Q3 2017 Groupon Inc Earnings Call

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CORPORATE PARTICIPANTS

- Debra Schwartz, Groupon, Inc. - VP of IR
- Michael O. Randolfi, Groupon, Inc. - CFO
- Rich Williams, Groupon, Inc. - CEO and Director

CONFERENCE CALL PARTICIPANTS

- Akshay Bhatia, BofA Merrill Lynch, Research Division - Associate
- Brian Patrick Fitzgerald, Jefferies LLC, Research Division - MD and Senior Equity Research Analyst
- Deepak Mathivanan, Barclays PLC, Research Division - Research Analyst
- Jonathan Paul Lanterman, Morgan Stanley, Research Division - Research Associate
- Justin Tyler Patterson, Raymond James & Associates, Inc., Research Division - Internet Analyst
- Mark Patrick Kelley, Citigroup Inc, Research Division - VP and Senior Analyst
- Matthew A. Trusz, G. Research, LLC - Research Analyst
- Paul Judd Bieber, Credit Suisse AG, Research Division - Director
- Sameet Sinha, B. Riley & Co., LLC, Research Division - Senior Analyst
- Samuel James Kemp, Piper Jaffray Companies, Research Division - VP and Senior Internet Research Analyst
- Thomas Ferris Forte, D.A. Davidson & Co., Research Division - Ecommerce Equity Analyst
- Thomas Steven Champion, Cowen and Company, LLC, Research Division - VP

PRESENTATION

Operator

Good day, everyone, and welcome to Groupon's Third Quarter 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 the Vice President of Investor Relations, Deb Schwartz. Please go ahead.

Debra Schwartz, Groupon, Inc. - VP of IR

Good morning, and welcome to Groupon's Third Quarter 2017 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 view as of today, November 1, 2017, 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. Unless otherwise stated, all comparisons on this call will be against our results for the comparable period of 2016 and are excluding year-over-year changes in foreign exchange rates throughout the quarter.

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

Rich Williams, Groupon, Inc. - CEO and Director

Thanks, Deb, and good morning, everyone. Our third quarter showed continued progress in transforming Groupon into the largest local marketplace of its kind and remaining an essential resource for helping small businesses grow. We moved forward on our core strategic initiatives and posted solid results, particularly in North America local and in our international segment, despite some business disruption from a devastating hurricane season that had significant effects on both our merchants and customers in some of our larger North American markets.

As we head into the holiday season, we remain focused on running an efficient and effective business, delivering an amazing customer experience and growing the depth and breadth of our platform, all while driving strong gross profit growth. That formula continued to deliver results in the third quarter with $47 million in adjusted EBITDA and gross profit of $309 million, driven largely by the fourth consecutive quarter of local unit acceleration in North America and accelerating local billings.

Our platform and business are healthy and tangible gains in our marketplace fundamentals contributed to our results. We added new partners to our marketplace and more great local merchants through our expanded Groupon+ product, both of which helped improve supply in our platform. We also had a strong quarter in national retail, further establishing Groupon as a destination for great brands and offers.

All told, in the quarter, we sent more than 4 million people to restaurants, sent more than 1 million fans to live events and sent more than 3 million people to spas, salons and fitness classes. In addition, we saw ongoing improvements in brand awareness from our off-line campaign and stronger customer growth from our overall marketing efforts. Importantly, our international business showed improvement after a period of sustained disruption, contributing more than $100 million in gross profit in the quarter.

While we're never satisfied, we're excited by the headway we're making. We're building significant platform and customer scale that deepens our competitive moat. We're scaling exciting new product experiences and partnerships, and we're seeing real results and benefits from the work we've been doing to make Groupon more efficient and profitable.

Before I turn the call over to Mike, I'll add some more color on the progress in our strategic focus areas. Let's start with the customer experience. We continue to believe this is a material driver for Groupon now and in the future, and we're investing in ways to make the Groupon experience, from search to purchase to redemption, simple and satisfying. Friction is the enemy here, and we're intensely focused on removing it on our site and in our apps. We're also attacking it with our products and the overall design of our marketplace.

Groupon+ is our most important undertaking in this area, and early indications are that both customers and merchants are embracing it. For those not familiar, Groupon+ is our voucherless, card-linked offers product that is free to claim and seamless to redeem. Customers enjoy the benefits of cash-back on their credit card with none of the hassle of a physical voucher or even a mobile device.

Our focus with Groupon+ in Q3 was to begin setting the stage for more scale and for making it a core part of the Groupon experience, which meant rapidly expanding our market footprint and beginning to scale inventory. We more than doubled the number of live Groupon+ markets to 23, and we more than doubled our offer inventory since our last call. In the quarter, we also completed our MasterCard integration for Groupon+, making the product available to millions more potential customers. Moving forward, we'll direct our energy on scaling within our 23 market footprint with a keen focus on increasing supply with new quality merchants.

We also expect supporting the product with investments in the brand and a new merchant-focused ad campaign. It's still early in the game for Groupon+, which remains a very small portion of transactions, but we're encouraged by the positive customer engagement we're seeing as well as improved merchant conversion and retention, which is helping build a stronger overall supply picture for our marketplace.

Improved supply matters, because it delivers a critical part of the customer experience. When customers find what they're looking for, regardless of category or discount, we believe they're more likely to purchase and return. On the other hand, failing to connect a customer with a great offer or merchant when they're searching simply isn't a quality customer experience. So we're obsessed with delivering relevant and exciting results for nearly anything a customer might want on Groupon.

We expect partnerships and integrations to continue to help increase quality supply and improve the customer experience by significantly expanding the breadth of our offers. In Q3, we added thousands of offers to the marketplace through partnerships, including a significant number of market rate offers that are selling very well in the platform. We see no shortage of potential partners who want to access our nearly 50 million customers looking for the best things to eat, see, do and buy in their neighborhoods. Related, the integration effort for our Grubhub partnership is underway, and we expect it and other key partnerships to add tens of thousands of new offers to our marketplace in our top categories over the coming few quarters.

Finally, we continue to increase the number of bookable experiences on Groupon with more than 25,000 bookable deals now live on the site. The ability to book at the time of purchase is another important convenience layer for customers and an important yield management feature for merchants. We plan to continue investing in scaling bookable experiences in our marketplace.

Next up is customer engagement, where we continue to see strong results from our marketing programs, particularly in terms of brand awareness and consumer education. We're pleased with the success of our off-line campaign in helping customers understand Groupon's evolution and voucherless future. Off-line support for Groupon+ launched in the quarter, and we recently launched a new series of ads focusing on a few of the tens of thousands of small business success stories we've been a part of.

We believe that few companies have done as much as Groupon to help small businesses grow, and we're incredibly proud of our role in connecting merchants to customers at scale and the associated benefits for surrounding neighborhoods. All told, we've pumped more than $18 billion in the local communities and saved people more than $27 billion in the process. It's a great story that demonstrates the true power of our platform, and I'm excited for people to hear it directly from our merchants.

As we head into the fourth quarter, we expect to remain opportunistic with our marketing spend, looking for opportunities to capitalize on increased consumer activity and our unique mix of popular products and easily giftable local experiences. We expect to maintain our efficiency thresholds and connect our best offers with our best customers across all our marketing channels.

Next, let's cover our efforts to streamline and simplify our business. It's easy to see the sustained bottom line benefits of our more rigorous operational approach and geographic focus with adjusted EBITDA growing more than 45% year-to-date. That said, we expect that over time, the improved performance of our international segment, which enjoyed its best growth quarter in more than 2 years, will be one of the most productive examples of our streamlining efforts. It's still early, but we're optimistic that we're setting the stage for long-term success in a segment that should have very similar economic characteristics to our North American business over time and at scale.

Finally, a word on our team, which has enthusiastically embraced the opportunity in front of us. We continue to add great talent to our already strong leadership team, both at the board level and in management. Today, we announced that Deb Wahl is joining our Board of Directors, bringing a tremendous customer-focused background and impressive track record in strategic marketing and brand development. In addition, we added Steve Krenzer as our Chief Operating Officer and Jennifer Carr-Smith as our Senior Vice President of North America local, 2 leaders who bring skilled, operational and strategic experience to our A+ team. I'm very excited about these new talents and perspectives and the additional leverage they'll bring to bear in our continued growth and success.

With that, let me turn the call over to Mike for some more color on our financials.

Michael O. Randolfi, Groupon, Inc. - CFO

Thanks, Rich. As I discuss the results for the third quarter, note that all comparisons, unless otherwise stated, refer to year-over-year growth and are FX-neutral.

For the third quarter, we were pleased that our results were in line with our expectations on gross profit and meaningfully ahead on adjusted EBITDA, despite a negative impact from the hurricanes late in the quarter. Total gross profit was $309 million, an increase of $16 million from the year-ago period, and adjusted EBITDA was $47 million, up $14 million or 43%. North America local units grew 13% year-over-year. We're growing supply through our third-party partners and our Groupon+ product, and we are pleased with our international performance in the third quarter.

Our investments in customer experience and marketing are paying off. And as we see continued momentum in the business, we are raising our full year outlook. We are increasing our gross profit guidance range to $1.305 billion to $1.355 billion and raising our adjusted EBITDA range to $225 million to $245 million.

In North America, gross profit was $208 million, up 3% year-over-year, driven by 7% local growth. Excluding the estimated impact of the hurricanes, local gross profit growth would've been near double-digit. We were pleased that unit growth in North America local accelerated for the fourth consecutive quarter and is now in the low teens range. Both improved unit and customer growth in North America were driven by our supply, customer experience and marketing initiatives.

We saw particular strength in our leisure category as summer activities, like water parks and amusement parks, performed well, in addition to our retail category with the addition of premier national brands. These categories tend to be lower margin, and this, coupled with the onetime impact from the hurricanes, resulted in our North America local take rate declining slightly to 32% from just over 33% a year ago. We have since seen our take rates recover from the lower levels around the hurricane period.

Let me take a minute to address the impact from the hurricanes in August and September. First, we're doing everything we can to support our merchants and customers in the affected areas. Irma and Harvey were in the path of around 30 million people, which represents approximately 10% of the U.S. population. We noted an adverse impact of purchasing in those markets from the week leading up to each of the hurricanes through the week after. We estimate, this was a $4 million impact on gross profit.

While we make steady progress in international in the third quarter, we are cautiously optimistic as we still have a lot of work to do in those markets. In our international segment, gross profit was $102 million, up 11% year-over-year on a reported basis and up 7% on a FX-neutral basis. Both local and goods gross profit growth increased double-digit and local unit growth returned to positive territory. The rollout of the new app earlier this year is easing friction for consumers, and our supply and marketing efforts led to over 200,000 net new customers buying internationally on Groupon in Q3, bringing active customers to 17 million.

Turning to expenses. Our SG&A for the quarter was $215 million, lower by $19 million as initiatives we've taken over the past several quarters have enabled us to build a more efficient and scalable organization. As we discussed last quarter, we reinvested some of our cost savings into marketing, which was up $17 million to $101 million. We continue to see the benefit of our off-line campaign and improvements in metrics like unaided brand awareness and local unit growth. This quarter, we also launched off-line advertising in 3 cities for Groupon+ and an integrated campaign across TV, radio and out-of-home advertising. In aggregate, we are now in 23 markets for Groupon+. We're highly committed to improving our consumer experience through our voucherless initiatives.

Moving on to guidance. We are raising our full year outlook for gross profit and adjusted EBITDA. For gross profit, with ongoing strength in North America, we are increasing our guidance range to $1.305 billion to $1.355 billion. For adjusted EBITDA, with the cost progress we've achieved, we are raising our expected range to be between $225 million to $245 million. Additionally, we expect revenue will be closer to $850 million in the fourth quarter.

Turning to free cash flow. Our free cash flow in the third quarter was $10 million, bringing our total free cash flow on a trailing 12-month basis to nearly $100 million. For the full year 2017, we continue to expect to generate meaningful positive free cash flow. We ended the quarter with $639 million in cash, in addition to our $250 million revolver.

In closing, we're making tangible progress expanding our marketplace in North America through innovative products, like Groupon+, and deep selection in our core local categories with leading national brands and third-party partners. And we believe we are laying the groundwork for sustained international growth. We look to end 2017 on solid footing and remain confident 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 and Director

Thanks, Mike. As we head into the traditionally busy holiday season, I'm pleased with the progress we've made in making Groupon an unbeatable destination for customers and a game changer for local merchants. As our marketplace grows, we believe Groupon will be the first stop for consumers and an indispensable tool for small businesses. The team remains focused and excited about the opportunity in front of us, and our work on the customer experience, on customer engagement and on operating a great business continue to push us further along the path to becoming the daily habit in local.

With that, 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: Great. I'm going to ask 2 expense item questions, one in North America and then one in international. In North America, it looks like your SG&A declined somewhere in the range like $14 million or $15 million sequentially, but you did have the transition of Grubhub happened in the middle of the quarter. Should we expect that SG&A line to decline further in Q4? And then on international. Definitely, a nice pleasant surprises to see the acceleration there. It seems like marketing helped a little bit. Can you talk about your intent to increase marketing in that region going forward and how we should think about that as we head into 2018?

Answer – Michael O. Randolfi: Sure. So from an SG&A perspective, on Q3, what I would say is with regards to going from Q3 to Q4 and Grubhub or the sale of assets to -- OrderUp to Grubhub. I would just say the cost impact of that is relatively small. Doesn't have a big impact one way or the other. I would say, as you move from Q3 to Q4 though, what I would take into account is that is a sequentially busier quarter for us. So there are seasonal costs, such as call center, customer service, folks on the goods areas that tend to staff up. So from a fourth quarter perspective, you should expect that the SG&A in the fourth quarter will be higher in the fourth quarter than the third quarter. On international, certainly, we were very pleased with the performance in international overall. And what you see in international is several things is -- first, you see our continued focus on the product there. You see us continuing to focus on building supply and, to your point, Sam, also on the marketing side. We have significantly enhanced, in the last year, our marketing analytics, and with that, we have continued to invest more heavily in international. So what I would say is, over time, what someone should expect as we go into 2018 is, as we see conversion internationally continue to improve over time, that ultimately improves the efficiency of your marketing. It gives us a greater opportunity to generate a payback on that marketing. We could end up spending a little bit more on international marketing. So -- now with that, what I would say is -- pointing to the comments in my prepared remarks is, overall, when we think about it from an EBITDA perspective, we do believe we're on a path to multiyear adjusted EBITDA growth, which is -- reflects how we view international.

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

Answer – Paul Judd Bieber: Two quick questions. What's the current Groupon+ footprint in terms of category coverage? And what will the footprint look like, for example, by the end of 2018? And then I was hoping that you could just give us what the LivingSocial contribution is in 3Q so we could see what the organic acceleration was?

Answer – Rich Williams: Thanks, Paul. I'll cover the first one on Groupon+ and then hand it over to Mike to talk about LivingSocial. As you know -- so how does it look today? It's really a food- and drink-focused product. It's one that we've purposely rolled out to the restaurant space first because it's highly addressable in that space. It's also -- just in general, the mechanics of the average restaurant is relatively complex, and it's highly variable, both from the operator's point of view, the merchant's point of view. They all have different greeter situations. Some have reservations, some don't. And so dealing with the voucher is highly fluid in those environments, which is challenging for a consumer as well. So the ease-of-use in that side is a big driver for us, and we also know that -- look, it's critical to have a winning food and drink product in play to drive high frequency over time. So it's -- Groupon+ remains focused on food and drink. And for the next couple of quarters, I would expect that to continue to be the case. As we move throughout 2018, I would expect us to start moving into some other categories. There are number of them that are well suited to the kind of interaction model that Groupon+ employs. I can't give specifics on that, but I would expect it throughout 2018 to start expanding beyond food and drink.

Answer – Michael O. Randolfi: And on a LivingSocial contribution, what I would highlight is our North America local billings were up 14% third quarter on a year-over-year basis. And in our Q, we highlight that the contribution from LivingSocial is about [490] basis points. (corrected by company after the call) So even if you adjust for LivingSocial, we still saw double-digit billings growth in North America local in the third quarter.

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

Analyst: Sameet Sinha, B. Riley & Co., LLC, Research Division - Senior Analyst

Question – Sameet Sinha: If you can talk about the dynamics in October post like the inclement weather that you saw in September, that will be helpful, kind of giving us a sense of how the quarter's progressing. Secondly, when we talk about international marketing, is the payback period that you target there's still that 12 to 18 months that you've spoken about previously? And what is kind of current customer acquisition cost that you see there?

Answer – Michael O. Randolfi: So on the first part with regards to the fourth quarter, what I would highlight with regards to the fourth quarter and just our overall view on the year is, if you think about the guidance we provided on our last 2 earnings calls as compared to the guidance on the current earnings call, so if you go back to the last earnings call, we had indicated that gross profit would be between $1.3 billion to $1.35 billion versus -- with potentially landing in the lower end of that range. And today, we said $1.305 billion to $1.355 billion. So what I would highlight for the year overall, that just reflects a higher level of confidence with regard to where we see gross profit landing for the year. With regards to parsing apart the fourth quarter, I wouldn't want to do that at this time, keeping in mind that the busiest time period is ahead of us. For us, the busiest part of the fourth quarter is that November, December timeframe, so I wouldn't want to parse that out any further than that. With regards to international, yes, international is very similar to North America, from our perspective, in terms of payback, still, within that 12 to 18 month payback threshold. That's the way we think about all of our marketing investments. We want on the margin for it to be within that payback threshold, and international's held to that same objective. And from a CAC standpoint, it's not materially different than what you would see in North America.

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: On international improvement, can you talk about -- can you give a sense of how many countries right now are performing at a high level and then also, I think, the timeframe we should think of to get more of the international countries operating to level on par with North America?

Answer – Rich Williams: Thanks, Tom. I'll start, and Mike, if you have additional comments, feel free. The -- I mean, international, as you pointed out, is a collection of countries there. They're in different stages of their development. But what I'd say is, broadly, they're all performing better, and we're seeing improvements across-the-board, because we're -- a lot of what's driving our improvements there are across-the-board style deployment. So one is just our -- on the product side. Our international countries, for a long time, were on a completely different mobile experience than the North American business was. And then experience, well, that was at least 12 months behind and, in most cases, is running closer to 6 quarters behind in total user experience. And given it's -- we're close to 70% mobile at this point as a company. That matters a lot. And so that mobile experience is really deployed across the international footprint, so we're seeing broad improvements as a result of that. We're also, operationally, attacking the region in a much more focused way and with proven winners across our North American business. So you're seeing those things move everywhere as we've -- as, again, we've simplified how that business operates. It's much more hub and spoke in nature with shared service centers and central management that is much faster to deploy, proven winning approaches and strategies. So we're seeing that improve, really, across-the-board. Now within that improvement, there's, of course, variability. And in general, I'd say, our bigger markets are further along because they have stronger inventory footprints and on and on, and they already had a stronger base to start from. But we're seeing improved performance across-the-board. And as Mike thinks, that we're cautiously optimistic about the future of that business and given the size of the population relative to the U.S. and the amount of relative GP potential that we see there. So we feel we're on a really good track, but we're still in the early stages and feel there's a lot more runway there over time.

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

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

Question – Matthew A. Trusz: So just with (inaudible) local with billings up 14% and revenue up 10% and gross margin up 7%. Given the noise from the hurricane and from the retail and leisure impact, can you just parse that out a little bit and give us a sense of where you see them evolving and settling out over time, specifically in NA local?

Answer – Michael O. Randolfi: Sure. So a couple of things that I'll highlight, yes. No, we're very pleased with the overall velocity in our platform in North America local. I mean, to your point, billings up 14% and then units up 13%. The primary difference is between that and overall, where gross profit-trended. A couple of things was, one as we went into the hurricanes, what you saw was consumers did behave a little differently around the hurricane time period where they were less inclined to purchase some of our higher take-rate products. I mean, if you think about things like spa services and massages, as individuals are looking to get themselves and their families to safety, those types of items don't sell, obviously, at the same rate they typically would. And so that clearly had some impact on the quarter. But what I would say is we saw, quickly after the hurricane, within a week to 10, 15 days afterwards, the patterns in terms of our overall mix kind of shifted back. But overall, we were -- velocity on our platform. But both the hurricanes, in terms of the shifting patterns, had some impact on the differential between billings and gross profit as well as we also ran some really high-quality national brands, which created some velocity in the platform.

Answer – Rich Williams: Yes. The only thing I'd add, Matthew, is just -- the way to think about it, in general, there's going to be ebbs and flows categorically throughout the course of the year, and it's been that way historically for the business. This time of year is generally stronger for retail on our platform. There are times of the year, especially in gifting times, where some of those spa services end up being a bigger part of the story. And I don't think it's really something that, one, I tell you, we don't try to normalize it in any one period. We try to deliver what people really want. And I would expect us to continue to take that approach moving forward.

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, if I could. On marketing spend, I was surprised to see that fairly flat sequentially. I would've thought that would increase more given the rollout of Groupon+ to more markets. Were there any timing changes there or just changes in thought process on your end? And then secondly, a Groupon+ question. Can you discuss the nature of supply you're seeing in food and drink today? I'm curious how much of that's coming from existing merchants versus how much is coming from either new merchants or lapsed merchants?

Answer – Michael O. Randolfi: I'll take the marketing one first, and then Rich will touch on Groupon+. On the marketing specifically, what impacted marketing and resulted in us spending a little bit less than we originally anticipated were the weather events. So as we started to realize that weather events were going to affect demand, we intentionally scaled back in those markets and were not doing things like bidding on keywords to the same degree because we knew individuals -- that would not necessarily be their focus during that time period. So that was the primary driver of probably being a little bit lower than where we originally anticipated spending from a marketing perspective.

Answer – Rich Williams: Yes. The only thing I'd add to that, Justin, on the marketing side is that we -- what we're changing our thought process around that period was really -- was not are we going to stop promoting Groupon+ or testing in off-line channels, as an example, to promote the product. It was really how we were going to do it. And we saw some things coming toward our -- some of those markets where we actually are active with Groupon+ that would've been in the queue. We just doubled our efforts and really doubled down on our efforts in some other markets but continue to learn in market. So we just really were -- we were fluid in the period and -- but we still wanted to maintain an ability to learn, which we did. We started -- if you were in places like New York or Chicago. You probably saw some Groupon+ promotion in different channels. And so that's going to continue. We don't expect to back off on that front at all. And you saw some pivots in the quarter to help us continue to learn specifically around that product. With respect to the nature of supply that we see on Groupon+, it's a mix of both converting some existing Groupon voucher merchants to the voucherless experience as well as a lot of new merchants. And some of that is -- again, a lot of that is purposeful, where as we've learned more and more about the Groupon+ experience, we also -- we can recognize some of the areas where the voucher product doesn't work as well. So -- example, most of our food and drink in the voucher space is really more finer dining or -- it's not fast casual and it's not lunch, and that's the spot where Groupon+ can add a lot of value for consumers. You're seeing a different mix of merchants and a different mix of types of food and drink offers that wouldn't have been as addressable in a voucher product. Most people aren't going to pay $2 to get, whatever, a taco lunch for $4 or something like that. But having someone save 20% at lunch at that taco place makes a lot of sense. So we're adding to different layers of inventory with the Groupon+ product as well as testing into some of that more fine dining approach that we have that's really core to the voucher experience, and we'll expect to continue to do that moving forward.

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

Answer – Thomas Steven Champion: In prior quarters, I think you talked about older customer cohorts being some of the early adopters of new products, like Groupon+. Just curious if there's any change there and whether you're getting any better adoption from new customers. And then also curious if you have any comment on when Groupon+ and Beauty Now will become kind of a meaningful contributor to top line results and any accounting implications we should keep in mind there?

Answer – Rich Williams: Sure. Thanks, Tom. I'll start, and Mike will jump in as we talk about some of the top line impacts or accounting pieces to keep in mind. As far as the adoption, I think what we're seeing as they scale -- as this product scales up is, of course, we're -- and not just that, but as we change our marketing practices around it and start to expand our marketing strategies, we are getting, I think, into a better place as far as balance between existing Groupon customers, both early adopter style and then new customers, which are new to Groupon+ and new to Groupon overall. So I think that'll be -- that'll continue to be a focus of ours, to use what I think is a very compelling and exciting user proposition and value prop on our platform to more and more new people that either haven't been on the platform in a while or just are new to Groupon as a brand entirely. So we see that in a good place. And I think importantly on that side, we see really similar behavior between new folks and existing folks. It's just a good product that's easy to use, and so I do expect there's more to come on that front. As far as just super high level on impact, what I'll add is it's really early in the product. And we're excited with where we are and how fast we're gaining ground in the product, and it's -- just as an example, we now have well over a million customers that have linked their cards to Groupon+. But that's still really early, relative to our 32 million active customers in the U.S, and a lot more than that in terms of traffic. But still very early, but our rate of acceleration there, I think, is what's exciting. It's just not big enough yet to see significant ripple effects through the P&L.

Answer – Michael O. Randolfi: Yes. In terms of accounting impacts, some things to consider, first, as you think about it, we ultimately manage the business for gross profit over an extended period of time. And so with that, one thing to consider is Groupon+, in particular, relative to voucher, has a different impact on billings. When someone purchases a voucher, the full value of the voucher gets recorded into billings. When someone is utilizing Groupon+, it's just a commission that gets reported into billings. So when a product that has a similar gross profit, you get less billings per gross profit with Groupon+ relative to the traditional voucher. So over time, as we scale Groupon+, you should expect it to be additive to gross profit, but ultimately, it will create a headwind on billings.

Answer – Operator: Our next question comes from Mark Kelley with Citigroup.

Analyst: Mark Patrick Kelley, Citigroup Inc, Research Division - VP and Senior Analyst

Question – Mark Patrick Kelley: Great. The first one is for Mike. Can you talk a little bit about how supply was maybe impacted by the hurricanes, if at all? Curious if you got a sense of how many merchants are still offline? And then for Rich, your newer brand campaign that are aimed more at businesses rather than the consumer I'm wondering, at a high level, what else you're doing to increase the supply in local? And is Groupon+ the main driver there? And then kind of in the same question, if we look at international marketing efforts, do they look similar to what we see here domestically in terms of being aimed at more local businesses?

Answer – Rich Williams: Sure. Thanks for that, Mark. Mike, you want to cover hurricane impact on supply?

Answer – Michael O. Randolfi: Sure. So on hurricane impacts on supply, what I would say is this, from our experience working with local merchants, this is -- they're a resilient bunch. I mean, certainly, they got hit hard in both Florida and in Texas, and we definitely saw -- in our old sales patterns, you definitely saw a dip in the period leading up to the hurricane and the period after the hurricane. But what you saw was, if you got to a week to 15 days out, they started coming back and they were coming back, maybe not at 100%, but they were coming back pretty close to 100%. So it's a strong bunch, and they're coming back pretty quickly.

Answer – Rich Williams: Yes, that's -- I think that's right, and it's been really good to see. And our focus there, as folks have come back online, is to do what we do best with those merchants is to -- when they're ready and they're open for business, we want to give them more business. And we've had a lot -- high-touch interactions, one of the benefits of what we do here on the sales side. We have real relationships with our merchants, and that's been, I think, helpful everyone in this case. And you'll see us celebrate that more. And skip to your question on the brand campaign, Mark, is that, yes, you're going to see us focus more on merchants. It's something that -- if I'm critical of -- of our marketing strategy over the last, really, 7 or 8 years, it's been heavily, heavily consumer-focused, and there's a place to balance that. We -- I think as a brand and as a company, inside the company, we spent a lot of time thinking about merchants. And that hasn't been as apparent externally, and I think it's time for that to become more apparent, not just to accelerate the supply picture, that's, of course, a great benefit of that, but also because it's meaningful to consumers. Consumers care about their communities. They care about small business success in the neighborhoods. And I think it's a way for us to celebrate that component of our brand and help people feel really good about their business and spending their dollars at Groupon and at those small businesses and to have that not be coming from us, but to come from folks that they see in their communities and that they trust. So I would expect more of that. We've seen great response today. It's very early for that campaign, but we're seeing great response to that. And it -- I think it's really authentic, and that resonates everywhere. It's not just a U.S. thing, that something -- I guess, your question on international. That kind of thing resonates everywhere. We'll -- we generally learn here. But I'd say on the marketing side, our overall marketing messaging is very similar across international. It does, however, adapt to the needs of the markets. And we have, I think, a world-class marketing team that is deployed internationally as well, and they do what's necessary to really resonate with consumers and merchants in their markets. So you'll see tweaks around the edges. But for the most part, you're going to see a very similar approach. And so to answer your question on big drivers of supply, G+ or Groupon+ is a big -- the tip of the spear effort on scaling up supply. We continue to see really strong responsiveness on the merchant side from it. Our close rates are still 2 to 5x the traditional voucher close rate and our sales team, so really good uptake in adoption there, which is helping accelerate. So that's one big piece, but there's -- I think if there's technically an even larger piece, when you think about the impact immediately on supply, it's the work that we're doing on third-party integrations, whether that's what we expect to come on the Grubhub side or the -- some of the announcements you may have seen over the last quarter with folks like Viator, where we're adding thousands and thousands and thousands of offers at -- in one shot, and it's bringing great third-party inventory to a platform. And having those folks access our customer reach and scale, I think, is going to be a big piece of our supply story moving forward.

Answer – Operator: Our next question comes from Brian Fitzgerald with Jefferies.

Analyst: Brian Patrick Fitzgerald, Jefferies LLC, Research Division - MD and Senior Equity Research Analyst

Question – Brian Patrick Fitzgerald: And maybe just address this, but to put a finer point on this or a different point of view on it, when you look at adding that G+ inventory and as you drive consumer usage and your building the proof points and the data and you're showing the efficacy, can you see that inventory adoption or coming on to the G+ platform accelerating? I guess at a high level, what's an easier lever to pull, vendor adoption or consumer linking cards or consumer embracing the experience?

Answer – Rich Williams: We -- I would say, they're -- one, they move hand in hand. So the more scale we have on the customer side, the more attractive the product is for merchants. And vice versa, the more merchants we have, the more attractive the product is for consumers. I know I think we -- generally, how we launch a market is we go merchant first and then we go to customers and then we try to find a sweet spot. I'd expect us to keep doing that, and we're -- I think we're in a really good groove on customers linking their cards, and we're learning how to continue to grow that at a great pace. And -- but a linchpin, for certain, for those customers, is having amazing supply. So we'll -- we expect that to continue to grow and continue to do well. We keep learning in that process, how to tune our sales approaches and really how to make onboarding easier and easier for merchants there. So we're -- and again, in every front, we're still in early stages, but we're seeing great performance.

Question – Brian Patrick Fitzgerald: And then, Rich, maybe you talk about third-party integrations helping out there. You mentioned Viator. You mentioned Grubhub. Are you finding that, as you do these third-party integrations, you've kind of got the tool sets in place, you've got the experience [incent]? Are the integrations with third parties getting easier and easier as you go?

Answer – Rich Williams: For sure. I mean, it's a piece for us, where we -- I think you've probably heard us, over time, talk about Groupon more as a platform than just a website or a mobile app. And that's really what we're building on that side, is the linkage to be able to be -- it's kind of trivial for our partners to integrate onto our platform, and they are getting easier and easier every time. There's always considerations on that side. And I'm seeing the case of Grubhub we're being really thoughtful about how we truly and deeply integrate that product, and we have a lot of experience, given our OrderUp ownership there. So there'll be some custom work on that side inevitably. But in general, to just bring inventory on the platform, it's getting to the spot where it's very easy. And it's more -- our teams can talk to partner teams through APIs instead of big meetings that take a lot of time, which is exactly where we need to be.

Answer – Operator: Our next question comes from Brian Nowak with Morgan Stanley.

Answer – Jonathan Paul Lanterman: This is Jon Lanterman on for Brian. Two kind of bigger-picture questions. For North America Local, billings growth was very strong this quarter, but you didn't get the trifecta you got last quarter with double-digit growth in billings, revenue and gross profit. And Mike, you did a really good job kind of explaining some of the gaps there with the hurricane and the low-margin product. When you think longer term, how do these 2, gross billing and gross profit, kind of consistently match each other double-digits growth? And then kind of an update on North America versus international. Rich, you're now 2 years in as CEO. If you had to gauge innings for North America versus international, what inning would you say they were in, in accomplishing some of the goals you established 2 years ago? Are we kind like inning 4 and 5 in North America and international is just inning 1? Just trying to gauge kind of the runway for progress in international?

Answer – Michael O. Randolfi: Sure. So on the North America billings versus gross profit, we -- thinking about that over the long term, just referring back to the comments I made a bit earlier, first and foremost, over an extended period of time, we're focused on managing the business for gross profit. And what I would also say is some of the new products that were -- that we've been rolling out and then basically emphasizing, such as Groupon+, generate less billings relative to gross profit over time. And so as Groupon+ scales, one should expect that, that will create a headwind on billings, but it will be additive to gross profit. And the other thing is, as I think about -- as we move into 2018 -- just to provide a little color. As we look at 2018, one of the things that we've talked about is we believe we're on a path to multiyear adjusted EBITDA and free cash flow growth. Within that, we've also talked about that we believe, at this stage, a lot of the big cost actions are behind us. And so implicit in that comment is that, over time, we expect that gross profit will grow at a faster pace than marketing, and that, ultimately, will be the driver of adjusted EBITDA.

Answer – Rich Williams: And on the innings question, Jon, look, I'm kind of a first inning thinker in this space. But if I try to break that model because -- what I would tell you is that I think we're truly -- we're just working through the lineup in the first at bat in the first inning for North America, and we've got a batter at the plate for the first time in international. It's just -- I think it's just generally how we're wired to think that way, because we're constantly innovating, and we have to be developing and building in a space that hasn't really existed in the past. So I think of it -- just in general, I like to think of it that way. But if I try to break that, I'd say, Groupon, in general, ran through that first inning stage to scale up really fast. We expanded to 47 countries. Second inning was, we had to clean that up and get ourselves into a place where we felt really good about our operational efficiency, that we're fighting the right battles and picking our lines that, ultimately, mattered. And then both businesses are then in their third inning of -- that work is largely behind us, and now it's about building an amazing company and building great products. And we're in the very earliest stages of that, and we have some -- I think some great green shoots that are showing the potential of the business, the platform and the innovation horsepower in this company. But we're still kind of just kicking off that battle everywhere. And I think you see that with how early it is in Groupon+ (inaudible) and seeing the early signs of international kind of coming out of that second inning, where we had to just reassess and get down to the fundamentals in the business and get it set up to be able to enter that really third phase and I think exciting inning for growth going forward.

Answer – Operator: Our next question comes from Deepak Mathivanan with Barclays.

Analyst: Deepak Mathivanan, Barclays PLC, Research Division - Research Analyst

Question – Deepak Mathivanan: Two questions for me. So first, the TTM gross profit per customer in North America has been flat at close to $30 over the last few quarters. I believe it's partly a function of early customer growth and some customers just being in the early life cycle. But when should we expect to see purchase frequency and gross profit per customer start to grow once again? And then I know you don't report churn. But can you talk about the trends in churn during the quarter that you saw? Is it improving significantly, given the better product experience with G+?

Answer – Michael O. Randolfi: Sure. Yes, what I would say is, yes, you pointed out correctly that gross profit per customer, both in North America and international, has been really consistent over the last several quarters. And what I would say, to your point, is that's despite pretty healthy customer growth this quarter. We added 800,000 net new customers. Within that, 600,000 were North America. The other thing I would highlight is we saw big change in inflection from international, where, in the third quarter, we actually lost customers, and in the second quarter, we actually gained 200,000. So clearly, that weighs on your GP per customer as some of your newer customers tend to take a little bit of time to mature. What I would say is we're not going to provide specifics on what the specific metrics are going to be. But certainly, our objective is to grow them. I mean, our objective is to grow gross profit per customer and units per customer. And if you think about all the initiatives that we're focused on as a company, whether it be our branding and our off-line campaign, whether it is building supply, whether it's product in both Groupon+ and bookability and bringing international parity, all of that is focused on increasing the gross profit per customer. That's our goal. And what I mentioned earlier, as we look to 2018, we would expect the gross profit will grow faster than marketing. And so that's the way we think about it going forward. With regards to churn, what I would say is, in terms of churn, the overall rate's been pretty consistent. We haven't seen a big change one way or the other. The only thing that I would say is that's on our core product. We do see, with Groupon+, that is a product that, from a merchant standpoint, in particular, that merchants find very engaging, and we're able to sell at a higher rate. And we also see that once customers start redeeming, they redeem at a higher rate. So both of those are positive indicators.

Answer – Operator: Our next question comes from Akshay Bhatia with Bank of America Merrill Lynch.

Answer – Akshay Bhatia: I wonder if you could talk more about some of your efforts to engage or reengage merchants on the platform? Specifically, it seems like you guys are talking more about some of the national brands more than I think you have in the past. So is there anything to call out there around a mix shift or change in focus? Maybe how should we think about that going forward?

Answer – Rich Williams: Thanks, Akshay. We're always thinking of different ways to connect with merchants here in general, so -- but there's nothing -- I would say there's nothing major that's changed in our approach on that side with the exception of things like Groupon+ and just even on integration level. Obviously, that changes -- with integrated merchants, that changes our relationships a little bit, and we have to make sure that we have really good connectivity through a partner. So that if a customer has a problem or a merchant has a challenge, that we have an easy way to manage those situations. So I think that's really us adapting more to some of the environmental changes that we put in place and new product development more than anything else. So I don't -- what was of the second part of your question?

Answer – Akshay Bhatia: It was just more about the national brands. You guys are talking more about that and sort of the mix of those versus local maybe.

Answer – Rich Williams: Yes. I think -- look, we're -- well, I know pretty much every one of the call is a student of the space, and it's no -- it wouldn't be a shock to anyone that retail folks have needed some help and that retail folks have been looking for different ways to reach customers. And I think what we've seen is that more retail and more big brands, in general, are starting to recognize Groupon as the platform that it is. And it's a scaled advertising platform to reach new customers and build their brands in different ways. And that's both through our coupons product as well as through traditional voucher programs as well. So there's a lot there. And I think the fact that there's some challenges in the retail space and folks are really having to think hard about their marketing strategies, we hope it benefits our platform over time and that we see more great brands coming on our platform. And I would expect that to be the case over the coming quarters, but I don't have anything specific to share on that front.

Answer – Operator: Ladies and gentlemen, this concludes today's conference. Thanks for your participation, and have a wonderful day.

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