GROUPON, INC.

Acting Local, Thinking Global

We initiate coverage of Groupon with a 1-OW rating and 12-month target of $27.

An Innovative Model for Online Local: Groupon cracked the code, in our opinion, for how best to leverage the Internet to drive local commerce by introducing an innovative business model that provides merchants a low-risk, high-volume and measureable customer acquisition channel and that provides consumers with very good deals. While much execution lies ahead in order to meet expectations, the opportunity is large and Groupon has competitive advantages, in our view.

Growth Drivers: We forecast a 3-year revenue CAGR of nearly 32% ('11E-'14E) and significant margin expansion and expect revenue and adjusted EBITDA can reach $3 billion and $945 million, respectively, by CY13, driven by 1) continued viral expansion of the subscriber base, 2) improvements in conversion of subs to shoppers and purchase frequency as deal selection and targeting improve, and 3) further marketing efficiencies. Key metrics to monitor for progress over the long term include 1) conversion rates and average Groupon per customer, 2) average marketing spend per new subscriber, and 3) revenue per average salesperson.

Valuation: We arrive at our 12-month target of $27 by averaging our DCF and comp analysis outputs. Our target implies 18x EV/2013 adjusted EBITDA ($945 million).

Risks: Investment risks and other concerns include: 1) the company and industry segment are relatively new, which makes forecasting more challenging; 2) given the early growth stage of the company and related investment spending, the valuation is at a premium on near-term earnings; 3) IPO lock-up expiration in early May 2012; and 4) competition from LivingSocial, Amazon (AMZN, $189.52, 2-EW/1-Pos), Google (GOOG, $625.39, 1-OW/1-Pos) and others, among other possible risks.

GRPN: Quarterly and Annual EPS (USD)

	2010	2011			2012			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2011	2012
Q1	0.02A	N/A	-0.15A	N/A	N/A	0.07E	N/A	-850%	147%
Q2	-0.05A	N/A	-0.11A	N/A	N/A	0.06E	N/A	-120%	155%
Q3	-0.04A	N/A	-0.03A	N/A	N/A	0.08E	N/A	25%	367%
Q4	-0.25A	N/A	0.04E	N/A	N/A	0.10E	N/A	116%	150%
Year	-0.31A	N/A	-0.26E	N/A	N/A	0.31E	N/A	16%	219%
P/E	N/A		N/A			75.2			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

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Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 25.

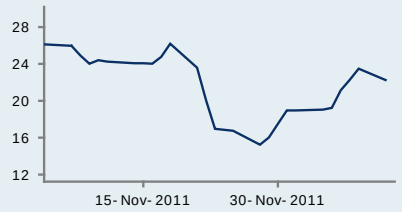
Stock Rating	1-OVERWEIGHT from N/A
Sector View	1-POSITIVE Unchanged
Price Target	USD 27.00 from N/A

Price (13-Dec-2011)	USD 23.32
Potential Upside/Downside	+16%
Tickers	GRPN

Market Cap (USD mn)	14191
Shares Outstanding (mn)	637.80
Free Float (%)	40.12
52 Wk Avg Daily Volume (mn)	4.7
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



Link to Barclays Capital Live for interactive charting

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COMPANY SNAPSHOT

Groupon Inc. U.S. Internet

Income statement ($mn)	2010A	2011E	2012E	2013E	CAGR
Gross Billings	745	3,970	5,748	7,808	119%
Revenues	313	1,598	2,252	3,001	112%
EBITDA (adj)	(168)	(102)	378	945	NA
CSOI	(181)	(134)	321	879	NA
Pre tax income (adj)	(181)	(149)	324	887	NA
Net income (adj)	(178)	(163)	213	577	NA
EPS (adj) ($)	($0.31)	($0.26)	$0.31	$0.80	NA

Margin and return data (%)					Average
Take rate	42.0	40.3	39.2	38.4	40.0
EBITDA margin (adj)	-53.7	-6.4	16.8	31.5	-2.9
CSOI margin	-57.8	-8.4	14.3	29.3	-5.7
Pre-tax margin (adj)	-57.7	-9.3	14.4	29.6	-5.8
Net margin (adj)	-56.8	-10.2	9.5	19.2	-9.6

Balance sheet and cash flow ($mn)					CAGR
Cash and equivalents	119	1,066	1,442	2,341	170%
Total assets	382	1,636	2,045	2,948	98%
Short and long-term debt	-	-	-	-	NA
Total liabilities	372	871	1,011	1,258	50%
Shareholders' equity	10	765	1,034	1,690	462%
Net cash	119	1,066	1,442	2,341	170%
Change in working capital	255	332	120	271	2.0%
Cash flow from operations	87	208	447	993	125%
Capital expenditure	(15)	(40)	(57)	(75)	NA
Free cash flow	72	168	390	918	133%

Valuation metrics					Average
P/E (adj) (x)	nm	nm	70.3	27.0	49
EV/bookings (x)	19.2	3.6	2.5	1.8	7
EV/revenues (x)	45.7	8.9	6.3	4.8	16
EV/EBITDA (x)	nm	nm	37.8	15.1	26

Selected operating metrics					CAGR
Subscribers (MM)	21	126	185	217	116%
Total billings ($MM)	745	3,970	5,748	7,808	119%
Total revs ($MM)	313	1,598	2,252	3,001	112%
Take rate (%)	42.0%	40.3%	39.2%	38.4%	-

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

Stock Rating	**1-OVERWEIGHT**
Sector View	**1-POSITIVE**
Price (13-Dec-2011)	**$23.32**
Price Target	**$27**
Ticker	**GRPN**

Investment case

GRPN has quickly 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 meaingful margin expansion, driven largely by futher marketing efficiencies.

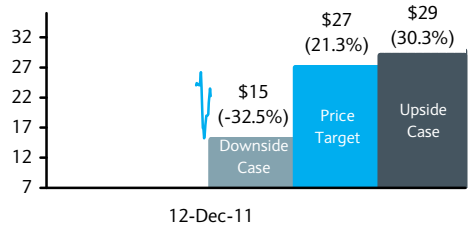
Upside case $29

We see the potential for meaingful revenue upside from new/ancilliary 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 est ($977MM).

Downside case $15

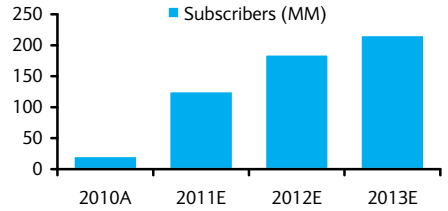
Slower-than-expected traction with new products / margin expansion or a material, negative change in deal terms could affect investor sentiment, valuation, revenues & profitability. We view GRPN's downside case at $15 based on 12.5x our downside 2013 adj. EBITDA est ($748MM).

Upside/downside scenarios



Source: FactSet

Subscribers



Note: FY end Dec.

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Thesis Summary

We are initiating coverage of Groupon with a 1-Overweight rating and 12-month price target of $27. Few Internet companies, or in any sector for that matter, have come out of the gates as quickly as Groupon. At the same time, and maybe as a result, few companies have garnered as much press coverage and as much skepticism. What we see in Groupon is 1) a company that was able to crack the code on the sizable and oft pursued but rarely captured opportunity in using the Internet to enable local commerce, 2) a team that has executed significant growth in a short period of time, 3) a company that has a lot of potential ahead of it, and 4) a company that in short order has established a well-recognized brand and a localized organization that we believe can continue to lead innovation in the sector.

While the lack of history both for the company and the sector makes forecasting difficult and adds risk to long-term projections, the opportunity in local online advertising and commerce is significant and Groupon is arguably the best positioned company today to capture it. That said, execution is key and progress will likely be best judged in years versus months and quarters. Key guideposts that we will monitor for progress over an extended timeframe include 1) conversion rates (from subscribers to buyers) and average Groupon per customer as signs of improving customer engagement, 2) average marketing spend per net new subscriber as a sign of marketing efficiency[1], and 3) revenue per average salesperson as a measure of salesforce productivity.

Currently trading at 38x EV/2012 adjusted EBITDA, we believe the valuation is reasonable considering the growth and that we expect that after an adjusted EBITDA loss in CY11 due to growth-related investments the company will meaningfully expand adjusted EBITDA margins to 17% in CY12 and nearly double that in CY13 (to about 32%). Our 12-month price target of $27 is the average of our 10-year DCF and our comp-based analysis and implies 18x EV/2013 adjusted EBITDA.

Figure 1: The Anatomy of a Groupon Deal

Each day Groupon emails its base of more than 140mm subscribers discounted offers for goods and services that are targeted by location and personal preferences. Consumers also access the company's deals directly through its websites and mobile applications. A typical deal might offer a $20 Groupon that can be redeemed for $40 in value at a restaurant, spa, yoga studio, car wash or other local merchant. Customers purchase Groupons from Groupon directly and redeem them with its merchant partners.

The elements of a deal:

1. The deal – roughly 50% off offers
2. Tipping point – "the deal is on" & game theory
3. Leveraging social media – sharing deals with friends & reaching the tipping point
4. Unique editorial voice – Groupon staff provide a fun spin on the merchants & their deals
5. The fine print – the merchants' terms & conditions

Source: Barclays Capital.

[1] This metric could become less meaningful as the business matures as marketing spend may transition from subscriber acquisition to promotions for specific offers.

Introduction

Groupon cracked the code on the online local opportunity

In our 12 years covering the Internet industry, we've seen a lot of companies attempt to crack into the multi-billion-dollar local advertising and commerce sector (e.g., Citysearch, Switchboard, etc.). Few ever reached the $100 million in revenue mark and most that did hit a wall. Why? We believe there are four main reasons: sales approach, measurement, upfront investment and scale. In late 2008, Groupon was founded and represented a completely different business model than had existing previously.

Figure 2: Groupon vs. Previous Models

	Previous Models	Groupon's Model
Sales Approach	First, most, if not all, of these early companies pursued a sales strategy that relied either solely on self-service or on a hybrid of self-service and telesales. This was largely a do-it-for-yourself model, which in hindsight does not work well with time-strapped local SMBs that are mostly inexperienced Internet marketers.	Groupon leverages a highly trained telesales force that is complemented with a high-touch, consultative field sales organization in key local markets. This is largely a do-it-for-me model, which has proven not only effective but necessary to capture local merchant business.
Measurement	Second, most, if not all, of these early companies had models that delivered clicks or at best calls to the local merchant. While clicks and calls are typically more measurable than traditional local media channels like newspapers, they still are not perfect and are either not directly tied to sales or not relevant enough to most local businesses.	Rather than measure ROI using indirect measures of local commerce success like clicks and calls, the Groupon model delivers actual sales that are directly measurable. That said, Groupon is still perfecting its measurability for merchants, so that they can better determine repeat behavior and other lifetime value metrics.
Upfront Measurement	Third, like traditional local marketing channels, the early online models required the often cash-strapped merchant to outlay cash upfront and hope that they see a positive return on their upfront investment.	Unlike the traditional model that requires upfront investment, the Groupon model does not require the merchant to outlay cash upfront. Instead, the merchant provides pre-established discounts and promotions for their services and products.
Scale	In our opinion, because most if not all of these early sites failed to offer the consumer something different or highly compelling, they failed to deliver a sufficient number of customers to the merchant in order to drive significant adoption by merchants.	With a novel offering that leverages social sharing with a group buying model together with deep discounts (i.e., 50%) on quality goods and services, Groupon's subscriber and customer base grew dramatically in a short period of time and, as a result, the company can consistently deliver thousands of customers to its merchants.

Source: Barclays Capital.

In our opinion, the results speak for themselves and for the success of Groupon's innovative model. These results have been well documented. For instance, in 2010, Forbes Magazine named Groupon "the fastest growing company ever" [2]. The growth metrics are really quite impressive (see figures below), and likely unprecedented, and surpass those experienced in the formative years of other well-known companies like Google, Amazon, Netflix and eBay. Groupon's success has spurred many new entrants, though most have failed to scale. That said, LivingSocial has reached that critical scale and, according to Yipit data, has nearly 20% market share in the U.S. as well as a strong and growing presence outside the U.S. Amazon's recently launched effort represents 2% of the U.S. market (and seemingly growing), while Google Offers represents 1% (though, Google's assets – Wallet, display network, search, maps, mobile/Android – make it a potentially credible competitor longer term). The challenges of amassing a sizable transaction- and deal-oriented audience and in

[2] "Meet the Fastest Growing Company Ever," dated 8/30/10 by Christopher Steiner

sourcing a wide range of attractive local deals will likely continue to make it difficult for new entrants to scale in this market and, thus, represent the key barriers to heightened competition, in our view.

Figure 3: Groupon Subscribers and Groupons Sold

Figure 4: Groupon Total Revenue and Bookings

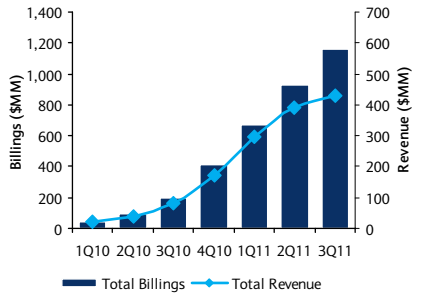
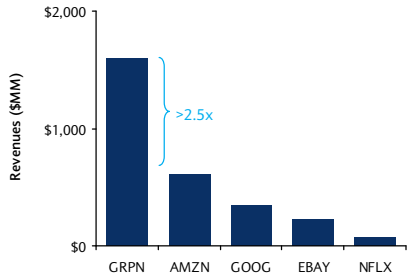


Figure 5: Total Revenues in Third Year in Business



Source: Company reports, Barclays Capital estimates.
Note: NFLX ('01), EBAY ('99), GOOG ('02), AMZN ('98), GRPN ('11E)

Execution is now key

The key, and likely quite obvious, question now becomes: Can this business model evolve and grow from here and can this particular management team execute against the likely sizable opportunity ahead of it? Key questions include: 1) will subscribers increase their purchase frequency on Groupon, including in newly launched service/product categories? 2) do (enough) merchants enjoy positive ROIs using Groupon such that they repeat? and 3) can Groupon continue to grow its subscriber base and revenues while at the same time showing marketing spend leverage (i.e., viral/organic growth). We explore these and many other key factors in the remainder of this report.

Key Points to Consider

The following pages are broken down into a discussion of seven key positive aspects of the Groupon investment story and nine key investment risks or other considerations.

Investment positives

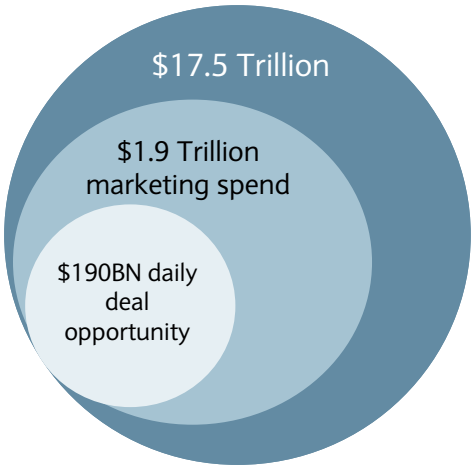
1. Unprecedented growth and large, under-penetrated addressable market

As stated earlier, Groupon's rate of growth since inception has been impressive and possibly unprecedented. If looked at from the context of Groupon's growth and scale during its first two years in business, the company far exceeds most if not all other Internet/tech leaders. We think a key reason for this hockey stick rate of growth has to do with 1) the business model innovations that Groupon introduced into the market, particularly for merchants, 2) making available very good deals (i.e., 50% off), 3) leveraging online viral marketing and social networks to rapidly expand consumer adoption, and 4) management execution, including aggressive global expansion.

We approach sizing Groupon's addressable market by considering the total amount that the businesses that Groupon targets for its promotional platform spend on advertising and marketing. To do so, we use global estimates for the revenue of these businesses and estimates for the percent of that revenue they tend to spend on advertising and marketing. The figure below and the accompanying commentary show our approach and conclusions.

In summary, we estimate that Groupon addresses a large and global market of about $190 billion.

Figure 6: Groupon's Total Addressable Market



- Groupon primarily addresses the WW local commerce markets in the leisure, recreation, foodservice and retail sector
- The leisure, recreation, foodservice and retail markets are expected to generate $17.5 trillion WW in 2011 ($5.3 trillion WW leisure, recreation, foodservice plus $12.2 trillion WW retail)
- We estimate that local merchants spend just under 11% of their total revenues on marketing, suggesting total marketing spend of $1.9 trillion in GRPN's target markets ($17.5 trillion x 10.9%)
- We estimate daily deals has the potential to capture 10% of total marketing budgets, and as such, of this $1.9 trillion in total marketing spend, we estimate Groupon's TAM to be about $190BN ($1.9 trillion x 10%)

Source: Company reports, Rice University, Euromonitor International, Barclays Capital estimates.

While Groupon's growth has been and remains significant, growth has slowed of late. This is partly due to the law of large numbers, but is also likely due to other more fundamental factors such as 1) a reduction in marketing spend, 2) the introduction of new service/product categories (e.g., Travel) that have had a near-term cannibalizing effect on core Featured Daily Deals as Groupon works to gain awareness and improve targeting of these new category offers, and 3) heightened competition. A key question going forward is whether these are temporary or permanent issues. We believe growth could taper off near term relative to historical rates of growth given the law of large numbers and the early-stage nature of new initiatives (e.g., Now!, Products, Travel, improved deal targeting, etc.). That said, we believe growth could accelerate over time if the company can execute on these initiatives.

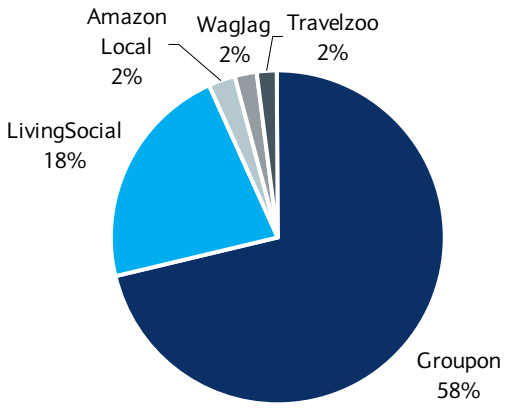
2. First mover & scale advantages

A key concern for investors is the perceived low barriers to entry in the deal/local commerce space and the related risks to Groupon from competition. Specifically, heightened competition could have a potentially negative impact on subscriber growth, take rates and merchant payable (MP) terms, among other inputs. The launch of hundreds of "Groupon clones" or competitor sites[3] has added fuel to this concern. That said, we note that according to third-party data[4], nearly one-third of all daily-deal sites nationwide have shut down or been sold so far this year[5] including high-profile closures or sizable downsizings by Facebook, OpenTable (OPEN, $35.99, 2-EW/1-Pos) and BuyWithMe. Moreover, as the table below shows, few of these have had any meaningful success or impact.

[3] Source: Yipit, which estimates there have been more than 350 daily-deal sites launched in the U.S. alone
[4] Source: Yipit
[5] Note: through September 30, 2011

Figure 7: N.A. Market Share of Selected Sites

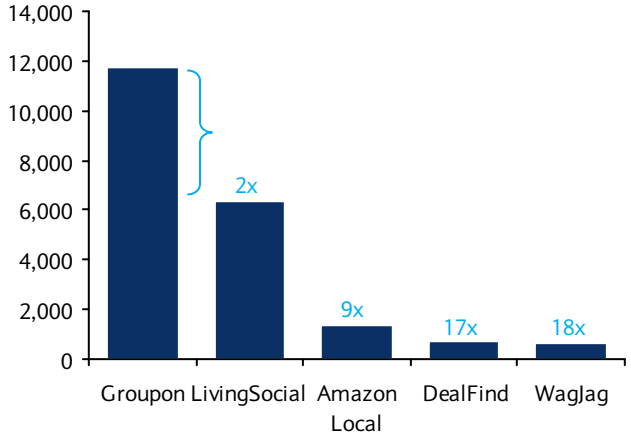
(% of industry gross billings in October 2011)



Source: Yipit.
Note: data for North America only

Figure 8: N.A. Number of Deals Offered for Selected Sites

(in October 2011; units as stated)



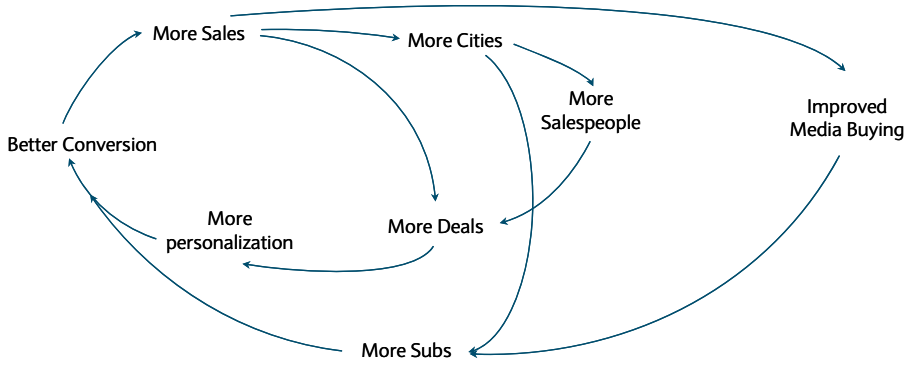
Source: Yipit.
Note: data for North America only

Why have so many competitors launched but so few demonstrated success? We believe because while it is relatively easy to hang a shingle on the Internet (thus, low barriers to entry) the barriers to scale in the daily-deal sector are quite high. As Figure 9 shows, we believe a significant competitive advantage and driver of scale benefits in the daily-deal space is the virtuous cycle that feeds on itself as a business like Groupon gets to scale. At the end of the day, consumers want to shop at the place that has the widest selection of quality deals and merchants want to market on the platform(s) that can deliver the most new customers cost effectively. In addition, both the consumer and the merchant want to limit their preferred partner lists as managing multiple relationships or email subscriptions is a nuisance and too time consuming. For these reasons, we believe there are barriers to scale and moats for new entrants into the space.

That said, we do not want to completely discount competition as a risk factor. In our view, LivingSocial has executed very well and built a formidable competitor, and we see Amazon.com and Google in particular as newer competitors that could be disruptive. While gross billings for both Amazon and Google currently represent an immaterial fraction of Groupon's[6], both continue to expand. For example, in the month of October, AmazonLocal launched 10 new markets (after entering 19 in September) while gross billings increased 56% sequentially and the number of deals offered nearly doubled. Google entered eight new markets with Google Offers while gross billings grew 60% sequentially.

[6] Source: According to Yipit data for October 2011

Figure 9: High Barriers to Scale



Source: Yipit, Barclays Capital.

3. Multiple new levers for growth

While most of these will need to work in order to meet expectations, we note that Groupon has multiple levers to drive top-line growth over the short, medium and long term. We believe four broad growth drivers are particularly important:

- **Subscriber Growth** – While more of the focus going forward will likely be on improving conversation rates of existing subscribers into customers and getting existing customers to purchase more frequently, we expect growth will also continue to come from new subscriber additions. We believe sources of new subscribers will come from 1) both within geographies the company already offers Groupons as well as in new geographic markets, 2) word of mouth and other viral channels, and 3) continued marketing spending for new customer acquisition. Importantly, the company is aiming to grow its subscriber list through more cost-effective means, such as through friend referrals and corporate partnerships (e.g., Expedia, Ticketmaster). Groupon added 49 million net new subscribers in CY10 and is on pace to add 111 million in CY11. Our model assumes net new subscribers of 32 million in CY12 and 27 million in CY13.

- **Conversion Rate** – Conversion rate represents the percent of (Groupon email) subscribers that convert into actual purchasing customers. We estimate that conversion rates fell from the low- to mid-20% range to the high teens in 2H10/1H11 as total subscribers accelerated (i.e., some new subscribers convert at lower rates), but it increased sequentially in each of the last three quarters (to nearly 20% in 3Q11). Over time, we expect conversion to improve as a result of improved deal targeting and expanded category SKU counts.

- **Purchase Frequency/Targeting/Category Expansion** – A key lever of growth should be an increase in the average purchase frequency of customers. [We note that some of the drivers of possible improvements in purchase frequency could also help improve metrics further up the funnel such as conversion rate.] While there are heavy and light users, we estimate that the average Groupon customer purchases four Groupons per year. A number of short- and long-term initiatives within the company are aimed at increasing purchase frequency, such as 1) using data mining and self-reporting interests to better target deals (internally, these are referred to as "smart deals" initiatives), 2) increasing the number and type of offers by category to improve deal

relevancy, and 3) enhancing the mobile offerings, including Now!, among other initiatives.

The introduction of new categories and SKUs should be a meaningful driver of better conversion rates and purchase frequency, as this drives greater selection and deal relevancy and enables Groupon to better target offers to users. More categories and SKUs also has the potential to change user perception of Groupon from a source of select deals to a destination for good deals and value across multiple categories (i.e., from a push to a pull model). Examples of recently introduced new categories include Goods (i.e., selling products, not just services, like consumer electronics), Getaways (i.e., promoting vacation packages and other travel offers in partnership with Expedia), and Now! (a real-time, mobile-centric service for local deals). If you consider the daily-deal sector's penetration of existing verticals and/or the potential to enter new verticals, there appears to be significant room for growth from further category launches.

- **Merchant Services/Offer Frequency** – Another lever of future growth could come from establishing deeper and more recurring relationships with merchant partners. If Groupon is successful in expanding its solution set for merchants, this could result in better and more frequent offers on the Groupon platform and a better consumer experience at the time of redemption. Recent examples of deepening the merchant solutions set include the launch of the Groupon Rewards program, the introduction of the Scheduler appointment platform, and continued innovations to the Merchant Center dashboard.

4. A strong consumer proposition

The proposition from the consumer point of view is rather obvious, in our view, with the most relevant benefit being the opportunity to get significant discounts – typically 50% off retail value – on quality goods and services. A study of consumer perceptions about Groupon and other daily-deal sites by Rice University professor Utpal Dholakia in September 2011 provides insightful information[7]. Among other things, the study found that 1) with only 16% of people in the U.S. having ever used a daily-deal site, there "appears to be significant room for growth," 2) daily-deal users tend to spend more than they normally would because of the daily deal, 3) there is little evidence of "deal fatigue," and 4) there are still high levels of enthusiasm about daily deals. These conclusions are consistent with net promoter score (NPS) data, which shows that Groupon has a respectable NPS of 33%, behind only Facebook at 36% and YouTube at 50% and ahead of LinkedIn, Twitter and other comps[8].

The result of Groupon's positive consumer proposition has been 1) significant growth of its subscriber base (see Figure 3), particularly via word of mouth, and 2) low rates of subscriber churn (we believe they are likely not greater than 1% per month).

While we view Groupon's consumer proposition as good, we think it can still improve, and the company is focused on launching several improvements. For example, we believe deals could be more personalized, which is a function of 1) better leveraging the data Groupon collects on open rates and purchases as well as data on other users that may share similar demographic and/or purchase characteristics, and 2) continuing to increase selection by expanding the number of categories and SKUs offered. The company views improving personalization as a key priority.

[7] *Daily Deal Fatigue or Unabated Enthusiasm*, dated 9/11/11 by Utpal M. Dholakia of Rice University
[8] Netpop Research, 2011

Also, we believe Groupon can (and needs to) improve the user experience by easing the coupon redemption process. Today, customers must print out the Groupon (or display the barcode for Now! purchases made on their mobile) and hand deliver them to the local merchant (note that this is not required for Groupons associated with online retailer partners). We believe there is an opportunity for Groupon to fully digitize the redemption process by using pre-paid credit cards or other loyalty-based programs. The company also recently introduced deal tagging, which allows users to self-report their interests (e.g., by clicking the "Good for 2" deal tag it records in a user's Groupon profile that they'd like to see more "great date experiences and other fun two-person activities"). These are just some of the examples of how we believe Groupon will improve the consumer experience.

5. A good & improving merchant proposition

Few issues have garnered as much attention and have generated as much skepticism as the ROI for merchants running promotions on deal sites like Groupon. While this is clearly a critical element of Groupon's long-term success, our review and analysis of the available information suggests that the merchant proposition is typically good and certainly good enough to sustain meaningful growth. Moreover, we like the steps that Groupon is taking to continually improve measurement and analytics for the merchant and, thus, improve their ability to measure and generate target ROIs.

Before we dive into some of the empirical evidence, let's first frame why merchants typically use Groupon in the first place and what they are trying to achieve and why more than 100,000 merchants have already run a deal on Groupon:

- **Sales volume and reach** – merchants can typically generate thousands of customer orders per deal, far greater than most other marketing channels
- **Exposure** – particularly for new merchants but also for those looking to promote new offerings, Groupon provides a good way to gain exposure to new customers
- **"Risk free" marketing with no upfront investment** – since the merchant doesn't commit capital upfront and knows the terms of the discount/deal at the outset, a Groupon deal is in essence a risk-free marketing channel
- **Measurable ROI** – while not perfect, merchants are able to measure the ROI on their daily deals far better than most other marketing channels
- **Simple and convent** – setting up and monitoring a Groupon deal for a merchant is relatively simply, with Groupon's sales and support team doing much of the heavy lifting
- **Optimization services** – Groupon and other daily deal providers are continually introducing new tools for merchants to help improve the experience, such as the "Merchant Center" dashboard and the recently released "Scheduler" digital appointment book.

We believe the below table captures most of the inputs for an ROI calculation for a typical Groupon merchant. We have used metrics that we believe are typical for the average merchant, though each instance is unique and varies. Some of the key variables in the equation are 1) deal discount percent, 2) overage spend, 3) commission rate (revenue share), 4) incremental COGS for the merchant, 5) percent of customers that are new versus existing, and 6) percent of acquired customers that conduct repeat purchases. Tweaking some of these variables, our sensitivity analysis suggests that running a Groupon is still a profitable experience (e.g., even if you increase the deal discount or decrease the overage percentage). There is other data that supports this analysis. For instance, a study published

by Rice University professor Utpal Dholakia in June 2011[9] found that 74% of businesses that conduct daily-deal promotions either made money or broke even on their promotions and that only 20% would not likely run another daily deal.

Figure 10: Merchant Economics

Drivers & Assumptions	
Deal Assumptions	
Deal Value	$50
Deal Discount	50%
Deal Price	$25
Overage %	14%
Commission %	40%
Cost of Goods Sold %	40%
Credit Card Fee %	2.5%
Buyer Mix Assumptions	
Unredeemed (Breakage) %	20%
Current Customer %	30%
New Customer %	50%
Repeat Visitor Assumptions	
Conversion to Repeat %	20%
Repeat Visits	2
Vouchers per Customer	1
Current Customers Already Going	25%

Gross Profit / Voucher	
Existing Customers	
Revenue from Groupon	$4.50
+ Revenue from Overage	$2.10
= Revenue from Existing Customers	$6.60
- COGS	$7.20
- Cannibalized Revenue	$1.65
= GP from Existing Customers	**($2.25)**
New Customers	
Revenue from Groupon	$7.50
+ Revenue from Overage	$3.50
= Revenue from New Customers	$11.00
- COGS	$11.89
= GP from New Customers	**($0.89)**
GP from Breakage	**$3.00**
Follow On Visits	
Revenue from Repeat Customers	$5.00
- COGS	$2.13
= GP from Follow On Visits	**$2.88**
Merchant Profit / Voucher	**$2.74**

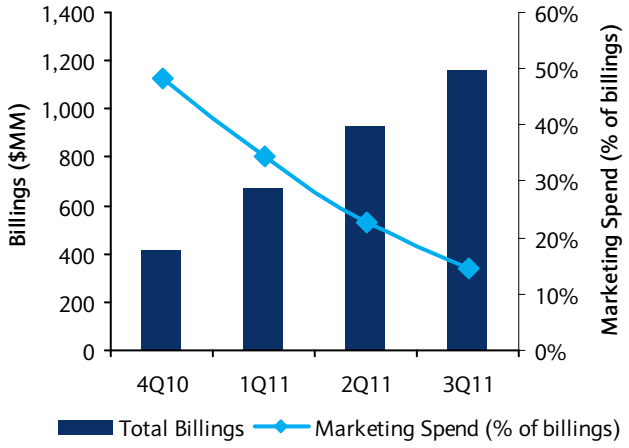
Source: Yipit, Barclays Capital estimates.

6. *Improving Profitability*

As Figure 12 shows, Groupon has demonstrated improving profitability both on an operating profit and free cash flow basis. The primary drivers of this improvement have been revenue growth and marketing expense leverage. [We note that the company has produced improving free cash flow while at the same time reducing average merchant payables days outstanding.] A key question is: can the company continue to grow revenue at a respectable rate while maintaining stable levels of marketing spend? Some data suggests they can. For instance, total marketing spend in 3Q11 represented just under 15% of gross billings, down from 23% in 2Q11 and 25% in 3Q10. While total marketing declined 20% sequentially in 3Q11 and 26% from 1Q11, billings still grew 25% sequentially in 3Q11. Another datapoint relates to the viral/organic growth in subscribers through friend referrals and that organically acquired subscribers have a tendency to be about 3x more active in terms of purchasing behavior than subscribers acquired through paid marketing channels.

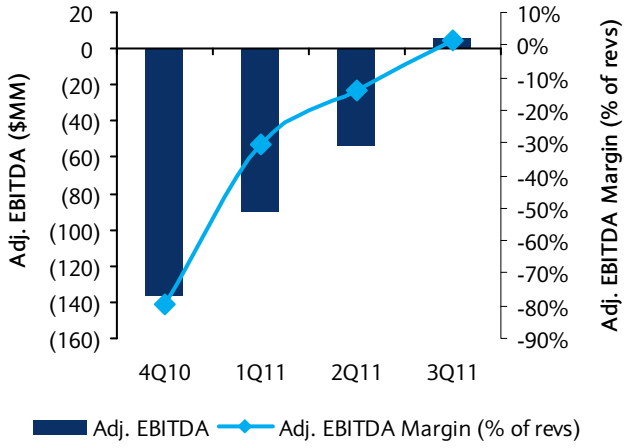
[9] *How Businesses Fare With Daily Deals*, dated 6/13/11, by Utpal M. Dholakia, Rice University

Figure 11: Revenue Growth & Marketing Leverage…



Source: Company reports.

Figure 12: …Drive Margin Improvement over LTM



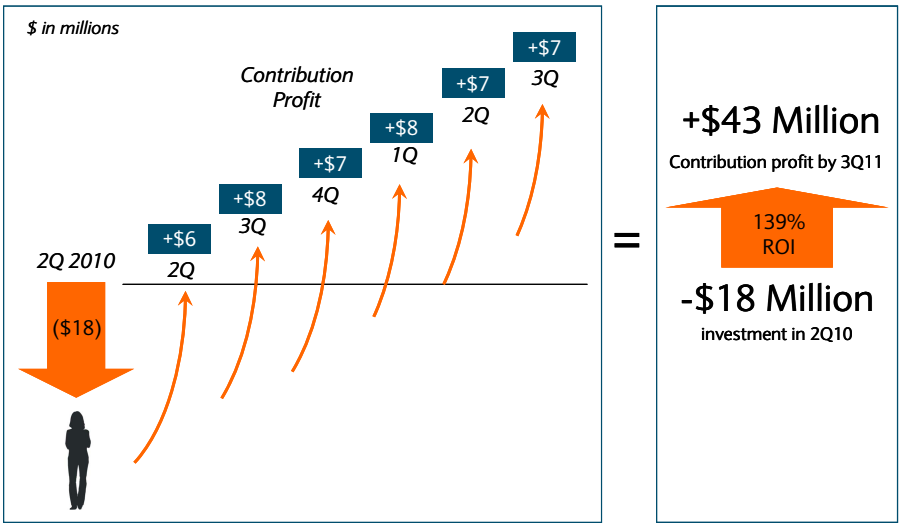
Source: Company reports.

7. LTV/Cohort Analysis Favorable

Closely related to Groupon's improving profitability (see section above) is the positive subscription acquisition metrics and lifetime value analysis that has been provided by the company on a subscriber cohort basis. To demonstrate the economics of their business model, Groupon compares the revenue generated from the North American subscribers they acquired in the second quarter of 2010 (which the company refers to as its Q2 2010 cohort) to the online marketing expenses incurred to acquire those subscribers, which is a portion of Groupon's total marketing expenses. The revenue attributed to these subscribers reflects the amount retained after paying the agreed upon percentage to the featured merchants for the Groupons purchased by the subscribers.

Specifically, the Q2 2010 cohort included 3.7 million subscribers that Groupon initially spent $18.0 million in online marketing to acquire in the second quarter of 2010. In that quarter, Groupon generated $12.8 million in revenue and about $6 million in contribution profit from the sale of approximately 1.2 million Groupons to these subscribers. Through September 30, 2011, Groupon generated an aggregate of $92.8 million in revenue and $43 million in contribution profit from the sale of approximately 9.4 million Groupons to the Q2 2010 cohort. In summary, Groupon spent $18.0 million in online marketing expense to acquire subscribers in the Q2 2010 cohort and generated $92.8 million in revenue and about $43 million in contribution profit from this group of subscribers over six quarters. The company has stated that this analysis is "illustrative of trends we have seen among our North American subscriber base," though we note that the analysis has only been provided for the North American segment.

Figure 13: Cohort Analysis—Significant Customer ROI*



* represents North America only
Source: Company reports, Barclays Capital

Investment Risks & Other Considerations

We have identified nine risk factors or other considerations:

1. *A Relatively New Industry*

While Groupon has posted impressive growth over a notably short period of time, the company has a limited operating history and operates in an industry that is still nascent and rapidly evolving. As a result, it is difficult to predict the future growth trajectory of the industry, and the company's continued success will be dependent on its ability to adapt to meet changing market dynamics. The newness of the industry segment and limited historical data also means that gauging future consumer and merchant behavior is more difficult. For instance, some investors and industry observers have wondered if we have, are or will witness "deal fatigue" by consumers given the rapid growth in consumer adoption.

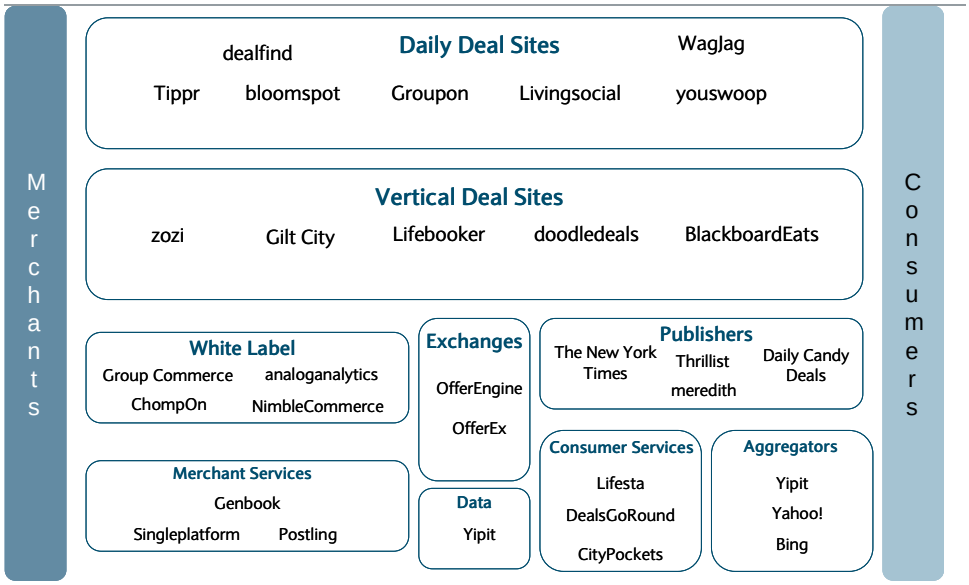
2. *Competition*

As discussed above, a key concern for investors is the perceived low barriers to entry in the deal/local commerce space and the related risks to Groupon from heightened competition. Specifically, heightened competition could have a potentially negative impact on subscriber growth, take rates, and merchant payable terms, among other inputs. The launch of hundreds of "Groupon clones" or competitor sites[10] has added fuel to this concern. That said, we note that according to third-party data[11], nearly one-third of all daily-deal sites nationwide have shut down or been sold so far this year[12], including high profile closures or sizable downsizings by Facebook, OpenTable and BuyWithMe. Moreover, we note that Groupon continues to post meaningful growth despite the overall competitive intensity and remains the largest player in the space with significant scale advantages and a large, well-

[10] Source: Yipit
[11] Source: Yipit
[12] Note: through September 30, 2011

established, global presence while few competitors have had any meaningful success or impact.

Figure 14: Daily Deal Ecosystem



Source: Yipit, Barclays Capital.
Note: selected companies shown above; not illustrative of entire ecosystem

3. *Potential Change in Merchant Deal Terms and/or a Product Mix Shift*

A change in merchant deal terms could negatively impact key business metrics like take rates, working capital, operating cash flow, etc. For example, to date, Groupon's merchant payment terms have benefited cash flow from operations, as merchant arrangements are generally structured so that cash is collected by Groupon upfront when consumers purchase a Groupon, and then Groupon subsequently pays merchants at a later date[13], which benefits working capital. If these payment terms change (e.g., Groupon offers merchants accelerated payment terms), the company's cash flow from operations could be negatively impacted. We developed a detailed sensitivity model using data from Groupon and competitors in order to determine the impact from various changes in payment terms. For conservatism, we note that we currently model a decline in merchant payable days to about 55 days in CY13, which represents a meaningful decline from the average for the first three quarters of 2011 of about 65 days. While our current forecasts already call for a meaningful decline in merchant payable days, any further decline from our current forecasts could impact free cash flow. As the figure below illustrates, an additional 10-day decline in merchant payable days over the next two years would negatively impact our cumulative free cash flow over the same period by about 10%, all else equal.

[13]In North America, Groupon typically pays merchants in installments within 60 days after the Groupon is sold while international merchants are not paid until the customer redeems the Groupon.

Figure 15: Impact of Merchant Payable Days on FCF

CY13 MP Days	Cumulative FCF Impact in '12/'13**
65 Days	10%
60 Days	5%
55 Days*	0%
50 Days	-5%
45 Days	-10%
40 Days	-15%
35 Days	-20%

Source: Barclays Capital estimates.
* represents current forecast
**Note: cumulative FCF impact represents total impact in both CY12 and CY13

A deal mix shift could also impact key metrics such as average Groupons sold per deal, average value per Groupon, take rates, etc. For example, some of the company's newer products (e.g. Now!, Goods, Getaways, etc.) have lower take rates (we estimate in the 15-20% range), and as such, a material product mix shift could negatively impact the company's overall blended take rates.

4. Margin Expansion Largely Contingent on Improved Marketing Efficiency

Total marketing expense was 39% of gross billings in 2010, largely as the company invested heavily in online marketing to grow its subscriber base. More recently, the company has also devoted a significant amount of marketing spend to its international markets. For the nine months ended September 30, 2011, marketing expense as a percentage of gross billings for the North America and International segments was 20% and 24%, respectively, with the company attributing the higher international percentage to the launch of new markets, which requires higher marketing costs to establish a strong initial subscriber base. Marketing spend as a percent of billings began to decline meaningfully in 1Q11 and has continued to decline through 3Q11 as the company focused more on leveraging its installed base of users to virally grow the subscriber base and as competition for subscribers lessened. Key to continued leverage and margin expansion will be the company's ability to continue optimizing and improving the efficiency of its marketing spending, and we expect marketing investments will decline as a percentage of billings as markets begin to mature and the company reaches subscriber saturation levels.

Figure 16: Customer Acquisition Trends Are Favorable

($ in millions except per share data)	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Online sales & marketing (PPC)*	$30	$40	$167	$180	$165	$121
/ Change in cumulative customers	1.5	2.2	4.4	6.8	7.3	6.4
= Cost to acquire new customers	$20	$18	$38	$27	$23	$19

Source: Company reports.
*Note: the calculation above includes some Barclays Capital estimates; for example, we estimate that online marketing expense represented approximately 71% of total marketing expense in 3Q11; change in cumulative customers derived from the company's prospectus

5. The Macro Concern

Some investors voice concern that Groupon's growth may be partly due to the economic environment that we have experienced for the past three-plus years. The simple thesis being that difficult economic conditions made merchants more willing to discount their services and products in order to keep the lights on, and that consumer interest in deals and saving money likewise increased. The concern is that the Groupon model is counter-cyclical and that the business could suffer if or when macro conditions change.

6. *Premium Relative Valuation*

As detailed in the valuation section below, we view Groupon's valuation as reasonable and attractive considering the company's long-term growth and profitability prospects. That said, the company does trade at a relative premium to broader market indices and to most comparable companies (see Figure 22). As a result, there is valuation or multiple risk in the event that broader markets and/or the company's comps get re-rated.

7. *Reading Too Much Between the Lines*

Based on our conversations with investors as well as our coverage of companies with similar circumstances (e.g., Vistaprint – VPRT, $33.80, 2-EW/1-Pos), we are somewhat concerned that Groupon's disclosure of multiple revenue drivers (e.g., conversion rate, average number of Groupons per customer, average price or billings per Groupon, and take rate), while welcomed from a modelling and transparency perspective, could also result in quarter-to-quarter confusion of underlying business trends and conditions. The reason is that movement in one or more of the metrics from quarter to quarter may not be an accurate reflection of underlying trends. For instance, a mix shift toward higher-priced product and service categories (e.g., travel) could cause pressure on blended take rates and average Groupons per customer but an increase in average billings per Groupon – and, more importantly, an increase in purchase frequency, conversion rate and revenue per customer over the long term.

8. *Class A/B Structure & Voting Control*

Groupon has a dual class structure, with Class B common having 150 votes per share and Class A having 1 vote. The company's founders (Lefkofsky, Keywell and Mason) control 100% of the Class B shares and 34% of the Class A shares (ex over-allotment), which represents 58% of the voting control. The management and board collectively own 60% of the outstanding common stock and control 74% of the votes.

9. *Lock-Up Expiration*

Groupon's first day of trading was Friday, November 4, 2011. The IPO of 40.25 million Class A common shares (all primary; includes 5.25 million over-allotment shares) represented an issuance of 6.3% of the company's total outstanding Class A & B common stock following the IPO[14]. Roughly 603 million shares, or 94% of the outstanding common stock (including 2.4 million Class B shares), are under 180-day lock-up agreements and, thus, not currently tradable. This has resulted in a relatively thin public float compared to its market capitalization (i.e., tradable float roughly equal to the 40.25 million shares issued in the IPO), with average daily traded volume over the last 30 days of 2.9 million shares. Following the lock-up expiration in early May, some shares coming off lock-up will be subject to Rule 144 selling restrictions.

[14] As of September 30, 2011, there were 640,653,352 shares of Class A common stock outstanding and 2,399,976 shares of Class B common stock outstanding (including IPO shares; i.e., assumes IPO of 40.25 million Class A occurred as of 9/30/11). These numbers exclude 18.4 million Class A shares issuable upon exercise of outstanding options and 10.6 million issuable upon the vesting of RSUs. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share.

Our Financial Model & Estimates

Estimate snapshot

As the figure below shows, we are forecasting continued strong billings and revenue growth for Groupon over the next several years, with our current forecasts calling for billings growth of 45% and 36% in 2012 and 2013, respectively, and revenue growth of 41% and 33% over the same periods. From a profitability perspective, we expect Groupon will show meaningful margin expansion over the next two years, largely due to continued strong revenue growth coupled with marketing leverage. As such, we currently forecast adjusted EBITDA margins of 17% and 32% in 2012 and 2013, respectively, up meaningfully from the company's adjusted EBITDA loss in the first nine months of 2011.

Figure 17: Groupon Estimate Snapshot

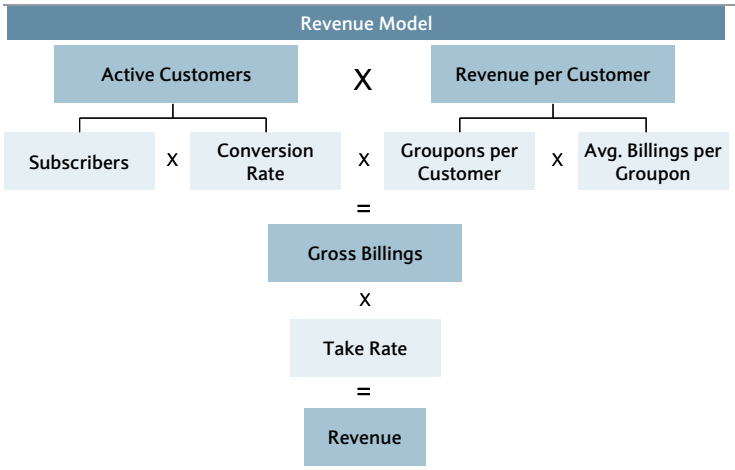
($ in millions except per share data)	1Q11	2Q11	3Q11	4Q11E	1Q12E	2Q12E	3Q12E	4Q12E	CY11E	CY12E	CY13E
Gross Billings	**668**	**929**	**1,157**	**1,216**	**1,337**	**1,397**	**1,468**	**1,545**	**3,970**	**5,748**	**7,808**
Revenue	**296**	**393**	**430**	**480**	**527**	**548**	**574**	**603**	**1,598**	**2,252**	**3,001**
Take Rate	44%	42%	37%	40%	39%	39%	39%	39%	40%	39%	38%
Adjusted EBITDA	**(91)**	**(54)**	**5**	**38**	**61**	**83**	**103**	**131**	**(102)**	**378**	**945**
Margin	-31%	-14%	1%	8%	12%	15%	18%	22%	-6%	17%	32%

Source: Barclays Capital estimates, company reports.

How Groupon makes money

Each day, Groupon e-mails its subscribers discounted offers for goods and services that are targeted by location and personal preferences, and the company generates revenues from the sale of these discounted offers, or "Groupons." Subscribers access and pay for these deals directly through the company's websites and mobile applications. Groupon's revenue is the purchase price paid by the customer for the deal, less an agreed upon percentage of the purchase price (aka take rate or revenue share) paid to the merchant who ran the deal. As the figure below illustrates, we model several drivers to forecast Groupon's revenues.

Figure 18: Groupon Revenue Model

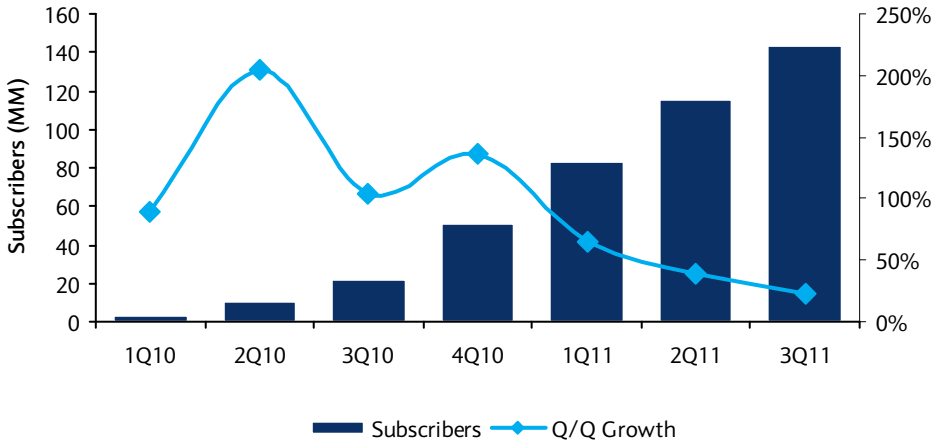


Source: Barclays Capital, company reports.

1. **Subscribers** – Groupon has posted significant growth in its subscriber base over a notably short period of time. Subscribers increased from approximately 2 million

at the end of 2009 to nearly 143 million in 3Q11, with quarterly, sequential, growth averaging 95% over the seven quarter period from 1Q10 to 3Q11. That said, as the figure below illustrates, growth in Groupon's subscriber base has started to slow more recently, as the company reaches saturation levels across its mature markets, a trend we expect to continue for the foreseeable future. As such, we conservatively model 19 million subscriber additions in 4Q11 (for context, the company has averaged 30 million subscriber additions for the last four quarters) and only 32 million subscriber additions in 2012, which compares to 92 million in the first nine months of 2011 and 49 million in 2010. We estimate that Groupon's current subscriber count represents roughly 10% of the Internet population in the markets in which it operates.

Figure 19: Groupon Subscribers



Source: Barclays Capital, company reports.

2. **Conversion rate** – We expect Groupon's revenue growth over the mid- to long term will increasingly be driven by improving conversion rates, or the percentage of subscribers that are converted into active, or purchasing customers[15]. Groupon has a history of rolling out innovative enhancements, categories and products aimed at improving subscriber engagement, experience and conversion. Examples include:

    a. Improved Deal Targeting – Serving the right deal to the right customer at the right time is key to improving customer satisfaction and conversion. Subscribers can, for example, set their deal preferences based on the types and location of deals they want to receive (e.g., subscribers can identify themselves as a "Foodie" or "Doityourselfer"), and leveraging this data, Groupon can serve more highly targeted deals that better match consumers with deals that are more relevant to their specific interests and/or locations.

    b. New Deal Categories (e.g., Getaways, Live and Goods) – New category launches like Getaways, Live and Goods have extended Groupon's reach to a broader base of subscribers.

[15] Subscribers x conversion rate = TTM active customers, or those subscribers that have made a purchase within the last 12 months.

c. Real-Time Deals with Groupon Now! – Groupon's on-demand, location-based marketplace—Groupon Now!—drives conversion by serving up a number of deals across a variety of categories, all in real-time when consumers are in-market, thus increasing the likelihood they will purchase a deal.

We believe that Groupon has and will continue to show a meaningful improvement in conversion rate as the company reaches subscriber saturation levels across markets, and as a result, increasingly focuses on improving conversion and monetization of its existing subscriber base. As discussed above, over time, we expect conversion will continue to improve as the company continues to expand deal categories, products and services, thereby driving greater selection and deal relevancy and enabling Groupon to better target offers to consumers.

3. **Average billings per Groupon** – Average billings per Groupon is largely dependent on deal mix. For example, average billings per Groupon increased to about $35 in 3Q11 from an average of $25 the preceding four quarters, as the company launched higher AOV[16] products (e.g. Getaways, Goods, etc.) in the quarter. That said, we note that our current forecasts call for modest declines in average billings per Groupon over the next several years, which could prove conservative in our view if higher AOV products continue to gain traction.

4. **Take rate** – Groupon's take rate is the ratio of revenues to gross billings, or the percentage of gross billings the company keeps after amounts paid to local merchants. Groupon's take rate has averaged 41% over the last four quarters. We note that 3Q11 take rates declined by approximately 500 basis points sequentially, which the company attributes to heavy investments in new products like Groupon Now!, Live and Getaways. In 4Q11, we expect take rates will rebound to more normal, historical levels with our current forecasts calling for a 40% take rate in 4Q11. Over the mid- to long term, however, given the overall competitive intensity of the industry and given that take rates could be impacted by deal mix—for example, new "lower take rate" deal products have the potential to scale meaningfully over the mid to long term, which could pressure overall blended take rates—we believe it is prudent to model modest declines in overall take rates. As such, we currently forecast take rates to decline from 40% in 2011 to 39% and 38% in 2012 and 2013, respectively.

Figure 20: Groupon Revenue Drivers

Revenue Model	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Subscribers (MM)	**3.4**	**10.4**	**21.4**	**50.6**	**83.1**	**115.7**	**142.9**
x Conversion rate	25%	23%	21%	18%	19%	19%	20%
= TTM Active Customers (MM)*	**1**	**2**	**5**	**9**	**16**	**22**	**28**
x Avg # of Groupons / customer (as stated)	2.0	1.7	1.8	1.8	1.8	1.5	1.2
= Total Groupons in period (MM)	**1.8**	**4.1**	**8.2**	**16.2**	**28.1**	**32.5**	**33.0**
x Avg billings per Groupon	$25.21	$22.50	$23.58	$25.58	$23.78	$28.57	$35.06
= Total billings in period ($MM)	**$44.4**	**$91.4**	**$194.3**	**$415.3**	**$668.2**	**$929.2**	**$1,157.2**
x Take rate	45.7%	42.3%	42.1%	41.5%	44.2%	42.2%	37.2%
= Total revenue in period ($MM)	**$20.3**	**$38.7**	**$81.8**	**$172.2**	**$295.5**	**$392.6**	**$430.2**

Source: Barclays Capital estimates, company reports.
*Note: represents Barclays Capital estimate; we estimate TTM active customers represent roughly 95% of cumulative customers

[16] Average order value

Margins and FCF

Groupon has demonstrated improving adjusted EBITDA margins over the last 12 months, largely as a result of revenue growth and marketing expense leverage, a trend that we expect will continue, and as such, our current forecasts call for the company to generate positive adjusted EBITDA of $378 million and $945 million in CY12 and CY13, respectively, representing adjusted EBITDA margins of 17% and 32%, respectively, and a material improvement from the company's adjusted EBITDA loss of nearly $140 million in the first nine months of 2011. Additionally, we note that with relatively low capital expenditure requirements and merchant payable terms that have benefitted operating cash flow to date, Groupon generates significant free cash flow. As discussed above though, merchant payable days have been declining, a trend we expect to continue over the next several years and are modelling as such (see the Investment Risks & Other Considerations section above for a detailed discussion of the potential impact of declining merchant payable days on our free cash flow forecasts). Despite this, we still expect the company will continue to post meaningful free cash flow, with our current forecasts calling for free cash flow to reach nearly $400 million in CY12 and about $900 million in CY13.

Balance sheet & other considerations

Like most of the companies in our universe, Groupon has a clean and well-funded balance sheet. With over $750 million in net proceeds from the November 2011 IPO, we estimate Groupon will end 4Q11 with over $1 billion in cash & equivalents and no debt (or ~$1.60 in net cash/share). Given our forecast for positive and meaningful FCF, we forecast the company will end CY12 with $1.4 billion in net cash (or over $2/share).

Valuation Analysis

We utilize a consistent valuation approach across our universe, arriving at price targets for each of our companies under coverage by taking a weighted average of the implied price targets derived from 1) comparable company (comp) analysis and 2) discounted cash flow (DCF) analysis.

Comparable company analysis

We think comp analysis is helpful, but the standard approach often ignores important differences in growth, profitability and risk between the target company and its comps. In order to incorporate these quantitative (growth and profitability) and qualitative (up- and down-side risk) factors, we have created a relative scorecard system. In addition to scoring the company's revenue growth and profitability (adjusted EBITDA margin) relative to its comps, we assigned a score for five qualitative factors that we believe are keys to assessing (upside and downside) risk. We use a scale of 1 to 5, with 3.0 always being the average for the comp group. The target company's relative score then determines if it receives a premium or discount multiple to the comps.

Our scoring methodology for Groupon yields an overall weighted average score of 3.2 (see figure below) driven by high scores awarded for growth, execution and business optionality and below-average scores for profitability and competitive intensity of the industry. Given this above-average overall score, we believe Groupon deserves a premium multiple versus its comp group, which in our view, consists of e-commerce companies and online marketplaces. Groupon's comps collectively trade at 18x EV/2012 EBITDA. Groupon currently trades at 38x but is growing close to 10 times faster in 2011 and nearly 2 times faster in 2012 with the potential for significant margin expansion. As the figure below

shows, we arrive at our $27 price target for GRPN, which is the weighted average of 1) 19x the company's 2013 adjusted EBITDA, which yields $28, and 2) our DCF which yields $25 based on a WACC of 12% and a 9.5x terminal EV/adjusted EBITDA multiple.

Figure 21: Barclays Capital Scorecard

Company	Growth	Profitability	End-Market Attractiveness	Execution	Predictability	Competitive Landscape	Business Optionality	Weighted Average
	Score: 1-5 Low-High	*Score: 1-5 Low-High*	*Score: 1-5 Low-High*	*Score: 1-5 Weak-Strong*	*Score: 1-5 Un-Highly Predict.*	*Score: 1-5 Strong-Weak*	*Score: 1-5 Weak-Strong*	
Groupon	5.0	2.5	3.0	3.3	2.5	1.5	3.3	3.2

* To derive our score, we assign a 50% weight to the two quantitative measures (growth & profitability) and a 50% weight to the remaining five qualitative measures
Source: Barclays Capital estimates.

Figure 22: Groupon Comparable Company Analysis

Company	Price	Market Cap	Enterprise Value	CY12 Multiples EV/Rev	CY12 Multiples EV/EBITDA	10/11 Change Rev	10/11 Change EBITDA	11/12 Change Rev	11/12 Change EBITDA	EBITDA Margin CY11E	EBITDA Margin CY12E
All $ in MM except per share data											
E-Commerce and Marketplaces											
OpenTable Inc.	$35.99	$881	$801	4.8x	12.2x	42%	62%	20%	21%	39%	39%
Amazon.com Inc.	$189.52	$86,232	$80,118	1.2x	29.3x	42%	nm	33%	42%	4%	4%
Shutterfly Inc.	$25.99	$977	$909	1.5x	6.6x	57%	38%	29%	48%	19%	22%
MercadoLibre Inc.	$90.65	$4,001	$3,875	9.9x	26.4x	37%	36%	31%	36%	36%	38%
priceline.com Inc.	$475.39	$23,667	$21,751	4.0x	11.3x	40%	65%	25%	29%	34%	35%
Netflix Inc.	$75.26	$3,951	$3,820	1.1x	20.0x	47%	25%	14%	nm	14%	5%
Low:				1.1x	6.6x	37%	25%	14%	21%	4%	4%
Overall Mean:				**3.7x**	**17.6x**	**44%**	**45%**	**25%**	**35%**	**24%**	**24%**
Groupon, Inc.				**6.3x**	**37.8x**	**411%**	**nm**	**41%**	**nm**	**-6%**	**17%**
High:				9.9x	29.3x	57%	65%	33%	48%	39%	39%

Prices as of 12/12/11
Consensus estimates used for non-rated companies
Source: FactSet, Barclays Capital estimates.

Figure 23: Blended Price Target Calculation

($ in millions except per-share data)

EV / Adj. EBITDA	
2013E Adj. EBITDA	945
x Target Multiple	19.0x
= Enterprise Value (EV)	**17,959**
Plus: Net cash (CY12E)	1,442.0
= Implied Equity Value	**19,401**
/ Shares Outstanding (CY12E)	690.2
Equity Value per Share	**$28**

Discounted Cash Flow Analysis	
Assumptions:	
Terminal EBITDA Multiple	9.5x
Discount Rate	12.0%
Enterprise Value	**15,887**
Plus: Net cash (CY12E)	1,442.0
= Implied Equity Value	**17,329**
/ Shares Outstanding (CY12E)	690.2
Equity Value per Share	**$25**

Blended Price Target	
Simple Average	**$27**

Source: Barclays Capital estimates.

Groupon Model Pages

Figure 24: Groupon Income Statement

($ in millions except per share data)	1Q11	2Q11	3Q11	4Q11E	1Q12E	2Q12E	3Q12E	4Q12E	CY10	CY11E	CY12E	CY13E
Gross Billings	**668**	**929**	**1,157**	**1,216**	**1,337**	**1,397**	**1,468**	**1,545**	**745**	**3,970**	**5,748**	**7,808**
YoY change	nm	916%	496%	193%	100%	50%	27%	27%	--	433%	45%	36%
QoQ change	61%	39%	25%	5%	10%	5%	5%	5%	--	--	--	--
Revenue	**296**	**393**	**430**	**480**	**527**	**548**	**574**	**603**	**313**	**1,598**	**2,252**	**3,001**
Take Rate	44%	42%	37%	40%	39%	39%	39%	39%	42%	40%	39%	38%
YoY change	nm	nm	426%	179%	78%	40%	33%	26%	--	411%	41%	33%
Cost of revenue	40	55	68	74	80	80	82	84	43	237	324	402
Marketing	230	212	170	168	171	163	161	151	290	780	646	599
SG&A	125	188	194	209	228	236	244	253	161	716	960	1,120
SBC	19	39	3	54	47	47	47	47	36	115	188	226
Other	0	0	(5)	0	0	0	0	0	203	(5)	0	0
Total Operating Expenses	**413**	**494**	**430**	**506**	**525**	**526**	**533**	**534**	**733**	**1,843**	**2,118**	**2,348**
Income (loss) from operations	**(117)**	**(101)**	**(0)**	**(26)**	**2**	**23**	**41**	**69**	**(420)**	**(244)**	**134**	**653**
Margin	-40%	-26%	0%	-5%	0%	4%	7%	11%	-134%	-15%	6%	22%
Interest and other income (expense), net	1	0	8	1	1	1	1	2	0	11	5	8
Equity method investments	(1)	(8)	(11)	(6)	(3)	0	0	0	0	(26)	(3)	0
Other	0	0	0	0	0	0	0	0	0	0	0	0
Income/(Loss) before taxes	**(117)**	**(108)**	**(3)**	**(31)**	**(0)**	**24**	**42**	**70**	**(420)**	**(259)**	**136**	**661**
Provision (benefit) for income taxes	(3)	1	11	0	0	10	17	28	(7)	10	55	231
Net income (loss)	**(114)**	**(110)**	**(14)**	**(31)**	**(0)**	**14**	**25**	**42**	**(413)**	**(269)**	**82**	**430**
Loss attributable to NCI	(11)	(9)	(4)	(2)	0	0	0	0	(24)	(26)	0	0
Other charges (benefits)	69	12	13	0	0	0	0	0	67	94	0	0
Net income (loss) attributable to common	**(171)**	**(113)**	**(24)**	**(29)**	**(0)**	**14**	**25**	**42**	**(456)**	**(337)**	**82**	**430**
GAAP EPS	**($0.27)**	**($0.18)**	**($0.04)**	**($0.05)**	**($0.00)**	**$0.02**	**$0.04**	**$0.06**	**--**	**($0.54)**	**$0.12**	**$0.60**
Adjusted EPS	**($0.15)**	**($0.11)**	**($0.03)**	**$0.04**	**$0.07**	**$0.06**	**$0.08**	**$0.10**	**($0.31)**	**($0.26)**	**$0.31**	**$0.80**
Adjusted EBITDA	**(91)**	**(54)**	**5**	**38**	**61**	**83**	**103**	**131**	**(168)**	**(102)**	**378**	**945**
Margin	-31%	-14%	1%	8%	12%	15%	18%	22%	-54%	-6%	17%	32%

Source: Barclays Capital estimates, company reports.

Figure 25: Groupon Balance Sheet

($ in millions except per share data)	1Q11	2Q11	3Q11	4Q11E	1Q12E	2Q12E	3Q12E	4Q12E	CY10	CY11E	CY12E	CY13E
Assets												
Cash and cash equivalents	208.7	225.1	243.9	1,066.4	1,141.4	1,224.7	1,316.3	1,442.0	118.8	1,066.4	1,442.0	2,341.2
Account receivable, net	60.7	99.7	109.9	139.9	153.8	160.8	177.0	164.3	42.4	139.9	164.3	160.4
Prepaid expenses and other current	21.3	50.9	99.3	96.2	99.7	94.6	90.7	90.8	12.6	96.2	90.8	70.4
Total current assets	**290.7**	**375.7**	**453.1**	**1,302.4**	**1,395.0**	**1,480.1**	**1,584.0**	**1,697.1**	**173.9**	**1,302.4**	**1,697.1**	**2,572.1**
PP&E	26.9	36.5	41.4	47.0	62.9	66.5	69.1	72.2	16.5	47.0	72.2	111.7
Goodwill	154.4	162.8	169.2	169.2	169.2	169.2	169.2	169.2	132.0	169.2	169.2	169.2
Intangible assets, net	43.1	39.5	50.1	48.3	45.7	43.0	40.2	37.3	40.8	48.3	37.3	25.8
Deferred income taxes, non-current	15.0	14.1	13.4	13.4	13.4	13.4	13.4	13.4	14.5	13.4	13.4	13.4
Other	11.2	9.0	55.9	55.9	55.9	55.9	55.9	55.9	3.9	55.9	55.9	55.9
Total long-term assets	**250.7**	**262.0**	**329.9**	**333.7**	**347.0**	**347.8**	**347.6**	**347.9**	**207.7**	**333.7**	**347.9**	**375.9**
Total Assets	**541.4**	**637.7**	**783.0**	**1,636.2**	**1,742.0**	**1,828.0**	**1,931.6**	**2,045.0**	**381.6**	**1,636.2**	**2,045.0**	**2,948.0**
Liabilities												
Accts payable	37.9	49.0	40.3	56.4	62.1	65.1	68.6	72.3	57.5	56.4	72.3	92.2
Accrued merchants payable	290.7	391.9	465.6	491.6	532.6	548.8	568.4	588.9	162.4	491.6	588.9	724.4
Accrued expenses	130.2	164.7	156.6	187.3	199.5	205.0	213.3	213.6	98.3	187.3	213.6	305.2
Due to related parties	0.9	0.3	0.3	0.3	0.3	0.3	0.3	0.3	13.3	0.3	0.3	0.3
Deferred income taxes, current	15.0	13.1	12.6	12.6	12.6	12.6	12.6	12.6	17.2	12.6	12.6	12.6
Other	44.8	61.7	91.4	91.4	91.4	91.4	91.4	91.4	21.6	91.4	91.4	91.4
Total current liabilities	**519.5**	**680.6**	**766.7**	**839.5**	**898.5**	**923.1**	**954.6**	**979.1**	**370.4**	**839.5**	**979.1**	**1,226.0**
Deferred income taxes, non-current	1.4	2.2	5.1	5.1	5.1	5.1	5.1	5.1	0.6	5.1	5.1	5.1
Other non-current liabilities	13.4	23.5	26.8	26.8	26.8	26.8	26.8	26.8	1.0	26.8	26.8	26.8
Total Liabilities	**534.3**	**706.3**	**798.6**	**871.5**	**930.4**	**955.0**	**986.5**	**1,011.0**	**372.0**	**871.5**	**1,011.0**	**1,257.9**
Total Stockholders' Equity	7.1	(68.6)	(15.6)	764.7	811.6	872.9	945.1	1,034.0	9.5	764.7	1,034.0	1,690.1
Total Liabilities & Stockholders' Equity	**541.4**	**637.7**	**783.0**	**1,636.2**	**1,742.0**	**1,828.0**	**1,931.6**	**2,045.0**	**381.6**	**1,636.2**	**2,045.0**	**2,948.0**

Source: Barclays Capital estimates, company reports.

Figure 26: Groupon Cash Flow Statement

($ in millions except per share data)	1Q11	2Q11	3Q11	4Q11E	1Q12E	2Q12E	3Q12E	4Q12E	CY10	CY11E	CY12E	CY13E
Operating Activities												
Net (loss)/income	(113.9)	(109.8)	(14.4)	(30.7)	(0.1)	14.3	25.4	42.2	(413.4)	(268.8)	81.7	429.7
Depreciation & amortization	7.6	8.1	7.1	9.2	12.1	13.7	14.9	16.1	13.0	32.0	56.7	65.7
Stock-based compensation	18.9	38.7	3.3	54.4	47.0	47.0	46.9	46.7	36.2	115.3	187.6	226.4
Deferred income taxes	(3.4)	1.1	2.8	0.0	0.0	0.0	0.0	0.0	(7.3)	0.6	0.0	0.0
Changes in working capital	111.8	95.2	79.0	45.9	41.4	22.8	19.2	37.1	255.2	331.9	120.5	271.2
Other	(3.0)	6.6	(6.3)	0.0	0.0	0.0	0.0	0.0	203.3	(2.7)	0.0	0.0
Cash From Operating Activities	**17.9**	**40.0**	**71.5**	**78.8**	**100.4**	**97.8**	**106.2**	**142.1**	**86.9**	**208.3**	**446.5**	**992.9**
Investing Activities												
Purchase of property and equipment	(11.0)	(10.2)	(8.6)	(10.0)	(22.0)	(11.0)	(11.0)	(12.5)	(14.7)	(39.8)	(56.5)	(75.0)
Acquisitions, net of cash acquired	(2.8)	(0.9)	(8.9)	0.0	0.0	0.0	0.0	0.0	3.8	(12.6)	0.0	0.0
Purchases of intangible assets	(0.2)	(0.1)	(14.8)	(3.0)	(3.3)	(3.5)	(3.7)	(3.9)	(0.9)	(18.1)	(14.4)	(18.7)
Other	(30.3)	(15.0)	(17.9)	0.0	0.0	0.0	0.0	0.0	(0.1)	(63.2)	0.0	0.0
Cash From Investing Activities	**(44.3)**	**(26.2)**	**(50.2)**	**(13.0)**	**(25.3)**	**(14.5)**	**(14.7)**	**(16.4)**	**(11.9)**	**(133.7)**	**(70.9)**	**(93.7)**
Financing Activities												
Issuance of stock, net of issuance costs	509.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	584.7	509.7	0.0	0.0
Loans from related parties	(14.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	(14.4)	0.0	0.0
Preferred stock distributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchase of common stock	(348.6)	(5.0)	0.0	0.0	0.0	0.0	0.0	0.0	(503.2)	(353.6)	0.0	0.0
Proceeds from exercise of stock options	0.3	0.9	1.0	0.0	0.0	0.0	0.0	0.0	0.2	2.3	0.0	0.0
Dividends paid on common and preferred stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1.3)	0.0	0.0	0.0
Redemption of preferred stock	(35.0)	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0	(55.0)	(35.2)	0.0	0.0
Proceeds from sale of common stock	0.0	0.1	0.0	756.7	0.0	0.0	0.0	0.0	0.0	756.8	0.0	0.0
Other	0.0	3.5	7.8	0.0	0.0	0.0	0.0	0.0	0.0	11.3	0.0	0.0
Cash From Financing Activities	**112.1**	**(0.4)**	**8.6**	**756.7**	**0.0**	**0.0**	**0.0**	**0.0**	**30.4**	**877.0**	**0.0**	**0.0**
Effect of exchange rates	4.1	3.0	(11.1)	0.0	0.0	0.0	0.0	0.0	1.1	(4.0)	0.0	0.0
Net increase/(decrease) in cash	**89.9**	**16.4**	**18.8**	**822.5**	**75.0**	**83.3**	**91.5**	**125.7**	**106.5**	**947.6**	**375.6**	**899.2**
Cash, beginning of period	118.8	208.7	225.1	243.9	1066.4	1141.4	1224.7	1316.3	12.3	118.8	1,066.4	1,442.0
Cash, end of period	**208.7**	**225.1**	**243.9**	**1066.4**	**1141.4**	**1224.7**	**1316.3**	**1442.0**	**118.8**	**1,066.4**	**1,442.0**	**2,341.2**

Source: Barclays Capital estimates, company reports.

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Primary Stocks (Ticker, Date, Price)

Groupon, Inc. (GRPN, 13-Dec-2011, USD 23.32), 1-Overweight/1-Positive

Other Material Conflicts

Barclays Capital is providing investment banking services to Motorola Mobility in the potential sale of the company to Google.

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In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

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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.

2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

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U.S. Internet

Amazon.com, Inc. (AMZN)	AOL Inc. (AOL)	Demand Media, Inc. (DMD)
eBay, Inc. (EBAY)	Expedia, Inc. (EXPE)	Google Inc. (GOOG)
Groupon, Inc. (GRPN)	HomeAway, Inc. (AWAY)	IAC/InterActiveCorp (IACI)
LinkedIn Corporation (LNKD)	Netflix Inc. (NFLX)	OpenTable, Inc. (OPEN)
Priceline.com Inc. (PCLN)	QuinStreet, Inc. (QNST)	ReachLocal, Inc. (RLOC)
Shutterfly, Inc. (SFLY)	Vistaprint N.V. (VPRT)	WebMD Health Corp. (WBMD)
Yahoo! Inc. (YHOO)		

Distribution of Ratings:

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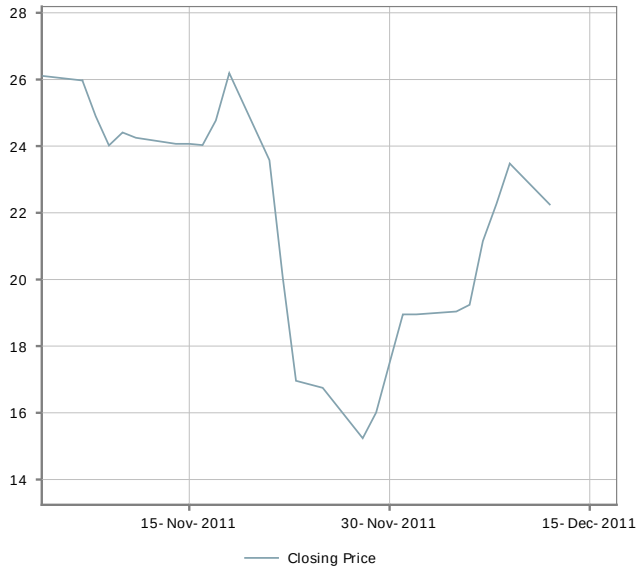
IMPORTANT DISCLOSURES CONTINUED

Groupon, Inc. (GRPN)

	Stock Rating	Sector View
USD 23.32 (13-Dec-2011)	**1-OVERWEIGHT**	**1-POSITIVE**

Rating and Price Target Chart - USD (as of 13-Dec-2011) **Currency=USD**



Date	Closing Price	Rating	Price Target

Link to Barclays Capital Live for interactive charting

Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of Groupon, Inc. in the previous 12 months.

Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Groupon, Inc. in the past 12 months.

Barclays Bank PLC and/or an affiliate trades regularly in the securities of Groupon, Inc..

Groupon, Inc. is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: We arrive at our $27 price target for GRPN, which is the weighted average of 1) 19x EV/2013 adj. EBITDA ($945MM), which yields $28 and 2) our DCF which yields $25 based on a WACC of 12% and a 9.5x 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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