

## GROUPON, INC.

### 4Q11 Results Top Expectations

**What's New?:** Groupon reported 4Q11 results – its first as a public company – and provided 1Q12 guidance, and both were better than expected. Our CY12 estimates remain largely unchanged, and we're maintaining our 1-OW rating and \$27 target.

**4Q11 Highlights:** In 4Q11 1) billings, revenues, CSOI and adjusted EPS of \$1.25bn, \$507mn, \$48mn and (\$0.02), respectively, compared favorably to our forecasts of \$1.22bn, \$480mn, \$28mn and \$0.04 (adjusted EPS was \$0.05 after normalizing for higher-than-expected tax rate); 2) U.S. segment revenues outperformed; 3) TTM active customers of 33mn increased 18% sequentially from 28mn in 3Q11; 4) marketing spend as a percent of revenue decreased substantially to 31% of revenue from 40% in 3Q11; and 5) blended take rate of 41% was solid and reflected sequential growth in featured daily deals.

**Outlook/Guidance:** Management provided 1Q12 revenue guidance of \$510-550mn that was above the consensus mean estimate of \$501mn and at the mid-point in-line with our \$527mn forecast. GAAP operating income guidance of \$15-35mn was above our forecast of \$3mn even after accounting for the \$12mn lower stock-based compensation charge. Our CY12 estimates remain largely unchanged, but we note that our adjusted EPS estimate increases as we align our adjusted EPS calculation with the company's own internal/reported calculation.

**Recommendation:** While the company is still relatively young and much execution lies ahead, we continue to view Groupon in the early stages of what could prove to be a long-term growth opportunity in the local commerce and online deals space globally. The company's target end-markets are large and it has several competitive advantages, in our view. The 4Q11 results help to validate the positive thesis, in our view, and we are maintaining our 1-OW rating and \$27 target.

#### GRPN: Quarterly and Annual EPS (USD)

FY Dec	2011		2012			2013			Change y/y	
	Old	New	Old	New	Cons	Old	New	Cons	2012	2013
Q1	-0.50A	-0.50A	0.07E	0.07E	N/A	N/A	N/A	N/A	114%	N/A
Q2	-0.24A	-0.24A	0.06E	0.08E	N/A	N/A	N/A	N/A	133%	N/A
Q3	-0.08A	-0.08A	0.08E	0.10E	N/A	N/A	N/A	N/A	225%	N/A
Q4	0.04E	-0.02A	0.10E	0.12E	N/A	N/A	N/A	N/A	700%	N/A
Year	-0.64E	-0.72A	0.31E	0.37E	N/A	N/A	0.89E	N/A	151%	141%
P/E		N/A		66.4			27.6			

Source: Barclays Capital  
Consensus numbers are from Thomson Reuters

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Stock Rating	<b>1-OVERWEIGHT</b> Unchanged
Sector View	<b>1-POSITIVE</b> Unchanged
Price Target	<b>USD 27.00</b> Unchanged

Price (08-Feb-2012)	USD 24.58
Potential Upside/Downside	+10%
Tickers	GRPN

Market Cap (USD mn)	15428
Shares Outstanding (mn)	637.80
Free Float (%)	53.82
52 Wk Avg Daily Volume (mn)	3.0
Dividend Yield (%)	N/A
Return on Equity TTM (%)	-6867.29
Current BVPS (USD)	-0.01

Source: FactSet Fundamentals

Price Performance	Exchange-Nasdaq
52 Week range	USD 31.14-14.85



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## COMPANY SNAPSHOT

Groupon Inc.

U.S. Internet

Income statement (\$mn)	2011A	2012E	2013E	2014E	CAGR
Gross Billings	4,003	5,747	7,805	9,650	34%
Revenues	1,625	2,262	2,966	3,595	30%
CSOI	(114)	325	863	1,087	NA
Net income (adj)	(262)	257	636	883	NA
EPS (adj) (\$)	(\$0.72)	\$0.37	\$0.89	\$1.20	NA

Stock Rating	1-OVERWEIGHT
Sector View	1-POSITIVE
Price (08-Feb-2012)	\$24.58
Price Target	\$27
Ticker	GRPN

## Investment case

GRPN has established itself as a well-recognized brand/innovator & has demonstrated significant growth over a notably short period of time. Meaningful future growth opportunities exist in both core/adjacent markets, & the company has the potential to post meaningful margin expansion, driven largely by further marketing efficiencies.

Margin and return data (%)	Average				
Take rate	40.6	39.4	38.0	37.3	38.8
CSOI margin	-7.0	14.4	29.1	30.2	16.7
Net margin (adj)	-16.1	11.4	21.4	24.6	10.3

Upside case **\$29**

We see the potential for meaningful revenue upside from new/ancillary products (e.g., Getaways, Live, Goods) and margin upside if the company can more quickly capitalize on marketing efficiencies. We view GRPN's upside case at \$29 based on 19x our upside 2013 adj. EBITDA of \$970mn.

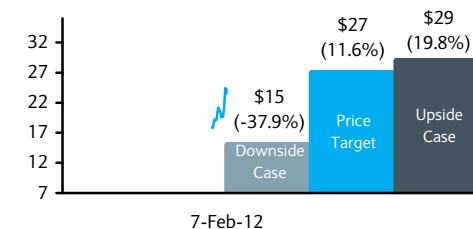
Downside case **\$15**

Slower-than-expected traction with new products / margin expansion or a material, negative change in deal terms could affect investor sentiment, valuation, revenues & profitability. We view GRPN's downside case at \$15 based on 12.5x our downside 2013 adj. EBITDA est of \$700mn.

Balance sheet and cash flow (\$mn)	CAGR				
Cash and equivalents	1,123	1,637	2,508	3,621	48%
Total assets	1,770	2,359	3,229	4,396	35%
Short and long-term debt	-	-	-	-	NA
Total liabilities	1,048	1,379	1,612	1,896	22%
Shareholders' equity	722	981	1,616	2,499	51%
Net cash	1,123	1,637	2,508	3,621	48%
Change in working capital	508	275	263	253	-20.7%
Cash flow from operations	357	589	966	1,223	51%
Capital expenditure	44	61	77	87	25.9%
Free cash flow	255	528	890	1,135	65%

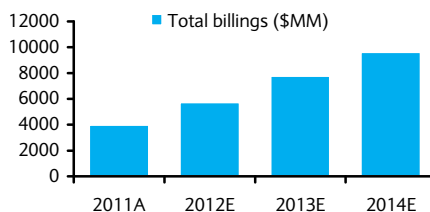
Valuation metrics	Average				
P/E (adj) (x)	nm	61.6	25.9	19.0	36
EV/bookings (x)	3.9	2.7	2.0	1.6	3
EV/revenues (x)	9.6	6.9	5.3	4.3	7
EV/EBITDA (x)	nm	40.8	16.8	13.3	24

## Upside/downside scenarios



Source: FactSet

## Subscribers



Selected operating metrics	CAGR				
Total billings (\$MM)	4,003	5,747	7,805	9,650	34%
Total revs (\$MM)	1,625	2,262	2,966	3,595	30%
Take rate (%)	40.6%	39.4%	38.0%	37.3%	-3%

Source: Company data, Barclays Capital; Note FCF is company calculation

Note: FY end Dec.

Figure 1: Actual vs. Estimates Table

(\$ in MM except per share data)	4Q11	4Q11
	Actual	Estimate
<b>Gross Billings</b>	<b>1,247.9</b>	<b>1,215.6</b>
<b>Total Revenues</b>	<b>506.5</b>	<b>480.2</b>
Take Rate	41%	40%
Cost of revenue	86.7	74.4
Marketing	155.9	168.0
SG&A	215.8	209.4
Profit (Loss) from Operations	15.0	(25.9)
<b>Adj. EPS</b>	<b>(\$0.02)</b>	<b>\$0.04</b>
<b>CSOI</b>	<b>48.0</b>	<b>28.4</b>

Source: Barclays Capital, Company reports

Figure 2: New vs. Old Estimates Table

(\$ in MM except per share data)	1Q12	1Q12	CY12	CY12
	New	Old	New	Old
<b>Gross Billings</b>	<b>1,326.3</b>	<b>1,336.7</b>	<b>5,747.0</b>	<b>5,747.7</b>
<b>Total Revenues</b>	<b>527.2</b>	<b>526.7</b>	<b>2,261.8</b>	<b>2,251.9</b>
Take Rate	40%	39%	39%	39%
Cost of revenues	80.9	79.5	333.6	324.3
Marketing	165.8	170.6	641.8	646.0
SG&A	225.1	227.8	961.4	960.1
Profit (Loss) from Operations	20.4	1.7	173.0	133.8
<b>Adj. EPS</b>	<b>\$0.07</b>	<b>\$0.07</b>	<b>\$0.37</b>	<b>\$0.31</b>
<b>CSOI</b>	<b>55.4</b>	<b>48.7</b>	<b>325.0</b>	<b>321.4</b>

Source: Barclays Capital, Company reports



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Groupon, Inc. (GRPN, 08-Feb-2012, USD 24.58), 1-Overweight/1-Positive

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**1-Overweight** - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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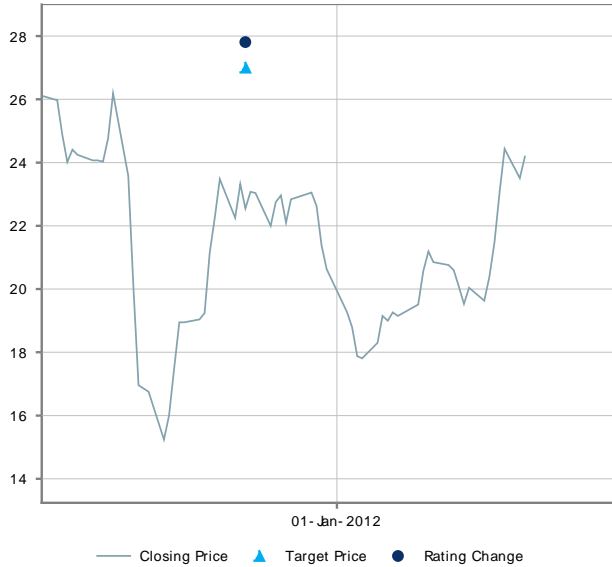
**Groupon, Inc. (GRPN)**  
**USD 24.58 (08-Feb-2012)**

Stock Rating  
**1-OVERWEIGHT**

Sector View  
**1-POSITIVE**

Rating and Price Target Chart - USD (as of 08-Feb-2012)

Currency=USD



Date	Closing Price	Rating	Price Target
14-Dec-2011	22.55	1-Overweight	27.00

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**Valuation Methodology:** We arrive at our \$27 price target for GRPN, which is the weighted average of 1) 20x EV/2013 adj. EBITDA, which yields \$29 and 2) our DCF which yields \$24 based on a WACC of 12% and a 9x terminal EV/adj. EBITDA multiple.

**Risks which May Impede the Achievement of the Price Target:** Groupon operates in a relatively new and still highly competitive industry and the company has a limited operating history. Additionally, slower-than-expected traction with new products / margin expansion and/or a material, negative change in deal terms could affect investor sentiment, valuation, revenues & profitability.

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