

Dear Stockholders,

Having recently celebrated our 4th birthday, Groupon is barely a toddler despite our approximately 11,000 employees who operate in 48 countries worldwide.

In 2009, our first full year of operations, we generated just \$34 million in gross billings. Last year, we hit \$5.4 billion, which is a compounded annual growth rate of 440 percent. In terms of headcount, number of competitors and worldwide expansion, history offers few comparables.

Unprecedented growth led Groupon into uncharted territory, and at times the focus on our growing pains overshadowed our achievements. This is understandable, but it does not tell the whole story. 2012 was a year of learning, as the organization matured, and it was also a year of many accomplishments.

Looking Back

2012 saw some significant successes, particularly regarding customer demand (all comparisons are year-over-year):

- Gross billings grew 35 percent to \$5.4 billion
- Revenue increased 45 percent to \$2.3 billion
- Unit sales increased 20 percent globally
- Our active customers increased 22 percent
- We surpassed 500,000 merchants featured lifetime-to-date
- Operating income improved by more than \$300 million, from a loss of \$233 million in 2011 to a gain of \$99 million last year.

Despite solid year-over-year growth, we dealt with some unexpected challenges. Our international business struggled. European billings shrank sequentially in both the second and third quarters of last year, dragging down our overall results.

Mid-year, we turned management's attention to Europe, and I'm optimistic that our efforts to stabilize the region will pay off. In the fourth quarter of 2012, our international results were better, contributing to more than \$1.5 billion in gross billings—a record for the company.

We also began addressing what we believe is the biggest root cause of the issue. Over the past four years, we made significant technology investments in North America. We did not make the same level of investment internationally, and our results reflected that.

We began to address this late last year by working toward a single technology platform that, when complete, will unify our systems across the globe. There is more work to be done on international, and technology is only part of the solution, but as I write this letter, the teams have made significant progress, with encouraging results in Q4.

The second notable story of 2012 was mobile adoption by our customers. Mobile growth far exceeded our expectations, increasing from 25 percent of our total transactions in North America in December of 2011, to nearly 40 percent this past December. And we saw even stronger growth, albeit from a lower base, internationally. More than 40 million people have now downloaded our mobile app; more than 5 million downloaded it in Q4 of last year alone.

Why has our mobile growth been so strong relative to other e-commerce companies?

The pace of smartphone adoption is having profound effects on local commerce. A marketplace is emerging based on consumers carrying the power of a desktop computer in their pocket, giving them instant access to real-time information and fostering discovery.

In this new marketplace, Groupon has inherent advantages. Our content is highly curated. We cover a wide array of local categories. We're geocentric in nature. We're social – people often use Groupon with friends and loved ones. Buying a Groupon is easy and instant. And our customers trust us.

Groupon is also a local company. At our core, our mission has always been the same: to bring the power of the internet to local commerce by offering our customers unbeatable deals that they discover every day.

One of our proudest achievements at Groupon is the boost we have provided to local merchants. Not only have we funneled billions of dollars into our local merchant community, but, based on surveys of nearly 2 million Groupon customers in North America, more than 80 percent of the customers we send to merchants are either new or have not visited that merchant in the prior three months. I believe that Groupon is a powerful force to level the playing field for local merchants.

Finally, I can't discuss last year without highlighting the growth of our categories. 2012 was the first full year of operations for Live (our events business), Getaways (our travel business) and Goods (our product business). These categories expanded quickly as consumers spoke with their wallets, telling us that they look to Groupon as a purveyor of deals across a wide array of categories. Goods alone finished the year on a \$2 billion billings run rate, which is hard to imagine for a business that was just launched in 2011.

Looking Ahead

We enter 2013 with a clear focus and business strategy, which has five components:

Local: We will continue to strengthen our Local value proposition by working to attract the highest-quality merchants to our platform and improving our customers' experience through innovation in discovery and redemption.

Relevance: By limiting the number of emails we send, and improving their relevance, we'll try to maximize the likelihood that consumers deepen their engagement with Groupon and increase their purchase frequency.

Single platform: We're applying our North American playbook to our international business, in order to standardize systems and processes. In addition to integrating our disparate technology platforms, we will make continued progress with the rollout of our central technology tools that have driven strong performance in North America.

Pull: Through a combination of DealBank (our inventory system) and SmartDeals (our relevance engine), we built the foundation of a true marketplace we call "Pull." Pull enables customers to search among thousands of options in our top markets and find relevant deals that they can buy and use instantly. No other company has our volume of local deals, our expansive customer base and the necessary data to build a bridge between the two.

At the time of our IPO, we were featuring roughly 1,000 deals worldwide. In 2012, the number grew to 37,000 in North America alone.

While Pull, which is the evolution of Groupon Now, is still in its infancy, the effect on our business has been profound. In Q4 of last year, email was responsible for less than 50 percent of our transactions in North America—an accomplishment that was unimaginable just a few short years ago.

Mobile: Finally, we will devote significant resources to expanding our success in mobile, both domestically and abroad. Groupon is fast becoming a predominantly mobile experience. For us to realize the full potential of this trend, we need to continually innovate in our mobile product suite.

Wrapping Up

Groupon has five core values: Start with the customer and work backwards. Great people make great companies. Be intolerant of mediocrity. Build for the long term. And make life less boring.

These are our values because in business there are ever-present temptations to do the opposite. We believe the easiest way to resist these temptations is to be singularly focused on serving the needs of our customers and merchants.

As my co-founder, Andrew Mason, whose words I've borrowed on more than one occasion in this letter, has said, "being long-term focused doesn't mean we're building space elevators." It does mean that from time-to-time we may make decisions that will not be in our short-term best interest. The market before us is too vast, and frankly too important, to optimize for the short term.

I believe we are better positioned than any company to plug local commerce into the Web. In local, no one else has the breadth of relationships, the sheer scale and the infrastructure we have. Each one of these is incredibly powerful, but together they can be transformative.

After our first full year as a public company we're galvanized by the mission before us and energized by our progress to date.

On behalf of Ted Leonsis, my co-CEO, and everyone at Groupon, thank you for sticking with us.

Sincerely,



Eric Lefkofsky
Chairman
Co-CEO