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How Groupon Escaped Bankruptcy

Groupon recently escaped having to file for bankruptcy when the company listed its initial public offer (IPO) at $20. With the successful listing, Groupon will not have to file for bankruptcy, at least this quarter. The company's liabilities as at the end of September amounted to $505 million, which was more than twice the $243 million cash they had in their kitty. Out of that amount, they owed $465 million to their own merchants for whom they sold Groupons, their half price coupons.

Just after the start of listing, the price of Groupon shares rose to $31 but thereafter fell rapidly. Anyone who bought at higher than $30 would have likely gotten burned. Even the underwriters knew the flaws of the company but agreed to underwrite anyway because they needed the fees due to the recession. These included Goldman Sachs, Credit Suisse and Morgan Stanley. Even with such a large group of 11 lead underwriters the deal had to be cut back to 5% of the shares outstanding to get it sold.

Furthermore, about 95% of Groupon's merchants never come back. This is because the company insists the merchants cut their prices to half before Groupon would take them in. Then Groupon charges 40-60% of the coupon value as their cut for marketing the merchant's goods or services. So effectively, the merchant only receives 20-30% of income for their goods or services. Very few merchants would be able to make any profit with such razor slim margins. Little wonder that Groupon has to constantly look for new merchants all the time. As for the customers who use Groupon's discount coupons, they discover that the coupons are not convenient to where they live. So they too are unlikely to keep using Groupon.

Nevertheless, the founders of Groupon have made their money. However, the last 2 Chief Operating Officers quit in 2011. The last one left weeks ago just before the IPO and knowing her more than a million shares would be worth a lot on paper.

Even though Groupon is likely to take a long time to return to profitability, it will probably see a better end than Rupert Murdoch's purchase of MySpace in 2005 for $580 million. This year, Murdoch commented about that purchase, "We paid $600 million. We could have sold it for $6 billion a month later." News Corp sold MySpace recently for only $35 million to a group that included Justin Timberlake. It incurred a loss of 94% on its purchase price.