MB107 FINANCIAL TEMPLATE GUIDE FOR GROUPON (GRPN)

Apply these steps to the excel spreadsheet titled "Financial Template_Fall 2012"

Step 1: Historical Analysis

Analyze Groupon's current and historical financial performance. Start with Groupon's recent income statements (Consolidated Statement of Operations). Common size the numbers in this worksheet and then review their performance. In addition, you should gather financials on key competitors, as well as key industry ratios. Then, examine Groupon's financials for trends over time (increases, decreases, outliers), and compare Groupon's performance to that of its competitors as well as industry standards. Be sure you understand what different items on the income statement mean (e.g., gross billing, revenue, etc.).

Step 2: Determining the Baseline Performance for Years 1-3

Determine the outlook for Groupon's future revenues (without the impact of your strategic recommendation). To do so, you'll need to make assumptions about revenues and costs. Utilizing information such as recent revenue and cost trends, forecasted revenues and costs (estimates determined by the firm or external analysts), and/or key elements of the industry and/or macro-environments will help you do so.

For example, we could take analyst estimates from publicly available sources (e.g., Yahoo Finance) and we could use their projected numbers to forecast Groupon's revenues for the full-year 2012, as well as for future years. Or we could assume a percentage growth rate. For instance, we could assume that Groupon will experience a revenue increase of 20% in 2012 (over 2011's $1,610,430,000). Then, we could produce an income statement for the next fiscal year based on the 20% growth rate. Revenues would then equal $1,932,516,000 in 2012. If you assume that cost of sales and operating expenses remain the same % of revenues in 2012 as they were in the first six months of 2012 (22.6% and 69.8% respectively), then cost of sales would total $436,748,610, operating expenses would total $1,348,896,100, and operating income would equal $146,871,290 in 2012. This would represent the baseline for 2012. (*Note: This is just an example. You need to do your own baseline projections and adjust any estimates once the 2012 Q3 earnings are announced. Also note that if you expect international and North America divisions to have different growth rates, then you also need to account for that in your projections.*)

Recognize that you need to continue to project baseline financials through to year-end 2015, using reasonable assumptions of revenue growth and costs. Doing so will result in a set of baseline financial figures. (By applying steps 3-5, you will then be able to show how these figures will change in years 1-3 as a result of your team's strategic recommendation).

Step 3: Your Strategy's Revenues and Expenses

Determine the revenues and expenses associated with your proposed strategy for the next three years. Your strategy may include one major proposal or a set of proposals. The year-to-year financial statements (yr1, yr2, yr3) represent the incremental impact your strategy will have on the various elements of the firm's income statement. Remember the assignment:

> Your strategic recommendation must increase Groupon's operating income by 10% over the projected baseline level of 2015. In other words, project what Groupon's operating income will be in 2015 (given a variety of assumptions and without the effects of your strategic plan). Then, your proposal needs to add 10% to that projected baseline operating income by the end of year 3 of your strategic recommendation.

You also need to provide a detailed list of the revenue and expense items. For example, if you propose a new division, service, or product line for Groupon, you need to provide information about the cost of that new

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division, the expenses related to developing and offering the service, the costs related to producing/distributing the products, the number of new merchants and subscribers/customers you expect to purchase the product or service, etc. On the other hand, if you propose entry into a new emerging market, you must consider the means of entry (e.g., joint venture/acquisition/organic growth), the costs of that arrangement, and the geographical/logistical requirements of different countries/regions. In addition, you must provide information about the costs of your initiative, unit pricing, expected unit sales and/or gross billings, manufacturing and equipment set-up costs (if applicable), distribution costs (if applicable), employee costs, R&D, marketing, overhead, etc. for that new market. Any partnership you might propose must take all cost/revenue implications into consideration. Be very specific.

Note, if your strategic recommendation involves an acquisition, divestiture, joint venture, or strategic alliance, you will need to create a financial report that accurately captures the financial benefits and consequences. Recognize that the MB107 faculty does not encourage teams to pursue acquisitions of private firms due to the difficulty in gaining access to critical financial data (unless it is a company that you know you can get financial data on). Please keep that in mind when choosing a path for your strategic recommendation. Also, note that an acquisition or strategic partnership alone is not a strategy. Acquisitions would need to take place, probably, in year 1 or year 2 of your plan. Then, you'll still need to consider implementation and what you'll do with that acquisition/partnership, as well as how it will contribute to the firm's operations and financial statements, etc. Be able to describe, in detail, what Groupon should do to *implement* your idea and *follow-up* on it through year three of your timeline. In other words, you need to present a *strategy*.

You will also need to provide a solid rationale for your estimates during your presentation. This rationale should explain the logic underlying your assumptions concerning revenue and income growth (that, for example, you expect to result from increased subscriptions or market growth). For instance, let's assume you argue that a new market will increase Groupon's revenues in this way: sales growth in year 1: 5%, sales growth in year two: 7%, sales growth in year three: 10%. You need to justify these estimates. You need to identify and discuss *in detail* how your strategic recommendation, consumer preferences, competitive and industry factors, marketing activities, research and development initiatives, and/or economic trends, etc. will facilitate this outcome.

Keep in mind that many business projects result in financial losses in the first year because of significant start-up costs. This scenario is okay, but be sure to explain it if that's the case with your recommendation.

Step 4: Funding

Determine the source of capital for implementing your strategy. *MB107 teams generally fund their recommendations from CASH*. Note that Groupon had $1,185,798,000 in cash and cash equivalents at the end of Q2 2012, but, of course, not all of that cash can be used up. Be sure to provide a rationale for your funding decision.

Step 5: Demonstrate the Impact of Your Recommendation on the Baseline of Years 1-3

Provide a forecasted financial summary. Use this step to demonstrate the financial impact of your strategic recommendation on Groupon's overall financial performance (above and beyond the baseline). You need to clearly demonstrate and explain how your proposal is adding 10% to Groupon's 2015 projected operating income. One option is to show Groupon's projected financial performance over the next three years *without* the implementation of your strategic recommendation and then show the financial performance *with* the implementation of your strategic plan.