

# New lows for daily deals firm Groupon

CHICAGO, UNITED STATES: Groupon shares plunged to their lowest level since the online deals giant went public a year ago, as analysts offered a harsh response to a disappointing earnings report

Groupon shares tumbled 29.3% to close at US\$2.77 -- down some 85% from the public offering price in November 2011 of US\$20.

Chicago-based Groupon on Thursday (8 November 2012) reported a loss of US\$3m in results that came up shy of most analyst forecasts for a small profit.

Revenue increased 32% year-on-year to US\$568.6m in the third quarter and was up 38% in constant currency.

But analysts said the company appeared to be stalling and that moves into new products and international markets were hurting.

Daniel Ernst at Hudson Square Research downgraded Groupon, saying "we believe the aggressive push into direct sales creates operational risks, lower margins and the potential for merchant partner conflict."

Sterne Agee's Arvind Bhatia said that Groupon's "international (segment) was particularly discouraging as it lost money in the quarter -- a meaningful reversal after reaching profitability earlier in the year."

"The company and the stock will likely remain in the 'prove to me' camp until trends reverse on a sustainable basis," Bhatia said in a note to clients.

Citi analyst Neil Doshi said Groupon's move into mobile commerce raised new questions.

"And this management team doesn't yet have an execution track record," Doshi said.

"In the meantime, the core daily deal business has almost slowed to a halt, and rapid mix-shift to direct revenue drastically changes the profitability profile of the model," he added.

"Until we see sustainable growth in core daily deal business coupled with an outlook for expanding core margins, we continue to pass on this deal."

Edward Woo of Ascendant Capital Markets said in addition to slow growth and a weak outlook, Groupon faces a loss of top talent due to the collapse in share prices.

The decline "may make it harder for Groupon to retain staff as employees' stock option values have declined," Woo said. "We believe that staff turnover may increase the possibility for near-term business disruptions."

Groupon shares were listed on the Nasdaq last November in a blockbuster offering that raised a whopping US\$700m and triggered fears that investors were overvaluing hot Internet startups.

The company, which rejected a US\$6bn takeover offer from Google a year ago, has enjoyed phenomenal growth since its founding in 2008 but has been dogged by questions about its business model and accounting methods.

Groupon makes its money by selling members deals for discounts on activities, items or services and then splitting the money with the businesses involved. It recently has expanded into direct sales.

Source: *AFP* via I-Net Bridge

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