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PRESENTATION

Operator

Good day, everyone, and welcome to Groupon's Second Quarter 2018 Financial Results Conference Call. (Operator Instructions) Today's conference call is being recorded. For opening remarks, I would like to turn the call over to the Vice President of Investor Relations, Heather Davis. When you're ready, please go ahead.

Heather Davis - *Groupon, Inc. - VP of IR*

Good morning, and welcome to Groupon's Second Quarter 2018 Financial Results Conference Call. On the call today are our CEO, Rich Williams; and CFO, Mike Randolfi.

The following discussion and responses to your questions reflect management's views as of today, August 3, 2018 only and will include forward-looking statements. Actual results may differ materially from those expressed or implied in our forward-looking statements. Additional information about risks and other factors that could potentially impact our financial results is included in today's press release and in our filings with the SEC, including our Form 10-K and Form 10-Q. We encourage investors to use our Investor Relations website at investor.groupon.com as a way of easily finding information about the company. Groupon promptly makes available on this website the reports that the company files or furnishes with the SEC, corporate governance information and select press releases and social media postings.

On the call today, we will discuss the following non-GAAP financial measures: adjusted EBITDA, FX-neutral results, and free cash flow. In our press release and our filings with the SEC, each of which is posted on our Investor Relations website, you will find additional disclosures regarding the non-GAAP measures, including reconciliations of these measures with U.S. GAAP.

As we discuss our results during the call, note that all comparisons, unless otherwise stated, refer to year-over-year growth as reported and all gross profit comparisons are FX neutral, with the exception of gross profit per customer, which are as reported.

And with that, I'm happy to turn the call over to Rich.

Rich Williams - *Groupon, Inc. - CEO & Director*

Thank you, Heather. In the second quarter, Groupon continued strategic progress in our mission to be the daily habit in local commerce, delivered another strong quarter of adjusted EBITDA and improved free cash flow in our core business. As we've attacked the opportunity in Local, we've remained focused on our 4 strategic initiatives that we believe are critical to long-term success and shareholder value. As a reminder, our 4 strategic initiatives are: enhancing the customer experience; establishing Groupon as a true-up in platform for Local; realizing the potential of our international business; and last but not least, continued operational rigor. We see these initiatives as essential pieces to extend our advantage in Local and more importantly, unlock the true potential in this brand and business.

For certain, these are not small undertakings. But we made progress in each area, which help us deliver $56 million of adjusted EBITDA and trailing 12 months free cash flow of $145 million. These are solid results and underscore our ability to deliver on our commitments while evolving our business and paving the way for an even more exciting future.

Let's pause for a minute on our evolution. The past 2-plus years have been focused on exactly this idea, on building the next bigger, better version of Groupon for merchants, consumers, employees and shareholders. We're by no means done, but we're on our way.

The first phase of our evolution, which began at the end of 2015 and ran through the middle of 2017, focused on rightsizing and restructuring the company to position us to fight the right growth battles with a sustainable cost base and improved economic flow-through. International bored the brunt of this effort and a disruption inherent in restructuring actions of the scale. But to be clear, it wasn't all about reductions in this space. In parallel with our international efforts, we scaled our investments in North America customers and began developing the next generation of products that changed the way Groupon works for merchants and consumers.

This first phase delivered solid results. In North America, we added about 7 million active customers and returned to a multiyear pattern of gross profit growth, which broke a 4-year trend of declines. In addition, we reduced SG&A by over $200 million while building what I believe are our most exciting product efforts to date, which include our card-linked offers and our third-party partnership platforms. Importantly, as we moved out of that first phase with the completion of our restructuring efforts, we started to grow again in international, something we hadn't seen in many years. And Q2 is now the fourth straight quarter of gross profit growth in that business.

Our trend of international growth is a core part of how we think about the second phase of our evolution, the phase we're in now, where we begin scaling next-generation products in North America and delivering the kind of customer experience that Local deserves. This phase entails some disruption in the core voucher business in North America, which we've discussed as we've begun scaling our Groupon+ product. The impressions and marketing trade-offs we're making there are in line with the potential we see in Groupon+, with stronger merchant acquisition and increased consumer purchase frequency potential. Net, just as we were willing to get smaller in international in order to enable longer-term growth, we are willing to disrupt our North American voucher business and work through some short-term gross profit headwinds in order to deliver the kind of customer experience that can lead to even more profitable relationships. That's not to say we're pleased with our gross profit results this quarter and our teams continue to work toward maximizing gross profit going forward.

We still have work ahead of us in this second phase of Groupon's evolution and we're pushing forward every day. Our 4 strategic initiatives are designed to drive us through it while delivering strong bottom line results. First is the customer experience, where we're focused on making Groupon simpler, more valuable to consumers and merchants and better than the original in every way.

Groupon+ is at the center of these efforts and we're encouraged by the progress we've made and the response from customers and merchants to our card-linked voucherless experience. Since unveiling Groupon+ last year, we've grown to more than 5 million cards enrolled in the program. We drove around 1 million new enrollments in the second quarter alone. We also now have over 5,500 merchant locations in the program and we continue to add them at a fast clip as they see the value in a seamless experience and lower, more flexible discounts.

Also encouraging is the testing and innovation Groupon+ has opened up in the card linking space overall. We launched our first test of prepaid card-linked offers earlier this quarter in one market, where customers pay a small amount for access to usually larger, recurring discounts. We're testing this model because it combines the larger discounts of our original voucher model with the convenience of card linking. And because the customer pays for the discount upfront, we see higher redemption potential, which can mean more value for the customer and more traffic for the merchant.

We also continue to make progress in mobile, where we're a clear leader with more 70% of our transactions occurring on mobile devices and 183 million mobile downloads to date. With improvements in search and browse, overall app speed and increasing feature parity in our international mobile app, we continue to make strides to better engage with the vast majority of our customers and, importantly, our best customers. And while we have the sixth highest rated iOS app of all time, as we move through the back half of this year and into 2019, our mobile team will explore a top-to-bottom revamp of the Groupon mobile experience to better align with our growing marketplace and increasing volume of merchants and offers on the platform. We know it needs to be easier to search, discover and browse our fast-growing catalog of supply and we see significant opportunity to improve our merchandising in the app.

Another important aspect of the customer experience is the progress we've made in our Goods business, particularly in fulfillment. While Goods units declined in the quarter as we optimize for gross profit, we continue to see Goods as a powerful customer engagement tool. The increasing efficiency of that business also gives us the opportunity to broaden our assortment at great prices and better capitalize on introducing Goods buyers to our Local marketplace. Importantly, global Goods margins in the second quarter improved 320 basis points to 17.8%, one of our best results ever.

Our second strategic priority is extending the power of the Groupon platform. We built the Groupon marketplace on sourcing amazing Local deals, goods and getaways, with our in-house sales teams, but also realized our nearly 50 million customers have an even broader appetite for great things to do and buy. To fully realize that potential, we've built a powerful infrastructure to connect them with more supply. And we're focused on bringing in significant additional inventory from third-parties that see the value in our massive engaged customer base.

So far in 2018, we've launched our expanded partnerships with GrubHub, Major League Baseball, American Express, CourseHorse and others. We expect these partnerships to add tens and thousands of buying opportunities to the Groupon platform over the coming quarters, and we continue to see strong interest from partners in a variety of categories.

In the second quarter, we brought Viator U.K., Cirque du Soleil and FTD to the platform. Viator U.K. is particularly exciting as it marks the first international use of our third-party integration platform. We also began launching full price inventory with Live Nation, a long-time partner in the ticketed event space, with the understanding that while many customers associate Groupon with discounts, they also rely on us for discovery and as a source for great ideas on things to eat, see, do and buy in cities around the world.

It's early on for full price offerings, but we believe there's both room and demand on our platform for offers across the discount spectrum. Our platform and partnership initiatives have helped us deepen our catalog to provide more relevant and timely deals in more and more places. With our scale of traffic and searches, we see this catalog expansion as a core opportunity.

Our third priority is to fully realize the potential in our international business. Prior to embarking on the first phase of our evolution, international was an obvious drag on our overall business. As we've rationalized our footprint, implemented proven winning strategies and product enhancements from North America and made profitable investments in customer growth, we've made great strides in bringing international to parity. The results are beginning to show.

International gross profit grew 4%, with international Goods growing at a very healthy 19% in the quarter. We saw similar success in our customer acquisition efforts. We added 120,000 new customers in the quarter and a 10% improvement in gross profit per customer as we launched a number of proven North America features across our sites and apps. While we're on international, it's important to note that we've not seen any meaningful disruption following the implementation of GDPR, which is a great credit to the significant work from our business, technology and legal teams. Arguably, the largest impact of the effort around GDPR compliance was slowing down our product development roadmap in the first half. The good news is that our teams are back to fast-tracking on that front, particularly in international.

Looking ahead in international, we expect to bring a Goods shopping cart and the ability to offer Goods inventory across countries later this year. We'll continue to refine our sales processes and pricing tools in Local while investing in the third-party partnerships that have been successful in

North America. We also continue to see opportunity for customer acquisition in international, with plans for expanded marketing campaigns in major European cities like Paris and Milan. There's still much to do here and we believe the opportunity is immense.

Our fourth area of focus is continuing the operational rigor we've established over the past 2 years. Here, we've seen strong progress continue in the second quarter, with SG&A improving $11 million year-over-year and $3 million quarter-over-quarter, excluding IBM, which Mike will discuss. Our global shared service centers and general improvements in our sales and customer service processes are a big part of the success story here. Importantly, we continue to see opportunities to increase our use of technology and automation over time to improve our service levels, speed and overall efficiency.

Overall, the second quarter saw solid progress in all 4 of our initiatives, and we believe they're the key inputs to both long-term success and continued adjusted EBITDA growth as the second phase of our evolution and new product rollouts creates the near-term pressure in North America. Winning in Local is a massive opportunity that's worth building toward, with focus, patience and commitment to our strategic initiatives that we believe will deliver what matters most 5 and 10 years down the road. We're doing that every day and we're doing it while delivering significant adjusted EBITDA growth.

With that, let me turn the call over to Mike.

Michael O. Randolfi - *Groupon, Inc. - CFO*

Thanks, Rich. Our second quarter results for gross profit and adjusted EBITDA are in line with what we expected from the last earnings call, with gross profit of $324 million and adjusted EBITDA of $56 million. In North America, gross profit was $219 million for the second quarter, down $15 million on a year-over-year basis, which was largely offset by lower marketing spend. Q2 local gross profit was $165 million, down $14 million or 8%. Adjusting for the Groupon+ ramp-up and the reduction of gross profit from the sale of certain OrderUp assets, North America Local gross profit would have experienced a low single-digit percentage decrease -- Q2 Goods gross profit was $38 million, increasing $1 million or 4% over the prior year. In total, gross profit per customer for Q2 on a trailing 12-month basis in North America was $28.36, about flat versus the prior year period.

As anticipated, we experienced a decline of active customers in North America as we have become more efficient in our marketing segmentation and our focus on attracting and retaining customers that we believe have the potential for greater value over time. We expect a similar trend in the next couple of quarters.

In summary for North America, while we've taken several actions such as continuing to roll out Groupon+, optimizing our Goods business and selling certain OrderUp assets, we recognize this has created some short-term disruption, which we expect will settle out over the next couple of quarters. At the same time, we expect these actions will have longer-term benefits for the business and support increases in gross profit per customer.

On international, we're pleased with Q2's performance and continue to be very excited about the long-term opportunity for this segment. International continued its positive momentum. And for the fourth consecutive quarter, we've grown customers and gross profit. We've added over 120,000 net new customers and generated international gross profit of $104 million for the second quarter, up $3 million or 4%. Q2 local gross profit was $67 million, up $1 million or 2%. And Q2 Goods gross profit was $28 million, up $4 million or 19%. In international Q2 gross profit per customer on a trailing 12 month basis was $25.24, up 10% as reported.

In the second quarter, on a consolidated basis, marketing expense was $94 million, down $6 million or 6%. In North America, Q2 marketing expense was down $12 million and order discounts were down another $15 million as we continue to refine the targeting of customers we acquire and retain within our payback period.

In the short term, our focus is on generating more value from our existing customer base in North America rather than materially growing the base. Over the long term, as we grow gross profit per customer, increase the depth and breadth of local supply and enhance the customer experience, we believe there is a significant opportunity to both grow the number of customers and increase the share of wallet from those customers.

In international, Q2 marketing was up $6 million or 25%, which helped drive the international gross profit growth we experienced in the quarter. SG&A, excluding the impact of IBM, which I'll discuss in a moment, for the second quarter was $219 million, down $11 million or 5%, reflecting the success of our ongoing efficiency efforts which exceeded our expectations.

During the third quarter, a jury in the IBM matter returned the verdict, finding the company willfully infringed IBM's patents and awarded damages of $82.5 million to IBM. We intend to seek to overturn the verdict and reduce damages through posttrial motions and appeal. Associated with this verdict, we've taken a one-time charge of $75 million, which takes into account our previous accrual for this case.

Moving on to free cash flow. It's important to highlight the free cash flow potential of our business model with strong flow-through from adjusted EBITDA. And we continue to expect that free cash flow will grow materially over time.

In the second quarter, on a trailing 12 month basis, we generated over $145 million in free cash flow and expected to generate approximately $200 million for the full year 2018, excluding any potential impact from IBM.

On liquidity, we ended the quarter with $663 million in cash, in addition to our $250 million undrawn revolver. Keep in mind, when you look at the change in our cash balance from March 31, we utilized $58 million of cash for the purchase of Vouchercloud during Q2.

With regards to the third quarter. We expect revenue to be approximately $600 million and gross profit to be between $315 million and $320 million, which reflects a year-over-year improvement as compared to the third quarter last year, with North America expected to be flat year-over-year and the anticipated gross profit dollar growth coming from international.

We expect to increase marketing in Q3 as compared to Q2, driven by ongoing investment in international customer acquisition. On SG&A, given the success of our efficiency measures, we would now expect lower expenses in Q3 versus Q2. In total, we expect Q3 adjusted EBITDA in the high $40 million range.

Moving on to guidance for 2018. We are reiterating our full year 2018 adjusted EBITDA expectation of $280 million to $290 million, which reflects our results to date, continued improvements in gross profit trends as the year progresses and operational efficiency.

In summary, with the investments we are making in enhancing the customer experience, building out the Groupon platform, unlocking international's potential and continued rigor around operational efficiencies, we continue to believe we are on a path for a multiyear adjusted EBITDA and free cash flow growth.

With that, let me turn the call back over to Rich.

Rich Williams - *Groupon, Inc. - CEO & Director*

Thanks, Mike. The second quarter demonstrated the continued progress we're making toward long-term success. With our continued focus on an amazing customer experience, extending the strength and effectiveness of our platform, continuing our encouraging progress in international and focusing on operational excellence, we believe our investments will deliver strong returns over time and more immediately, across the second half of 2018. I'll close as I always do, with thanks to the Groupon team for their commitment to our mission, to customers, to merchants and to our local communities which continue to drive us forward.

Now let's take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Eric Sheridan with UBS.

Eric James Sheridan - *UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst*

Maybe going back to Slide 12 on the marketing. Just wanted to understand a little bit of what you've learned as you sort of deemphasized and reemphasized certain channels on the marketing side, how you're tracking against that time to pay back 12 to 18 months that you've talked a fair bit about, and how we should think about a dollar spent on marketing feeding into either user growth or gross profit dollar growth as we look maybe even past '18, long term?

Michael O. Randolfi - *Groupon, Inc. - CFO*

Sure, sure. So as we think about marketing, our overall thought and viewpoint around marketing has continued to be that we should be targeting a 12 to 18-month payback, and we look at that on the margin. That's been our thought for the last couple of years, continues to be our thought, and I would expect that going forward. So with that, one of the things that we're always aiming to do is improve the analytics, improve the granularity around our investing of marketing dollars such that we have the ability to ensure we're getting as much efficiency out of each marketing dollar deployed. And so what we've continued to do, particularly over the last year, was just be able to develop deeper granularity in our marketing, which has given us the ability to identify pockets of efficiency as well as pockets of inefficiency. And so where there's pockets of inefficiency, we'll actively make that trade-off of not investing a marginal dollar to either acquire or retain a customer. So in the short run in North America, that obviously is resulting in some modest reduction in net customer counts. But over the long run, we believe that helps us mix into a more valuable mix in terms of gross profit per customer from an overall standpoint. So -- and that's kind of the way we're going to think about, is continue to be within that 12 to 18-month payback on the margin. Internationally, what I would highlight there is we're early days in international. And so there's -- that is a market that is deeply, deeply underpenetrated. So you really see us leaning into that, acquiring customers. I would expect customer acquisition to continue at a healthy pace. And what I would also highlight, just both between North America and in international, we have 2 goals here. One is obviously to acquire and grow our customer base. But the other goal is to grow the value of that base, over time. So what you see is as we focus our emphasis on marketing, it's to ultimately end up with a more valuable base over time. But if you also look at the actions we're taking, whether it be adding supply or increasing -- continuing to enhance what we surface to customers, with a greater focus on gross profit and margin generation and product and supply, all of those are elements which we think over time have the potential to both increase the value of the base of North America and international. And I think one of the byproducts of that is, one, you end up with more GP from your base. But the other byproduct over the long run is it actually opens up the ability to acquire additional customers more efficiently. So what I would say is, as I look at customer acquisitions specifically, over the next couple of quarters, as just discussed, I think you'll see some of the similar trends in North America, and I think you're see some of the similar trends in international. What I would say, over the long run, I think both in North America and international, I think there is still a lot of opportunity to grow the customer base.

Rich Williams - *Groupon, Inc. - CEO & Director*

Yes. Eric, this is Rich. Just to add a fine point on some of things. I want to be clear on it, as we continue to refine the programs around marketing, as Mike described, is that what we're not going to do is just invest marketing dollars to grow the customer count. It just doesn't do anything for us. We're going to invest our marketing dollars to drive gross profit in high-quality customers over time. And that's the biggest thing that we've improved over the last couple of quarters is our ability to identify that gross profit potential long term. That's where we're going to invest in disproportionately. And if that means that we don't invest in either retaining or acquiring a customer, it's going to be for the right reasons and that we just don't see the potential for them at this point in time to generate meaningful and reasonable returns within our thresholds.

Operator

Our next question comes from the line of Tom Champion with Cowen.

Thomas Steven Champion - *Cowen and Company, LLC, Research Division - VP*

I'm just curious if you could talk a little bit more about the North American gross profit growth and the deterioration in 2Q. I think ex OrderUp and Groupon+, growth was up last quarter. And maybe just address the trend, particularly in Local. And maybe how we should think about it through the balance of the year, is it going to improve just based on lapping OrderUp? Or is there something else underlying, potentially an improving trend?

Michael O. Randolfi - *Groupon, Inc. - CFO*

Sure. I would just highlight, if you think about our first half of the year, and we talked about this going back to our very first call in the year, where there were several things that we were focusing on that we knew had the potential to create some degree of short-term disruption and no longer having OrderUp, which we think is the right strategic thing to do because we think it's much better to be partnering with the scale player in that space, focusing on growing and emphasizing Groupon+, although that's a short-term headwind. And even on Goods, optimizing our Goods business where we trade off some units for higher margins and higher gross profit, we realize that has the potential to create some short-term disruption. But what I would indicate is we believe that, that disruption is short term. And I'd point you to the commentary we gave around the third quarter. And where we talk, in the third quarter, I would highlight that in the prepared commentary, North America, we highlighted that we would expect gross profit to be roughly flat year-over-year in the third quarter and we really don't fully lap OrderUp until you get into the fourth quarter and you really don't -- we will start to see more of the benefit of Groupon+ as we get to the back part of that quarter and into the fourth quarter. So I think what you see in the third quarter is the beginning of just year-over-year improvement on a sequential basis.

Operator

Our next question comes from the line of Brian Fitzgerald with Jefferies.

Brian Patrick Fitzgerald - *Jefferies LLC, Research Division - MD & Senior Equity Research Analyst*

5.1 million G+ credit cards linked, that's good. Can you remind us, what's the kind of TAM there? Is it Groupon members of the credit card in G+ locations? How penetrated are we into that? What type of dynamics are you seeing on the adoption rates there? I think it was 1.1 million cards added this quarter, which is 1.5 million last. And then how do you think about expanding G+ markets?

Rich Williams - *Groupon, Inc. - CEO & Director*

Great. Thanks for that, Brian. From a TAM perspective, I guess if you're thinking about adjusting the U.S. or something around 160 million total cardholders, last I saw, but obviously, we're rolling in 25 markets today, so we're going to address a portion of that. But the markets we're in are the largest markets, really, in the U.S. so we're going to have access to a really significant number of cardholders is our TAM. You start to expand that to our countries in international where G+ longer term has opportunity. You're talking about hundreds of millions of cardholders total. What I would say, with 5 million cards enrolled, we're very early in the game even within our existing customer base, and I think that's really where we started is with our existing customer base. But I wouldn't limit the potential of the product to just what Groupon currently has. Because even in a place like the U.S., call it, we're somewhere in the 10% to 12% range penetrated in the addressable market overall for consumers in the U.S. So I think we've got a lot of room to go there. As you mentioned, I think, actually, adding north of 1 million in cards enrolled, Q1 to Q2 is really solid, overall. And it's in line in general with where we've been over the last couple of quarters in velocity of adding cards to the program. And increasingly, for us, what we're focusing on disproportionately is really making sure that the Groupon+ experience, overall, is what it needs to be throughout the funnel. So when we started, obviously, we were very focused on getting cards enrolled in the program, very focused on getting initial merchant penetration into the program. Now as we have those moving into a much healthier zone and we have actually some real scale to play with and learn from, we're going to be working more and more deeply across the funnel from enrollment all the way down to redemption. So it's not going to be as singular in focus for us, as it's been it over the last 3 or 4 quarters on just enrollments. We're going to be much more acutely tuned to making sure that we're getting people to not just enroll their cards, but really deeply engage in the product, start using it much more frequently, as we know they have the potential to do, and then continue to scale it up from there. But I think, really, you have to look at the total cardholder universe in a country like the U.S. and in major countries that we operate in, and Europe is the real way to think about the TAM.

Operator

Our next question comes from Scott McConnell with D. A. Davidson.

Scott Akira McConnell - *D.A. Davidson & Co., Research Division - Research Associate*

So first on the IBM case. What will be the ongoing effects of the decision going forward if it stands? I mean, will Groupon have to pay some sort of licensing fee on a go-forward basis?

Michael O. Randolfi - *Groupon, Inc. - CFO*

Yes. So what I would just highlight there is we continue to believe we didn't and we don't infringe on the patents at issue, and we fully intend to fight the verdict and overturn it and reduce the damages through posttrial motions and appeal. So that's our view. Beyond that, I wouldn't comment and I would just refer you to our 10-Q.

Scott Akira McConnell - *D.A. Davidson & Co., Research Division - Research Associate*

Okay, great. Second question would be, so Google recently changed their algorithm to place a greater emphasis on mobile. So you've long had strong mobile product. What has the change in algorithm done to your SEO effort?

Rich Williams - *Groupon, Inc. - CEO & Director*

Thanks for that Scott. I'd say, in general anything that biases toward mobile, we like long term. And your point is exactly right, we've had a strong mobile presence, we continue to have a strong mobile presence, and that's really the only place we focus our product development efforts these days. So again, I think that benefits us in the long term. With any recent changes on the Google side, we haven't seen a material difference outside of our just ongoing optimization and improvement that we'd see just day-to-day in our business. So there's not much, besides our continued confidence in our mobile footprint that I can share with you at this point.

Operator

Our next question comes from the line of Justin Patterson with Raymond James.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

Rich, I wanted to touch on your earlier comments around investing in a new mobile experience and tease out some of your thoughts there. How should we think about the size and duration of this investment? What's your hypothesis on how they should affect conversion rate and billing over time? And then related to that, and I would love to think about how you're focused on search and discovery there, especially with full price inventory since I find a common question with investors, is just really wondering how your -- where the value add is on that full-price side, some things like

Live Nation, MLB are very well distributed elsewhere. Is there something you're doing with that audience, with your data that's increasing velocity of those sales to that customer base?

Rich Williams - *Groupon, Inc. - CEO & Director*

Thanks, Justin. So great question. So I'll start with the mobile experience and, really, I think just the Groupon experience, overall, and how we're thinking about that. And I think as adept as we've been in mobile development and I think I mentioned it, it was the sixth highest rated iOS app of all time, we're very good at creating engaging mobile apps and really making an easy-to-use and rewarding app. I think, though, what I'd say is that the vast majority of our efforts has been around designing a really rewarding and high-quality app experience around the first-generation Groupon product. And as good as our app is based on our customer feedback, it's really been a refinement of that list and feed of deals and really taking that daily deal view of things and making it increasingly easier to sort and filter and all that sort of stuff. But the fundamentals of that product experience have remained largely intact. And I think our hypothesis is as we continue to add catalog scale, that experience isn't built for it. It's not built for hundreds and hundreds and hundreds of thousands of offers, or even millions of offers being deployed to a customer and in a way that enables rapid seek-and-find types of experiences that other large-scale marketplaces with big catalogs employ. And so if you just look at any other major scaled marketplaces and they're much more geared toward search and discovery or seek and find, high-intent behavior, ours is really, has been built and biased towards, effectively, window shopping and really impulse more than really enabling that high-intent seek and find type of traffic. And we have a lot of that traffic in our -- we see just the sheer number of searches in our app on a monthly basis, and it's a very, very big number, and we don't believe those customers are being as effectively served as they need to be and we think there's a lot of conversion opportunity in there. There's a lot of opportunity for us, we believe, as well to bring the longer tail of the catalog to the front. And that's both through UI improvements and changes and taking some e-commerce, some well-worn e-commerce standards and applying them in your core search experience. But also, in our relevance algorithms and the things that we do and how we use our machine learning to use that data advantage that we have in this space, use that huge corpus of intent data that we have to just better service the best possible offer instead of -- in many cases, the best possible discount. So we see a significant opportunity there to just do a different -- to do a different version of Groupon for folks that more closely aligns with how literally tens of millions of people, on a monthly basis, use our app and unlock their experience on the product. Obviously, a big piece of that is really leveraging the core of what Groupon means to people. And I think one of the things that we see in the market is that there is a misunderstanding of the Groupon brand when we talk about -- when we talk to investors, as an example. The Groupon brand and many investors I have seen is a value brand only, where our brand is synonymous with savings. While that's true, our brand is synonymous with savings, we're one of the -- we have one of the highest levels of brand equity in the U.S. for discovery in Local. So that's core to our brand for our 50 million customers, is that we help them figure out what to do on the weekend, what to do with their kids, what to do when they're bored or what new restaurants to try. And that's absolutely core to our brand DNA. I just don't think we've done a good enough job delivering supply and an experience to help unlock it. So full price offers play a part in that. Our catalog scale play a part in that. So what we do differentially for people is take a high-trust experience, a high-trust relationship where there's high intent and we deliver great ideas to consumers. And they trust us to do that in a way that a lot of other distribution methods aren't trusted. And then we make purchasing seamless in a way that a lot of other destinations or distribution points can't do. And increasingly, as you see us invest in ticketing integrations or third-party platform, we enable redemption seamlessness in a way that virtually no one else does at this point, especially when you're thinking about in the ticketed landscape, where we have fully mobile and digitized ticketing experiences. So I think net we're just on the path to provide a flat-out better experience that's more trusted across the spectrum of discounts and, really, our opportunity is to build the front end of the product in a way that really enables and accelerates that.

Operator

Our next question comes from the line of Deepak Mathivanan with Barclays.

Deepak Mathivanan - *Barclays Bank PLC, Research Division - Research Analyst*

I know it's early, but can you provide a high-level framework to think about FY '19 EBITDA? Should we expect trends in gross profit growth and marketing spend to be similar to current levels as we look into next year? And looking at the cost structure, do you see more opportunities for sort of operating efficiency gains in your model?

Michael O. Randolfi - *Groupon, Inc. - CFO*

Yes. So we haven't -- we've obviously only provided guidance through the end of this year, Deepak. So what I would say, as I think just longer term, what are some of the longer-term trends that I just see. One is, as we've talked about, we believe we're on a path to multiyear adjusted EBITDA and free cash flow growth. And what I would say is I expect, over time, that's going to be comprised of growing gross profit in North America and international. And at the same time, I think that while we will have investments from an SG&A standpoint, we will make those investments where we think there's good payoff on those investments. We have a strong mindset that we've developed over the last couple of years to continually be looking to drive for efficiency. So we'll work to offset as much of those investments, over time. But what I would highlight today is we reiterated our guidance of $280 million to $290 million, but we also provided a little more commentary around free cash flow generation, where we highlighted that we would expect, for this year, to generate around $200 million of free cash flow, ex any potential impact from IBM. And I think that just highlights the flow-through and the potential flow-through in years to come as it grows for the potential of free cash flow of this business to grow.

Operator

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Our next question come from the line of Matt Trusz with Gabelli and Company.

Matthew A. Trusz - *G. Research, LLC - Research Analyst*

With this talk about about attrition. How do you feel about the health of your customer base today? How much would you characterize as lower-value that wouldn't mind seeing churn off? And as they churn off, can you just discuss the level of rise in growth profit per customer that you're expecting is possible?

Michael O. Randolfi - *Groupon, Inc. - CFO*

Yes, so I'll start. And so the way we think about it, it's pretty mathematical. It's pretty much what do you spend to acquire or retain a customer relative to the downstream gross profit? And so we're investing an incremental dollar. We want to obviously make sure we're getting the return on that incremental dollar. And in North America, what I would say is I think, one, if you look at the trailing 12-month basis, gross profit per customer was roughly flat year-over-year. But I also look at, going forward, that's flat before you fully have the benefit of all the partnerships and third-party supply that we've been continuing to add and are now just starting to implement. That's flat before we -- as we've been making some trade-offs on Groupon+ that we think have some long-term benefits to us. That's been flat, despite our continued refinements of brand and just overall supply. So I think all of those have the potential, over time, to increase gross profit per customer in North America. And I think, if you look at kind of our just overall commentary for both North America and international, we have talked about, throughout the last couple of calls, the expectation that trends will continue to build as the year progresses. And so I expect that you'd continue to see that benefit in gross profit per customer. I'd also just highlight on international, over trailing 12-month basis we saw international gross profit per customer increase by 10% year-over-year. And we still have a lot of opportunity where we are applying elements of the North America playbook, whether it be product, supply, marketing analytics. And we think that has potential for years to come to both, not only grow gross profit per customer, but also materially and significantly increase the customer base.

Rich Williams - *Groupon, Inc. - CEO & Director*

Yes, the only thing I'd add in there, Matt, is that we -- where we've seen and where we've talked about, in general, some headwinds in the business they've been, once we've made strategic decisions to impose them, where we're rolling out new products that we believe, and we've seen the indicators of potential on to really change the trajectory of customer scale and growth on the platform. So that -- those are the things like the trade-offs associated with Groupon+ that inherently has some near-term headwinds as we trade-off some voucher sales. So I think within that, you see, to Mike's point, a total GP per customer that's growing overall and even at a total basis, our total customer count is up about 1 million customers year-over-year. So I think we're in a pretty solid spot. And we believe is significant opportunity to make it better over time, especially as we start to see the effects of some of these new products rollout, new product rollouts kick in over time. So I think we are well-positioned to continue to grow. I think the core message there, though, is what we are -- the metric we're not as focused on is the specific customer count. Given the size of the TAM and the trajectory that we're demonstrating, we can push on the GP per customer side. It's really about refinement and focus and getting products scaled as fast as we can and tapping into the opportunity in a measured and thoughtful way, more than just driving an optical metric that really doesn't drive the business.

Matthew A. Trusz - *G. Research, LLC - Research Analyst*

Great, thanks. Just a quick follow-up. There was recent media speculation about your potential interest in selling the company. Is there anything you can comment on as far as your position strategically? Is the company for sale?

Rich Williams - *Groupon, Inc. - CEO & Director*

Matt, what I would tell you on that front is, look, I think we're doing some really exciting things in the company and we're expanding our partnerships on that -- at a pace that, I think, really, really encouraging. We're delivering solid adjusted EBITDA and free cash flow growth in a space that if you look at our guide, we're at the top end of our guide on adjusted EBITDA at 16% year-on-year growth and our free cash flow is something north of 150% year-on-year growth per Mike's commentary. So it's not surprising that we've received some expressions of interest on that side as we have from time to time in the past. And our board always takes that very, very seriously. But outside of that, we don't really have anything to comment on.

Operator

Our next question comes from the line of Chris Merwin with Goldman Sachs.

Christopher David Merwin - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Just a couple of questions. First, is there a material difference in the average ticket size for a Groupon+ as compared to a traditional Groupon? And if so, has that caused some of the headwinds that you're seeing as you navigate the transition towards Groupon+? And I guess, as a related question, are you seeing the same frequency increases for Groupon+ customers today that you initially did when you were testing the product?

Rich Williams - *Groupon, Inc. - CEO & Director*

Thanks for that, Chris. I'll start, and Mike, if you have color, feel free. But there is a difference in ticket size for G+ versus voucher, but only when you look at it in aggregate and only as an out -- really, is an output of our decision to bring different types of merchants on via Groupon+ first. So the example, just to put a finer point on it, the traditional Groupon voucher product is geared more toward casual dining to fine dining, where you have much higher average ticket prices. But the voucher product hasn't been as addressable to breakfast, lunch, coffee, et cetera. So we've made a choice when we rolled -- when we started to rollout Groupon+ and continue to make that choice, with rescaled inventory to bring on more lower ticket price merchants. So inherently, you're going to have some of that dynamic happening. And inherently, that is a piece of that headwind as we look to bring high-frequency, lower ticket price merchants onto the platform disproportionately at this stage. Now Groupon+ works well for high ticket price merchants, but we have not decided to make that really the focal point of the product. Because again, we're building for more habitual use, higher frequency and really ingraining the behavior to use Groupon to save money on food every single day. So it's been a strategic decision to do that. But when we do have a product, when we do have Groupon+ and a voucher running at the same merchant, you don't really see a material difference at this point. We haven't observed a material difference in total ticket price.

Michael O. Randolfi - *Groupon, Inc. - CFO*

The only thing I would also add there in terms of what is the -- what creates the headwind that you see is, over the last 6 months, and even going a little bit in the third quarter, essentially, what we have been doing is encouraging enrollments using site and app assets and encouraging claims, and then, ultimately, encouraging redemptions. But as you would encourage an enrollment, as you encourage a claim and you use site assets, while you're doing that, you're trading off what would have been a traditional voucher purchase, where you would have earned GP and you would have generated a unit at that moment. So what happens is as the -- what we expect as the year progresses is we will start to get the benefit of that ramp-up and redemptions, and you don't necessarily have more impression that you use to support Groupon+. So one of the things we've talked about in our commentary all along is we have expected this disruption in the first half of the year. And we would expect that is going to continue to build and we'll start seeing the benefits in the back half of the year of Groupon+ and now you'll see that in terms of our overall GP generation and our GP per customer generation, over time.

Rich Williams - *Groupon, Inc. - CEO & Director*

Yes, Chris. And a big piece of that build is that we do, to answer your second part of your question, we do continue to see the same kind of repeat purchase frequency behavior from those Groupon+ adopters that we're getting in this later stage and these more recent period as we did in the beginning. So net, when you start to redeem on Groupon+, your purchase frequency and redemption frequency on Groupon+ continues at a very high rate and much higher than our traditional voucher business.

Operator

(Operator Instructions) Our next question comes from the line of Sameet Sinha with B. Riley FBR.

Due to no response, we will now conclude the call. I'm not showing any further questions at this time. Ladies and gentlemen, this does conclude today's question-and-answer session. Thank you for participating in today's conference. This does include the program, and you may all disconnect. Everyone, have a great day.
