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Groupon's IPO biggest by U.S. Web company since Google

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By Alistair Barr and Clare Baldwin

(Reuters) - Groupon Inc raised $700 million after increasing the size of its initial public offering, becoming the largest IPO by a U.S. Internet company since Google Inc raised $1.7 billion in 2004.

The global leader in "daily deals" is now valued at almost $13 billion after saying it increased the offering by 5 million shares to 35 million in total and pricing them at $20 each, above an initial range of $16 to $18.

The debut of the three-year-old company, which sells Internet coupons for everything from spa treatments to nose jobs, is one of this year's most closely watched. Its tiny float represents just above 5 percent of the company and helped drive up demand and price.

That constraint -- one of the smallest floats of the past decade -- should support Groupon's share price when it begins trading on the Nasdaq on Friday under the ticker GRPN, analysts say.

But in the longer run, they cited concerns about competition from the deep-pocketed likes of Google and Amazon.com Inc; the need to spend continuously to drive user growth; and questions about accounting after the company altered its IPO filings twice to change the way it accounted for revenue.

"Groupon is expensive. The $12.8 billion valuation is only achievable because of the low float," said Rob Romero, head of technology-focused hedge fund firm Connective Capital Management.

"Today's reaction to LinkedIn floating additional share supply is an indication of how tight supply-demand of shares can distort valuation for a new IPO."

LinkedIn, which remains well above its $45 IPO price, plummeted 9 percent after-hours after unveiling a proposal to sell up to $500 million in stock. It had floated 8.3 percent of its shares during the IPO.

Pandora Media, a music streaming service and another recent dotcom debutante, sold 9.2 percent of the company.

At $12.8 billion, Groupon commands a price tag more than twice what Google offered to buy the company last year.

WIDESPREAD CRITICISM

Beyond Friday, Groupon shares may prove volatile on concern about the company's ability to generate long-term profit and revenue growth, plus the likelihood that existing investors will sell some of their holdings at some point.

Quirky music major and CEO Andrew Mason and his executive team spent almost two weeks on the road pitching to investors and addressing widespread criticism about Groupon's replicable business model, slowing growth and accounting concerns.

"The post-IPO investor will be taking a risk on this deal," said Josef Schuster, founder of IPO research and investment house IPOX Schuster. "It's maybe a good trade for a day trader, in and out in a single day, but I don't want to be in it for the long run."

To pull the deal off, the company cut its valuation by about half. Existing shareholders aren't selling. And it skipped meetings with potential investors in Europe and Asia.

If underwriters, led by Morgan Stanley, Goldman Sachs and Credit Suisse, exercise their right to buy just over 5 million more Groupon shares in the IPO, known as the greenshoe, Groupon will raise more than $800 million, before fees.

Wall Street will scrutinize Groupon's Friday showing for clues as to how other highly anticipated dotcom IPOs -- from the likes of Facebook or Zynga -- may fare.

LinkedIn surged on the first day of trading in May and remains far above its $45 IPO price. Pandora's shares surged initially, then slumped. Its shares traded below the $16 IPO price on Thursday at just over $15.

Groupon "is a company with permission to market to 150 million consumers daily. No other company in the world has ever had that type of reach," said Boyan Josic, chief executive at DailyDealMedia, which tracks the industry.

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