Groupon Buying Yelp Makes Too Much Sense to Happen

Description

Looking to turn heads as well as its stock price around, **Groupon** (NASDAQ: GRPN) is reportedly eyeing game-changing acquisitions. A couple of unnamed sources familiar with the matter are telling *The Wall Street Journal* that **Yelp** (NYSE: YELP) could be a target.

Right off the bat, the pairing doesn't make sense as a Groupon-led buyout. Yelp is actually more valuable at the moment, commanding an enterprise value of $2.3 billion to Groupon's $1.5 billion price tag. Groupon has a reasonable net-cash position, but not enough to leverage its way into offering an all-cash deal at an acceptable premium. Yelp would also likely have to settle for a stock deal here, and that's a dicey proposition.

Yelp stock has been a market laggard. The shares are trading flat in 2019 after declining 17% last year. An underperforming stock is often easy prey for a buyout buzzard, but that's not the case when the potential buyer is faring even worse. Groupon stock plunged 37% last year, and it's down another 6% so far in 2019. Groupon's coattails aren't worth riding in an all-stock deal, and taking on gobs of debt to make an all-cash offer isn't attractive. Is there a way that a deal can still happen? The answer is always yes, especially when the pairing would make the sum of both companies more valuable than their sluggish ways as separate entities.

Hungry for a deal

Groupon's fundamentals are crumbling. Revenue declined 14% in its latest quarter, stretching its streak of negative growth rates to 14 quarterly reports. Traffic and customer counts are trending the wrong way, and the pace of the top-line dips is accelerating.

Yelp is also not the growth star it used to be. This will be the sixth consecutive year of decelerating revenue growth, but at least the rate is still positive. Yelp's year-over-year gains have slowed to a mid-single-digit clip the past two quarters.

A point in Groupon's favor is valuation. It trades at less than 14 times this year's projected earnings, a far cry from Yelp's multiple just above 50. However, an earnings-based valuation argument isn't going to have a lot of weight until Groupon stops driving in reverse when it comes to revenue growth. Yelp is growing faster than Groupon, and that deserves a valuation premium to Groupon.

Groupon still has a chance here. The pairing makes sense, and not just for the $200 million in potential cost-saving synergies in a corporate combination. It's easy to see how Groupon and Yelp would enhance each other's business. Groupon would give Yelp a new product to sell to retail and service providers as well as a way for Yelp visitors to score deals. Yelp would give Groupon a thicker Rolodex of potential leads — particularly when it comes to restaurants — while also providing crowdsourced venue reviews that have been harvesting for years. Both platforms would become more useful for consumers whether they're looking for a place to eat or trying to score a deal on a place to eat.

Groupon buying Yelp seems daunting. Yelp buying Groupon would sting Yelp's stock. A mutual combination would make more sense if they can come to terms on the right amount that each party should be receiving. Groupon buying Yelp may sound surprising, but there are plenty of good reasons for it to happen.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Syndicated

TICKERS GLOBAL

1. NASDAQ:GRPN (Groupon, Inc.)
2. NYSE:YELP (Yelp Inc.)

Category

1. Investing
2. Tech Stocks

Tags

1. Syndicated

Date
2025/07/20
Date Created
2019/09/12
Author
rick-munarriz