Groupon gives itself time to draft, deliver best IPO plan

April 21 2011, By Wailin Wong

Timing is everything when it comes to the daily-deal model popularized by Groupon Inc.: Grab the online discount before it expires. When it comes to an initial public offering, however, the rapidly growing Chicago-based startup may find it has the time to craft a strategy.

With new competitors launching regularly in the online deals space, even amid chatter about group-buying fatigue, a debate is brewing about the optimal time for Groupon to hold a public offering - and how much an IPO would be valued.

"My personal opinion is there's no such thing as an IPO window," said Lise Buyer, founding principal of the Class V Group, a California firm that advises companies on IPOs. "If your story is good enough, if your numbers are strong enough, if your management team can tell a story that is compelling, investors in most circumstances will buy whether it's August or March. As long as institutions aren't experiencing massive cash outflows, they'll be interested in the story."

Those factors seem to be clicking into place for Groupon.

The company's feverish pace of growth has earned it some 50 million subscribers in 44 countries since its launch in November 2008. It has seen its valuation soar after it turned down Google Inc.'s multibillion-dollar bid in December. The company added Starbucks Corp. Chief Executive Howard Schultz to its board in February. Hundreds of competitors, from LivingSocial to Jewish-themed Jewpon, have sprung up in the past two years.

On the product side, Groupon has expanded from a single daily deal per city to discounts with national retailers and targeted offers based on purchase history and ZIP code. It also launched a self-service platform for merchants to reach consumers directly.

With Groupon perched as the dominant player in social commerce, industry observers say the likelihood of the company going public this year is high, making the biggest question one of timing.

The company declined to comment, but told the Chicago Tribune in December that it would make its decision in 2011.

Groupon already has hit many of the milestones that typically motivate a company to go public: a well-known brand name, an ample war chest and the ability to let investors cash out. In January, Groupon completed a $950 million round of funding, with part of that money providing payouts to early investors and stockholding employees.

Gabor Garai, a partner at Foley & Lardner LLP in Boston who heads the law firm's private equity and venture capital practice, said going public creates a "competitive barrier," giving a company even more power to defend its intellectual property and expand its business. Garai noted that Groupon is evolving to incorporate new niches and features, such as targeting deals to mobile phone-toting consumers based on their location.

Going public would free more capital to pursue these kinds of strategies, putting Groupon further ahead of rivals.

"Groupon is going to have to constantly look forward," Garai said. "Frankly, being public gives them the kind of muscle where they can either build that stuff internally and acquire it, not just through add-on, complementary acquisitions of similar companies like they've been doing, but (through) what Google and Microsoft do, which is to do really breakthrough-type technological acquisitions that ... move them in the direction they need to move in."

Forging ahead as a public company also requires leadership with the experience and willingness to handle the relentless pace of quarterly earnings, regulatory filings and other duties that Groupon doesn't face as a privately held firm.

Last month, Rob Solomon stepped down as Groupon's president and chief operating officer. Although he didn't talk about an IPO, Solomon did tell Bloomberg News at the time that he is "not the guy who wants to run a 10,000-person company. I'm much better at the startup and growth stage."

Assigning a dollar figure to the next level will be tricky. Recent news reports have pegged Groupon's IPO valuation at $25 billion - a huge leap from the $5 billion to $6 billion buyout offer from Google that was turned down in December.

The high numbers being bandied about for Groupon, as well as other IPO candidates such as Facebook and social gaming company Zynga, make some survivors of the dot-com bubble skeptical. Steve Ferrara, regional assurance services partner at BDO in Chicago, remembers Divine Inc., a much-hyped technology incubator whose flameout a decade ago scarred the local industry.

"Everyone in Chicago was so afraid if they didn't jump on the bandwagon and invest in Divine, they'd look like a fool," said Ferrara, who advises public companies on IPOs and other matters. "It turned out to be one of the worst investments they made in their history. Euphoria gets into the valuation."

However, experts say the climate has changed since the last tech bubble. One new development is the emergence of marketplaces that facilitate trading in shares of private companies such as Facebook. These markets are another way for early investors to get liquidity for their holdings and give "an indication of the inherent value that can be created in the IPO market," said Randy Billhardt, managing director at New York-based investment bank MLV & Co.

"As that activity tends to increase and the valuation of these companies is changing dramatically, almost on a weekly basis, I think that's giving people a lot of incentive to push these companies to do IPOs," Billhardt said. He added: "It's created a level of demand for these companies that we haven't seen in the last tech boom."

Experts say the climate for tech IPOs is also favorable as investors shake off the gloom from the recession, although they're being more cautious and looking for more mature companies that can demonstrate consistent and sustainable growth.

"In the dot-com boom, you could take a bathtub public if it said 'dot com,' so it was a very odd time," said Steve Kaplan, a professor of entrepreneurship and finance at the University of Chicago's Booth School of Business. "You haven't seen as many tech IPOs in the last five or 10 years."

Kaplan said Facebook, Zynga, Groupon and Twitter all appear to be good candidates for IPOs, making this year a potentially exciting one for tech companies.

"The critical mass of attractive companies to take public today is probably at its highest since 1999," he said. "Some of them will go public."

(c) 2011, Chicago Tribune.
Distributed by McClatchy-Tribune Information Services.