Groupon raises $700M with IPO at $20 per share

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In this Sept. 22, 2011 file photo, employees at Groupon pose in silhouette with the company logo in the lobby of the online coupon company's Chicago offices. Daily deals company Groupon Inc.'s initial public offering is expected to price after the market closes Thursday, Nov. 3, 2011, with some analysts expecting the stock to price slightly above its current range of $16 to $18. (AP Photo/Charles Rex Arbogast, File)

(AP) -- Daily deals pioneer Groupon raised about $700 million with an initial public offering of stock priced well above expectations.

The IPO was set late Thursday at $20 per share, above the anticipated range of $16 to $18. The higher price indicated investors are eager to snap up the Chicago-based company's shares.

Groupon Inc. is expected to make its trading debut Friday on the Nasdaq

Stock Market under the ticker symbol "GRPN." That will give a better indication of general sentiment for the company's stock, since it will be the first time that a broader audience will be able to buy it.

The IPO's price gives based Groupon a market value of $12.7 billion. That makes Groupon's IPO the second largest by an Internet company behind only that of Google Inc. in 2004.

The online search leader made its public debut at a market cap of $23.1 billion seven years ago. In comparison, LinkedIn Corp. went public in May with a market value of $4.3 billion and was worth $8.4 billion at the end of trading Thursday.

The pricing is a milestone in a process that served as a reality check for Groupon, a rapidly growing company that has evoked memories of the dot-com boom's exuberance. Coming at a time of worldwide market turbulence and deep economic woes, Groupon's IPO has been closely watched by fellow Web startups looking to follow a similar path.

It's a lofty appraisal for a service that started just three years ago, but a big comedown from the $25 billion estimate floated when the company filed its IPO plans in June, months after rejecting a $6 billion buyout offer from Google.

Groupon began in 2008 when computer programmer Andrew Mason figured out how to get people excited about the low-margin coupon business.

The company sends out daily emails to subscribers offering a chance to buy discount deals for anything from spa services to messenger bags to restaurant meals, provided enough people sign up for the deal. The company then takes a cut of what people pay and gives the rest to the merchant. Though some businesses see this as good advertising, others have complained that Groupon leaves them inundated with coupon-clasping bargain hunters who never return.

The company started in Chicago and quickly branched out across the country and, shortly thereafter, around the globe. At the end of September, Groupon operated in 175 markets in North America and 45 countries. The company had 143 million subscribers at the end of September, and sold 33 million Groupons in the July-September quarter.

Groupon faced a number of difficulties leading up to its IPO. It drew scrutiny from the Securities and Exchange Commission, and rival companies and critics have been popping up left and right.

"This is not Facebook where they can do no wrong," said longtime IPO analyst Scott Sweet, the owner of IPO Boutique. He called Groupon an "accident waiting to happen."

Sweet pointed to problems the company has had with the SEC that have led Groupon to restate the way it accounts for revenue, cutting it in half from what it originally reported. The analyst is also one of those who question the company's business model, its high marketing expenses and frantic hiring pace that has swelled its ranks to more than 10,000 employees. That is about four times as many as Facebook.

Another worrisome sign is the amount of Groupon stock being offered to the public. The company is "floating" about 5.5 percent of available shares - 35 million - which is the well below the percentage that many prominent tech companies have offered in their IPOs, including Google, online retailer Amazon.com Inc. and, more recently, Internet radio service Pandora Media Inc. and professional networking site LinkedIn Corp. This has raised concerns that Groupon is trying to boost demand - and thus its valuation - by limiting supply.

Mutual funds, pension funds and other major money managers got the first crack at buying most of the IPO's 35 million shares late Thursday because stock in these offerings is typically sold to investment bankers' top customers. "Main Street" investors will get their first chance at Groupon on Friday.

In addition to the 35 million shares Groupon sold through its IPO, the company also granted an option to its underwriters - which include, among others, Morgan Stanley, Goldman Sachs & Co. and Credit Suisse - to buy over the next 30 days an additional 5.25 million shares to cover over-allotments.

The sale of the 35 million shares mean Groupon's initial public offering of stock raised about $700 million, minus investment banking fees and other expenses

In filings with the SEC, Groupon said it hoped to raise $479 million, after expenses and presuming the stock priced at $17 per share, or $552 million if it also sold the 4.5 million in over-allotment shares. It did not go into details on how it plans to spend the money, though it did specify it won't need to use it to pay for its operations, including marketing expenses, during the next 12 months.

Neither CEO Mason, 31, nor executive chairman and fellow co-founder Eric Lefkofsky, 42, are selling any shares in the IPO. Mason's stake in the company is now worth about $938.7 million, given the $20 IPO share price, while the stake of Leftofsky, who is Groupon's largest investor and shareholder, is worth about $2.6 billion.

They've made out well previously from the sale of stock, though, according to SEC filings: Lefkofsky, Groupon's largest investor and shareholder, received $398 million while Mason snagged $28 million.

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