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LivingSocial Raises \$400 Million To Fuel Expansion

by Spencer E. Ante

LivingSocial, the number two player in the burgeoning daily coupon website market, has raised \$400 million to help fuel its expansion and keep up with rival Groupon Inc., according to people familiar with the situation.

The investment round, raised from existing investors Lightspeed Venture Partners and Amazon.com, and new ones such as Institutional Venture Partners, values the three-year old company at around \$ 3 billion, said the people.

In December, LivingSocial said that it was booking \$1 million a day of revenue on average and was on track to generate more than \$500 million in revenue this year. Now, the company is on track to generate \$1 billion in revenue this year, said one of the people. LivingSocial could not be reached for comment at the time of publication.

The infusion of capital will help the Washington D.C.-based startup to hire more employees, further expand its operations globally and pursue more acquisitions, said Todd Chaffee, a general partner with Institutional Venture Partners, a venture capital firm based in Menlo Park, Calif.

Mr. Chaffee said the company was "highly profitable" and was on a growth tear. "It is the largest investment we've ever made in our history," said Mr. Chaffee, though he declined to specify the number.

The large financing comes as entrepreneurs and investors are chasing LivingSocial and Groupon, which have both quickly generated substantial revenue by offering consumers discounted daily deals offered by local merchants in cities in the U.S. and overseas.

Such companies make money by keeping a cut of the revenue, and send the rest to the merchant. The model has attracted a growing field of competitors. Building up a war chest could help the current leaders stay at the front of the pack. In January, two-year-old Groupon said it raised \$950 million to finance its growth, invest in technology and cash out some of its employees and early investors.

Mr. Chaffee said LivingSocial is catching up to Groupon, and is adding about 1.5 million new members each week. In total, he said it has 26 million members in 250 markets in 12 countries.

Daily Web coupon services usually incorporate a heavy social element, attempting to juice sales growth by tempting members to spread the deals via their Facebook and Twitter accounts. Typically, LivingSocial will offer a 50% discount to a local wine store, restaurant, spa or concert. If a user purchases a deal, the company sends a user a link to share. If three people buy the deal using that link, the initial buyer gets the deal for free.

LivingSocial is also creating new types of services to sell in its growing roster of markets. Last November, the company introduced LivingSocial Escapes, offering savings on customized travel packages. The company has also launched services for families and students.

Local merchants have cottoned on to the daily deal market, because it provides them with a way to advertise without spending money up front. Companies only pay for the deals when customers make a purchase. But some critics complain the deals are costly and attract deal-seekers who don't always generate repeat traffic.