

Groupon to Gauge Limits of IPO Mania

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Groupon Inc. filed to go public in a deal that could value the e-commerce company at as much as \$20 billion, a hotly anticipated offering that could test the strength of a tech-investing frenzy.

The 2½-year-old company has grown at a torrid pace by pioneering a new approach to selling on the Web, offering daily deals to consumers in partnerships with local merchants. But it has been racking up huge losses, and such Internet powerhouses as [Google Inc.](#) and [Facebook Inc.](#) are moving to enter its business.

Groupon's filing, which offered the first inside look at its finances, revealed that while revenue surged to \$644.7 million in this year's first quarter, the company has been spending a fortune to fuel that growth. It recorded a loss of \$413.4 million last year, and lost another \$113.9 million in the first quarter. Its costly strategy is reminiscent of the early days of Internet companies like [Amazon Inc.](#)

Groupon's filing comes on the heels of [LinkedIn Corp.](#)'s successful IPO, the latest sign of surging valuations for companies connected with hot Internet trends. The size of Groupon's losses may add fuel to the arguments that investors' appetite for high-profile tech offerings is becoming overheated, as it did before the first Internet stock-market bubble burst in 2000.

"It's totally like 1999," said Sucharita Mulpuru, an online-commerce analyst for Forrester Research. "To lose this money? What's crazy about these numbers is that this should be a highly profitable model."

Groupon's Chief Executive Andrew Mason, speaking Wednesday at The Wall Street Journal's D9: All Things Digital conference, didn't address the company's losses or the prospect of going public. But he expressed confidence that the company can stand up to the competition. He argued that Groupon's success is "largely due to the relationships that we have with local merchants, and it is a difficult thing to replicate."

Groupon didn't indicate exactly how much it intends to raise in its offering, which includes a placeholder figure of \$750 million to compute a registration fee. People familiar with the matter have previously said the company could seek to raise close to \$1 billion, which would value it at about \$20 billion. The exact valuation will depend on market sentiment at the time of the offering.

As of March 31, Groupon's shares traded among institutional investors in private secondary trading at an implied valuation of \$5.6 billion, according to Nypex LLC, an intermediary in the secondary market.

If the public offering values the company at \$20 billion or more, its three founders would wind up with a combined net worth, on paper, of more than \$7 billion. Eric Lefkosky, the tech entrepreneur who helped found the company, owns 21% of the company's stock, which could be worth more than \$4 billion. Mr. Mason, a co-founder, has a stake that could be worth more than \$1.5 billion, and the stake of Bradley Keywell, a third co-founder, could be worth more than \$1.3 billion.

Groupon was launched in 2008 as a side project for a website called The Point, which lets users run campaigns asking people to give money or do something as a group. The company's revenue surged as millions of people signed on to get discounts on everything from pedicures to horseback-riding lessons.

The filing indicates that Groupon had revenue of \$713.3 million last year. Its \$644.7 million of first-quarter revenue dwarfs the \$3.3 million it notched in the second quarter of 2009. The company says it has deals with nearly 57,000 local merchants in 43 countries, taking a cut from each sale. It had sold more than 70 million "Groupons," or deals, by the end of March.

Mr. Mason has said his goal is to become the Amazon.com of local commerce, bringing online a huge portion of the retail economy that other Web companies have tried to tap, largely without success.

Groupon's filing is unapologetic about its spending, which has focused on marketing, sales staff and acquisitions. "In the past, we've made investments in growth that turned a healthy forecasted quarterly profit into a sizable loss," the filing warns. "When we see opportunities to invest in long-term growth, expect that we will pursue them regardless of certain short-term consequences."

Ms. Mulpuru of Forrester Research said Groupon's financials show that the daily-deal business is "incredibly labor-intensive" and that the company has been buying growth by hiring more salespeople. That means Groupon has few fixed costs and can easily cut expenses by firing employees, she said.

Some other observers are skeptical that Groupon can fend off competition. "It's not clear to me what their defensible competitive advantage is," said Cathy Halligan, a sales and marketing executive at PowerReviews Inc., which sells customer-review technology for e-commerce sites.

Besides Facebook and Google, Groupon's primary competitor is LivingSocial, a Washington company that analysts say has been steadily increasing its market share. Dozens of local imitators have launched around the country. Some newspapers also offer daily deals.

The Groupon filing was widely welcomed in Silicon Valley, where the IPO window was largely closed for years. After LinkedIn's successful offering, "the Valley overall is excited

and there's a big rush to get companies out there while the window's open," said Jim Pitkow, chief executive of Contributor, a San Mateo, Calif., company that helps publishers track their content online.

Lou Kerner, an analyst with Wedbush Securities, said Groupon is spending rapidly to acquire more customers, betting that they will become repeat ones.

"The big question is will Groupon retain its leadership?" Mr. Kerner said. "Will Groupon be a Yahoo that was an early leader that basically became irrelevant? Or will they be an Amazon that built an early leadership and retains massive consumer value?"