

Q4 2017 Groupon Inc Earnings Call

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PRESENTATION

Operator

Good day, everyone, and welcome to Groupon's Fourth Quarter and Full Year 2017 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 Head of Investor Relations, Erin Stone. Please go ahead.

Erin Stone,

Good morning, and welcome to Groupon's Fourth Quarter and Full Year 2017 Financial Results Conference Call. On the call today are our CEO, Rich Williams; and our CFO, Mike Randolfi.

The following discussion and responses to your questions reflect management's views as of today, February 14, 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.

We encourage investors to use our Investor Relations website 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 also discuss the following non-GAAP financial measures: Adjusted EBITDA, non-GAAP earnings per share, non-GAAP net income or loss attributable to common stockholders, free cash flow and FX-neutral results. 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 on this call, note that all comparisons, unless otherwise stated, refer to year-over-year growth and all gross profit comparisons are FX-neutral.

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

Rich Williams, Groupon, Inc. - CEO & Director

Thanks, Erin. 2017 was an important year for Groupon, highlighted by tangible progress in building our voucherless future and accelerated innovation on behalf of customers and small businesses across our local marketplace.

More importantly, we did so while retaining the strategic focus and operational excellence that have now delivered 5 consecutive strong quarters and our first ever year of GAAP profitability.

Local is an immense opportunity, now even more so than when Groupon burst on to the scene nearly 10 years ago. We continue to believe the best way to serve this multitrillion dollar market is through a comprehensive, easy-to-use transactable platform that connects a vast array of incredible merchants to millions of engaged consumers.

To extract the greatest value from this opportunity, we're combining a strong brand that's rooted in value and convenience with an outstanding customer experience that leverages our core strengths in mobile.

Coupling these things with more opportunities for more merchants to grow their businesses profitably on our platform has given us significant scale in Local across 15 countries. It's also given us a clear path forward in 2018 and beyond.

We laid the foundation for continued progress in 2017, and we did it while growing profitably, delivering \$250 million in adjusted EBITDA, \$1.334 billion in gross profit and \$29 million in GAAP net income from continuing operations.

In the fourth quarter, we reported \$105 million in adjusted EBITDA, our highest ever, and \$387 million in gross profit.

We added 1.7 million customers during the year and amplified our successful off-line marketing program by introducing actress and Groupon super customer, Tiffany Haddish, as our new spokesperson and star of our well-received Super Bowl ad. Our

marketing programs are working well and have brought Groupon back into the popular conversation while demonstrating our commitment to building strong local businesses and communities.

In 2017, we also began ramping our voucherless efforts, led by Groupon+, and we continue to refine and improve our top-rated mobile experience. More and more customers are adopting Groupon+ for its ease of use and the new range of businesses attracted to Groupon through a broader range of discounts.

Groupon+ is now live in more than 25 of our larger U.S. markets. While it's still early, Groupon+ is progressing well and demonstrating that when we remove needless friction from the Groupon experience, customers and merchants respond.

We exited 2017 with approximately 2.7 million cards linked in Groupon+ and with thousands and thousands of merchants in the program.

More importantly, we have solid momentum, having nearly doubled our consumer and merchant participation in the program in each of the past 2 quarters.

Mobile is another area where we progressed in 2017, and during the fourth quarter in particular. Nearly 70% of total transactions occurred on mobile in the quarter and we peaked at nearly 80% for the Black Friday shopping weekend. This is rarefied air for an e-commerce company of our scale. We believe our investments over the course of the year in our apps and mobile websites to improve search, browse, maps and merchandising continue to put Groupon at the forefront of durable trends in Local and with customers in general.

Not surprisingly, Q4 was also a strong quarter for our Goods business, even as we actively shift more of our traffic and impressions toward Local. North America Goods reported an 8% increase in gross profit on 15% margins, our best in 5 years, and our team delivered a differentiated and engaging holiday shopping experience for our customers.

Last but not least, we started to drive stronger performance in our international business over the course of 2017. Our focus on increasing supply, updating our mobile experience and scaling investments in marketing and customer engagement helped grow gross profit 12% in Q4.

Before I hand the call over to Mike for further details and the discussion of our 2018 outlook, I'll take a minute to put a finer point on our strategic priorities for the year.

First and foremost, we're incredibly focused on growing the customer lifetime value on our platform. For Groupon, that's most easily expressed as gross profit per customer over time.

In addition to continuing to efficiently add high-quality customers, we see 2 key opportunities on this front. One is scaling voucherless customer experiences in mobile. Two is continuing to reposition Groupon in the minds of consumers and merchants as a fun way to save and shop locally every day.

Groupon+ is the tip of the spear for our customer experience efforts, and we now have enough scale with it to see the potential and challenges of frictionless experiences on our platform. For example, we found that once customers begin using Groupon+, they do so more often and across a wider swath of businesses. This is incredibly exciting. Groupon+ is the first major product we've launched that has shown it has the potential to materially change purchase frequency.

In 2018, we expect to lean into the trends we're seeing with Groupon+ and invest heavily in expanding its role in our marketplace.

We anticipate giving up some voucher sales as we scale the product, but believe we'll more than make up for it over time as consumer and merchant adoption and monetization builds.

Moreover, Groupon+, as an anytime, anywhere product, is built for mobile, which is, again, a core focus area for 2018.

Mobile customers are our most valuable customers. Our app has been downloaded 171 million times and customers love it. We want to keep shifting customers and traffic to our app. Continuing to evolve our app to meet the demands of our changing marketplace is increasingly important as more and more customers show up with higher intent and find more and more inventory.

Further, we expect our mobile efforts to be even more impactful through further development of location, search, relevance and merchandising. We believe this will allow us to use our significant transactional and consumer purchase data assets to improve targeting and discovery on our platform.

Booking is another key part of improving the customer experience and growing lifetime value. It also lends itself to an increasingly mobile world. In 2017, we grew to over 25,000 bookable deals and helped millions of customers make reservations and appointments through our beauty booking experience, our international restaurant reservations offering and third-party booking integrations.

We've seen that when customers can purchase and book simultaneously, we can increase customer satisfaction while driving even more traffic to merchants.

Our opportunity now is to further scale bookability on the platform in 2018, both by expanding our proprietary tools, but increasingly via third-party integrations, where Groupon's unique combination of local customer transaction scale and brand trust create compelling partnership opportunities.

Related, as we roll out more and better experiences on our platform, like Groupon+ and booking, we need to bring consumers and merchants along and keep our brand top of mind. Expect to see us investing in our brand and product marketing campaigns globally throughout 2018, especially early in the year.

In terms of repositioning Groupon, we're continuing our off-line campaign with Tiffany Haddish, following our Super Bowl spot which ranked third on Google's AdBlitz leaderboard. Tiffany is a real, authentic voice for us and the response has been overwhelmingly positive. Our message of helping local communities by supporting small businesses resonates across customers and merchants, and we're continuing to tell that story across our media channels.

Our second priority in 2018 will be to further establish Groupon as a platform. Groupon is already the largest local marketplace of its kind where we operate, and more and more potential partners are realizing the opportunity that 50 million ready-to-buy customers represents. Solidifying our position as a platform requires opening Groupon to more high-quality third parties as well as

distributing our offers to customers through other great partners. We intend to drive forward on both of these fronts in 2018.

On the former, we've launched partnerships with Live Nation, Expedia, Viator, Goldstar and FanXchange. Our GrubHub integration should launch in the first quarter, which will bring tens of thousands of new food delivery offers to Groupon.

We have also recently completed a partnership with ParkWhiz and signed an agreement with American Express as a network partner for Groupon+, giving us the 3 largest payment networks in North America, along with Visa and MasterCard. We see no shortage of potential partners and expect to bring more great relationships to customers as we move through the year.

On the latter, we believe our offers can enhance the value propositions of other established programs. We've worked closely with distributors like Button and Onstar, and we've launched an airlines reward program that helps users earn airline and hotel miles and points for shopping on Groupon. We expect more of these types of relationships to launch over the course of the year and further expand our platform reach.

Our third priority in 2018 will be building on the momentum we established in our international business last year. We like our trajectory in international and believe bringing international to parity is a significant growth opportunity. To put that into context, our international markets today make up about half of our North America gross profit, yet those markets are about twice as large as North America in terms of addressable population, while representing similar buying power and mobile adoption.

To help unlock our international opportunity, we'll maintain focus on our proven product, marketing and supply strategies.

On the product side, we'll push mobile first, building on our app rollout from last summer and improving the overall usability of the app with a better checkout experience, a shopping cart and other key winning features.

On supply, we'll remain focused on growing local merchant relationships in the largest cities as well as pursuing more high-quality national and third-party offers. We're also expanding our coupons business internationally, which leverages the investments we've made in North America, while bringing another high-value everyday offering to our international customers.

Given the progress of the international business, we also believe it's time to expand our international marketing programs. In 2018, we expect to step-up our overall investment in targeted cities and mirror North America's successful off-line strategy.

We plan to continue to invest in the same 12- to 18-month payback window and believe our enhanced analytics will bring even more rigor to our marketing programs.

These 3 strategic areas, growing customer lifetime value, scaling our platform and accelerating our international business, will be our focus in 2018. We have real work to do on all fronts, but we're on a solid track with good momentum and we're working off a more efficient and sustainable cost structure. The opportunity in front of us is clear and we're incredibly excited to attack it over the coming years.

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

Michael O. Randolfi, Groupon, Inc. - CFO

Thanks, Rich. We are pleased that our fourth quarter results are better than our guidance for adjusted EBITDA and in line for gross profit.

For the fourth quarter, adjusted EBITDA was \$105 million, up \$25 million or 31%, bringing our full year adjusted EBITDA to \$250 million, up \$70 million or 39%.

Gross profit was \$387 million in the fourth quarter, up \$26 million or 8%, bringing our full year gross profit to \$1.334 billion, up \$48 million or 4%.

For 2017, the execution of our strategy led to strong financial results that we believe provide a solid foundation for future growth. We increased our marketing investment, which led to 1.7 million more customers. We focused on maximizing long-term gross profit with an increased emphasis on our differentiated local offering. We executed on streamlining initiatives and significantly reduced our geographical footprint, which resulted in a more efficient cost structure. We increased our focus on key products that we believe enhance the customer experience and expect to be accretive to gross profit over the long term.

For Q4 specifically, we generated the highest quarterly adjusted EBITDA in our history as we leveraged the strong inherent consumer demand for goods during the holiday season. We utilize this demand on our platform to drive overall gross profit, which in some cases led us to trade unit volume for higher margins.

In international, we continue to be pleased with and cautiously optimistic about the early results of our initiatives around marketing, product and supply. Additionally, we added 400,000 active customers globally, despite experiencing the expected attrition from lapping the 2 million increase in active customers in the fourth quarter of 2016.

Keep in mind that when we acquire new customers, most attrition happens within the first year and the remaining customers tend to stick around for a long time.

In North America, gross profit was \$265 million for the fourth quarter and \$928 million for the full year. Q4 Local gross profit was \$197 million, up \$11 million or 6%, as we continue to see the benefits of our marketing investment and larger customer base. And Q4 Goods gross profit was \$55 million, up \$4 million or 8%, driven by solid holiday performance.

In international, gross profit was \$122 million for the fourth quarter and \$406 million for the full year. Q4 Local gross profit was \$76 million, up \$7 million or 11%. And Q4 Goods gross profit was \$35 million, up \$6 million or 22%.

These results were driven by an enhanced mobile experience, improved supply, increased marketing investment and strong operational execution.

Further, in international, not only did we add customers at a healthy pace in the fourth quarter, but we also increased trailing 12-month gross profit per customer by 4% as compared to the prior year comparable period.

In the fourth quarter, on a consolidated basis, marketing expense was \$112 million, up \$22 million or 24%.

In North America, while Q4 marketing expense was up \$18 million, this was largely offset by lower order discounts, which resulted

in marketing and order discounts in the aggregate being up only \$7 million or 6%.

In international, Q4 marketing was up \$4 million or 15% due to stepped-up investment in targeted cities. This investment helped drive the 12% gross profit growth we experienced in international for the quarter.

Turning to SG&A. Our consolidated Q4 SG&A was \$225 million, lower by \$13 million or 6%, as a result of the cost initiatives we completed earlier in the year.

Next, for free cash flow, we generated \$255 million in the fourth quarter and \$78 million for the full year. We ended the quarter with \$880 million in cash in addition to our \$250 million revolver.

Now let's talk about 2018. For 2018 adjusted EBITDA, we are guiding to a range of approximately \$260 million to \$270 million, a \$10 million to \$20 million or 4% to 8% increase year-over-year.

To provide some additional context, we are targeting gross profit dollar growth that exceeds the combined marketing and SG&A dollar growth. We expect this gross profit dollar growth will come from both North America and international.

While we expect to spend more in marketing in 2018 than 2017 to support North America and lean into our international business, we plan to remain within our 12- to 18-month payback thresholds.

In addition, while we intend to always have a focus on cost efficiency, we plan to invest for growth in the coming year. Accordingly, we expect SG&A to increase slightly above inflationary levels.

With regard to free cash flow, we expect operating cash flow to trend above the rate of adjusted EBITDA growth and we are targeting CapEx to be in the range of \$60 million to \$70 million for the year.

In thinking about 2018, keep in mind that we are focused on maximizing gross profit over an extended period of time. And as a result, certain of our initiatives have the potential to result in lower billings and revenue and are expected to create short-term gross profit headwinds. For example, as Rich mentioned, Groupon+ has higher purchase frequency than our traditional voucher product and we view scaling Groupon+ as a key element to unlocking potential growth. However, Groupon+ generates less billings for each dollar of gross profit than our traditional voucher product. So as we plan to scale this product in 2018, we expect it to create a local billings headwind.

Additionally, as we scale, we are utilizing impressions on our site and app, which would typically generate gross profit to instead generate Groupon+ enrollments and claims, which do not generate gross profit at the time of claim or enrollment. We expect these enrollments and claims to ultimately lead to increased redemptions, and as a result, gross profit for Groupon+ in the future. However, these scaling efforts will create a headwind in the first half of 2018 for North America gross profit.

In addition, for Goods, we intend to continue to increase the mix of third-party marketplace versus directly sold goods with the goal of maximizing gross profit. However, this shift will create a revenue headwind as third-party marketplace revenue consists of the commission associated with the sale rather than the full value of the item sold. Accordingly, we expect revenue in 2018 to be around \$2.6 billion for the year and just below \$600 million for the first quarter.

Next, let me provide a little more context on phasing throughout the year. Adding to my earlier comment, our initiatives to increase gross profit per customer, such as Groupon+, bookability and third-party supply, are expected to build throughout the year. Thus, we are anticipating lower global gross profit growth in the early part of the year with decreases in North America relating to the scaling of Groupon+ and the loss of gross profit from OrderUp being offset by increases in international. Accordingly, we expect first quarter gross profit to be about flat to last year or a bit below \$310 million.

Additionally, a majority of the year-over-year increase in our marketing investment will be front-loaded and in the first quarter, with our new campaign that kicked off with the Super Bowl. Collectively, we expect this will result in adjusted EBITDA for the first quarter that is in the mid-\$30 million range.

Regarding tax reform and revenue recognition changes, let me highlight a couple of things. On U.S. tax reform, we do not expect to be materially impacted in the near term. On the new revenue recognition standard, changes in classification will reduce our revenue by approximately \$35 million to \$40 million and we do not expect a significant impact to gross profit or adjusted EBITDA.

In closing, we are focused on building the Groupon marketplace, which we believe will drive future growth and generate more value from our customer base. We remain confident that we are on a path toward multiyear adjusted EBITDA and free cash flow growth.

With that, I'll turn the call back over to Rich.

Rich Williams, Groupon, Inc. - CEO & Director

Thanks, Mike. As we move into 2018 and past what seems like an incredibly fast 10 years, we're energized and excited by the opportunities ahead. Our focus on the customer remains a true North Star and we continue to make great progress toward a frictionless, voucherless experience.

Our platform is growing and we're adding capabilities and merchants to it every day. Our international business is beginning to show its long-term potential and it's gaining momentum.

When all of these things work in concert, we'll begin realizing the power of the platform we've created and what we believe can be the kind of outsized customer and shareholder value that takes us through our next fast 10 years.

In that vein, I'd like to thank the Groupon team for a strong 2017 and for their continued passion to do amazing things for our customers and merchants. That energy and drive is at the core of our current and future success, and I'm excited about what we'll accomplish together.

Now let's take some questions.

QUESTIONS AND ANSWERS

Answer – Operator: (Operator Instructions) Our first question comes from Sam Kemp with Piper Jaffray.

Analyst: Samuel James Kemp, Piper Jaffray Companies, Research Division - VP and Senior Internet Research Analyst

Question – Samuel James Kemp: First on Q4. Can you call out how much Groupon+ and the OrderUp sale impacted your North America local billings? And then on the 2018 gross profit outlook, can you help us a little bit with maybe a range of gross profit that you're expecting for the year? And then on the EBITDA side, can you talk about the puts and takes around marketing, especially in international, and -- to the degree to which that's impacting your 2018 guide?

Answer – Michael O. Randolfi: Sure. So just to provide a little bit of color, Sam, on billings, what I would say is that if you look at our North America Local billings and you were to adjust for both Groupon+ and the impact of OrderUp, you'd -- we'd be at the point where it will be approximately double-digit billings growth for the quarter to give you some degree of impact on a sizing perspective. With regards to 2018 gross profit, what I would say is there, if you follow the words that we just talked about on the prepared remarks, we talked about \$260 million to \$270 million of adjusted EBITDA, SG&A up slightly higher than inflation, the expectation that we will spend more in marketing in 2018 than 2017. And then with that, in both North America and international, we expect GP growth in both of those and we expect that, that GP growth will exceed marketing and SG&A. So with that, what I would just say is, we expect healthy gross profit growth in both and we expect it to build over time throughout the year. With regard to our investment and -- SG&A and how we're thinking about that in terms of international, one of the things you could expect us to do is continue to really invest in international. We think that has a lot of potential over the long term. And so that's reflected in our SG&A and our adjusted EBITDA guide.

Answer – Operator: Our next question comes from Tom Champion with Cowen.

Answer – Thomas Steven Champion: So it looks like Groupon+ is now in 25 markets. I'm wondering if you could discuss how you'd characterize the progress and scaling up in the inventory? And are there any differences in how vendors are responding by region?

Answer – Rich Williams: Tom -- Yes. This is Rich. 25 markets, we're in a couple of more than that, but really our focus isn't so much on the number of markets we're in at this point. It's on getting deep in the markets that we've already launched because they include most of our major markets in the U.S., places like Chicago and New York and L.A. and San Francisco, et cetera. So we're -- what I would say about our progress there that we're still very early. We're excited about the progress. And as I mentioned earlier, we're -- we've been about doubling our card linking as well as the merchants in the program over the last couple of quarters, which we think is a pretty exciting trajectory. But we're still really only a couple of quarters of leaning into it and we're going to do that even more into 2018, especially here early in the year. So I'd say, we're very much early. As far as overall response on the merchant side, there hasn't been significant differences city to city around the country. I think that this speaks to the product itself. It's a very, very easy-to-understand product. It's incredibly flexible for a merchant when it comes to deciding the kinds of discount levels they want to run and even how they run the program because a merchant can choose to give a deeper discount on the initial visit for a user and then give a much lower -- almost loyalty-like discount on an ongoing basis. They understand that really, really well, everywhere that we're doing business and our close rates are really consistent across-the-board for our sales folks. So we feel really good about the value prop, both from a merchant perspective and a consumer perspective. And it's really now about us putting our shoulders into it and getting some real scale.

Answer – Operator: Our next question comes from Thomas Forte with D.A. Davidson.

Analyst: Thomas Ferris Forte, D.A. Davidson & Co., Research Division - Ecommerce Equity Analyst

Question – Thomas Ferris Forte: So on Groupon+, I had 2 questions. Is there a way to adjust the type of offer for Groupon+ to help you, for lack of a better way to put it, salvage some of the take rates versus non-Groupon+? And then given that historically, you've tend to manage the international by applying your best practices from North America overseas and there's historically a lag, at what point do you think Groupon+ will be ready for international expansion?

Answer – Rich Williams: Tom, I'll start. And if -- and Mike, if you have additional color, feel free to chime in. There are -- I'd say, with Groupon+, in general, we're still very early in how we're approaching that product. So today, it's a free-to-claim product that -- basically, a consumer can come to our website, see an offer, hit the link and it's loaded automatically onto their card that's enrolled in the program. So are there ways for us to change the economic profile of that product? Of course. We -- so there's -- we see opportunities to test and explore paid versions of the Groupon+ product or even really using the card-linking platform that we've constructed to allow people to link existing Groupon offers to a card for seamless redemption. So there are other ways that we're exploring, but we're seeing great things on the existing free-to-claim product in terms of use and monetization potential. So we're going to lean into that while we start to test some other iterations of the product as we go. So just -- what I'd say there is don't expect that what you see in Groupon+ is the only version of a card-linked experience that you're going to see on Groupon over time. So there are some pieces there that we're going to be playing with. As far as international, we talked about it historically as being 1 to 2 years behind. And I think we're making up ground there. We're still behind in some of our biggest markets. We are -- we still have technologies, as an example, that don't yet have the supply density to be able to fully enable. So we have some things that need to be done on the core operational approaches and gathering supply and core marketing and merchandising, et cetera, to really fully enable the full suites. But I think we're much more in that year time line than we've been in a very long time. I don't know if you have a different point of view, Mike.

Answer – Michael O. Randolfi: Yes. So the only thing I would add, just for a little bit of clarity there, Tom, is on the take rate with Groupon+, it's actually near a 100% take rate because your revenue and your billings are almost pretty similar. And what I would also say is, if you look at what we earn from a gross profit perspective, if you -- were in a similar average order value, the gross profit per transaction is actually not that much different than a voucher. What you're seeing in the short term is us leaning into and proactively using assets on our site, assets on our mobile app, e-mail assets to encourage enrollments, encourage claims with Groupon+ because we view that as a product that has a lot of potential over the long run. And therefore, we're trading off some of those impressions today that might otherwise generate gross profit because we believe in the potential of Groupon+. So I just wanted to clarify those points.

Answer – Operator: Our next question comes from Sameet Sinha with B. Riley FBR.

Analyst: Sameet Sinha, B. Riley FBR, Inc., Research Division - Senior Analyst of Internet and E-commerce

Question – Sameet Sinha: A couple of questions. So on -- can you elaborate more on your statement about trading off volume for gross profit? And how do you see that extending throughout the year? And secondly, we get asked several times about how Groupon has always been known for as a customer acquisition tool. Seems like you're ramping up on the retention tools with airline miles and, of course, Groupon+. Anything else that you can add -- shed light on, so that we can understand how you're growing your platform on the retention side as well?

Answer – Michael O. Randolfi: Sure. So let me -- I'll take the first question in terms of volume versus gross profit. And what I would say is, our goal over time is to maximize gross profit over an extended period of time. And so if you look at a given period, we're going to make certain trade-offs during that time period, in which we believe not only it may result in higher gross profit in that period, but just over an extended period of time. And what you saw in the fourth quarter is that's a period where the inherent demand around the holiday season is quite high and we utilized that demand to bias towards, that which we -- as a company, we're going to earn a greater lever of gross profit on it. We -- I think that's the right way to think about this over time. Now as I think about over coming periods, it's a combination of both increasing frequency, increasing gross profit per customer, and that ultimately translates into a larger aggregate level of gross profit. So what you see us leaning into over the longer term are initiatives that we believe have the potential to increase gross profit over an extended period of time, whether it be Groupon+, whether it be bookability, supporting our brand, leaning into international, all of those are things that we believe, ultimately, achieve both higher volumes and higher gross profit over an extended period of time.

Answer – Rich Williams: I think that's right. The only thing I'd add on that is, as we move through that process, there'll be just some puts and takes. There are going to be seasonal periods where we have high unit volume, high gross profit generating pieces and other times of the year where we're -- say -- and Q4 is a great example. We're going to make conscious decisions to make less investment in things like deep loss leaders that just drive empty calories and empty traffic. So we'll be moving those dials and levers as we go with that ultimate idea of driving gross profit over time. On your second question, Sameet, you're exactly right. I mean, that's our bread-and-butter, the core value prop of Groupon from -- for a small business has been customer acquisition. But as we thought really deeply about the real opportunity in Local, and the one that we're embracing now and moving really aggressively toward, and that's the move towards Groupon as a platform. That works for merchants every single day, just like it works for consumers every single day. That's requiring us to expand our value prop from being just about customer acquisition with an added benefit of driving more people back. We've seen that in our data. We do a great job of keeping people coming back to small businesses, but really productizing, bringing customers back. And the easiest place to see that is really even in Groupon+ that's visible now, where a significant portion of our Groupon+ merchants have an ongoing loyalty-based reward style program locked in with their Groupon+ offering. And that's just the first visible one that you'll see. And as we bring on more and more market rate or full price offerings into the marketplace that you're seeing, whether that's through folks like FanXchange or even then Grubhub, this is about giving merchants the way to drive their business to access what is a very, very large group of buyers on the Groupon platform in new ways with different economic profiles, and that allow them to really run the full of their business and have the full digital exposure that they can have on our platform. So we're in the very early, early stages of that, but our platform is hardening. You can see that in our booking scale, having literally booked millions of restaurant reservations in international, having hundreds and hundreds of thousands of other bookings occurring on our website, ticketing events happening on our website. That's all stuff that's coming as part of the platform that adds an ability to have longer-term engagement and longer-term relationships, both for Groupon and for the small businesses and other merchants that we support.

Answer – Operator: Our next question comes from Paul Bieber with Credit Suisse.

Answer – Paul Judd Bieber: I was hoping you can provide us with some context on how the adoption of Groupon+ impacts the revenue guidance going forward? How should we think about the adoption of Groupon+ implied in the guidance? And then just on the 4Q North America take rates, can you just give us some color and some of the puts and takes that drove your view on increasing the take rate?

Answer – Michael O. Randolfi: Sure. So what I would say in terms of the revenue guide, I mean, first, let me just highlight that as a company -- and we've been pretty consistent on this is that when we manage our business, we're managing the business for gross profit over an extended period of time. So for us, revenue is more an output rather than a specific metric that we're managing to. What I would say is, is keeping in mind that there is some trade-off in the short term, as I just mentioned, with regards to trading off site assets to encourage enrollments and claims. That's obviously going to weigh a little bit on revenue in the short term. But that is factored into our guidance and not something that we're breaking out specifically. With regard to 4Q North America take rates, it really comes down to a couple of things. First, keep in mind, in the fourth quarter that is typically a seasonally high period for us for take rate. Consumers naturally tend to mix into higher-margin goods. Additionally, we continue to get more refined in our ability to identify and promote relevant offers to customers, and be able to do so in a way that maximizes gross profit for customers. So we have algorithms that are naturally sorting and biasing for that in a way that's engaging for the customer. And what you saw was, during the quarter, as we continue to think about generating gross profit over an extended period of time, those take rates rose. And we saw the benefit of us continuing to manage in ways that worked for the customer and worked for Groupon.

Answer – Operator: Our next question comes from Chris Merwin with Goldman Sachs.

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

Question – Christopher David Merwin: Just had a couple. So you've guided to a much narrower range for EBITDA in 2018 that you -- than you did at the beginning of last year. I was just wondering if you could talk a little bit about why that is? Do you feel like you have better visibility into the cost structure now as well as gross profit? And then if you could quantify the investments that you're making in Groupon+ in 18? And then just a second question, it seems like a lot of the headwinds that you called out to North America billings and gross profit are due to the rollout of Groupon+. Can you talk a bit about what you're seeing in the early cohorts of Groupon+ that gives you the confidence that accelerated and directional shift to this product will ultimately be accretive to gross profit and EBITDA over time?

Answer – Michael O. Randolfi: Sure. Just in terms of the range, what I would say is that, if you even look at the back part of 2017, we continue to narrow our range in terms of what we were guiding to. And it just reflects the level of visibility that we feel like we have into the business. Keep in mind, when we gave guidance for 2017, we were still in the midst of an international restructuring and there were a lot more moving parts in the business than there are today. So today, we just -- I know we've continued as we came through 2017 having continued levels of visibility as to where we will be heading. In terms of Groupon+ investment, I would think of the investment of -- twofold. One is, what you see is -- very explicitly within our SG&A, you see our SG&A based on our commentary, our expectation is it'll trend up a little bit above inflation this year. That reflects investments in supporting initiatives, such as Groupon+, bookability, third-party inventory on our sites are leaning into our international business. So that's very explicit. Also, then the other level of investment though is on our site assets, such as our mobile app, our web, where we're actively trading those off. And I would point to what I talked about earlier with -- on Sam's question was, he asked around

from a billings perspective, what would our billings have been if we adjusted for Groupon+ and OrderUp. And our North America Local billings of 3% would be closer to the double-digit if you adjust for those 2 items. It gives you some degree of sizing around the level of investment that we're making around Groupon+. But that stems from what Rich was talking about earlier. When we looked at the behavior from consumers and what we've seen is, is once they start redeeming, their redemption activity is significantly higher than our traditional food and drink purchase frequency, basically, roughly around the magnitude of 2x. And so we view this as a long-term investment and an investment that we're excited to make and excited about the future of.

Answer – Rich Williams: Yes. I think -- that's right, Mike. So Chris, I'll just add a little bit more color on what we see that we're really excited about with Groupon+. And outside of the purchase frequency, and I think that it's important to couch that for what it is. This is purchase frequency within food and drink and it's already, at least, twice as high in just food and drink. So that's part of what gets us excited. Because look, our users buy an awful lot more than just food and drink. They buy from spas and activities and events verticals and on and on. So we just have this 1 product today deployed in food and drink and we're already seeing really significant traction just in that 1 space. And on top of that, we see use that's really exciting -- use pattern that's really exciting, that's slightly different than our normal food-and-drink user and the kinds of places that they're visiting, much more utility oriented, day-to-day style places. It's lunch, it's coffee, it's fast casual dining. It's the kind of things that people do with high frequency. So the fact that we're tapping into that vein is really exciting for us. And you can even see that in the kinds of brands that are in Groupon+, even in its early days. You're seeing, of course, a lot of small businesses in there, but you are also seeing national brands like Panda Express, Starbucks, Dunkin' Donuts, Papa John's, things that are, again, high frequency and things that people can use a lot. And so that's also very exciting that we have a product out there that's much more addressable for the national side of what we do, which is important for customer engagement long term. So we really like what we see overall, and in a lot of different dimensions in those cohorts. And this is all while we're investing in its rollout. So we feel really good about our potential here long term.

Answer – Operator: Our next question comes from Justin Patterson with Raymond James.

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

Question – Justin Tyler Patterson: Two for me, please. Mike, I wanted to unpack your statement on using impressions that generate gross profit to drive Groupon+ enrollments and claims. Can you talk about the efficiency of this? And your tests, how is this method of driving enrollments compared to your other types of marketing activities? And then secondly, I'll be the obligatory GDPR question. Obviously, that's top of mind for a lot of companies these days. How should we think about the puts and takes of GDPR on your business? Is there anything that changes on customer acquisition and targeting for you?

Answer – Michael O. Randolfi: Yes. I would say from our perspective, in terms of explicit costs, I'll take the GDPR one first. In terms of explicit costs on GDPR, that's embedded in our cost guidance. That does -- it is a measurable cost to comply with GDPR, but we're making great progress and we expect to fully comply with GDPR. And what I would just say is that is certainly an additional cost of doing business in the international market and it does certainly add to the cost. But what I look at is internationally -- I just look at the broader picture internationally and I look at the broader opportunity internationally outside the U.S. And I keep -- we continue to think about -- as Rich talked about, it's twice the addressable population size and half the gross profit that we generate in North America. And so when we think about international, we still see a business that, even despite things like GDPR, offers tremendous, tremendous potential in the years to come. And really, lots of potential for gross profit upside over the coming years. So we think that's 1 small piece of operating in those markets and we're prepared to do that. On the question with regards to impressions, I think there's a couple of things, and some of it's how the customers actually function. You actually -- when someone starts engaging with Groupon+, they actually have to claim a deal. That does physically require an impression to do. So it's not like you could simply replace that with a marketing activity. But at the time when a customer claims, we don't earn any gross profit at that moment. But if we -- in lieu of that, we had offered them a traditional voucher deal, we would earn gross profit. So we're actively making that trade-off. We believe it's the right trade-off because -- like Rich talked about, we see this being very engaging for consumers over the long run. In addition to just the frequency metrics, it's simply a better experience over the longer term, and it creates, from our perspective, a greater degree of scalability over an extended period of time. And so that's the right trade-off from our perspective to make.

Answer – Rich Williams: Yes. I think that's right. Just a couple of things to add there. Again, our #1 focus with that product is scaling. And we -- it's the beauty of frankly having the portfolio of operations that we have at this point, having an international business that we believe has a lot of runway to continue to improve on the fundamentals that we've demonstrated in the U.S. over the last couple of years while we invest and double down on what we see in Groupon+. So we're going to be making scale-based decisions there and doing the work that we have to do to balance the delivery using our portfolio of products and capabilities. The only other thing that I'd add on GDPR, by the way, you asked. Does it change anything with our targeting? It's still very early, I think, for a lot of marketers and advertisers in this space and we all have a lot to learn. But the thing for us is, I would say, marketing technology in particular is a competitive advantage for Groupon. We've invested very heavily over the last 5 years in our marketing technology stack and everything from machine learning science and AI being deployed in that space. So we feel very good about our ability to -- even in a more data-constrained environment, and specifically, the data specificity at a user level of that constrain our ability to do advanced modeling on top of that and still ensure that we have an efficient and productive marketing program, I think, is significantly ahead of most of the folks that operate in this space. So we feel really good about our position there.

Answer – Operator: Our next question comes from Jon Lanterman with Morgan Stanley.

Answer – Jonathan Paul Lanterman: I have 2, 1 on international and Local, and 1 on just areas of investment. For international and Local, I was a little surprised to see the results. It looks like they were down on FX-neutral basis. Given the kind of runway here in the business, how would you assess the quarter's performance? And then kind of looking into 2018 and further down the line, how you're thinking about building a 2-sided network with supply and ultimately, more customers? A few years ago, you guys really stepped up marketing in North America, planned a 12- to 18-month payback window, kind of, given similar dynamics in international and arguably much longer runway, kind of, why aren't you doing the same here or is it just more about building that 2-sided network first? And then for areas of investment, Goods, you talked about trimming low calories here, like consumer electronics. Looks like this has worked. Goods' gross profit was quite strong in the quarter. And in addition, kind of SG&A, when you think about the business holistically, have you even -- have you done the right move? Or kind of said another way, is this effecting supply at all or maybe engagement? How you're kind of thinking about these trade-offs, if at all?

Answer – Michael O. Randolfi: I'll take the international question first. And I would say, first, we're extremely pleased with our performance internationally. I mean, we had -- we increased gross profit by over \$20 million year-over-year in the fourth quarter alone and that was, from our perspective, a great result. And what I would say is, is when you look at billings -- first of all, billings, as we've talked about, that's not the measure we're managing to. And what I would look at is as you look at our Local growth in

terms of gross profit, it was up 11%. On Goods, we're up 22% on an FX-neutral basis. And what I would say is, in the fourth quarter that tends to be a quarter that is inherently biased towards Goods, just given the very nature. So overall, we're very pleased with the performance internationally and that was a big contributor for us as a company to reaching record EBITDA of \$105 million and our first year of GAAP profitability. So overall, extremely pleased there. And what I'd just say, going back to the comments we made earlier, is, international, from our perspective, has a long, long runway. And keep in mind, our gross profit in international this year was roughly \$400 million, roughly half of that -- roughly half of North America. And yet, it has twice the addressable population. So literally, over an extended period of time, over an extended number of years, has the potential to add hundreds of millions of dollars to gross profit. And we think it's tied to applying our North America playbook in the way we've applied in the last several years here in North America to international. So we think there's lots of potential there and we think we're at the beginning of untapping that.

Answer – Rich Williams: Yes. And Jon, on your other questions around areas of investment, you called out something I think is really important here and it's the development of the 2-sided marketplace. And this is the spot where I would say, if we're tough on ourselves, we haven't been great at this in the past. We haven't been, I think, acutely aware of the balance that you need to strike in the marketplace between consumers and, in our case, merchants. And I think of it really like the rungs of a ladder. In some cases, we were taking 2 big rungs up on the consumer side and supply wasn't moving in parallel. So we might be lagging a step -- a rung or 2 on the supply side. And that's absolutely the case in international. And I think as you've seen us invest heavily and getting supply up to speed there, the business is starting to crank. And that's when now we start investing more and more in consumers, et cetera. Same thing in North America. We put a big push behind consumers because we'd grown supply really quickly and we need to get consumers back up. And now we're starting to meter that a little bit more effectively. And I think we're in a place -- with our real kind of core third-party and marketplace initiatives, you're going to see supply take another big step up, at least I would expect to see supply take another big step up on the back of things like Groupon+ as well as our third-party integrations that you've seen more and more over the last couple of quarters. So really, for the company moving forward, you're going to see us moving -- trying to move the rungs of the ladder in a more consistent way, where we're moving consumers up and merchants up more in a lockstep environment, so that we can make progress. On your other question of the steps that we've taken on -- really -- as we've looked at, kind of, rightsizing the cost structure of the business and bringing into a much more sustainable and scalable place on the SG&A side and even some of the decisions we've made to reduce the amount of negative margin and ultra-low margin or 0 margin goods and consumer electronics, I'd say -- look, we -- the kind of -- the data speaks for itself in this way. We had close to a 5-year trend of declining gross profit. We turned that into a place of gross profit growth over the last couple of years, while driving EBITDA growth. And so if you even look at the fullness of the picture through 2018, if we're in our guidance range in adjusted EBITDA in 2018, relative to where we were just a year into this process in 2016, you're talking about north of 25% adjusted EBITDA growth over the course of a couple of years. So I think we've actually put the business in a really strong place. And yes, we've given up some things that, on the optical side, might look a little challenging. But this is about focusing the business on quality, not just raw quantity because we've seen in the past that raw quantity doesn't build the kind of sustainable base that we believe we need in order to do the big things that really unlock this business, like Groupon+, like frictionless experiences, like booking and reservations and on and on. That's the stuff that really needs that sustainable cost base, the efficiency in our model, the focus in our team to be able to make those investments in those things long term, that really give us the big opportunity that this space represents and that we deeply believe in. So I -- my take on it is that we made the right calls and the business is in a healthier place than, arguably, it's ever been, especially having record quarters on adjusted EBITDA, having full year GAAP net income and over \$50 million of GAAP net income in Q4. So I feel like we're in a pretty good place and set up to continue to invest and scale the business, and really start to playing offense, which coming off a couple of years of defensive play is a pretty exciting time.

Answer – Operator: Our next question comes from Matt Trusz with Gabelli & Company.

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

Question – Matthew A. Trusz: I have 2. First, on Slide 5 of your presentation you talked about your balance sheet in the context of strategic flexibility. So can you just discuss biz dev and the type and level of opportunities you're seeing with respect to both partnerships and M&A in 2018?

Answer – Michael O. Randolfi: Sure. So what I would say is, from our standpoint, as we think about capital allocation, one of the factors we consider is strategic flexibility. And -- what I would say, in general, is from both Rich and I's perspective, our view is, on M&A, we have consistently maintained a really high bar on M&A. But what I would also say is, there are things over time which we could see being additive to our platform. And what I would say is though, the way we would think about anything that we would consider adding through our platform is, it would have to be something that we felt was deeply aligned with our strategy. It was additive to our customer experience and/or it would be additive to supply and it would be something that we had a high degree of confidence in terms of its synergistic value. And something that we could look at and say, we're really confident about extracting the value over coming -- over a coming period. So that's the way we think about it, deep alignment with strategy, high degree of synergistic value, but -- that's something we think about in terms of maintaining strategic flexibility.

Answer – Rich Williams: Yes. And on the partnership side, Matt, I think you can -- hopefully, you saw a pretty significant change from us really midyear last year, where we started to open our platform up. And in the history of Groupon, it's been a relatively closed platform in a closed environment, where most of what we focused on was within these 4 walls here. And that's changed really materially. The number of partnerships that we've launched over the last year, I think, is really unprecedented in our history. Just even having signed with American Express to bring them onto our card-linked platform, which now has Visa, MasterCard and Amex together for customers, I think, is really significant. And we've -- what we found is that as we started to really engage with more and more folks out in the ecosystem, 1, there's a lot of people that want access to what we have, which is 50 million buyers in local. A lot of data that allows us to target those buyers really effectively and help people meet their business goals. And within that, a willing partner that will work with brands to really help them meet their needs and open up new opportunity spaces for them. So we've discovered a lot of demand for partnership in this space. And really, at this point, it's about being strategic with the partnership integration work that we have in front of us on the potential side to make sure that we're putting the biggest and best foot forward for our customers to give them more of what we know they want. So -- again, I would expect to see more of this coming on both fronts, both integrating that third-party offerings into our existing ecosystem, but more and more also seeing Groupon pushing its offers outside of the ecosystem. So expect to see both of those continue to growth throughout 2018 and hopefully well, well beyond.

Question – Matthew A. Trusz: And then speaking to a specific partnership, the one with Grubhub, can you just talk about how that will ramp once it's onboarded in the first quarter and what do you expect it to meaningfully add to gross profit or EBITDA this year?

Answer – Rich Williams: Sure. I'll at least start on the first part, Matt. And it's a great question because for us, the Grubhub

integration really is in a couple of phases. So the first phase will launch -- is expected to launch in Q1. And that will really be just ingesting the core of the Grubhub experience and more closely matching what was Groupon To Go, just getting the plumbing in place to be able to do that and we'll roll that out smoothly as we go. Then there's a second phase that will come later in the year, that's really about adding what Groupon does best and that's kind of layering in our offer of capabilities, our extra demand-gen capabilities. On top of that, where we have mutual relationships with lots of restaurants, especially as Groupon+ begins to scale and keep scaling, as we bring more and more restaurants under that platform, we have an opportunity to, of course, layer those pieces on where we can drive some incremental demand to Grubhub restaurants using our customer acquisition horsepower there. So expect that to come out -- and Mike, I don't know if you have any color you want to add on the contribution?

Answer – Michael O. Randolfi: Yes. I mean, I'd just say, Matt, that's not something we'd break out specifically. As Rich said, we're excited about the partnership, but I would say that's all included in the guidance that we provided today.

Answer – Operator: Ladies and gentlemen, this does conclude the Q&A portion of today's conference. I'd like to turn the call back over to our host.

Again, ladies and gentlemen, this does conclude the Q&A portion of our conference. I'd like to turn -- I'd like to end the conference today. You may all disconnect, and have a wonderful day.

