

Groupon revenue growth slows in 3Q, stock down

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Groupon Inc., the No. 1 online deals service, failed to show investors on Thursday that its business is growing as quickly as they would like, as it was hurt by what it called "continued challenges" from the economic weakness in Europe.

The company booked a small loss in the third quarter as higher revenue wasn't enough to make up for stock compensation and other expenses. Though revenue grew by nearly a third, it was below Wall Street's expectations. The Chicago-based company's stock fell sharply in after-hours trading following the announcement, indicating that it'll likely open at its lowest level ever when regular trading starts on Friday.

Groupon's net loss was \$3 million, or a breakeven per share, in the July-September period. A year ago it lost \$54.2 million, or 18 cents per share. Groupon said adjusted earnings were 3 cents per share in the latest quarter, matching Wall Street's expectations.

Revenue grew to \$569 million, below Wall Street's expectations of \$591 million as surveyed by FactSet. In August, Groupon forecast revenue of \$580 million to \$620 million.

Groupon's growth rate has steadily declined: In the fourth quarter of 2011, in its first earnings report as a public company, Groupon said its revenue nearly tripled. That fell to 89 percent in the first quarter of this year, 45 percent in the second quarter and 32 percent in the third.

Slowing revenue growth is a problem that's plagued many of the young Internet companies that have gone public in the past year or so at valuations that can seem astronomically high in hindsight.

CEO Andrew Mason said weakness in Europe offset Groupon's "solid performance in North America" in the third quarter.

Gross billings, a closely watched figure that shows the total amount that customers spent on Groupon's deals, were at \$1.22 billion, up 5 percent from a year earlier. Revenue is a subset of that because Groupon has to pay out the merchants offering the deals.

Groupon pioneered the online daily deals market, which offers subscribers deep discounts on everything from spa sessions to restaurant meals to toe fungus treatments. The model sparked a flood of copycats such as LivingSocial and Amazon Local. Together, deals flood online mailboxes multiple times a day.

To expand its business, Groupon has been trying to establish itself as a local e-

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commerce company, transforming the market the way Amazon.com Inc. transformed online retail. It launched a payments service in September that lets businesses accept credit card payments using their iPhone or iPod Touch. The company has also expanded to selling physical goods such as electronic gadgets, housewares and clothes.

Groupon had 39.5 million active customers as of the end of September, up 37 percent from a year earlier.

For the current quarter, Groupon is forecasting revenue of \$625 million to \$675 million. The midpoint of this, \$650 million, is higher than the \$634.9 million that analysts had expected.

Groupon's stock fell 62 cents, or nearly 16 percent, to \$3.30 in after-hours trading Thursday. Groupon's stock made its public debut last November at a price of \$20, but it has fallen sharply since amid concerns about the long-term viability of its business model and its ability to grow. The stock ended Thursday's regular-trading session at \$3.92 and hit an all-time low of \$3.68 a week ago, on Nov. 1.

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