

Groupon, Inc. (GRPN) - Stock Pitch

Investment Recommendation: SELL / SHORT

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1. Executive Summary

- **Company:** Groupon, Inc. (GRPN)
- **Industry:** Broadline Retail (Local E-commerce Marketplace)
- **Recommendation:** **SELL / SHORT**
- **Key Reasons for Recommendation:**
 - **Chronic Fundamental Weakness:** Severe long-term global revenue decline and historical unprofitability despite a recent, small quarterly GAAP profit.
 - **Poor Returns on Capital:** Consistently negative 5-year average returns on assets, equity, and invested capital.
 - **Challenging Financial Health:** High debt/equity ratio and historical inability to cover interest with EBIT. Q1 2025 free cash flow was negative.
 - **Questionable Valuation:** Extremely high P/B ratio and historically negative/extremely high earnings-based multiples.
 - **Technical Exhaustion Signals:** Recent sharp price increase (+53% monthly bar) into significant resistance (\$27-\$30) on climactic volume, with overbought oscillators, suggests a potential exhaustion move, aligning with a bearish fundamental outlook.
 - **Challenging Business Model:** Intense competition and secular headwinds, making a sustained turnaround difficult despite management's efforts.
 - **Significant Ownership Concentration:** Over 51% ownership by Pale Fire Capital entities.
- **Analyst Price Target:** \$22.75 (NTM) (Current price noted in TA around \$27.90, suggesting downside to analyst target).

2. Company Overview

- **Name:** Groupon, Inc.
- **Ticker:** GRPN
- **Exchange:** NasdaqGS
- **Country:** US
- **Sector:** Broadline Retail
- **Year Founded:** 2008
- **CEO:** Mr. Dusan Senkyp
- **Employees:** 2,079
- **Website:** www.groupon.com
- **Business Description:** Groupon, Inc., together with its subsidiaries, operates a marketplace that connects consumers to merchants. It operates in two segments, North America and International. The company sells goods or services on behalf of third-party merchants; and first-party goods inventory. It serves customers through its mobile applications and websites. The company is currently undergoing a transformation strategy.
- **Market Cap:** \$1.07B

- **Enterprise Value (EV):** \$1.09B
- **Shares Outstanding:** 39.8M

3. Investment Thesis - The Case for a SELL/SHORT

Groupon (GRPN) warrants a **SELL or SHORT** recommendation. Despite some recent positive management commentary and a Q1 2025 GAAP net profit, the company's deep-seated fundamental weaknesses persist. The recent sharp technical rally appears to be an exhaustion move into significant resistance, providing a potentially attractive entry point for short positions, aligning with the bearish fundamental outlook.

1. **Overwhelmingly Negative Historical Fundamentals:** Years of significant revenue decline (e.g., -24.7% 5Yr CAGR), chronic unprofitability (negative 5Yr Avg Net & Operating Margins), and value destruction (negative 5Yr Avg ROA, ROE, ROIC) form a compelling long-term bearish case.
2. **Precarious Financial Health:** High leverage (Debt/Equity 5.5), inability to cover interest with operating profits (EBIT/Interest -0.1), and a recent negative free cash flow (-\$3.8M in Q1 2025) underscore ongoing financial fragility.
3. **Challenging Valuation:** Despite poor fundamentals, GRPN exhibits extremely high valuation multiples where calculable (e.g., P/B 23.4; NTM P/E 334.4).
4. **Business Model Under Pressure:** The local e-commerce and deals space is intensely competitive. Overcoming secular headwinds and establishing a sustainable moat is a monumental task.
5. **Technical Exhaustion Signals:** The recent +53% monthly price surge has driven the stock into overbought territory (RSI, Stoch RSI) and up against significant round-number resistance (\$27-\$30) on climactic volume. This pattern is characteristic of a potential exhaustion top, rather than the start of a sustainable new bull market, aligning with the bearish fundamental view. A failure to hold above the recent breakout level (\$19.73) would confirm a bull trap.
6. **Ownership Concentration:** Over 51% ownership by Pale Fire Capital entities creates specific risks and limits broad market influence on price discovery.

The confluence of dire long-term fundamentals and current technical signs of a potential climactic top suggests the recent rally is unsustainable.

4. Financial Performance & Analysis

- **Recent Quarterly Performance (Q1 2025 GAAP, YoY unless stated):**
 - Global Revenue: \$117.2M (down 5%).
 - Global Billings: \$386.5M (up 1%).

- **North America Bright Spot:** Local Billings up 11%; Local Revenue down <1%. NA Active Customers up 3% YoY.
- **International Struggles:** Local Revenue down 8% (up 4% ex-Italy). International Active Customers down 15% YoY.
- **Profitability (Q1 2025):**
 - * Net Income from cont. ops: **\$8.0M** (vs. \$11.5M loss).
 - * Diluted EPS from cont. ops: \$0.18.
 - * Adjusted EBITDA: \$15.3M (vs. \$19.5M).
- **Cash Flow & Position (Q1 2025):**
 - * Operating Cash Flow from cont. ops: Flat.
 - * Free Cash Flow: **Negative \$3.8M**.
 - * Cash & Cash Equivalents: \$226.8M.
- **Key Financial Metrics (TTM or 5Yr Avg):**
 - **Margins:**
 - * Gross Margin (TTM): 90.4%.
 - * EBITDA Margin (TTM): -0.0%.
 - * Operating Margin (TTM): -0.2%.
 - * Net Margin (TTM): **-8.1%**.
 - * *FCF Margin (TTM): 10.4%. (Note: This positive TTM figure contrasts with the Q1 2025 actual negative FCF of -\$3.8M. The LTM figure may be skewed by prior quarters.)*
 - **Returns (5Yr Avg):**
 - * ROA: -7.4%.
 - * ROE: **-1,148.6%** (extremely negative, indicating significant equity erosion).
 - * ROIC: -2.4%.
 - **Growth (CAGR):**
 - * Revenue 3Yr: -17.2%; 5Yr: **-24.7%**; 10Yr: -16.8%.
 - **Financial Health:**
 - * Cash: \$226.81M (as of Q1/25).
 - * Net Debt: \$25.93M.
 - * Debt/Equity: **5.5** (very high).
 - * EBIT/Interest: **-0.1** (EBIT does not cover interest payments).

5. Valuation Concerns

- **TTM Valuation Multiples (from new user data):**
 - P/E: **-27.2** (due to negative TTM earnings).
 - P/B: **23.4** (exceptionally high, especially with negative 5yr avg ROE and current equity of only ~\$45.5M).
 - EV/EBITDA: **-5,171.5** (due to negative TTM EBITDA).
 - P/FCF (TTM): 21.0. *(This positive multiple based on LTM FCF is questionable given Q1 2025 FCF was negative -\$3.8M. If FCF is indeed negative currently, P/FCF would also be negative or not meaningful.)*
- **NTM Valuation Multiples (Analyst Consensus from new user**

data):

- P/E: **334.4** (extremely high, implying very low expected NTM EPS).
- PEG Ratio: 0.3. *(A low PEG is typically bullish, but in this context, it's likely based on projected growth from a severely depressed earnings base and should be treated with caution, especially given negative EPS Fwd 2Yr CAGR of -6.1% from the same data source.)*
- **Analyst Price Target: \$22.75.** (Compared to the recent price noted in TA around \$27.90, this target implies downside potential).

The valuation picture is concerning. Negative TTM earnings metrics and an extremely high P/B ratio are red flags. While NTM figures suggest analysts expect some recovery, the multiples (like NTM P/E of 334.4) are still very stretched.

6. Technical Analysis (Based on Monthly Chart - GRPN 1M Chart.png and Weekly Chart - GRPN 1W Chart.png)



Figure 1: GRPN Weekly Chart



Figure 2: GRPN Monthly Chart

The following technical analysis, based on my interpretation of Groupon's (GRPN) monthly and weekly charts as of late May 2025, suggests the recent sharp rally may be an exhaustion move, presenting a short-side opportunity. Price noted around \$27.90 at the time of analysis.

Evidence on the chart suggesting potential exhaustion/reversal:

- * **Vertical monthly burst (+53%) straight into the round-number band \$27–\$30:** Such blow-off thrusts into heavy supply (round numbers are formidable resistance) often precede mean-reversion.
- * **Weekly RSI-14 75, monthly 67:** RSI > 70 is considered overbought, increasing reversal risk. Momentum is stretched, skewing probability toward cooling or pull-back.
- * **Stoch RSI weekly 100/96, monthly 98/74:** Stochastics > 80 indicate overbought conditions; when both timeframes signal exhaustion simultaneously, it's a classic short trigger for contrarian traders.
- * **32M shares traded (4× avg) on the breakout bar:** A volume climax, especially as price spikes, can mark the terminal thrust of an advance, suggesting trend exhaustion is likely.
- * **Price pierced former ceiling \$19.73; if it slips back below, that level becomes new resistance (role-reversal):** A rejection and subsequent close below this flipped support/resistance level would confirm a bull-trap and open room to the downside.

Tactical short-side playbook:

- * **Trigger 1: Bearish weekly candle (shooting-star, engulfing, etc.) from \$28-\$30 zone.**
- * **Short thesis:** Shows sellers defending round-number resistance.
- * **Initial targets / stop logic:** TP1 \$19.73 (role-reversal test), TP2 \$13.83, TP3 \$8.06; protective stop just above \$31.
- * **Trigger 2: Close back < \$19.73 on either Weekly or Monthly chart.**
- * **Short thesis:** Confirms the breakout has failed → support pierced = bearish trend change.
- * **Initial targets / stop logic:** Momentum likely acceler-

ates toward mid-range \$13-\$14; stop re-tightened to \$23. * **Trigger 3: Volume dries up while price stalls near highs.** * *Short thesis:* Divergence warns of exhaustion as volume should follow trend. * *Initial targets / stop logic:* Scale in / add to short; ATR-based trailing stop (user mentioned \$4.7) covers volatility risk.

Quant-oriented risk framing for a short position: * **Vol-scaled sizing:** Use EWMA on weekly returns; risk 1 beyond \$31. * **Options overlay:** Consider buying Aug-2025 ATM puts (e.g., \$27.5 strike) funded with out-of-the-money put sales (e.g., \$15 strike) for defined risk, profiting from volatility expansion typical after climactic tops. * **Expected reversion window:** If a bearish regime (price < \$19.73) is confirmed, historical negative drift (user example: $\sim -1.4\%/wk$) could be used for path weighting. * **Event hedge:** The recent rally was catalyzed by earnings; once the ‘news loop’ fades, mean-reversion probability often rises.

Bottom line: The confluence of climactic volume, multi-timeframe overbought oscillators, and proximity to a psychological \$30 resistance fits the definition of an exhaustion move rather than a sustainable fresh buy signal for new longs. The statistical edge, from this technical perspective, now lies in anticipating a reversal and positioning for downside toward \$20, then the mid-teens, while managing risk tightly above the recent spike high. This technical outlook aligns with and supports the fundamental SELL/SHORT thesis.

7. Qualitative Concerns

- **Business Model Viability & Competition:** The core daily deals model has faced long-term secular headwinds and intense competition from large e-commerce platforms, search engines offering local services, and direct merchant marketing. Management’s shift towards “quality local experiences” and a “hyper local strategy” is a multi-year effort with no guarantee of success against more agile or better-capitalized competitors.
- **International Market Struggles:** Despite improvements ex-Italy, the broader international segment continues to shrink in terms of revenue, billings, and active customers, indicating deep-seated issues.
- **Turnaround Execution Risk:** The company is in a prolonged turnaround. While CEO Dusan Senkypl expresses confidence and points to “green shoots” (e.g., NA Local Billings growth, positive Q1 Net Income from cont. ops), the path to sustained global revenue growth and consistent, meaningful profitability and positive FCF is fraught with execution risk. The recent Q1 report notes revenue lagging billings due to “compression of take rates” and “higher redemption rates” which, while potentially healthy long-term, add near-term financial pressure.
- **Platform Modernization Delays/Challenges:** Management noted “slow progress” in Q1 on the Mobile Next application rollout internationally, prioritizing system stability and financial performance. Delays in platform modernization can hinder competitiveness.

8. Insider and Institutional Ownership

- **Insider Holdings & Trades (New Data, May 2025):**
 - CEO Dusan Senkypl holds ~1.39% (554.5K shares). CFO Jiri Ponrt holds ~0.40% (157.4K shares).
 - **Recent Bullish Signal by Insiders:** Both CEO Senkypl and CFO Jiri Ponrt had “Derivative Exercise and Retained Stock (Buy)” transactions in May 2025, retaining significant shares post-exercise (net of shares likely sold for taxes via corresponding “Other Derivative Acquisition (Sale)” entries for the CEO). This action of retaining shares is a more positive indicator of insider confidence than typical option-related sales and presents a counterpoint to a purely bearish view.
 - An Independent Director also made an open market purchase in August 2024.
- **Institutional Ownership (New Data, mostly March/May 2025):**
 - **Extreme Concentration by Pale Fire Capital:** Pale Fire Capital SE and related entities (where CEO Dusan Senkypl is a co-founder) collectively own **over 51%** of Groupon. This controlling stake means Pale Fire has decisive influence over the company’s strategy, governance, and significant transactions.
 - **Other Institutional Holders:** Include names like BlackRock and Vanguard, but with smaller stakes compared to Pale Fire. Recent activity shows some new buys (Continental General, Linmar) and significant increases (Citadel, Marshall Wace), but also some notable decreases (Garnet Equity, Tyro Capital).
- **Interpretation:** The CEO/CFO retaining stock recently is a positive personal signal from management. However, the overwhelming control by Pale Fire is the dominant factor in the ownership structure, which could align for a turnaround attempt but also centralizes decision-making and risk.

9. Risks to the Sell/Short Thesis

- **Successful Turnaround / “Green Shoots” Materialize & Sustain:** Management’s strategy could gain more traction than skeptics anticipate. The 11% NA Local Billings growth in Q1, positive Q1 Net Income from cont. ops, and raised FY25 billings guidance are current positive indicators. The positive NTM PEG of 0.3 and LT EPS growth estimate of 13.8% reflect some analyst optimism.
- **Bullish Technical Momentum Persists / Invalidates Bearish Setup:** The current bullish technical signals (recent breakout, uptrend) could continue, squeezing short positions further if key resistance levels are decisively broken to the upside (e.g., a strong monthly close above \$31-\$32) instead of triggering a reversal.
- **Effective New Strategies:** The “hyper-local” focus, improved merchant tools, AI integration, and focus on “Things To Do” could drive a recovery.

- **Macro Environment Tailwinds:** A weakening macro environment could, as per CEO comments, drive more merchants and value-seeking consumers to Groupon.
- **Acquisition or Strategic Action by Controlling Shareholder:** Pale Fire Capital, with its >51% stake, could take the company private or enact other strategic measures.
- **Positive Free Cash Flow Sustained:** If the TTM positive FCF margin (10.4%) becomes a consistent trend and Q1's negative FCF reverses, it would improve financial flexibility.
- **Insider Confidence (Retention of Stock):** Recent stock retention by the CEO and CFO after option exercises could signal their belief in the turnaround.

10. Conclusion & Recommendation

Recommendation: SELL / SHORT Groupon, Inc. (GRPN) Analyst Consensus Price Target (NTM): \$22.75 (Recent price noted in TA \$27.90; target implies ~18% downside)

Groupon's fundamental profile remains deeply challenged, characterized by a history of significant revenue decline, chronic unprofitability, negative returns on capital, and a highly leveraged balance sheet. Despite some positive "green shoots" in the recent Q1 2025 report (e.g., NA Local Billings growth, a small quarterly GAAP net profit from continuing operations [cite: 6, 14, 22]), these are not yet sufficient to overcome the structural issues or justify the current valuation. The recent negative free cash flow in Q1 2025 underscores ongoing cash burn concerns[cite: 16].

The technical picture, as per your detailed analysis, suggests the sharp +53% monthly rally to ~\$27.90, on climactic volume and into overbought conditions, is characteristic of a potential **exhaustion move rather than a sustainable new bull market**. This technical setup, indicating a higher probability of reversal from the \$27-\$30 resistance zone, aligns with the bearish fundamental outlook and may offer an attractive entry point for short positions if bearish triggers confirm (e.g., failure to hold \$19.70 support or rejection at \$30).

While management is optimistic and some recent insider activity (stock retention by CEO/CFO) offers a sliver of positive sentiment, the overwhelming ownership by Pale Fire Capital (>51%) introduces unique governance dynamics. The path to a full, sustainable global turnaround is arduous.

Considering the severe fundamental weaknesses, questionable valuation (P/B 23.4, NTM P/E 334.4), and technical indicators now suggesting a potential exhaustion of the recent rally, we maintain a **SELL/SHORT** recommendation on Groupon. The analyst consensus price target of \$22.75 further supports potential downside.

11. Appendix

- Detailed Financial Statements (Reference to 10-K, Q1 2025 10-Q)
- Management Biographies
- Earnings Call Transcripts