0.13 A

*Quarterly figures may not add up to annual.

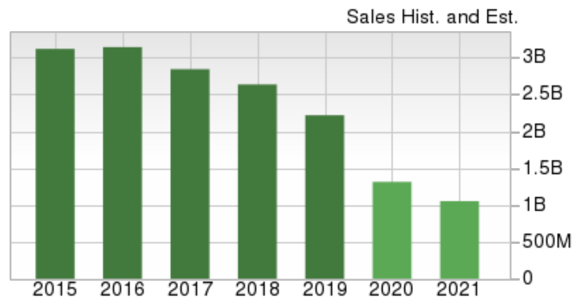
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/16/2020. The reports text is as of 04/17/2020.

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 Dec 31, 2019, the company had approximately 26.5 million active customers based in North America and 17.1 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.

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.

- 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 $1.033 billion as of Dec 31, 2019. 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.

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 25 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.

Last Earnings Report

Groupon Earnings and Revenues Lag Estimates in Q4

Quarter Ending	12/2019
Report Date	Feb 18, 2020
Sales Surprise	-11.54%
EPS Surprise	-58.82%
Quarterly EPS	0.07
Annual EPS (TTM)	0.12

Groupon reported fourth-quarter 2019 non-GAAP earnings of 7 cents per share, missing the Zacks Consensus Estimate by 58.8%. The figure declined 30% year over year.

Revenues of $612.3 million lagged the Zacks Consensus Estimate by 11.5% and declined 23.5% on a year-over-year basis (down 23%, excluding foreign exchange effect).

Region-wise, North America revenues decreased 26% from the year-ago quarter to $373.5 million. International revenues fell 19.1% (down 13.4%, excluding foreign exchange effect) year over year to $238.8 million.

Quarter Details

Service revenues declined 7.5% year over year to $294.8 million. Product revenues slumped 34% to $317.5 million.

Moreover, Local revenues of $267.4 million declined 5.9% from the year-ago quarter. North America Local revenues decreased 5.6% and International Local revenues fell 5.2%, excluding foreign exchange effect.

Further, Goods revenues tumbled 33.4% year over year to $326.4 million. North America Goods revenues plunged 39.5%. International Goods revenues declined 22.4%, excluding foreign exchange effect.

Travel revenues decreased 27.1% year over year to $18.5 million. North America Travel revenues plunged 37.3%. International Travel revenues declined 10.5%, excluding foreign exchange effect.

In the fourth quarter, gross billings were $1.22 billion, down 13.6%, excluding foreign exchange effect.

North America billings were $767 million, down 17.3% year over year. International billings were $456.2 million, down 6.8% excluding foreign exchange effect.

North America Local, Goods and Travel gross billings declined 6%, 36.1% and 18.3% on a year-over-year basis, respectively.

International Goods and Travel gross billings declined 4.3% and 19.5% on a year-over-year basis, excluding foreign exchange effect, respectively. However, International Local billings increased 4% excluding foreign exchange effect.

Global units sold during the reported quarter declined 16% year over year to 42.6 million, primarily owing to lower traffic and fewer customers. North America units were down 11% in Local and 32% in Goods. International units were up 4% in Local but down 22% in Goods.

Customer Metrics

As of Dec 31, 2019, Groupon had approximately 17.1 million active customers internationally compared with 17.5 million at the end of the previous quarter.

Moreover, as of Dec 31, 2019, the company had approximately 26.5 million active customers based in North America compared with 27.7 million at the end of the prior quarter.

Operating Details

Gross profit in the fourth quarter came in at $310 million, down 15.3% (down 14.7%, excluding foreign exchange effect) year over year.

International gross profit decreased 11.4% year over year, excluding foreign exchange effect, to $102.8 million. 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 6%, 26% and 11% on a year-over-year basis, excluding foreign exchange effect, respectively.

Moreover, North America's gross profit dropped 16.3% to $207.3 million, primarily owing to fewer customers and lower traffic. North America Local, Goods and Travel gross profit decreased 6%, 45% and 41% on a year-over-year basis, respectively.

Adjusted EBITDA grew 53% year over year to $83.8 million.

Selling, general and administrative expenses decreased 3.5% year over year to $187.7 million in the reported quarter.

Marketing expenses declined 25.2% to $82.1 million, primarily owing to optimizing spend with regard to high-value customers and lower offline marketing expenses in North America.

Operating income declined 35.2% year over year to $40.1 million.

Balance Sheet & Cash Flow

Groupon exited the quarter ending Dec 31, 2019, with cash and cash equivalents of $750.9 million, up from $567.3 million, as of Sep 30, 2019.

Free cash flow came in at $185.9 million compared with $0.9 million in the previous quarter.

Groupon also announced that its board of directors approved a proposal related to a reverse stock split of the company's common stock at a ratio of between 1-for-10 and 1-for-12. The proposal will be submitted for stockholder approval at the June 2020 Annual Meeting. Management currently expects the reverse stock split to be effective by the end of the second quarter.

Plan to Exit Goods Business

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.

Following the successful execution of the plan, management projects both unit and gross billings to grow in high-single digits by 2022. Revenues are expected to grow in mid-single digits, while adjusted EBITDA margin is expected to expand in the high-teens range.

2020 Guidance

For 2020, Groupon plans to launch a new mobile app and expand bookable offers. The company expects to grow North America Local units in the second half of 2020 on a year-over-year basis.

Moreover, the company plans to execute the density strategy related to inventory in 10 cities.

Groupon will also relaunch the brand and deploy a full-funnel marketing strategy as well as reset the cost base by exiting the Goods business.

Recent News

On Apr 13, 2020, 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, 2020, 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, 2020, Groupon announced partnership with Redeam to offer voucher less booking and enhance mobile redemption experience for users.

On Feb 18, 2020, 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.

On Jan 15, 2020, Groupon announced that it has selected TBWAChiatDay New York as its creative agency of record. The agency will partner with Groupon for developing a new global brand position and campaign, which will help delivering better consumer experiences.

Valuation

Groupon shares are down 64% in the year to date period and 75.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 14.7% and 0.3% in the past six-month period, respectively. The Zacks sub-industry and sector were up 14.7% and 6.1%, respectively, in the past year.

The S&P 500 index is down 13.1% in the year to date period and 4% in the past year.

The stock is currently trading at 0.38X forward 12-month sales, which compares to 3.85X for the Zacks sub-industry, 1.01X for the Zacks sector and 3.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.34X and as low as 0.21X, with a 5-year median of 0.78X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $0.25 price target reflects 0.11X 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	0.38	3.85	1.01	3.12
	5-Year High	1.34	5.75	1.11	3.44
	5-Year Low	0.21	3.09	0.8	2.54
	5-Year Median	0.78	4.54	0.93	3.01
P/B TTM	Current	1.23	6.53	4.59	3.71
	5-Year High	17.33	10.7	5.88	4.55
	5-Year Low	0.7	4.68	3.6	2.84
	5-Year Median	5.95	7.88	4.82	3.64

As of 04/16/2020

Industry Analysis **Zacks Industry Rank:** Top 22% (56 out of 253)

Top Peers

eBay Inc. **(EBAY)**	Outperform
Amazon.com, Inc. **(AMZN)**	Neutral
Alibaba Group Holding Limited **(BABA)**	Neutral
Alphabet Inc. **(GOOGL)**	Neutral
Shopify Inc. **(SHOP)**	Neutral
Square, Inc. **(SQ)**	Neutral
Wayfair Inc. **(W)**	Neutral
Wix.com Ltd. **(WIX)**	Neutral

Industry Comparison Industry: Internet - Commerce

Industry Peers

	GRPN Underperform	X Industry	S&P 500	AMZN Neutral	SHOP Neutral	WIX Neutral
VGM Score	B	-	-	B	C	C
Market Cap	487.55 M	944.42 M	19.06 B	1,198.93 B	61.29 B	6.13 B
# of Analysts	3	3	14	12	25	8
Dividend Yield	0.00%	0.00%	2.26%	0.00%	0.00%	0.00%
Value Score	C	-	-	D	F	F
Cash/Price	1.48	0.13	0.06	0.05	0.05	0.13
EV/EBITDA	-0.46	6.27	11.49	31.24	-977.93	-135.40
PEG Ratio	NA	1.85	2.09	3.70	166.96	3.32
Price/Book (P/B)	1.23	4.19	2.55	19.32	20.32	29.50
Price/Cash Flow (P/CF)	3.62	17.91	10.06	35.92	NA	NA
P/E (F1)	NA	27.10	17.56	85.78	4,315.00	115.81
Price/Sales (P/S)	0.22	1.43	1.94	4.27	38.84	8.05
Earnings Yield	0.00%	1.56%	5.57%	1.17%	0.02%	0.86%
Debt/Equity	0.54	0.20	0.70	0.38	0.00	1.73
Cash Flow ($/share)	0.24	0.44	7.01	67.05	-0.60	-0.25
Growth Score	B	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	NA%	15.28%	10.92%	110.19%	NA	NA
Proj. EPS Growth (F1/F0)	-100.00%	-9.04%	-3.36%	22.01%	-59.33%	-9.29%
Curr. Cash Flow Growth	-29.11%	1.30%	5.93%	31.33%	85.89%	-2,949.32%
Hist. Cash Flow Growth (3-5 yrs)	11.55%	14.47%	8.55%	49.26%	NA	11.92%
Current Ratio	1.08	1.59	1.24	1.10	8.68	1.72
Debt/Capital	35.23%	18.31%	42.78%	27.39%	0.00%	63.40%
Net Margin	-1.01%	-1.06%	11.64%	4.13%	-7.91%	-11.35%
Return on Equity	3.39%	10.27%	16.74%	21.07%	-2.69%	-27.21%
Sales/Assets	1.50	1.02	0.54	1.41	0.55	0.75
Proj. Sales Growth (F1/F0)	-40.75%	2.72%	-0.14%	19.74%	33.17%	24.08%
Momentum Score	B	-	-	B	F	D
Daily Price Chg	4.94%	0.00%	-0.20%	4.36%	5.89%	3.79%
1 Week Price Chg	23.23%	14.66%	16.01%	7.14%	16.80%	21.39%
4 Week Price Chg	52.29%	21.79%	14.56%	28.03%	58.33%	20.33%
12 Week Price Chg	-71.52%	-18.05%	-22.94%	27.78%	12.19%	-12.47%
52 Week Price Chg	-75.36%	-37.34%	-15.02%	29.35%	138.51%	0.12%
20 Day Average Volume	23,488,556	238,950	3,220,598	5,971,049	2,992,674	792,813
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.18%	-3.23%
(F1) EPS Est 4 week change	0.00%	0.00%	-7.09%	1.67%	-2.87%	-5.21%
(F1) EPS Est 12 week change	-140.00%	-22.59%	-9.32%	7.21%	-120.76%	-16.15%
(Q1) EPS Est Mthly Chg	0.00%	-1.28%	-10.68%	-6.07%	-3.16%	3.45%

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	C
Growth Score	B
Momentum Score	B
VGM Score	B

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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