Groupon Announces Third Quarter 2016 Results

Added 1.2 million net new customers and achieved double digit billings growth in North America Local

- **Gross billings of $1.43 billion**
- **Revenue of $720.5 million**
- **Net Loss of $35.8 million**
- **Adjusted EBITDA of $32.1 million**
- **GAAP loss per share of $0.07; non-GAAP loss per share of $0.01**
- **Operating Cash Flow of $78.9 million for the trailing twelve month period; Free Cash Flow of $14.2 million for the trailing twelve month period**
- **Fiscal year 2016 revenue guidance of $3.075 billion to $3.150 billion and 2016 Adjusted EBITDA guidance of $150.0 million to $165.0 million**
- **Agreed to acquire LivingSocial, expect to close by early November 2016**

CHICAGO — (BUSINESS WIRE) — October 26, 2016 — Groupon, Inc. (NASDAQ: GRPN) today announced financial results for the quarter ended September 30, 2016.

"Our strategy continues to deliver results with double-digit growth in North America local billings and our highest quarter for customer acquisition in over three years," said Groupon CEO Rich Williams. "We are looking forward to a strong finish to the year and further progress on our mission to make Groupon a daily habit for consumers."

Third Quarter 2016 Summary

- Gross Billings were $1.43 billion in the third quarter 2016, down 2% from $1.47 billion in the third quarter 2015. Gross billings were impacted by dispositions and country exits in connection with Groupon's restructuring efforts. On a same-country basis, gross billings grew 1% year-over-year excluding the unfavorable impact of year-over-year changes in foreign exchange rates. North America gross billings increased 6%, reflecting the contribution of new active customer cohorts, while EMEA declined by 10% and Rest of World declined by 24%. Excluding the impact of changes in foreign exchange rates, EMEA declined 8% and Rest of World declined 23%. Gross billings reflect the total dollar value of customer purchases of goods and services.

- Revenue was $720.5 million in the third quarter 2016, compared with $713.6 million in the third quarter 2015. Revenue increased 1% globally, or 2% excluding the unfavorable impact from year-over-year changes in foreign exchange rates throughout the quarter. North America revenue increased 4%, EMEA declined 1% and Rest of World declined 19%. Excluding the impact of changes in foreign exchange rates, EMEA was flat year-over-year and Rest of World declined 15%.

- Gross profit was $314.1 million in the third quarter 2016, compared with $328.9 million in the third quarter 2015. Gross profit declined 4% globally. North America gross profit increased 5%, EMEA declined 18% and Rest of World declined 20%.

- Net loss from continuing operations was $35.8 million in the third quarter 2016, compared with $24.6 million in the third quarter 2015.

- Adjusted EBITDA, a non-GAAP performance measure, was $32.1 million in the third quarter 2016, compared with $56.3 million in the third quarter 2015, reflecting our increased investments in customer acquisition.

- Net loss attributable to common stockholders was $38.0 million, or $0.07 per share. Non-GAAP net loss attributable to common stockholders was $8.1 million, or $0.01 per share.

- Global units sold declined 5% year-over-year to 49 million, primarily driven by country exits and our restructuring efforts in international segments. Units in North America increased 4%, EMEA units declined 8%, and Rest of World units declined 31%. Units are defined as vouchers and products sold before cancellations and refunds.

- Operating cash flow for the trailing twelve months ended September 30, 2016 was $78.9 million. Free cash flow, a non-GAAP liquidity measure, was negative $53.7 million in the third quarter 2016, bringing free cash flow for the trailing twelve months ended September 30, 2016 to $14.2 million, which reflects the adverse cash flow impact of restructuring charges, country exits, and the funding of our securities litigation settlement.

- Cash and cash equivalents as of September 30, 2016 were $689.7 million, and we had no outstanding borrowings under our $250.0 million revolving credit facility.

Definitions and reconciliations of all non-GAAP financial measures are included below in the section titled “Non-GAAP Financial Measures” and in the accompanying tables.

Highlights

- **North America Local Billings grew 10% year-over-year.** North America Local Billings accelerated to 10% year-over-year growth as we continue to see the contribution of new cohorts.

- **North America accelerated customer growth with nearly 1.2 million incremental active customers.** Customer acquisition marketing yielded an incremental 1.2 million active customers in North America, as compared with the prior quarter, which is the highest acquisition in over three years. North America had 29.1 million active customers as of September 30, 2016. Active customers represent unique customer accounts that have purchased a voucher or product within the last twelve months.

- **SG&A declined $72.0 million, or $34.0 million excluding the impact of a litigation reserve recorded in the third quarter 2015, on solid execution of operational streamlining initiatives.** SG&A in all markets declined year-over-year as we continue to execute on our restructuring plan and scale regional shared service centers, which we expect to not only improve our customer service but also create greater operating leverage over time.

- **Streamlined country footprint.** The Company has identified its go-forward country footprint to consist of 15 countries, down from 27 in the portfolio as of the second quarter 2016. We are pursuing strategic alternatives and other options to exit the remaining countries, which we expect will continue into 2017.

Acquisition of LivingSocial

On October 24, 2016, Groupon entered into an agreement to acquire all of the outstanding shares of LivingSocial, Inc. The acquisition is expected to close by early November 2016, subject to satisfaction of customary closing conditions. The acquisition consideration is not material.

Share Repurchase

During the third quarter 2016, Groupon repurchased 5,213,778 shares of its Class A common stock for an aggregate purchase price of $24.6 million. Up to $244.7 million of Class A common stock was available for repurchase under Groupon's share repurchase program as of September 30, 2016. The timing and amount of any share repurchases are determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time.

Outlook
Groupon’s outlook for 2016 reflects current foreign exchange rates, as well as expected marketing investments, stabilizing trends in Shopping, the acquisition of LivingSocial, potential disruption related to country exits, and cost benefits associated with our streamlining initiatives.

Groupon is raising its revenue guidance range to between $3.075 and $3.150 billion for the full year, and narrowing its expected 2016 Adjusted EBITDA range to between $150.0 million and $165.0 million.

Conference Call
A conference call will be webcast live today at 4:00 p.m. CDT / 5:00 p.m. EDT, and will be available on Groupon’s investor relations website at http://investor.groupon.com. This call will contain forward-looking statements and other material information regarding the Company’s financial and operating results.

Groupon encourages investors to use its investor relations website as a way of easily finding information about the company. Groupon promptly makes available on this website, free of charge, the reports that the company files or furnishes with the SEC, corporate governance information (including Groupon’s Global Code of Conduct), and select press releases and social media postings. Groupon uses its investor relations site (investor.groupon.com) and its blog (https://www.groupon.com/blog) as a means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD.

Non-GAAP Financial Measures
In addition to financial results reported in accordance with U.S. generally accepted accounting principles (U.S. GAAP), we have provided the following non-GAAP financial measures in this release and the accompanying tables: foreign exchange rate neutral operating results, adjusted EBITDA, non-GAAP net income loss attributable to common stockholders, non-GAAP earnings loss per share and free cash flow. These non-GAAP financial measures, which are presented on a continuing operations basis, are intended to aid investors in better understanding Groupon's current financial performance and its prospects for the future as seen through the eyes of management. We believe that these non-GAAP financial measures facilitate comparisons with our historical results and with the results of peer companies who present similar measures (although other companies may define non-GAAP measures differently than we define them, even when similar terms are used to identify such measures). However, non-GAAP financial measures are not intended to be a substitute for those reported in accordance with U.S. GAAP. For reconciliations of these measures to the most applicable financial measures under U.S. GAAP, see "Non-GAAP Reconciliation Schedules" and "Supplemental Financial Information and Business Metrics" included in the tables accompanying this release.

We exclude the following items from one or more of our non-GAAP financial measures:

Stock-based compensation. We exclude stock-based compensation because it is primarily non-cash in nature and we believe that non-GAAP financial measures excluding this item provide meaningful supplemental information about our operating performance and liquidity.

Acquisition-related expense (benefit), net. Acquisition-related expense (benefit), net is comprised of the change in the fair value of contingent consideration arrangements and external transaction costs related to business combinations, primarily consisting of legal and advisory fees. The composition of our contingent consideration arrangements and the impact of those arrangements on our operating results vary over time based on a number of factors, including the terms of our business combinations and the timing of those transactions. We exclude acquisition-related expense (benefit), net because we believe that non-GAAP financial measures excluding this item provide meaningful supplemental information about our operating performance and facilitate comparisons to our historical operating results.

Depreciation and amortization. We exclude depreciation and amortization expenses because they are non-cash in nature and we believe that non-GAAP financial measures excluding these items provide meaningful supplemental information about our operating performance and liquidity.

Interest and Other Non-Operating Items. Interest and other non-operating items include: gains and losses related to minority investments, foreign currency gains and losses, interest income and interest expense, including non-cash interest expense from our convertible senior notes. We exclude interest and other non-operating items from certain of our non-GAAP financial measures because we believe that excluding these items provides meaningful supplemental information about our core operating performance and facilitates comparisons to our historical operating results.

Items That Are Unusual in Nature or Infrequently Occurring. During the three and nine months ended September 30, 2016 and 2015, items that we believe to be unusual in nature or infrequently occurring were gains from business dispositions and charges related to our restructuring plan. During the three and nine months ended September 30, 2015, items that we believe to be unusual in nature or infrequently occurring also included the write-off of a prepaid asset related to a marketing program that was discontinued because the counterparty ceased operations and the expense related to a significant increase in the contingent liability for our securities litigation matter. We exclude items that are unusual in nature or infrequently occurring because we believe that excluding those items provides meaningful supplemental information about our core operating performance and facilitates comparisons to our historical results.

Income Tax Effect of Items Excluded from Non-GAAP Financial Measures. We determine the income tax effect of items excluded from our measures of non-GAAP net income (loss) attributable to common stockholders and non-GAAP earnings (loss) per share by performing a tax provision calculation using pre-tax income (loss) amounts that have been adjusted to exclude those items in the respective jurisdictions to which they relate. The difference between the income tax expense (benefit) determined on that basis and our reported income tax expense (benefit) represents the income tax effect of the excluded items.

Descriptions of the non-GAAP financial measures included in this release and the accompanying tables are as follows:

Foreign exchange rate neutral operating results show our current period operating results as if foreign currency exchange rates had remained the same as those in effect in the prior-year period. We present foreign exchange rate neutral information to facilitate comparisons to our historical operating results.

Adjusted EBITDA is a non-GAAP performance measure that we define as net income (loss) from continuing operations excluding income taxes, interest and other non-operating items, depreciation and amortization, stock-based compensation, acquisition-related expense (benefit), net, and items that are unusual in nature or infrequently occurring. Our definition of Adjusted EBITDA may differ from similar measures used by other companies, even when similar terms are used to identify such measures. Adjusted EBITDA is a key measure used by our management and Board of Directors to evaluate operating performance, generate future operating plans, and make strategic decisions regarding the allocation of capital. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating performance in the same manner as our management and Board of Directors.

Non-GAAP net income (loss) attributable to common stockholders and *non-GAAP earnings (loss) per share* are non-GAAP performance measures that adjust our net income (loss) attributable to common stockholders and earnings (loss) per share to exclude the impact of:

- stock-based compensation,
- amortization of acquired intangible assets,
- acquisition-related expense (benefit), net,
- gains on business dispositions,
- non-cash interest expense on convertible senior notes,
- items that are unusual in nature or infrequently occurring,
- non-operating foreign currency gains and losses related to intercompany balances and reclassifications of cumulative translation adjustments to earnings as a result of business dispositions or country exits,

- non-operating gains and losses from minority investments that we have elected to record at fair value with changes in fair value reported in earnings,
- income (loss) from discontinued operations, and
- the income tax effect of those items.

We believe that excluding the above items from our measures of non-GAAP net income (loss) attributable to common stockholders and non-GAAP earnings (loss) per share provides useful supplemental information for evaluating our operating performance and facilitates comparisons to our historical results by eliminating items that are non-cash in nature, relate to discrete events, or are otherwise not indicative of the core operating performance of our ongoing business.

Free cash flow is a non-GAAP liquidity measure that comprises net cash provided by (used in) operating activities from continuing operations less purchases of property and equipment and capitalized software from continuing operations. We use free cash flow to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe that it typically represents a more useful measure of cash flows because purchases of fixed assets, software developed for internal-use, and website development costs are necessary components of our ongoing operations. Free cash flow is not intended to represent the total increase or decrease in Groupon's cash balance for the applicable period.

Note on Forward-Looking Statements

The statements contained in this release that refer to plans and expectations for the next quarter, the full year or the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve a number of risks and uncertainties, and actual results could differ materially from those discussed. The words "may," will," should," "could," "expect," anticipate," "believe," "estimate," intend," "continue" and other similar expressions are intended to identify forward-looking statements. The risks and uncertainties that could cause our results to differ materially from those included in the forward-looking statements include, but are not limited to, volatility in our revenue and operating results; risks related to our business strategy, including our strategy to grow our local marketplaces, marketing strategy and spend and the productivity of those marketing investments and the impact of our shift away from lower margin products in our Goods category; effectively dealing with challenges arising from our international operations, including fluctuations in currency exchange rates and any potential adverse impact from the United Kingdom's likely exit from the European Union; retaining existing customers and adding new customers, including as we increase our marketing spend and shift away from lower margin products in our Goods category; retaining and adding high quality merchants; cyber security breaches; incurring expenses as we expand our business; competing successfully in our industry; maintaining favorable payment terms with our business partners; providing a strong mobile experience for our customers; delivery and routing of our emails; product liability claims; managing inventory and order fulfillment risks; integrating our technology platforms;

litigation; managing refund risks; retaining, attracting and integrating members of our executive team; difficulties, delays or our inability to successfully complete all or part of the announced restructuring actions or to realize the operating efficiencies and other benefits of such restructuring actions; higher than anticipated restructuring charges or changes in the timing of such restructuring charges; completing and realizing the anticipated benefits from acquisitions, dispositions, joint ventures and strategic investments; tax liabilities; tax legislation; compliance with domestic and foreign laws and regulations, including the CARD Act and regulation of the Internet and e-commerce; classification of our independent contractors; maintaining our information technology infrastructure; protecting our intellectual property; maintaining a strong brand; seasonality; customer and merchant fraud; payment-related risks; our ability to raise capital if necessary and our outstanding indebtedness; global economic uncertainty; the impact of our ongoing strategic review and any potential strategic alternatives we may choose to pursue; our senior convertible notes; and our ability to realize the anticipated benefits from the hedge and warrant transactions. For additional information regarding these and other risks and uncertainties, we urge you to refer to the factors included under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the company's Annual Report on Form 10-K for the year ended December 31, 2015, Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016, June 30, 2016 and September 30, 2016 and our other filings with the Securities and Exchange Commission, copies of which may be obtained by visiting the company's Investor Relations web site at http://investor.groupon.com or the SEC's web site at www.sec.gov. Groupon's actual results could differ materially from those predicted or implied and reported results should not be considered an indication of future performance.

You should not rely upon forward-looking statements as predictions of future events. Although Groupon believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither the company nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. The forward-looking statements reflect Groupon’s expectations as of October 26, 2016. Groupon undertakes no obligation to update publicly any forward-looking statements for any reason after the date of this release to conform these statements to actual results or to changes in its expectations.

About Groupon

Groupon (NASDAQ: GRPN) is building the daily habit in local commerce, offering a vast mobile and online marketplace where people discover and save on amazing things to do, see, eat and buy. By enabling real-time commerce across local businesses, travel destinations, consumer products and live events, shoppers can find the best a city has to offer.

Groupon is redefining how small businesses attract and retain customers by providing them with customizable and scalable marketing tools and services to profitably grow their businesses.

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