Groupon Announces Third Quarter 2018 Results

Generates Q3 Gross Profit of $306 million, Reiterates Adjusted EBITDA Guidance

- **Gross profit of $306.0 million**
- **Net income from continuing operations of $47.2 million**
- **Adjusted EBITDA of $56.4 million**
- **GAAP earnings per diluted share of $0.08; non-GAAP earnings per diluted share of $0.04**
- **Operating cash flow of $133.3 million for the trailing twelve month period**
- **Free cash flow of $64.2 million for the trailing twelve month period; free cash flow of $106.3 million for the trailing twelve month period excluding IBM settlement**
- **2018 Adjusted EBITDA guidance of $280 million to $290 million reiterated**

CHICAGO - November 7, 2018 - Groupon, Inc. (NASDAQ: GRPN) today announced financial results for the quarter ended September 30, 2018.

"We delivered a profitable quarter and continued our established track record of Adjusted EBITDA growth," said Groupon CEO Rich Williams. "As we celebrate our 10th birthday, we're excited to keep advancing our key strategic priorities to continue to grow and develop our marketplace as the daily habit in local commerce."

Mr. Williams provides further commentary in a letter to shareholders located on our investor relations site (investor.groupon.com).

Third Quarter 2018 Summary

North America

- During the quarter we continued to make progress on our customer experience and platform initiatives in North America. We now have 5.9 million cards linked in Groupon+™, one of our leading voucherless initiatives.
- North America gross profit in the third quarter 2018 decreased 2% to $204.0 million. In Local, gross profit decreased 2% to $159.4 million, impacted by our continued scaling of Groupon+ and the sale of OrderUp in the second half of 2017. Goods gross profit was flat year-over-year at $30.9 million. Gross profit in Travel decreased 2% to $13.8 million.
- North America active customers were 31.4 million as of September 30, 2018, and trailing twelve month gross profit per active customer increased 3%.

International

- We continued our positive momentum in International in the third quarter as we advanced our product, supply, and marketing initiatives.
- International gross profit in the third quarter 2018 of $101.9 million was flat (2% FX-neutral). Gross profit increased 6% (7% FX-neutral) in Local, decreased 12% (11% FX-neutral) in Goods, and decreased 3% (1% FX-neutral) in Travel.

- International active customers increased to 17.4 million as of September 30, 2018, and trailing twelve month gross profit per active customer increased 7%.

Consolidated

- Revenue was $592.9 million in the third quarter 2018, down 7% (6% FX-neutral) reflecting lower customer traffic and our continued focus on revenue generation that maximizes long-term gross profit.
- Gross profit was $306.0 million in the third quarter 2018, down 1% (1% FX-neutral).
- SG&A decreased to $160.2 million in the third quarter 2018 compared to $214.8 million in the third quarter 2017. That decrease primarily resulted from a $40.4 million benefit related to the settlement of patent litigation with IBM for an amount favorable to our liability related to that matter. Excluding the benefit related to the IBM settlement, SG&A declined 7% as we continue to focus on operational efficiency.
- Marketing expense was $92.7 million in the third quarter 2018, down 9% as we refine spend toward high-value customers.
- Other expense, net was $4.9 million in the third quarter 2018, compared to Other income, net of $7.5 million in third quarter 2017. In the third quarter 2018, Other expense, net primarily reflected interest expense.
- Net Income from continuing operations was $47.2 million in the third quarter 2018 compared to $3.8 million in the third quarter 2017. That increase was primarily attributable to the $40.4 million benefit related to the IBM settlement.
- Net income attributable to common stockholders was $44.6 million, or $0.08 per diluted share, compared to $0.1 million, or $0.00 per diluted share, in the third quarter 2017. That increase was primarily related to the $0.07 per diluted share impact of the IBM settlement. Non-GAAP net income attributable to common stockholders was $20.8 million, or $0.04 per diluted share, compared to $6.8 million, or $0.01 per diluted share, in the third quarter 2017.
- Adjusted EBITDA, a non-GAAP financial measure, was $56.4 million in the third quarter 2018, up 21% from $46.6 million in the third quarter 2017.
- Global units sold declined 11% to 39.5 million in the third quarter 2018 as a result of lower traffic and our continued focus on maximizing long-term gross profit, which resulted in fewer units. Units in North America were down 17%, with a significant portion of that decline due to our focus on long-term gross profit optimization in Goods, as well as our continued scaling of Groupon+ and the sale of OrderUp that occurred in the second half of 2017.
- Operating cash flow was $133.3 million for the trailing twelve month period as of the third quarter 2018, and free cash flow, a non-GAAP financial measure, was $64.2 million for the trailing twelve month period. Excluding the payment to IBM, free cash flow for the trailing twelve months was $106.3 million.
- Cash and cash equivalents as of September 30, 2018 were $572.4 million, and we had no outstanding borrowings under our $250 million revolving credit facility.

Definitions and reconciliations of all non-GAAP financial measures and additional information regarding operating measures are included below in the section titled "Terminology Changes, Non GAAP Financial Measures and Operating Metrics" and in the accompanying tables. All comparisons are year-over-year unless otherwise provided.

Outlook

For the full year 2018, Groupon continues to expect Adjusted EBITDA to be between $280 million and $290 million.

Conference Call

A conference call will be webcast live today at 9:00 a.m. CT / 10:00 a.m. ET 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 the Groupon blog (www.groupon.com/blog) as a means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD.

Terminology Changes, Non-GAAP Financial Measures and Operating Metrics

In prior years, we referred to our product revenue and service revenue as "direct revenue" and "third-party and other revenue," respectively. This terminology change did not impact the amounts presented in the condensed consolidated financial statements accompanying this release.

In addition to financial results reported in accordance with U.S. GAAP, we have provided the following non-GAAP financial measures: Foreign exchange rate neutral operating results, adjusted EBITDA, non-GAAP income (loss) from continuing operations before provision (benefit) for income taxes, non-GAAP net income (loss) attributable to common stockholders, non-GAAP income (loss) per share, non-GAAP provision (benefit) for income taxes 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 our current financial performance and 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, these 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 and Operating 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.

Special Charges and Credits. For the three months ended September 30, 2018 and 2017, special charges and credits included charges related to our restructuring plan. For the three and nine months ended September 30, 2018, special charges and credits also included a $40.4 million credit and a $34.6 million charge, respectively, related to our patent litigation case with IBM. For the three and nine months ended September 30, 2017, special charges and credits also included a $17.1 million credit related to the sale of intangible assets. We exclude special charges and credits from Adjusted EBITDA because we believe that excluding those items provides meaningful supplemental information about our core operating performance and facilitates comparisons with our historical results.

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 current period operating results as if foreign currency exchange rates had remained the same as those in effect in the prior year period. These measures are intended to facilitate comparisons to our historical performance.

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 other special charges and credits, including 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 for the allocation of capital. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and Board of Directors. However, Adjusted EBITDA is not intended to be a substitute for income (loss) from continuing operations.

Non-GAAP income (loss) from continuing operations before provision (benefit) for income taxes, Non-GAAP net income (loss) attributable to common stockholders and *non-GAAP income (loss)* *per diluted share* are non-GAAP performance measures that adjust our net income attributable to common stockholders and earnings per share to exclude the impact of:

- stock-based compensation,
- amortization of acquired intangible assets,
- acquisition-related expense (benefit), net,
- special charges and credits, including restructuring charges,
- non-cash interest expense on convertible senior notes,
- 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,
- non-operating gains and losses from sales of minority investments, and
- income (loss) from discontinued operations.

We believe that excluding the above items from our measures of non-GAAP income from continuing operations before provision (benefit) from income taxes, non-GAAP net income attributable to common stockholders and non-GAAP earnings per diluted 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.

Non-GAAP Provision (Benefit) for Income Taxes. Non-GAAP provision (benefit) for income taxes reflects our current and deferred tax provision computed based on non-GAAP income from continuing operations before provision (benefit) for income taxes.

Free cash flow is a non-GAAP liquidity measure that comprises net cash provided by 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 continuing 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 our cash balance for the applicable period.

Descriptions of the operating metrics included in this release and the accompanying tables are as follows:

Gross Billings. This metric represents the total dollar value of customer purchases of goods and services. For sales of vouchers and similar transactions in which we collect the transaction price from the customer and remit a portion of the transaction price to the third-party merchant who will provide the related goods or services, which comprise a substantial majority of our service revenue transactions, gross billings differs from revenue reported in our condensed consolidated statements of operations, which is presented net of the merchant's share of the transaction price. For product revenue transactions, gross billings are equivalent to product revenue reported in our condensed consolidated statements of operations. We consider this metric to be an important indicator of our growth and business performance as it measures the dollar volume of transactions generated through our marketplaces. Tracking gross billings on service revenue transactions also allows us to monitor the percentage of gross billings that we are able to retain after payments to merchants.

Active customers. We define active customers as unique user accounts that have made a purchase during the trailing twelve months ("TTM") either through one of our online marketplaces or directly with a merchant for which we earned a commission. We consider this metric to be an important indicator of our business performance as it helps us to understand how the number of customers actively purchasing our offerings is trending. Some customers could establish and make purchases from more than one account, so it is possible that our active customer metric may count certain customers more than once in a given period. For entities that we have acquired in a business combination, this metric includes active customers of the acquired entity, including customers who made purchases prior to the acquisition. We do not include consumers who solely make purchases with retailers using digital coupons accessed through our websites and mobile applications in our active customers metric, so the acquisition of Cloud Savings Company, Ltd. on April 30, 2018 did not impact that metric.

Units. This metric represents the number of purchases during the reporting period, before refunds and cancellations, made either through one of our online marketplaces or directly with a merchant for which we earned a commission. We consider unit growth to be an important indicator of the total volume of business conducted through our marketplaces.

Gross profit per active customer. This metric represents the TTM gross profit generated per active customer. We use this metric to evaluate trends in the average contribution to gross profit on a per-customer basis. We updated the calculation of this metric in the current year to reflect active customers as of the end of the period, rather than the average of active customers as of the beginning and end of period, in the denominator of the calculation. Because our active customer metrics are based on purchases over a TTM period, we believe that this change improves the usefulness of this metric. The prior periods presented have been updated to reflect this change.

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, including statements regarding our future results of operations and financial position, business strategy and plans and our objectives for future operations. The words "may," "will," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "continue" and other similar expressions are intended to identify forward-looking statements. We have based these forward looking statements largely on current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, but are not limited to, risk related to volatility in our operating results; execution of our business and marketing strategies; retaining existing customers and adding new customers; challenges arising from our international operations, including fluctuations in currency exchange rates, legal and regulatory developments and any potential adverse impact from the United Kingdom's likely exit from the European Union; retaining and adding high quality merchants; our voucherless offerings; cybersecurity breaches; competing successfully in our industry; changes to merchant payment terms; providing a strong mobile experience for our customers; maintaining our information technology infrastructure; delivery and routing of our emails; claims related to product and service offerings; managing inventory and order fulfillment risks; litigation; managing refund risks; retaining and attracting members of our executive team; completing and realizing the anticipated benefits from acquisitions, dispositions, joint ventures and strategic investments; lack of control over minority investments; tax liabilities; tax legislation; compliance with domestic and foreign laws and regulations, including the CARD Act, GDPR and regulation of the Internet and e-commerce; classification of our independent contractors; protecting our intellectual property; maintaining a strong brand; customer and merchant fraud; payment-related risks; our ability to raise capital if necessary and our outstanding indebtedness; global economic uncertainty; our common stock, including volatility in our stock price; our convertible senior 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 our Annual Report on Form 10-K for the year ended December 31, 2017, and Quarterly Reports on Form 10-Q 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 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 Groupon nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. The forward-looking statements reflect our expectations as of November 7, 2018. We undertake 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 our 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, eat, see 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.

To download Groupon's top-rated mobile apps, visit www.groupon.com/mobile. To search for great deals or subscribe to Groupon emails, visit www.groupon.com. To learn more about the company's merchant solutions and how to work with Groupon, visit www.groupon.com/merchant.

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Groupon, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	September 30, 2018	December 31, 2017
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 572,358	$ 880,129
Accounts receivable, net	81,478	98,294
Prepaid expenses and other current assets	98,169	94,025
Total current assets	752,005	1,072,448
Property, equipment and software, net	146,897	151,145
Goodwill	327,430	286,989
Intangible assets, net	49,032	19,196
Investments (including $84,861 and $109,751 at September 30, 2018 and December 31, 2017, respectively, at fair value)	109,306	135,189
Other non-current assets	19,250	12,538
Total Assets	$ 1,403,920	$ 1,677,505
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 16,810	$ 31,968
Accrued merchant and supplier payables	484,626	770,335
Accrued expenses and other current liabilities	269,726	331,196
Total current liabilities	771,162	1,133,499
Convertible senior notes, net	198,575	189,753
Other non-current liabilities	102,543	102,408
Total Liabilities	1,072,280	1,425,660
Commitments and contingencies		
Stockholders' Equity		
Common stock, par value $0.0001 per share, 2,010,000,000 shares authorized; 758,800,610 shares issued and 570,198,368 shares outstanding at September 30, 2018; 748,541,862 shares issued and 559,939,620 shares outstanding at December 31, 2017	76	75
Additional paid-in capital	2,222,423	2,174,708
Treasury stock, at cost, 188,602,242 shares at September 30, 2018 and December 31, 2017	(867,450)	(867,450)
Accumulated deficit	(1,056,727)	(1,088,204)
Accumulated other comprehensive income (loss)	32,329	31,844
Total Groupon, Inc. Stockholders' Equity	330,651	250,973
Noncontrolling interests	989	872
Total Equity	331,640	251,845
Total Liabilities and Equity	$ 1,403,920	$ 1,677,505

Groupon, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except share and per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenue:				
Service	$ 289,214	$ 302,458	$ 886,663	$ 919,884
Product	303,669	332,008	950,156	1,050,827
Total revenue	592,883	634,466	1,836,819	1,970,711
Cost of revenue:				
Service	29,792	41,858	91,167	123,209
Product	257,102	283,183	791,120	900,559
Total cost of revenue	286,894	325,041	882,287	1,023,768
Gross profit	305,989	309,425	954,532	946,943
Operating expenses:				
Marketing	92,717	101,456	286,051	288,456
Selling, general and administrative	160,214	214,828	676,399	677,109
Restructuring charges	35	11,503	(81)	18,818
Gain on sale of intangible assets	—	(17,149)	—	(17,149)
Total operating expenses	252,966	310,638	962,369	967,234
Income (loss) from operations	53,023	(1,213)	(7,837)	(20,291)
Other income (expense), net	(4,860)	7,546	(39,832)	8,822
Income (loss) from continuing operations before provision (benefit) for income taxes	48,163	6,333	(47,669)	(11,469)
Provision (benefit) for income taxes	988	2,531	205	11,001
Income (loss) from continuing operations	47,175	3,802	(47,874)	(22,470)
Income (loss) from discontinued operations, net of tax	—	(862)	—	(1,751)
Net income (loss)	47,175	2,940	(47,874)	(24,221)
Net income attributable to noncontrolling interests	(2,560)	(2,881)	(9,433)	(9,460)
Net income (loss) attributable to Groupon, Inc.	$ 44,615	$ 59	$ (57,307)	$ (33,681)
Basic and diluted net income (loss) per share:				
Continuing operations	$ 0.08	$ 0.00	$ (0.10)	$ (0.06)
Discontinued operations	0.00	(0.00)	0.00	(0.00)
Basic and diluted net income (loss) per share	$ 0.08	$ 0.00	$ (0.10)	$ (0.06)
Weighted average number of shares outstanding				
Basic	568,634,988	557,221,040	565,227,625	559,726,154
Diluted	576,379,421	566,669,049	565,227,625	559,726,154

Groupon, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating activities				
Net income (loss)	$ 47,175	$ 2,940	$ (47,874)	$ (24,221)
Less: Income (loss) from discontinued operations, net of tax	—	(862)	—	(1,751)
Income (loss) from continuing operations	47,175	3,802	(47,874)	(22,470)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization of property, equipment and software	24,835	29,192	76,984	86,355
Amortization of acquired intangible assets	3,850	6,039	10,316	17,622
Stock-based compensation	15,026	19,177	50,670	60,318
Gain on sale of intangible assets	—	(17,149)	—	(17,149)
Gain on sale of investment	—	(7,624)	—	(7,624)
Impairments of investments	112	—	10,156	—
Deferred income taxes	—	86	(6,575)	845
(Gain) loss from changes in fair value of investments	244	3,955	8,312	5,100
Amortization of debt discount on convertible senior notes	3,016	2,722	8,822	7,964
Change in assets and liabilities, net of acquisitions and dispositions:				
Accounts receivable	(7,079)	(15,442)	20,217	787
Prepaid expenses and other current assets	(4,184)	8,025	(2,695)	(3,114)
Accounts payable	(6,694)	5,107	(16,034)	(5,616)
Accrued merchant and supplier payables	(41,766)	(14,882)	(214,748)	(197,836)
Accrued expenses and other current liabilities	(96,315)	2,095	(45,175)	(39,396)
Other, net	4,391	(3,331)	14,663	(21,490)
Net cash provided by (used in) operating activities from continuing operations	(57,389)	21,772	(132,961)	(135,704)
Net cash provided by (used in) operating activities from discontinued operations	—	—	—	(2,195)
Net cash provided by (used in) operating activities	(57,389)	21,772	(132,961)	(137,899)
Investing activities				
Purchases of property and equipment and capitalized software	(16,094)	(14,255)	(53,611)	(43,716)
Proceeds from sale of intangible assets	1,500	18,333	1,500	18,333
Proceeds from sales and maturities of investments	8,594	14,718	8,594	16,561
Acquisition of business, net of acquired cash	—	—	(57,821)	—
Acquisitions of intangible assets and other investing activities	(16,389)	(566)	(17,147)	(750)
Net cash provided by (used in) investing activities from continuing operations	(22,389)	18,230	(118,485)	(9,572)
Net cash provided by (used in) investing activities from discontinued operations	—	—	—	(9,548)
Net cash provided by (used in) investing activities	(22,389)	18,230	(118,485)	(19,120)
Financing activities				
Payments for purchases of treasury stock	—	(9,720)	—	(61,233)
Taxes paid related to net share settlements of stock-based compensation awards	(2,500)	(7,984)	(18,638)	(23,340)
Proceeds from stock option exercises and employee stock purchase plan	3,206	3,009	5,710	5,486
Distributions to noncontrolling interest holders	(2,376)	(2,548)	(9,316)	(8,974)
Payments of capital lease obligations	(8,050)	(8,628)	(25,289)	(25,298)
Payments of contingent consideration related to acquisitions	—	(2,101)	(1,815)	(7,790)
Other financing activities	—	—	—	(473)
Net cash provided by (used in) financing activities	(9,720)	(27,972)	(49,348)	(121,622)
Effect of exchange rate changes on cash, cash equivalents and restricted cash, including cash classified within current assets of discontinued operations	(2,643)	5,978	(9,287)	23,275
Net increase (decrease) in cash, cash equivalents and restricted cash, including cash classified within current assets of discontinued operations	(92,141)	18,008	(310,081)	(255,366)
Less: Net increase (decrease) in cash classified within current assets of discontinued operations	—	—	—	(28,866)
Net increase (decrease) in cash, cash equivalents and restricted cash	(92,141)	18,008	(310,081)	(226,500)
Cash, cash equivalents and restricted cash, beginning of period	667,541	630,398	885,481	874,906
Cash, cash equivalents and restricted cash, end of period	$ 575,400	$ 648,406	$ 575,400	$ 648,406

Groupon, Inc.
Supplemental Financial and Operating Metrics
(dollars in thousands; active customers in millions)
(unaudited)

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q3 2018 Y/Y Growth	FX Effect [2]	Y/Y Growth excluding FX [2]
North America Segment:								
Gross Billings [1]:								
Local	$ 606,184	$ 605,460	$ 543,021	$ 548,056	534,246	(11.9) %		
Travel	93,186	84,504	102,499	93,809	83,991	(9.9)		
Goods	229,479	369,973	209,476	196,501	184,357	(19.7)		
Total Gross Billings	$ 928,849	$ 1,059,937	$ 854,996	$ 838,366	$ 802,594	(13.6) %		
Revenue:								
Local	$ 194,090	$ 223,410	$ 187,411	$ 185,870	$ 180,059	(7.2) %		
Travel	18,300	17,413	20,084	19,888	17,217	(5.9)		
Goods	201,824	333,862	185,761	174,506	163,875	(18.8)		
Total Revenue	$ 414,214	$ 574,685	$ 393,256	$ 380,264	$ 361,151	(12.8) %		
Gross Profit:								
Local	$ 162,914	$ 196,708	$ 166,756	$ 165,285	$ 159,379	(2.2) %		
Travel	14,060	13,614	16,002	16,303	13,801	(1.8)		
Goods	30,934	54,651	36,922	37,783	30,868	(0.2)		
Total Gross Profit	$ 207,908	$ 264,973	$ 219,680	$ 219,371	$ 204,048	(1.9) %		
Operating income (loss)	$ (6,995)	$ 33,766	$ (1,860)	$ (68,524)	$ 51,004	829.1 %		
International Segment:								
Gross Billings:								
Local	$ 202,991	$ 229,167	$ 217,307	$ 203,248	$ 209,623	3.3 %	1.7	5.0 %
Travel	49,837	59,666	57,522	48,766	46,156	(7.4)	1.8	(5.6)
Goods	159,820	233,422	163,439	173,883	157,856	(1.2)	1.3	0.1
Total Gross Billings	$ 412,648	$ 522,255	$ 438,268	$ 425,897	$ 413,635	0.2 %	1.6	1.8 %
Revenue:								
Local	$ 71,574	$ 80,209	$ 74,578	$ 71,425	$ 75,946	6.1 %	1.7	7.8 %
Travel	9,801	12,187	11,436	9,706	9,387	(4.2)	1.8	(2.4)
Goods	138,877	206,085	147,270	156,001	146,399	5.4	1.2	6.6
Total Revenue	$ 220,252	$ 298,481	$ 233,284	$ 237,132	$ 231,732	5.2 %	1.4	6.6 %
Gross Profit:								
Local	$ 67,860	$ 75,991	$ 70,215	$ 67,360	$ 71,639	5.6 %	1.6	7.2 %
Travel	8,922	11,334	10,651	8,919	8,649	(3.1)	1.8	(1.3)
Goods	24,735	34,620	24,339	28,008	21,653	(12.5)	1.3	(11.2)
Total Gross Profit	$ 101,517	$ 121,945	$ 105,205	$ 104,287	$ 101,941	0.4 %	1.6	2.0 %
Operating income (loss)	$ 5,782	$ 15,960	$ 5,245	$ 4,279	$ 2,019	(65.1) %		
Consolidated Results of Operations:								
Gross Billings:								
Local	$ 809,175	$ 834,627	$ 760,328	$ 751,304	$ 743,869	(8.1) %	0.5	(7.6) %
Travel	143,023	144,170	160,021	142,575	130,147	(9.0)	0.6	(8.4)
Goods	389,299	603,395	372,915	370,384	342,213	(12.1)	0.6	(11.5)
Total Gross Billings	$ 1,341,497	$ 1,582,192	$ 1,293,264	$ 1,264,263	$ 1,216,229	(9.3) %	0.5	(8.8) %
Revenue:								
Local	$ 265,664	$ 303,619	$ 261,989	$ 257,295	$ 256,005	(3.6) %	0.4	(3.2) %
Travel	28,101	29,600	31,520	29,594	26,604	(5.3)	0.6	(4.7)
Goods	340,701	539,947	333,031	330,507	310,274	(8.9)	0.5	(8.4)
Total Revenue	$ 634,466	$ 873,166	$ 626,540	$ 617,396	$ 592,883	(6.6) %	0.5	(6.1) %
Gross Profit:								
Local	$ 230,774	$ 272,699	$ 236,971	$ 232,645	$ 231,018	0.1 %	0.5	0.6 %
Travel	22,982	24,948	26,653	25,222	22,450	(2.3)	0.7	(1.6)
Goods	55,669	89,271	61,261	65,791	52,521	(5.7)	0.6	(5.1)
Total Gross Profit	$ 309,425	$ 386,918	$ 324,885	$ 323,658	$ 305,989	(1.1) %	0.5	(0.6) %
Operating income (loss)	$ (1,213)	$ 49,726	$ 3,385	$ (64,245)	$ 53,023	4,471.2 %		
Net cash provided by (used in) operating activities from continuing operations	$ 21,772	$ 266,249	$ (119,747)	$ 44,175	$ (57,389)	(363.6) %		
Free Cash Flow	$ 7,517	$ 250,807	$ (139,891)	$ 26,802	$ (73,483)	(1,077.6) %		

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Active Customers (3)					
North America	32.5	32.7	32.6	32.2	31.4
International	16.6	16.8	17.0	17.1	17.4
Total Active Customers	49.1	49.5	49.6	49.3	48.8
TTM Gross Profit / Active Customer (4)					
North America	$ 28.09	$ 28.35	$ 28.38	$ 28.36	$ 28.96
International	23.19	24.16	24.83	25.24	24.89
Consolidated	26.43	26.93	27.16	27.27	27.51
Consolidated Units	44.1	54.6	42.4	40.0	39.5
Year-over-year unit growth:					
North America	(0.1) %	(6.6) %	(11.3) %	(14.3) %	(16.9) %
International	(1.5)	(3.9)	2.0	(0.6)	3.4
Consolidated	(0.5)	(5.7)	(7.2)	(10.1)	(10.6)
Headcount					
Sales (5)	2,457	2,407	2,404	2,373	2,334
Other	4,159	4,265	4,235	4,262	4,197
Total Headcount	6,616	6,672	6,639	6,635	6,531

(1) Represents the total dollar value of customer purchases of goods and services.

(2) Represents the change in financial measures that would have resulted had average exchange rates in the reporting periods been the same as those in effect in the prior year periods.

(3) Reflects the total number of unique user accounts that have made a purchase during the TTM either through one of our online marketplaces or directly with a merchant for which we earned a commission.

(4) During the first quarter 2018, we updated the calculation of TTM Gross Profit / Active Customer to reflect active customers as of the end of the period, rather than the average of active customers as of the beginning and end of period, in the denominator of the calculation. Because our active customer metrics are based on purchases over a TTM period, we believe that this change improves the usefulness of this metric. The prior period amounts have been updated to reflect this change.

(5) Includes merchant sales representatives, as well as sales support personnel.

Groupon, Inc.
Non-GAAP Reconciliation Schedules
(in thousands, except share and per share amounts)
(unaudited)

The following is a quarterly reconciliation of Adjusted EBITDA to the most comparable U.S. GAAP performance measure, Income (loss) from continuing operations.

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Income (loss) from continuing operations	$ 3,802	$ 51,071	$ (2,795)	$ (92,254)	$ 47,175
Adjustments:					
Stock-based compensation (1)	18,235	21,673	19,278	16,266	15,026
Depreciation and amortization	35,231	33,850	29,661	28,954	28,685
Acquisition-related expense (benefit), net	—	—	—	655	—
Restructuring charges	11,503	10	283	(399)	35
IBM patent litigation	—	—	—	75,000	(40,400)
Gain on sale of intangible assets	(17,149)	—	—	—	—
Other (income) expense, net	(7,546)	2,112	8,515	26,457	4,860
Provision (benefit) for income taxes	2,531	(3,457)	(2,335)	1,552	988
Total adjustments	42,805	54,188	55,402	148,485	9,194
Adjusted EBITDA	$ 46,607	$ 105,259	$ 52,607	$ 56,231	$ 56,369

(1) Represents stock-based compensation recorded within Selling, general and administrative, Cost of revenue and Marketing. Restructuring charges include $0.8 million of additional stock-based compensation for the three months ended September 30, 2017. Other (income) expense, net, includes $0.07 million, $0.06 million, $0.05 million and $0.05 million of additional stock-based compensation for the three months ended September 30, 2017, December 31, 2017, March 31, 2018 and June 30, 2018, respectively.

The following is a reconciliation of the Company's annual outlook for Adjusted EBITDA to the Company's outlook for the most comparable U.S. GAAP performance measure, Income (loss) from continuing operations.

	Year Ending December 31, 2018
Expected income (loss) from continuing operations range	$ 8,000 to 18,000
Expected adjustments:	
Stock-based compensation	70,000
Depreciation and amortization	116,000
IBM patent litigation	35,000
Other (income) expense, net	44,000
Provision (benefit) for income taxes	7,000
Total expected adjustments	272,000
Expected Adjusted EBITDA range	$ 280,000 to 290,000

The outlook provided above does not reflect the potential impact of any business or asset acquisitions or dispositions, changes in the fair values of investments, foreign currency gains or losses or unusual or infrequently occurring items that may occur during the remainder of 2018.

The following is a reconciliation of non-GAAP net income (loss) attributable to common stockholders to net income (loss) attributable to common stockholders and a reconciliation of non-GAAP net income (loss) per share to diluted net income (loss) per share for the three months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss) attributable to common stockholders	$ 44,615	$ 59	$ (57,307)	$ (33,681)
Less: Net income attributable to noncontrolling interest	(2,560)	(2,881)	(9,433)	(9,460)
Net income (loss)	47,175	2,940	(47,874)	(24,221)
Less: Income (loss) from discontinued operations, net of tax	—	(862)	—	(1,751)
Income (loss) from continuing operations	47,175	3,802	(47,874)	(22,470)
Provision (benefit) for income taxes	988	2,531	205	11,001
Income (loss) from continuing operations before provision (benefit) for income taxes	48,163	6,333	(47,669)	(11,469)
Stock-based compensation	15,026	18,301	50,670	59,442
Amortization of acquired intangible assets	3,850	6,039	10,316	17,622
Acquisition-related expense (benefit), net	—	—	655	48
Restructuring charges	35	11,503	(81)	18,818
Gain on sale of intangible assets	—	(17,149)	—	(17,149)
Gain on sale of investment	—	(7,624)	—	(7,624)
IBM patent litigation	(40,400)	—	34,600	—
Losses (gains), net from changes in fair value of investments	244	3,955	8,312	5,100
Intercompany foreign currency losses (gains) and reclassifications of translation adjustments to earnings	1,826	(5,843)	9,446	(16,065)
Non-cash interest expense on convertible senior notes	3,016	2,722	8,822	7,964
Non-GAAP income (loss) from continuing operations before provision (benefit) for income taxes	31,760	18,237	75,071	56,687
Less: Non-GAAP provision (benefit) for income taxes	8,370	8,605	17,856	23,349
Non-GAAP net income (loss)	23,390	9,632	57,215	33,338
Net income attributable to noncontrolling interest	(2,560)	(2,881)	(9,433)	(9,460)
Non-GAAP net income (loss) attributable to common stockholders	20,830	6,751	47,782	23,878
Plus: Cash interest expense from assumed conversion of convertible senior notes (1)	1,383	—	—	—
Non-GAAP net income attributable to common stockholders plus assumed conversions	$ 22,213	$ 6,751	$ 47,782	$ 23,878
Weighted-average shares of common stock - diluted	576,379,421	557,221,040	565,227,625	559,726,154
Incremental dilutive securities	46,296,300	9,448,009	8,933,570	7,886,444
Weighted-average shares of common stock - non-GAAP	622,675,721	566,669,049	574,161,195	567,612,598
Diluted net loss per share	$ 0.08	$ 0.00	$ (0.10)	$ (0.06)
Impact of non-GAAP adjustments and related tax effects	(0.04)	0.01	0.18	0.10
Non-GAAP net income per share	$ 0.04	$ 0.01	$ 0.08	$ 0.04

(1) Adjustment to interest expense for assumed conversion of convertible senior notes excludes non-cash interest expense that has been added back above in calculating non-GAAP net income (loss) attributable to common stockholders.

Free cash flow is a non-GAAP liquidity measure. The following is a reconciliation of free cash flow and free cash flow excluding the IBM settlement to the most comparable U.S. GAAP liquidity measure, Net cash provided by (used in) operating activities from continuing operations.

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Net cash provided by (used in) operating activities from continuing operations [(1)]	$ 21,772	$ 266,249	$ (119,747)	$ 44,175	$ (57,389)
Purchases of property and equipment and capitalized software from continuing operations	(14,255)	(15,442)	(20,144)	(17,373)	(16,094)
Free cash flow [(1)]	$ 7,517	$ 250,807	$ (139,891)	$ 26,802	$ (73,483)
Operating cash outflow related to the IBM settlement [(2)]	—	—	—	—	42,100
Free cash flow, excluding the impact of the IBM settlement	$ 7,517	$ 250,807	$ (139,891)	$ 26,802	$ (31,383)
Net cash provided by (used in) investing activities from continuing operations	$ 18,230	$ (15,751)	$ (20,382)	$ (75,714)	$ (22,389)
Net cash provided by (used in) financing activities	$ (27,972)	$ (16,424)	$ (20,899)	$ (18,729)	$ (9,720)

(1) Prior period cash flows from operating activities of continuing operations has been updated from $23.9 million and $270.6 million previously reported for the three months ended September 30, 2017 and December 31, 2017, respectively, and prior period free cash flow has been updated from $9.6 million and $255.1 million previously reported for the three months ended September 30, 2017 and December 31, 2017, respectively, to reflect the adoption of ASU 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash,* on January 1, 2018. For additional information on the adoption of ASU 2016-18, refer to Note 2, *Adoption of New Accounting Standards*, in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.

(2) This amount represents the portion of the $57.5 million IBM settlement that was classified as an operating cash outflow. The remaining $15.4 million was capitalized for the license to use the patented technology in future periods under the terms of the settlement and license agreements and has been classified as an investing cash outflow. For additional information about the IBM settlement, refer to Note 9, *Commitments and Contingencies,* in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.

The following is a reconciliation of the year-over-year decline in Selling, general and administrative expense to the year-over-year decline in Selling, general and administrative expense excluding the benefit from the IBM settlement.

	Three Months Ended September 30, 2018
Selling, general and administrative year-over-year decline	(25.4)%
Impact of benefit from the IBM settlement	(18.8)
Selling, general and administrative year-over-year decline excluding the IBM settlement	(6.6)%