Weak European economy hurts Groupon in 2nd quarter

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The weak European economy contributed to lower sales growth than expected at Groupon Inc., and analysts expressed concern that the company is increasing revenue through the less-profitable business of actually selling items, rather than just directing customers to great deals.

Although the online deals site beat Wall Street's profit estimates in the latest quarter, its stock fell sharply because of the dual concerns about growth.

Shares fell $1.47, or 19.5 percent, to $6.08 in after-hours trading after second-quarter results were announced Monday. That's down 70 percent from its initial public offering price of $20 per share in November.

Groupon gets more than half of its revenue from outside of North America, and most of that comes from Europe, where economic worries are affecting sales. CEO Andrew Mason told analysts Monday that deals for discretionary items such as laser hair removal and luxury hotel stays were suffering.

"These more discretionary offers are more susceptible ... as macroeconomic conditions have deteriorated," he said.

A weaker euro and British pound also translated into fewer U.S. dollars in the quarter.

Groupon plans to address those issues by adding personalized deals in Europe, giving better tools to businesses that advertise with Groupon and changing the mix of promotions to offer customers lower-priced deals.

The company also said that much of its growth in North America came from a new segment called Groupon Goods. Instead of offering discounts on restaurant meals and weekend getaways, the company now sells items like earrings and yogurt makers that it buys from manufacturers.

It accounts for revenue from such goods differently, too, booking the revenue for the entire price of the item, not just what it collects from vendors, which is how it books revenue from its core coupon business.

Although revenue grew 45 percent in the three months to June 30 to $568.3 million, the company said if it had accounted for goods sales the way it has done for deals revenue, growth would have been just 30 percent. Analysts were looking for revenue growth of 46 percent.

That sparked worries about less-profitable growth and slower gains at its core business.

"I think it's a less profitable business," said Herman Leung, an analyst with Susquehanna Financial Group. He said the growth of direct sales had the potential of "masking growth" in the deals business.

Founded in November 2008, Groupon pioneered the online daily deals market, which offers subscribers deep discounts on everything from spa sessions to tequila tastings if enough people buy in. It sparked many copycats, including LivingSocial and Google Offers.

Groupon's net income in the three months to June 30 came to $28.4 million, or 4 cents per share, reversing a net loss of $107.4 million a year ago.

Excluding the cost of paying executives with stock, a gain on reorganizing a Chinese joint venture and other items, adjusted earnings came to 4 cents per share, beating the 3 cents expected by analysts polled by FactSet.

Groupon, which is based in Chicago, said it improved profitability by reducing the cost of acquiring customers by 43 percent, while increasing the number of active customers by 65 percent from a year ago to 38 million.

"We just got more efficient on marketing," Chief Financial Officer Jason Child said in an interview. "We dropped those efficiencies to the bottom line."

Although investors have been spooked in the past by how much Groupon spends to acquire new customers, its growth prospects took prominence this time.

Revenue rose 45 percent to $568.3 million, which was below the $574.8 million expected by analysts. Groupon says its revenue was $32.4 million lower because of unfavorable currency-exchange rates.

For the quarter through September, Groupon said it forecast revenue of $580 million to $620 million. The midpoint was below the $605.5 million expected by analysts.

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