

Groupon Inc. (GRPN)

\$3.01 (As of 01/17/20)

Price Target (6-12 Months): **\$3.50**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/01/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: C

Summary

Groupon is gaining from improving mix of products along with accelerating consumer activities. The company's partnership with Grubhub and ParkWhiz along with ongoing brand awareness programs is anticipated to boost revenues. These deals are helping the company to enhance its product features, adding functionality to the application and enriching user experience. Rising e-commerce spending on mobile devices is another positive for Groupon. However, 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 the company's revenues. In fact, during the third quarter, revenues of the company declined year over year primarily due to lower customer traffic.

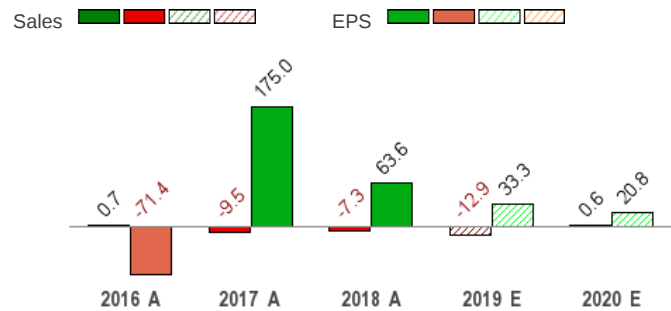
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$3.98 - \$2.17
20 Day Average Volume (sh)	7,050,705
Market Cap	\$1.7 B
YTD Price Change	25.9%
Beta	1.30
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Bottom 15% (217 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-50.0%
Last Sales Surprise	-5.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/11/2020
Earnings ESP	0.0%
P/E TTM	20.1
P/E F1	10.4
PEG F1	1.6
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	569 E	534 E	512 E	725 E	2,310 E
2019	578 A	533 A	496 A	690 E	2,296 E
2018	627 A	617 A	593 A	800 A	2,637 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.05 E	\$0.04 E	\$0.05 E	\$0.15 E	\$0.29 E
2019	\$0.03 A	\$0.01 A	\$0.01 A	\$0.18 E	\$0.24 E
2018	\$0.03 A	\$0.02 A	\$0.04 A	\$0.10 A	\$0.18 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 01/17/2020. The reports text is as of 01/20/2020.

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.

The company's operations are structured into two segments: North America (62.2% of fiscal 2018 total revenues) and International (37.8%). Groupon offers 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.

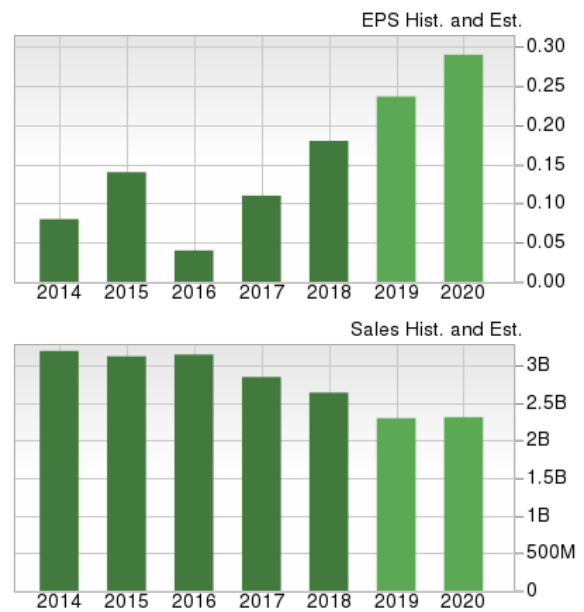
Travel: This category includes travel offers at both discounted and market rates, which incorporate hotels, airfare and package deals covering both domestic and international travel.

Groupon reported total revenue of \$2.64 billion in 2018.

In second quarter 2019, North America (comprising the United States and Canada) generated 61% of the total revenues, while the remaining 39% came from International segment.

As of Jun 30, 2019, the company had approximately 28.6 million active customers based in North America and 17.6 million active customers internationally.

Groupon is restructuring with focus on streamlining its international business, enhancing shopping margins and increasing marketing investment to drive customer growth. Currently, the company operates in 26 countries, out of which it plans to continue operations in 15 countries in North America and EMEA.



Reasons To Buy:

- ▲ 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. In Apr 2016, Groupon joined forces with Comcast Corporation and received a \$250 million investment from the cable giant through its private investment firm, Atairos Management. This new partnership has opened up avenues for Groupon to advance its local business through Comcast's impressive subscriber and advertiser network. This apart, in Feb 2016, Alibaba also announced that it had taken a 5.6% stake in the company. 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. In Aug 2015, Groupon launched Groupon To Go, in order to enter the food delivery business. We believe that Groupon To Go service can prove to be of significance for the company as it can act as a bridge to bring its customers to the eateries and open a whole new space for the company's growth. Freebies include over 30,000 digital coupons, codes, sales, giveaways and samples from over 6,000 brands spanning 245,000 merchant locations. The company plans to expand freebies to some key international markets and expects to be added to Android devices over the near term. Freebies is likely help Groupon to diversify its business beyond the core daily deals segment. In Mar 2016, the company launched its food delivery app, OrderUp. The service that initially started from Pittsburgh is now being expanded to more markets. We believe that given the scope for growth in the food delivery business, going ahead, this initiative can significantly boost Groupon's local business as well. Also, management noted that its new offering Groupon+ 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.

Rising e-commerce spending on mobile devices and Groupon's improving mix of products along with accelerating consumer activities are key catalysts.

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. The company is also trying to revive a part of its daily deals business (through various offerings for merchants), which was not a part of the restructuring program earlier.
- ▼ Despite growing billings, Groupon is yet to earn significant profits since its inception. Moreover, revenue growth has slowed down in the last couple of years. Furthermore, the new restructuring plan 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.

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.

Last Earnings Report

Groupon Earnings and Revenues Miss Estimates in Q3

Groupon reported third-quarter 2019 non-GAAP earnings of 1 cent per share, missing the Zacks Consensus Estimate by a penny. The figure also declined from 4 cents reported in the year-ago quarter.

Revenues of \$495.6 million lagged the Zacks Consensus Estimate of \$525 million and declined 16% on a year-over-year basis (15% at FX neutral). The year-over-year decline can primarily be attributed to lower customer and traffic.

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	-5.56%
EPS Surprise	-50.00%
Quarterly EPS	0.01
Annual EPS (TTM)	0.15

Quarter Details

Service revenues declined 7.3% year over year to \$268.1 million. Product revenues slumped 25.1% to \$227.5 million.

Region-wise, North America revenues decreased 15.9% from the year-ago quarter to \$303.6 million. Meanwhile, International revenues decreased 17.1% (down 13.4% excluding foreign exchange effect) year over year to \$192 million.

Billings

In the third quarter, billings from North America were \$715.4 million, down 10.9% year over year. Moreover, international billings declined 8.6% (down 4.5% excluding foreign exchange effect) to \$377.9 million.

North America local gross billings came in at \$511.2 million, slumping 4.3% from the prior-year comparable period. Local revenues of \$175.1 million declined 2.7% from the year-ago quarter. Further, goods billings and revenues fell 27.8% and 30% to \$133.1 million and \$114.8 million, respectively.

International local gross billings were \$204.8 million, decreasing 2.3% (up 2% excluding foreign exchange effect) from the year-ago quarter. Local revenues of \$65.4 million declined 13.8% from the year-ago quarter (down 10% excluding foreign exchange effect). However, goods billings dropped 18.2% year over year to \$129.1 million. Meanwhile, revenues decreased 19% to \$118.6 million.

Marketplaces

Groupon's online marketplaces have been categorized under three heads – Local, Goods and Travel. Consolidated revenues from Local, Travel and Goods declined 6%, 18.5% and 24.8%, respectively, from the year-ago quarter.

Gross profit from Local decreased 6.4% year over year and came in at \$216.2 million, while Travel marketplaces gross profit declined 19.6% to \$18 million. Meanwhile, the same in Goods market fell 16.8% to \$43.7 million.

Other Metrics

As of Sep 30, 2019, Groupon had approximately 17.5 million active customers internationally compared with 17.6 million at the end of the previous quarter.

As of Sep 30, 2019, the company had approximately 27.7 million active customers based in North America compared with 28.6 million at the end of the prior quarter.

The company is focused on initiatives to bolster card linked offers platform in order to enrich customer experience.

Operating Details

Gross profit during the third quarter came in at \$277.9 million, down 9% (down 8% at FX neutral) year over year. Internationally, gross profit decreased 16% (down 12% on an FX-neutral basis) to \$85.9 million, thanks to lower customers in Europe. Moreover, North America gross profit dropped 6% to \$192.1 million, primarily owing to lower customers and lower traffic.

Adjusted EBITDA decreased 11.3% to \$50 million.

Global units sold during the reported quarter declined 9% year over year to 35.8 million, primarily owing to lower traffic. North America units were down 14% year over year, primarily on account of the divestiture of certain OrderUp assets, continued investments in scaling Groupon+ and maximization of long-term gross profit. Further, International units were down 1% year over year.

SG&A expenses increased 24.4% year over year to \$198.3 million in the reported quarter.

Marketing expenses declined 19% to \$75 million primarily owing to optimizing spend with regard to high value customers and lower offline marketing expense in North America.

Operating loss from continuing operation came in at \$14.7 million against net income from continuing operation of \$47.2 million reported in the year-ago-quarter.

Balance Sheet & Cash Flow

Groupon exited the quarter ending Sep 30, 2019, with cash and cash equivalents of \$567.3 million down from \$596.8 million reported at the end of the previous quarter.

Net cash provided from operations during the quarter came in at \$18.6 million.

The company repurchased shares worth around \$15 million during the reported quarter.

Guidance

For full year 2019, Groupon anticipates adjusted EBITDA outlook to be roughly \$270 million.

Recent News

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.

On **Dec 17, 2019**, Groupon announced that it has appointed John J. Higginson as Chief Technology Officer.

On **Sep 25, 2019**, Groupon entered into an alliance with DerbySoft, provider of hotel distribution solutions, to enhance the accessibility of Groupon Getaways travel business across notable hotel brands.

Valuation

Groupon shares are down 11.5% in the past six-month period and 20.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 6.7% and 7.9% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 18.4% and 19.8%, respectively.

The S&P 500 index is up 13.3% over the past six month period and 26.5% in the past year.

The stock is currently trading at 0.73X forward 12-month sales, which compares to 4.14X for the Zacks sub-industry, 1.09X for the Zacks sector and 3.57X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.55X and as low as 0.46X, with a 5-year median of 0.8X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$3.50 price target reflects 0.85X 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	0.73	4.14	1.09	3.57
	5-Year High	1.55	5.77	1.11	3.57
	5-Year Low	0.46	3.1	0.8	2.54
	5-Year Median	0.8	4.58	0.91	3
P/B TTM	Current	5.65	7.51	5.27	4.55
	5-Year High	17.33	10.73	5.87	4.55
	5-Year Low	2.79	4.69	3.6	2.85
	5-Year Median	6.3	7.98	4.83	3.61
EV/Sales TTM	Current	0.47	5.2	1.29	3.34
	5-Year High	1.49	8.12	1.29	3.34
	5-Year Low	0.17	4.13	0.88	2.16
	5-Year Median	0.54	6.21	1.06	2.8

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (217 out of 254)



Top Peers

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

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	GRPN Neutral	X Industry	S&P 500	AMZN Neutral	SHOP Neutral	WIX Outperform
VGM Score	D	-	-	C	F	D
Market Cap	1.70 B	2.60 B	24.65 B	924.52 B	52.47 B	6.99 B
# of Analysts	3	3	13	13	15	6
Dividend Yield	0.00%	0.00%	1.73%	0.00%	0.00%	0.00%
Value Score	C	-	-	D	F	F
Cash/Price	0.40	0.13	0.04	0.05	0.05	0.11
EV/EBITDA	10.44	8.48	14.11	32.25	-1,330.82	-684.19
PEG Ratio	1.62	1.40	2.08	2.59	21.26	4.37
Price/Book (P/B)	5.67	5.44	3.39	16.36	18.61	35.19
Price/Cash Flow (P/CF)	9.08	19.46	13.81	36.04	NA	14,947.78
P/E (F1)	10.38	27.44	19.19	71.21	531.58	114.69
Price/Sales (P/S)	0.71	2.00	2.69	3.48	37.03	9.70
Earnings Yield	9.63%	1.90%	5.21%	1.40%	0.19%	0.87%
Debt/Equity	0.70	0.23	0.72	0.40	0.04	1.78
Cash Flow (\$/share)	0.33	0.42	6.94	51.74	-0.34	0.01
Growth Score	D	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	NA%	16.19%	10.56%	116.18%	NA	NA
Proj. EPS Growth (F1/F0)	22.53%	14.05%	7.57%	27.69%	318.09%	15.92%
Curr. Cash Flow Growth	45.79%	4.60%	14.73%	85.21%	125.72%	-101.19%
Hist. Cash Flow Growth (3-5 yrs)	102.19%	14.92%	9.00%	48.43%	NA	15.05%
Current Ratio	1.02	1.53	1.24	1.10	11.21	1.95
Debt/Capital	41.25%	24.51%	42.99%	28.45%	3.61%	64.08%
Net Margin	-2.21%	-0.94%	11.14%	4.27%	-8.97%	-9.80%
Return on Equity	9.21%	9.20%	17.16%	22.52%	-3.36%	-24.02%
Sales/Assets	1.62	0.90	0.55	1.45	0.55	0.75
Proj. Sales Growth (F1/F0)	-1.04%	15.50%	4.16%	18.53%	36.24%	25.75%
Momentum Score	C	-	-	F	D	D
Daily Price Chg	7.50%	0.00%	0.27%	-0.70%	0.79%	-1.68%
1 Week Price Chg	9.17%	1.04%	0.39%	0.44%	6.15%	8.80%
4 Week Price Chg	32.31%	5.67%	2.95%	4.04%	15.73%	15.77%
12 Week Price Chg	1.01%	2.86%	7.76%	4.71%	40.68%	16.94%
52 Week Price Chg	-19.30%	2.34%	22.29%	10.13%	188.46%	34.99%
20 Day Average Volume	7,050,705	102,902	1,536,375	3,195,075	1,464,989	543,598
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.60%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-1.63%	0.00%	0.18%
(F1) EPS Est 12 week change	8.70%	-4.90%	-0.40%	-19.28%	-44.86%	-3.18%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-2.70%	0.00%	-1.50%

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	C
Growth Score	D
Momentum Score	C
VGM Score	D

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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