

Groupon, Inc.

NASDAQ: GRPN

Groupon Heeds Prescience Point's Call for More Disclosure About its Hidden Asset; New Disclosure Confirms Massive Value and Paves Way for Multiple Bullish Catalysts

In response to our campaign for transparency, Groupon, Inc. ("GRPN" or the "Company") yesterday disclosed it holds a 2.4% ownership interest in SumUp. The new disclosure confirms our thesis of the existence of a previously hidden asset of tremendous value on Groupon's balance sheet. Based on a 2.4% ownership interest and recent news about SumUp's pending funding round, we estimate this stake alone to be worth ~\$15/share, greater than half of Groupon's current market capitalization. Increasing certainty about the value of the SumUp stake accelerates the path for multiple bullish catalysts which will drive Groupon's share price toward fundamental value, or \$70-\$100/share, 2.3x-3.3x the current share price.

Summary Highlights:

- On 12/21/21 we published our [initial research report](#), in which we broke news by shedding light on a 'hidden' asset of tremendous value sitting on Groupon's balance sheet. The materiality of the asset – Groupon's stake in SumUp – was confirmed on 01/26/22, when Bloomberg reported that SumUp is seeking to raise capital at a \$22.5 billion valuation. On 01/31/22 we published an [update report](#), calling on Groupon to publicly disclose its ownership stake in SumUp as a duty to its shareholder base.
- On 02/01/22, Groupon responded to our calls for transparency, disclosing a 2.4% stake in SumUp in an update to the [Frequently Asked Questions](#) ("FAQs") section of its investors relations website.
- Based on these recent developments, we are able to firm up our estimate of the once 'hidden' asset. Groupon's stake is worth ~500 million or ~\$15/share, more than half of the Company's current market capitalization
- Groupon's core business + its SumUp stake is worth at least \$69.92/share, with significant upside. Excluding the value of SumUp, the market is valuing Groupon's core business at just 2.8x and 2.5x consensus FY 22 and FY 23 adj. EBITDA, respectively; such compressed valuations are unsustainable in light of a core business that has bottomed and is poised for reaccelerating growth and profitability (Groupon's core business has historically traded at an average 8.7x forward EBITDA)
- Certainty about the value of Groupon's stake in SumUp accelerates the path for more positive catalysts including 1) increased price targets from sell side analysts, 2) incremental investments from value and arbitrage funds, 3) covering by short sellers which are more crowded than they appear, and 4) the announcement of a plan for monetization of GRPN's stake in SumUp

Groupon's public disclosure is extremely positive news as it confirms that the Company's stake in SumUp has significant value. In our [initial report](#), based on an assumed ownership interest of 5% and a SumUp entity valuation range of between \$5 billion to \$10 billion, we estimated Groupon's SumUp stake was worth \$268.6 million in our base case and \$483.7 million in our bull case. While the Company's actual 2.4% ownership interest is below our original estimate of 5%, the proposed valuation of \$22.5 billion for SumUp's latest funding round is more than twice the top-end of our estimated valuation range. On balance, our estimated valuation for the Company's SumUp stake was spot-on: Based on GRPN's 2.4% ownership interest and the proposed \$22.5 billion valuation for SumUp, with incremental dilution, we calculate that Groupon's SumUp stake is worth ~\$500 million or ~\$15/share, exceeding the top-end of our original bull case and comprising more than half of the Company's current market capitalization. Even if a less bullish scenario materializes, for example in which SumUp closes its raise at a \$15.0 billion valuation, and accounting for incremental dilution, Groupon's stake would still be worth ~\$330 million, well above our original base case estimate and over a third of Groupon's market capitalization.

DATE OF REPORT
02/02/22

SHARE PRICE
\$30.44

AVG DAILY VOL
2.0 mil

MARKET CAP
\$899 mil

SHORT INTEREST
13.9%

Groupon's confirmation of its SumUp stake removes any uncertainty regarding its materiality, and we expect this news will be the spark that sets off a series of positive catalysts that will drive Groupon shares higher in short order.¹ These catalysts include:

1. Obviously coming upgrades and increased price targets from sell-side analysts
2. Incremental buying from value and arbitrage funds
3. Significant covering by shorts far more crowded than indicated by short interest data
4. The announcement of a plan for monetization of GRPN's stake in SumUp

Based on Groupon's new disclosure, we are revising our estimates for Groupon's fair market value. We value Groupon's core business at 6.0x (above current levels, but well below the historical average) our FY 23 adj. EBITDA of \$286.6 million, or \$55.35/share + the SumUp stake at \$499.5 million, or \$14.58/share, resulting in a **base case price target of \$69.92**. A more bullish case, assuming FY 23 adj. EBITDA of \$340.9 million and an 8.0x multiple (in-line with historical levels) + \$14.58/share for SumUp, results in a **bull case price target of \$99.32**.

Groupon Shares Are Worth Multiples of the Current Price		
(\$ in millions)	Base	Bull
FY 23 adj. EBITDA	\$286.6	\$340.9
EV/EBITDA multiple	6.0x	8.0x
Enterprise value	\$1,719.6	\$2,727.1
Net cash	\$177.0	\$177.0
Equity value	\$1,896.6	\$2,904.1
Shares outstanding (diluted)	34.3	34.3
Core business share price [a]	\$55.35	\$84.75
Value of Groupon's SumUp investment	\$499.5	\$499.5
Shares outstanding (diluted)	34.3	34.3
SumUp investment share price [b]	\$14.58	\$14.58
Price Target [a] + [b]	\$69.92	\$99.32
Current price	\$30.44	\$30.44
% Upside	129.7%	226.3%

Source: Prescience Point estimates

[b] SumUp investment price-per-share assumes a €20 billion total SumUp valuation (~\$22.5 billion) and a 2.2% GRPN stake (i.e., some incremental dilution from the latest raise). Share count assumes ~1.0 mil of additional share dilution in FY 22 and FY 23.

¹ See Appendix A for more detail on these catalysts.

Appendix A: Pending Catalysts

- **Upgrades and increased price targets from sell-side analysts:** Now that the significant value of SumUp has been confirmed, we believe that sell-side analysts covering Groupon will have no choice but to incorporate SumUp in their valuation models, which should result in a series of analyst upgrades and increased price targets. The gross negligence of sell-side analysts covering Groupon has been confounding. Although Groupon itself wrote up the balance sheet value of its stake in SumUp to \$120m, none of these analysts factor it into their enterprise valuations. When SumUp's new funding round closes, Groupon will have to write up its stake once again and by a massive amount. It's inexcusable, even inept, for the analysts at JP Morgan ([Mr. Douglas Anmuth](#)), Barclays ([Mr. Trevor Young](#)), and Wedbush ([Mr. Ygal Arounian](#)) to have missed something this big.
- **Incremental buying from value and arbitrage funds:** As discussed earlier, at the current share price of \$30.44, Groupon is trading near trough multiples on trough earnings inclusive of the SumUp stake. Excluding SumUp, Groupon is trading <3.0x EV/EBITDA. As such, we believe Groupon is an ideal investment for both value and arbitrage investors. The recent media attention around the SumUp stake has drawn more eyes to Groupon, and we expect this increased attention will soon result in a significant increase in investments from value and arbitrage funds.
- **Significant covering by crowded shorts who have overplayed their hand:** In our original [report](#), we discussed that Groupon's short interest was more crowded than it appeared: 1) Groupon co-founder Mr. Eric Lefkofsky owned ~16.3% of the float had not sold any shares since 2019 despite opportunities to divest at multiples of the current share price; 2) Over the last several months, Groupon's shareholder base has become increasingly concentrated with large new investors that share our enthusiasm and conviction in Groupon's near and long-term business prospects. We estimate that ~45% of the current float is held by Mr. Lefkofsky and investment managers who share our conviction in Groupon's business. As such, we believe the current short interest of 13.9% of total float is significantly under-represents how crowded the shorts in this name are; we believe short covering will catalyze further upside momentum.
- **Monetization plan:** After publicly confirming its ownership percentage in SumUp, we believe the Company should also begin to discuss with the market a path toward monetization. In our original [report](#), we hypothesized that SumUp would look to IPO within the next three years. Given the size of this equity funding round (€500 million) compared to previous equity rounds (less than \$20 million), we believe a SumUp IPO is not a distant event and that Groupon should seek to its stake via SumUp's IPO. After monetization, the Company should consider issuance of a special dividend and/or initiate a large share repurchase program.

Disclaimer

This research report expresses our research opinions, which we have based upon certain facts, all of which are based upon publicly available information, and all of which are set out in this research report. Any investment involves substantial risks, including complete loss of capital. Any forecasts or estimates are for illustrative purpose only and should not be taken as limitations of the maximum possible loss or gain. Any information contained in this report may include forward looking statements, expectations, and projections. You should assume these types of statements, expectations, and projections may turn out to be incorrect for reasons beyond Prescience Point Capital Management's ("Prescience Point") control. This report should only be considered in its entirety. Each section should be read in the context of the entire report, and no section, paragraph, sentence or phrases is intended by its authors to stand alone or to be interpreted in isolation without reference to the rest of the report. The section headings contained in this report are for reference purposes only and may only be considered in reference to the detailed statements of opinions in their respective sections. This is not investment advice nor should it be construed as such. Use of Prescience Point's research is at your own risk. You should do your own research and due diligence before making any investment decision with respect to securities covered herein.

You should assume that as of the publication date of any report or letter, Prescience Point (possibly along with or through our members, partners, affiliates, employees, and/or consultants) along with our clients and/or investors has a long position in all stocks and warrants (and/or are long call/short put options of the stock) covered herein, including without limitation Groupon Inc ("GRPN"), and therefore stands to realize significant gains in the event that the price of its stock increases. Following publication of any report or letter, we intend to continue transacting in the securities covered therein, and we may be long, short, or neutral at any time hereafter regardless of our initial recommendation.

This is not an offer to sell or a solicitation of an offer to buy any security, nor shall any security be offered or sold to any person, in any jurisdiction in which such offer would be unlawful under the securities laws of such jurisdiction.

To the best of our ability and belief, as of the date hereof, all information contained herein is accurate and reliable and does not omit to state material facts necessary to make the statements herein not misleading, and all information has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer, or to any other person or entity that was breached by the transmission of information to Prescience Point. However, Prescience Point recognizes that there may be non-public information in the possession of GRPN or other insiders of GRPN that has not been publicly disclosed by GRPN. Therefore, such information contained herein is presented "as is," without warranty of any kind – whether express or implied. Prescience Point makes no other representations, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use.