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Aug 25, 2020

Groupon Inc. (GRPN)

$32.58 (As of 08/24/20)

Price Target (6-12 Months): **$34.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/10/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: B | Momentum: D	**2-Buy** VGM:A

Summary

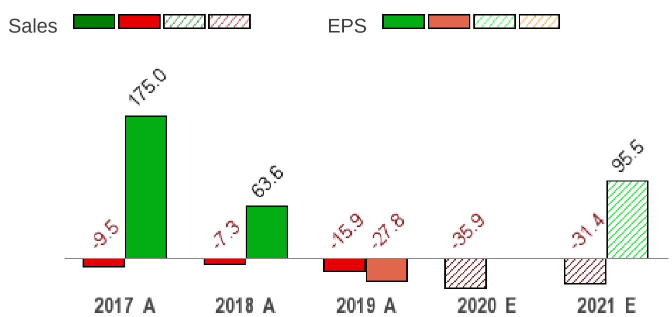
Groupon is witnessing improvement in business owing to restructuring efforts and coronavirus crisis-led e-commerce boom. The company is focusing on higher-margin healthy food offerings. Also, it is trying to reduce dependence on goods deals and is shifting focus toward local services market. Groupon has been forging strategic alliances to expand its business. However, the transition to high margined local services market and lower customer traffic is hurting revenues. Also, lower traffic, coronavirus crisis induced business impacts in Travel domain and stiff competition in the Goods category are likely to hamper revenue growth across North America. Notably, shares of the company have underperformed the industry on a year-to-date basis. Nevertheless, improving product mix and ramping up of local consumer activities are expected to favor prospects.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$63.20 - $9.60
20 Day Average Volume (sh)	4,663,684
Market Cap	$936.1 M
YTD Price Change	-31.8%
Beta	1.60
Dividend / Div Yld	$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Top 32% (80 out of 252)
Last EPS Surprise	64.6%
Last Sales Surprise	115.1%
EPS F1 Est- 4 week change	36.7%
Expected Report Date	11/02/2020
Earnings ESP	11.2%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.5

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	263 E	274 E	258 E	281 E	976 E
2020	374 A	396 A	346 E	357 E	1,423 E
2019	578 A	533 A	496 A	612 A	2,219 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-$0.38 E	-$0.08 E	-$0.09 E	$0.57 E	-$0.18 E
2020	-$1.63 A	-$0.93 A	-$0.96 E	$0.33 E	-$3.99 E
2019	$0.60 A	$0.20 A	$0.20 A	$1.40 A	$2.60 A

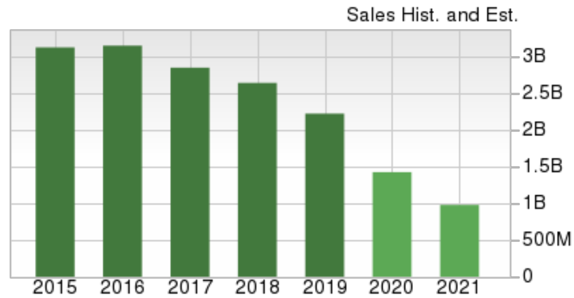
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/24/2020. The reports text is as of 08/25/2020.

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 Buy:

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

- ▲ 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 Jun 30, 2020, with cash and cash equivalents of $784.6 million, up from $666.9 million, as of Mar 31, 2020. As of Jun 30, 2020, the company had $200 million of outstanding borrowings under revolving credit facility. The company generated $70.7 million of operating cash flow in the second quarter. The cash balance is expected to aid the company pursue strategic acquisitions, and investment in growth initiatives. Moreover, strength in cash flow indicates that the company is making investments in the right direction.

Reasons To Sell:

> 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.

- 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 $1.32 billion as of Jun 30, 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 e-commerce 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.

Last Earnings Report

Groupon Beats on Q2 Earnings and Revenues

Quarter Ending	06/2020
Report Date	Aug 06, 2020
Sales Surprise	115.07%
EPS Surprise	64.64%
Quarterly EPS	-0.93
Annual EPS (TTM)	-0.96

Groupon reported second-quarter 2020 non-GAAP loss of 93 cents per share, narrower than the Zacks Consensus Estimate of a loss of $2.63. Notably, the company had reported earnings of 24 cents reported in the prior-year quarter.

Revenues of $396 million beat the Zacks Consensus Estimate by 115.2%. The figure however declined 26% on a year-over-year basis (down 25% excluding foreign exchange effect).

Region-wise, North America revenues decreased 28.1% from the year-ago quarter to $233.3 million. International revenues fell 21.9% (down 20% excluding foreign exchange effect) year over year to $162.2 million.

Quarter Details

Service revenues (28.4% of revenues) were down 59.5% year over year to $112.38 million. However, Product revenues (71.5% of revenues) increased 11.1% to $283.2 million.

Local revenues of $99.7 million declined 59.6% from the year-ago quarter. North America Local revenues decreased 53.8% and International Local revenues fell 73.6%, excluding foreign exchange effect.

Goods revenues increased 11.9% year over year to $292.4 million. North America Goods revenues increased 13.4%. International Goods revenues increased 13.1%, excluding foreign exchange effect.

Travel revenues fell 85.6% year over year to $3.48 million. North America Travel revenues plunged 84.3%. International Travel revenues declined 88.5%, excluding foreign exchange effect.

In the second quarter, gross billings were $582.7 million, down 47.5%, excluding foreign exchange effect.

North America billings were $352.5 million, down 52.1% year over year. International billings were $230.2 million, down 38.8% excluding foreign exchange effect.

North America Local and Travel gross billings declined 66.8% and 86.3%, respectively while Goods gross billings increased 17.8% on a year-over-year basis.

International Local and Travel gross billings declined 68.9% and 79.6%, respectively while Goods gross billings increased 18% on a year-over-year basis, excluding foreign exchange effect.

Global units sold during the reported quarter declined 35% year over year to 23 million, primarily owing to the coronavirus crisis-induced negative impact on demand. North America units were down 64% in Local but up 31% in Goods. International units were down 72% in Local but up 44% in Goods.

Customer Metrics

As of Jun 30, 2020, Groupon had approximately 15.3 million active customers internationally compared with 16.5 million at the end of the previous quarter.

Moreover, as of Jun 30, 2020, the company had approximately 22.8 million active customers based in North America compared with 25.3 million at the end of the prior quarter.

Operating Details

Gross profit in the second quarter came in at $137.2 million, down 53% (down 53%, excluding foreign exchange effect) year over year.

International gross profit decreased 61% year over year, excluding foreign exchange effect, to $35.5 million. Coronavirus crisis had a negative impact on demand.

International Local and Travel gross profit decreased 77% and 89%, respectively while Goods gross profit remained flat on a year-over-year basis, excluding foreign exchange effect.

Moreover, North America's gross profit fell 49% to $101.7 million, primarily due to the impacts of coronavirus on volume. North America Local and Travel gross profit decreased 55% and 85%, respectively while Goods gross profit remained flat on a year-over-year basis.

Adjusted EBITDA came in at $1.3 million compared with adjusted EBITDA of $46.5 million reported in the prior-year quarter.

Selling, general and administrative (SG&A) expenses decreased 31.7% year over year to $143.6 million in the reported quarter.

Marketing expenses declined 71.6% to $25.2 million, primarily owing to lower offline marketing investments and accelerated traffic declines.

The company incurred operating loss of $72.1 million compared with operating loss of $7.1 million in the prior-year quarter.

Balance Sheet

Groupon exited the quarter ending Jun 30, 2020, with cash and cash equivalents of $784.6 million, up from $666.9 million, as of Mar 31, 2020.

As of Jun 30, 2020, the company had $200 million of outstanding borrowings under revolving credit facility.

Guidance

For third-quarter 2020, Groupon projects adjusted EBITDA loss of $10 million.

Recent News

On Aug 18, Groupon inked a deal with Rezdy whereby the latter becomes the first API partner of Groupon Connect. This integration will enable tour and other attraction operators to link their Rezdy bookings directly to the Groupon Marketplace.

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.

Valuation

Groupon's shares have plunged 31.8% in the year-to-date period and 31.2% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 60% and 33.1% in the year-to-date period, respectively. In the past year, the Zacks sub-industry and sector are up 77.7% and 44.1%, respectively.

The S&P 500 index is up 5.5% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 0.83X forward 12-month sales, which compared with 4.8X for the Zacks sub-industry, 1.27X for the Zacks sector and 3.7X 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 0.73X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $34 price target reflects 0.87X forward 12-month sales.

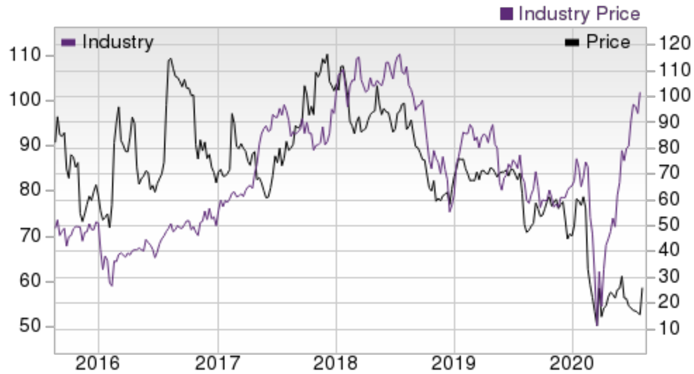
The table below shows summary valuation data for GRPN

Valuation Multiples - GRPN

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.83	4.8	1.27	3.7
	5-Year High	1.12	5.99	1.27	3.7
	5-Year Low	0.21	3.16	0.82	2.53
	5-Year Median	0.73	4.72	0.97	3.05
P/B TTM	Current	7.94	7.57	5.86	4.59
	5-Year High	17.33	11.2	6.03	4.59
	5-Year Low	0.7	4.89	3.69	2.83
	5-Year Median	5.92	7.82	5.03	3.75

As of 08/24/2020

Industry Analysis **Zacks Industry Rank:** Top 32% (80 out of 252)



Top Peers

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

Industry Comparison Industry: Internet - Commerce

	GRPN	X Industry	S&P 500	AMZN	SHOP	WIX
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Underperform
Zacks Rank (Short Term)	2	-	-	3	2	5
VGM Score	A	-	-	A	C	D
Market Cap	936.12 M	3.96 B	23.81 B	1,656.67 B	117.19 B	13.92 B
# of Analysts	3	3.5	14	14	21	9
Dividend Yield	0.00%	0.00%	1.64%	0.00%	0.00%	0.00%
Value Score	A	-	-	D	F	F
Cash/Price	0.97	0.10	0.07	0.04	0.03	0.05
EV/EBITDA	3.54	8.41	13.37	43.31	-1,881.26	-318.24
PEG Ratio	NA	3.43	3.02	3.43	14.54	NA
Price/Book (P/B)	7.94	6.36	3.17	22.47	25.32	67.97
Price/Cash Flow (P/CF)	6.86	22.79	12.77	49.33	NA	NA
P/E (F1)	NA	50.34	21.72	103.37	472.65	NA
Price/Sales (P/S)	0.50	2.71	2.48	5.15	56.34	16.32
Earnings Yield	-12.25%	0.56%	4.44%	0.97%	0.21%	-0.03%
Debt/Equity	1.89	0.14	0.76	0.45	0.00	1.81
Cash Flow ($/share)	4.75	0.47	6.93	67.05	-0.60	-0.25
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	NA%	7.86%	10.41%	97.34%	NA	NA
Proj. EPS Growth (F1/F0)	-253.46%	18.61%	-5.05%	39.06%	604.77%	-107.69%
Curr. Cash Flow Growth	-29.11%	1.34%	5.20%	31.33%	85.89%	-2,949.32%
Hist. Cash Flow Growth (3-5 yrs)	11.55%	11.28%	8.50%	49.26%	NA	11.92%
Current Ratio	1.00	1.58	1.33	1.18	13.69	1.46
Debt/Capital	65.39%	23.86%	44.50%	31.00%	0.00%	64.42%
Net Margin	-12.00%	-3.15%	10.13%	4.10%	-3.25%	-15.92%
Return on Equity	-27.35%	6.42%	14.66%	20.47%	0.32%	-46.89%
Sales/Assets	1.34	1.34	0.51	1.42	0.55	0.75
Proj. Sales Growth (F1/F0)	-35.88%	0.00%	-1.45%	31.31%	61.84%	27.04%
Momentum Score	D	-	-	A	A	C
Daily Price Chg	16.19%	0.35%	1.32%	0.69%	-2.13%	-1.81%
1 Week Price Chg	16.86%	0.00%	-1.45%	4.34%	3.36%	2.42%
4 Week Price Chg	113.36%	11.69%	3.38%	8.26%	2.35%	2.48%
12 Week Price Chg	29.80%	33.62%	7.69%	33.85%	31.84%	26.37%
52 Week Price Chg	-31.27%	55.46%	3.85%	86.98%	152.38%	90.43%
20 Day Average Volume	4,663,684	309,884	1,873,293	4,098,890	2,090,578	953,233
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	36.67%	8.21%	1.00%	58.32%	100.56%	-93.87%
(F1) EPS Est 12 week change	-356.00%	11.30%	3.40%	62.03%	100.52%	-93.64%
(Q1) EPS Est Mthly Chg	25.91%	22.92%	0.00%	48.06%	71.12%	-130.69%

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	A
Growth Score	B
Momentum Score	D
VGM Score	A

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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