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# Groupon, Inc. (GRPN)

Q2 2020 Earnings Call

## CORPORATE PARTICIPANTS

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*Interim Chief Executive Officer, Groupon, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, everyone, and welcome to Groupon's Second Quarter 2020 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the company's formal remarks. [Operator Instructions] Today's conference call is being recorded.

For opening remarks, I would like to turn the call over to the Chief Communications Officer, Jennifer Beugelmans. Please go ahead.

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**Jennifer Beugelmans**

*Chief Communications Officer, Groupon, Inc.*

Good morning and welcome to Groupon's second quarter 2020 financial results conference call. On the call today are: our interim CEO, Aaron Cooper; and CFO, Melissa Thomas.

The following discussion and responses to your questions reflect management's views as of today, August 7, 2020, 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 our earnings press release and in our filings with the SEC, including our annual report on Form 10-K for the year ended December 31, 2019, and subsequent quarterly reports on Form 10-Q. We encourage investors to use our Investor Relations website at [investor.Groupon.com](http://investor.Groupon.com) 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 posting.

On the call today, we will also discuss the following non-GAAP financial measures, adjusted EBITDA, 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 to the most comparable measures under U.S. GAAP.

As we discuss our results during this call, note that all comparisons, unless otherwise stated, refer to year-over-year growth as reported. All gross profit comparisons are FX neutral.

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

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## Aaron Cooper

*Interim Chief Executive Officer, Groupon, Inc.*

Thanks, Jennifer. And thanks to everyone for joining today. We are looking forward to giving you an update on our recent progress and further outlining our strategy and execution plan to win in local.

When I was appointed the Interim CEO in March, I had two primary objectives. The first was to work with the team to stabilize the business. At that time, COVID-19 had already begun to wreak havoc on the economy. Our local business had fallen nearly 80% and the world was entering a global shutdown. We were in a cash burn position, and we needed to accelerate and expand our plan to right-size our cost structure. I'm proud to say that over the past few months, we have stabilized the business and strengthened the balance sheet.

Today, we have nearly \$800 million of cash and we generated over \$70 million of free cash flow in Q2. We have created a substantially reduced cost structure and are on our way to take \$225 million of fixed cost out of the business. And we have cut variable marketing spend by over \$50 million in Q2 alone. We are well-positioned for the future.

On today's call, I'll spend much of my time talking about my second objective, our strategy to return the company to growth and our execution plan. But first, I'd like to provide some context on the remarkable progress we have made as a team over the past few months. As I mentioned, we have lowered our costs meaningfully. In fact, based on the actions we are taking, our SG&A will be approximately 30% lower compared to 2019.

Given this, we can be significantly more profitable on an adjusted EBITDA basis at lower levels of gross billings and gross profit.

While Melissa will provide you with additional context for how and when we expect to unlock the power of our financial model, we believe that even at gross billings and gross profit levels that are lower than what we delivered pre-COVID, we can achieve adjusted EBITDA comparable to or higher than 2019 levels. And this strong level of adjusted EBITDA flow-through is possible, even if we are unable to achieve the growth that, as I will outline today, we are confident we can achieve.

We have created a more durable and nimble business that can pivot quickly and respond to macroeconomic shifts, creating a path forward for Groupon, even if the impact of COVID is prolonged. This means that when the recovery does happen, we'll be ready and able to leverage economic recovery into significant business gains.

So let's turn to our growth strategy. While we had already announced our intention to focus on winning in local, the pandemic gave us a unique opportunity to figure out why the Groupon business had been in a state of decline for many years. I, along with the rest of the management team, felt strongly that Groupon should be able to grow

its local business, but we weren't, despite many initiatives that we had put in place over the past few years to achieve this goal. So the question we had to answer is why.

We estimate that the local market opportunity is north of \$1 trillion, and Groupon is a leader in this space. Despite these two facts, our gross billings have been declining for many years. This is a fundamental disconnect that our go-forward strategy must address.

Within local, we believe we are most differentiated in our experiences, with our things to do, beauty and wellness and dining offerings. We also believe that in North America alone, there are 80 or more local experiences that the average customer participates in annually, and yet our average purchase frequency is between three and four times per year.

For some time, you've heard Groupon talk about how we intend to ignite the flywheel and capture more share in this large market opportunity, by bringing on higher-quality merchants, greater density of Deals, frictionless buying, et cetera. In fact, when you break them down, our past initiatives were all meant to get at the same problem, making Groupon work more for merchants and customers and making Groupon more of a utility, so people don't buy at Groupon just once a quarter. They buy once a month, once a week, maybe even once a day, at some point in the future.

So we did an in-depth root cause analysis to answer the most basic question. Why don't people use Groupon more often? The answer is simple and not surprising. We need more quality inventory that interest consumers, the kind of inventory that attracts consumers on a regular basis, not just every once in a while.

In talking to quality merchants, the kind we want to attract and maintain, you hear two things consistently. I would be on Groupon, but you're asking too much for me in terms of discount and margin. Or I don't ever want to be on Groupon or any other discount site, for that matter. Ultimately, this analysis uncovered flaws in our core merchant and customer value propositions. It became clear that building inventory breadth and depth was the biggest area of opportunity for Groupon.

So, why haven't previous initiatives focused on inventory worked? Up until recently, our business was large, generating lots of free cash flow. In an effort to maintain this output, we kept trying to tweak instead of holistically change our business model.

But given the state of the world in local, we are now in a position to make more profound changes without them having the impact they would have had in pre-COVID-19 times. To fix Groupon, we need to execute in two strategic areas exceptionally well: number one, brand inventory, which means more quality inventory; and number two, modernize the marketplace by improving the merchant and customer experience. Successful scaled marketplaces excel in these strategic areas and Groupon will be no different.

A strategy is centered around creating inventory density and improving the customer and merchant experience emphasizes the same areas that we discussed with you earlier this year. However, our go-forward plan is vastly different from historic plans you might have seen in that we are going to take bold and decisive steps to add the right inventory to our platform, including building a new product offering and revenue stream around it.

This means that substantial resources will be dedicated to expanding our inventory. In addition, our inventory density strategy is now fully aligned with the value proposition that our merchants and customers want.

We're going to move fast, test our offering, and find signal before we scale. We have tightly focused the entire organization only on the initiatives that matter, so execution will be different. This is our top priority, and we're focused on success in this area, above all else.

We all know the basics for building a successful marketplace. You start with merchant adoption, which allows you to build the foundation of supply needed to attract customers. Once you achieve the tipping point between supply and demand on the platform, you can introduce market-driven pricing tools that allow merchants who want more volume or exposure to pay more on an opt-in basis, which will lead to intensified price competition between merchants, create new sustainable revenue streams for the marketplace, and help drive margins higher.

The Groupon marketplace, however, was not built to be a traditional marketplace. It started with a high cost model, with merchants paying up to 75%, when you factor in margin and the discount merchants offer. It was built to deliver customers only to those merchants willing to sell deeply discounted Deals.

The marketplace was not structured to support or encourage repeat purchase frequency at the merchant level. In fact, Groupon had no way of participating in downstream revenue opportunities unless a merchant was willing to sell another deeply discounted Deal, which resulted in narrow supply.

To grow, we need to build a more robust suite of inventory products that will encourage purchase frequency and increase gross billings, unlocking the marketplace flywheel that has eluded us for years.

To do this, we will focus on three key inventory initiatives; Deals, Offers, and Market Rate. If successful, we can build more inventory that's available all the time, and that covers categories and services people actually want.

So, let's start with Deals. Groupon is known for great Deals, and we will not be moving away from this value proposition. That said, we need to make our Deals inventory better by making it more valuable to customers, positioning it as a product that can actually drive repeat purchases and customer loyalty for our merchants, and allowing Groupon to participate in the resulting downstream transactions.

This means fewer restrictions for our customers. Too many of our Deals have onerous restrictions. You can only use a Deal on certain days. You can only buy it once, et cetera.

To put this in perspective, in the last quarter alone in North America, we had over 100,000 clicks on Deals on our site that were actually not available for purchase. For a marketplace to drive customers to something they can't buy makes no sense. Our customers need to be able to try the merchants we introduced them to a few times in order to convert them into a repeat customer.

Our goal is to remove the limits that exist on Deals to ensure that our customers can buy a Deal more than one time, which will encourage loyalty to both Groupon and the merchant.

But not every merchant wants to run a deeply discounted Deal on our platform. And for even the ones that do, at some point, a deeply discounted Deal may not make sense for their business.

That's where Offers comes in. With Offers, we intend to build a new type of inventory focused on high intent customers. This new inventory will be based on lower margins for Groupon, lower discounts for customers and merchant margins that are more in line with competitive sales channels. This is about building a deeper partnership with our existing merchants through a broader offering and attracting merchants that are on the fence when it comes to joining our marketplace.

Offers should allow us to [ph] obtain a fuller (12:29) catalog of always-available inventory from our merchants, thereby driving purchase frequency on the Groupon marketplace. Once Deals are no longer purchasable, they'll become Offers. So that when our high intent customers click on a merchant, they will always find something of value they can buy.

We envision merchants using Deals and Offers together to drive growth and manage demand. If a merchant wants to promote a new product, they can list a Deal that will eventually convert to an offer. If the same merchant is having a slow sales period for an existing product, they might create a new offer that will support our goal of expanding inventory.

The goal for Offers is to be discounted by approximately 15% in the form as a discount or Groupon Bucks back. For example, a spa merchant may be able to provide a deeper discount, that's a Deal, on services like a manicure, pedicure. Then, they want to increase volume on facials, which they aren't able to discount as deeply. In this case, Offers gives merchants the abilities to showcase a fuller catalog of inventory at an appealing margin structure and added exposure for the additional service line, without sacrificing too much margin.

In any case, when a merchant lists their inventory on Groupon, whether a Deal or an Offer, it needs to always provide value to their business. We believe introducing Offers to our scaled marketplace will provide unbeatable value to current and new merchants, as well as our customers.

For merchants, unlike other sales channels, Groupon remains uniquely risk-free, where they never incur a cost unless customers make a purchase.

Even with the greater density that we expect to come from Deals and Offers, there is still a subset of merchants that don't want to be on Groupon because they don't want to discount their products. This is where Market Rate inventory comes into play. To further energize our marketplace, we're going to continue our efforts to get full-priced inventory on our platform.

Our goal is to have the best merchants in any given city on Groupon. We will acquire inventory in one of several ways. First, it can be integrated through various third-party partnerships with large ticketing providers, booking tools and others. These partnerships allow Groupon to connect our customers with even more high quality inventory, which is conveniently available on our marketplace. We will continue to expand these types of partnerships with our newly launched self-service API tool and test other options to ensure that we have the best inventory for our marketplace.

We believe that these new and revamped inventory options will allow us to provide the experience that our customers want. Our analysis shows that our inventory needs to cover a wide range of discounts, from high discount, to low discount, to no discount, that satisfy the customer value proposition by providing a combination of value, selection and convenience.

In terms of our go-to-market strategy, we plan to incentivize our sales team to both curate the right inventory mix to attract potential and existing customers and help merchants optimize their ROI by selling a broad selection of Deals, Offers and Market Rate inventory on Groupon.

Despite our confidence in this strategy, which is grounded in our experience, and research and scaled examples, we are focused on getting clear signal. We have selected four markets where we are already testing our new business model at scale, with over 150 of our sales reps dedicated to this effort. We will measure our progress in

the test markets versus comparable markets. And while we'll have to navigate some uncertainties around COVID-19, we're hopeful we can get a clear signal by year-end.

Here is the signal we're looking for in our test markets. We are targeting a 25% to 50% increase in inventory, which will be focused on key ZIP Codes in our beauty and wellness and things to do types of experiences. We believe this will create an inventory density we need to drive customer engagement.

At the end of our six month test, our goal is to improve unit and gross billings performance versus control markets. We expect to see low single-digit percentage point improvement at the end of six months in these metrics, which we expect to accelerate to low double-digit improvement shortly thereafter. To be clear, these targets refer only to the test markets and represent a starting place for growth.

This test will also inform our perspective on the right levels of inventory density, as well as optimized mix of Offers, Deals and Market Rate supply in any given market.

While we have a hypothesis, as we test and learn, we'll be looking to refine our model and determine how and when we scale to the next 10 to 15 cities and eventually the entire country and then internationally.

We believe the existing power of our platform, fewer restrictions on Deals, the introduction of Offers and the growth of Market Rate inventory will unlock the marketplace flywheel and create value for merchants, customers and Groupon. As I mentioned, the vast majority of our efforts will be focused on bringing the right breadth and depth of inventory, so that we can get to our tipping point.

We believe that improving our marketplace value proposition is the most important marketing tool for Groupon, and we've already talked quite a bit about our inventory initiatives that are laser-focused on this objective.

At the same time, we intend to deploy small, focused teams to build a suite of merchant tools that help merchants grow their business on the Groupon marketplace. Our goal is to add value at all stages of the merchant business life cycle, from helping them attract new and repeat customers, to capturing a larger share of customer wallet. As we work to return our local marketplace to growth, we believe that, over time, we can also layer in new powerful paid tools and services that will be accretive to our business model and marketplace growth.

We know we must also create a modern experience that reduces friction for our customers. From discovery, to search, to purchase, to redemption, we have to make it easier for our customers to find, buy and redeem at Groupon, and interact with our merchants. We also believe we can elevate Groupon as a destination, where customers go to discover fun and memorable experiences.

While we have made progress over the years, we still have work to do. Our product development strategy will revolve around testing and launching products that reduce customer friction and improve the user experience. This means that in the future, all of our inventory should be bookable or in some other way connected to one of our frictionless products. And we want to offer an improved user experience that offers a combination of new personalization, inspiration and convenience-led features to drive conversion and purchase frequency. For additional details on our second half 2020 product road map, please see our slide deck posted on our Investor Relations website.

More inventory, better inventory and frictionless buying. Okay. So why will we be able to execute this time around? After we released our first quarter results, I spoke to some of you about how we intend to execute going



forward. While some of this detail is not new, it's important. So I'll take a minute to highlight the three key differences in how we intend to execute.

First, we are going to be relentlessly focused on our strategic priorities, core verticals, and key markets. Second, we will test, learn, and iterate quickly using more data before we greenlight projects, looking for proof they are likely to add shareholder value. And finally, third, we will empower teams to make decisions and move quickly.

Before I turn the call over to Melissa, let me leave you with this. We acknowledge there's a lot of hard work ahead, but, at the same time, there's a lot to be proud of now. Over the second quarter, we've stabilized the business, grown our cash balance, and launched a growth strategy that is directly tied to our core merchant and customer value propositions.

By expanding our high-quality inventory to drive unit volume, we believe we will unlock the marketplace flywheel and deliver top line growth and profitability. We are committed to returning Groupon to growth. And we are confident that we have the right strategy and execution focus to achieve this goal.

Finally, I want to give a huge thank you to our teammates here at Groupon, who have shown continued resilience, dedication, and determination as we have done the hard work needed to create a foundation for future growth. I'm so proud of the results we're beginning to deliver. So, thank you.

I'll now turn the call over Melissa.

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## Melissa Thomas

*Chief Financial Officer, Groupon, Inc.*

Thanks, Aaron, and thanks again to everyone joining us this morning. I hope you are staying safe and successfully navigating the prolonged impact of COVID-19. I want to express my gratitude to our team here at Groupon. Your hard work and continued focus on helping us face this pandemic is really inspiring.

Since we provided a preview of our second quarter performance with our first quarter results in mid-June, I won't spend too much time today going through them in great detail.

Today, I'll use my time to discuss our balance sheet and liquidity, a few key insights on second quarter results, key data points on July trends, progress on executing our restructuring plan, and I'll end with how to think about our financial model over the longer term. As usual, you can find a full set of financial results in the press release and Form 10-Q that we filed yesterday.

Starting with an update on our balance sheet and liquidity position. In the trough of late March, local units were declining nearly 80% and we were burning cash. Since late March, we pivoted quickly to stabilize the company and strengthen the balance sheet.

We designed and implemented a multi-phase restructuring plan to create a path forward to reduce our fixed cost base by \$225 million on a run rate basis. And we cut our variable marketing spend by over \$50 million year-over-year in Q2 alone by significantly shortening payback thresholds, foregoing brand investments, and aligning spend levels with consumer demand.

We also implemented a number of other incremental in-year cost savings and liquidity preservation measures, including furloughs, to position the company for the near and long term.



In total, we furloughed or initiated exits of approximately 2,700 employees within our base of nearly 6,300 employees as of March 31, 2020. In addition to these payroll actions, we continue to sell goods instead of exiting the category as quickly as possible. And we accelerated our efforts to move North America local merchants from fixed payment terms to redemption payment terms, which supports cash flow by reducing our refund exposure and lowering our net working capital needs.

Together, these actions allowed us to generate over \$70 million of free cash flow in the second quarter, despite the impacts of COVID-19 on our local business. We have grown our cash balance from \$667 million at the end of Q1, which included \$150 million of outstanding borrowings on our revolver, to \$785 million at the end of Q2, which included \$200 million of outstanding borrowings on our revolver. And we successfully amended our credit agreement to obtain covenant relief through Q1 2021.

As a result, our balance sheet is stronger and we are well-positioned to invest in our future. This has been a lot of hard work. And I'm incredibly proud of our team. Since March, we have rebuilt our foundation and created the financial stability we believe we need to weather the ongoing impacts of COVID-19 and to drive growth.

Turning now to our second quarter results. All comparisons I'll be referring to are on a year-over-year basis, unless specifically noted. In the second quarter, gross billings were \$583 million, revenue was \$396 million, gross profit was \$137 million, and adjusted EBITDA was \$1 million.

We delivered positive adjusted EBITDA in the quarter and generated over \$70 million of free cash flow, even while our local units were down nearly 70% due to COVID-19. This is a testament to our team's ability to quickly and dramatically reduce our cost structure, while implementing cash preservation strategies. And it speaks to the financial power of our model.

Second quarter adjusted EBITDA significantly outperformed the outlook we provided with our first quarter results, due to better-than-expected gross profit performance. We had 38 million active customers on a trailing 12-month basis as of June 30. Since active customers is a trailing 12-month metric, we would expect this number to decline as it continues to reflect the impact of COVID-19.

In the second quarter, we sold a total of 23 million units, down 35%. Global local units were 8 million, down 66%, and global goods units were 15 million, up 38%. Consolidated marketing expense for the second quarter was \$25 million, down 72%.

SG&A for the second quarter was approximately \$144 million, down 32% as we started to see the benefit from the cost savings measures we put in place throughout the quarter to position the company for the near and long term.

We also laid the foundation in the second quarter to shift sales of goods to a third-party marketplace model, which we are on track to largely complete for North America by the end of the third quarter. We have exited our warehouse operations globally and have taken significant costs out of our goods operations.

For modeling purposes, we expect the migration of North America goods to a third-party marketplace model to happen throughout the third quarter and to be largely complete by quarter end. We expect to start the international goods transition in the fourth quarter 2020 and to make meaningful progress thereafter.

Turning now to our July operating performance. We have seen volatility, which we expect will continue until COVID-19 subsides. In July, in North America, states that previously led the recovery for us in the second quarter

have seen a rise in COVID-19 cases and a slight pullback in performance. This has largely been offset by an acceleration in performance in markets that were slower to reopen.

Our ability to offset the performance pullback in various markets helps illustrate the durability of our business model. With geographic and category diversity, we remain well positioned to continue to pivot, as needed, to respond to changes in the macro environment.

In international, we are encouraged by the trends we are seeing in local, where local unit performance continued to accelerate sequentially in July, as more countries lifted restrictions.

Given the different dynamics across the markets in which we operate, we are taking a market-by-market approach to the recovery. We expect to see volatility over the next six to 12 months, with local opening back up in certain markets and closing in others due to COVID-19. We will lean back into goods and other relevant inventory as necessary.

Turning to our multi-phase restructuring plan. I'd like to update you on the progress we're making on that front. We initiated the first phase of our restructuring plan in April, and we will begin executing on the second phase this month. In 2020, we expect to realize approximately \$140 million of savings from the combination of our multi-phase restructuring action and furloughs.

In 2021, we expect to realize approximately \$200 million in cost savings from our restructuring action. The amount of savings we realize in 2021 could be impacted by the timing of negotiations with various works councils and consultation processes in Europe.

When complete, our multi-phase restructuring plan should allow us to reduce our fixed cost structure by a total of \$225 million on a run rate basis. This fixed cost base will include a sustainably lower employee count, and, in total, reduce our fixed employee base by approximately 40% over the next few years.

As part of our restructuring efforts, we are taking a hard look at our go-forward country footprint. Our evaluation is considering each international country's profitability, competitive position, market potential, complexity and cost to exit.

Within our go-forward international footprint, you will see us operate differently. We will prioritize our investments in international to those countries where we believe we have the most scale and market potential and look to right-size the cost structure in other countries that generate positive cash flow, but don't have the same growth opportunity.

With all of the changes we've made to reduce our cost base, I want to give you some insight to our financial model longer term. First, as Aaron mentioned, if you look at just the reductions we are making to SG&A, these alone should allow us to deliver solid adjusted EBITDA over the longer term.

If we sustain this level of SG&A and gross profit returns to 80% of pre-COVID levels, we believe we will be positioned to deliver approximately \$250 million of adjusted EBITDA in 2022. And if gross profit returns to 90% of pre-COVID levels, we believe we will be positioned to deliver approximately \$300 million in 2022.

However, we believe the business model changes that Aaron outlined, can dramatically improve our financial performance over the long-term and allow Groupon to achieve top line growth. We believe we need to evolve our business model to improve supply, encourage purchase frequency and drive top line growth, even if it comes with

lower average margins. We'll look to provide more clarity on the potential upside to our financial model as we gain more learnings from our test market.

Today, we talked about moving the organization to focus only on the initiatives that matter. As we limit the scope of our actions and investments to driving inventory density, empowering best merchants to join and thrive on Groupon, and giving our customers an amazing and frictionless experience, we think we can also simplify how we talk about our business.

To sum-up, success looks like this. First, we grow and expand the breadth and depth of inventory, including lower margin listings that will have an impact on our gross profit margin.

Second, we return the company to top line gross billings growth by attracting new and repeat customers. Once we unlock this marketplace velocity, we plan to use industry proven tactics to increase price competition, which should allow us to recover margin over time.

With a steadily expanding top line and a lower cost structure, we can generate strong profitability. You will be able to measure our progress along the way by looking at four KPIs: our total active customers; the total Groupons they purchase annually, or our units: the total sales those purchases generate per year, our gross billing; and the margin we earn from those sales, our gross profit.

We are excited to be on a path that we believe will allow us to not only reach inflection, but begin to restart the growth engine for Groupon's future. We are grateful for your time today.

And with that, let's open the call to questions.

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## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question comes from the line of Eric Sheridan with UBS. Your line is now open.

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**Eric J. Sheridan**  
*Analyst, UBS Securities LLC*

Q

Thanks so much and hope all as well with everyone on the team there at Groupon. Two, if I can. On the merchant side, want to know a little bit more detail on what you think you're trying to unlock on the merchant side? Is it going deeper with existing merchants? Is it reengaging with merchants that maybe tried the platform in a prior era, and you just feel like you need to reengage with them? Or is it bringing new merchants that maybe had not transacted or listed supply with Groupon in the past and what you see as some of the keys to unlocking that on the supply side?

Second quarter on the demand side. It sounds like, obviously, getting velocity of shopping among your power users, your current base, is pretty important for the success over the medium to long-term. Do you think that is a supply issue? Or do you think that's a UI issue or a remarketing issue? So, again, the second question would be also like maybe a little bit more granularity on what you think the unlock is from a shopping velocity standpoint. Thanks so much.

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**Aaron Cooper**

*Interim Chief Executive Officer, Groupon, Inc.*

A

Hey, Eric, thank you very much for the question. You're getting right at the heart of the strategy, which the team has just worked so hard on. And I know when we talked last, we said we're excited at sharing it with you today. So, I appreciate you coming right at that.

Let me take a step back and just share a little bit of the broader context. And then, I'll fit your questions about which merchants and how we're going to go deeper and how that will impact new merchants as well as what we see is like what's blocking customers from buying more. I'll fit those right in.

In the broader context, Groupon is a large inspiration marketplace. And this is what we've done for years. When Groupon suggests something to customers, the customers react. This is something that's very special to us. And for selling Groupons, which are Deals, and the way we deliver Deals, we've sold billions of dollars in sales, and both customers and merchants love our Deals offering.

What we're doing now is we're adding Offers to complement Deals. What Offers do is it paves the way for us to expand to the larger destination marketplace TAM, that's the \$1 trillion TAM that we've been talking about, with a proven marketplace growth approach. So what Offers are going to do is they'll service higher intent customers, which are people that are looking for services that they want, so the customers always have something to buy.

Let me map that directly. And that's the large thing with how Offers complements Deals. And so the way that that's going to show up with merchants is that merchants now, they can add more. And I talk to merchants all the time. And so one of the merchants that just struck me so clearly, runs a salon. And the way it works right now is she offers her Deals, but then she won't offer her Deals for repeat because of the economics.

Now with Offers, she can offer her Deals for repeat. In this particular case, we were talking about a manicure. Now customers can come in and repeat on the manicure many times because of the lower economics.

In addition, she doesn't offer her facials on Groupon at all. The reason, when you get into the details, is interesting. The way she runs her business, is she pays other people to do the manicures and pedicures. So she knows the economics. She does the facials herself.

So as a result, she doesn't want to put our big discount and big margin on top of her facials. But at an Offers' economics, this is now something she could do. So for the customer side, which this then helps exactly what customers want – customers want, they want to be able to buy from merchants that they want. They want to be able to repeat services, and they want to be able to buy more.

So if a customer comes to our site looking for a facial, and this merchant hasn't been able to put their facial on the site, the customer is disappointed and the merchant misses out on the demand.

So to answer your question, we're going after deeper relationships with our merchants. That's the example I just shared. We're going after new merchants that we expect to appeal to based on all of the work that we've done on research and talking to merchants over the years. And this actually goes right at the heart of the customer issue, [ph] like a no brainer (37:30).

**Melissa Thomas**

*Chief Financial Officer, Groupon, Inc.*

A

Yeah. And the one point I would add, Eric, as well, is just, as a reminder, the unlock that we see to our model is really driving purchase frequency. And when we look at just getting one additional purchase from just our North America customers alone, that opportunity is greater than \$750 million of bookings annually, so a large opportunity to drive that financial model there.

**Eric J. Sheridan**

*Analyst, UBS Securities LLC*

Q

Great. Thanks so much.

**Operator:** Our next question comes from the line of Ygal Arounian with Wedbush Securities. Your line is now open.

**Ygal Arounian**

*Analyst, Wedbush Securities, Inc.*

Q

Hey, morning, guys. Thanks for all the detail. It's really helpful to hear the strategy laid out. I guess I want to ask on getting through in the current environment, where there's still a lot of local businesses that are closed, maybe a little skittish to offer discounts or things like that.

How are you – how deep are you in rolling out the strategy for Offers and building out the inventory density? Have you started? Have you seen any resistance from the merchant side, maybe saying, let's wait until things open up a little bit more? Just how's that progress been going?

And then, to follow-up on the marketing question, is there a shift in marketing strategy that comes with this to, kind of, highlight to consumers as well, that there is deep discounts, and then 15% off and things that are full price that could drive people into the platform more frequently from the top of the funnel? Thanks.

**Aaron Cooper**

*Interim Chief Executive Officer, Groupon, Inc.*

A

Thanks for the question on the strategy. Let me tell you where we are and how we're running the test that we talked about in the prepared remarks. So the test design is to find signal quickly. We have four test markets and we have control markets. The teams are aligned to get the right inventory on the platform quickly. And if it works, which we're planning it will and believe it will, we'll see billings lift within about six months. So these markets will be improving versus our control. That's what we're looking for and that's what we expect to see.

The test is going to inform the right level of inventory density. This gets after your question as to how merchants are responding. And it will help us understand the optimized mix of Deals, Offers and Market Rate, which applies to the example of the manicure, pedicure merchant that I talked about earlier – manicure, pedicure, facial merchant I talked about earlier. And so what the teams are doing is they're adapting daily to the test and insights to make sure that we deliver on our plan to get signal there in six months.

As for marketing, yes, marketing is involved here as well. So what we've done is, we've segmented all the customers and all the merchants and have marketing communication plans to bring the customers along to make them aware of this expanded inventory offering.

So an example, tying back to the example I gave to the merchant, would be, if you were a customer that went into that merchant and you bought the manicure. For years, we haven't allowed you to buy the manicure again. And

we haven't allowed you to buy the facial, because the merchant couldn't put the facial on. So this is a straightforward marketing opportunity that are marketing team can't way to get after. Melissa, anything to add?

**Ygal Arounian**

*Analyst, Wedbush Securities, Inc.*

Thanks.

Q

**Melissa Thomas**

*Chief Financial Officer, Groupon, Inc.*

Sorry. Go ahead.

A

**Ygal Arounian**

*Analyst, Wedbush Securities, Inc.*

Well, I was just going to ask a – follow-up on a separate thing, if that's okay.

Q

**Aaron Cooper**

*Interim Chief Executive Officer, Groupon, Inc.*

Absolutely.

A

**Ygal Arounian**

*Analyst, Wedbush Securities, Inc.*

And talking a lot about local, which makes a lot of sense. But Goods also outperformed and drove a big part of the beat in the quarter. And, obviously, in the current environment, e-commerce is kind of taking on a new life. And you guys made the decision to move to 3P and not exit Goods completely. Just wondering if you have any updated thoughts on the Goods business and expectations for going forward? Does it make sense to kind of step into it a little bit more than maybe you were thinking a few months ago? Just thoughts around Goods a little bit more. Thanks.

Q

**Aaron Cooper**

*Interim Chief Executive Officer, Groupon, Inc.*

Yeah. Thanks for asking. I'll take this opportunity to congratulate the Goods team, because you called them out. They've done a great job since the pandemic onset at the end of March. This team has really rallied, along with our marketing team, in shifting and taking advantage of our full assortment. So, team, thank you very much.

A

As for Goods, let us be clear. We've leveraged the Goods category, and now we think we can leverage it at substantially lower cost base. We're moving to a third-party, where we sell Deals and we let other people [ph] handle (42:29) delivery. And I want to be clear. Within that, local is still our top focus.

So even though we've used Goods, and it's worked extraordinarily well, and our customers like it, we see winning on the other side of growing in local. And we expect with our strategy, outsized growth in local going forward. So local is the strategy. Goods is a tool in the arsenal. Melissa, anything to add?

**Melissa Thomas**

*Chief Financial Officer, Groupon, Inc.*

Yeah. The one point that I would add there is, as you saw in Q2, the durability of our model and our ability to shift quickly into Goods in a period where local demand dried up. As we continue to see volatility due to COVID and as

A



we see local slowdown in certain markets or pick up, we'll continue to toggle between our diverse asset base. But, yeah, over the long-term, we'd expect Goods to become a smaller portion of our mix again.

**Ygal Arounian**

*Analyst, Wedbush Securities, Inc.*

Okay, very helpful. Thanks so much, guys.

**Aaron Cooper**

*Interim Chief Executive Officer, Groupon, Inc.*

Thank you.

**Operator:** Our next question comes from the line of Thomas Forte with D.A. Davidson. Your line is now open.

**Tom Forte**

*Analyst, D. A. Davidson & Co.*

Great. So, Aaron, Melissa, Jennifer, hope you're doing well and congrats on your efforts to navigate the challenges from COVID-19. So, I just had one question. You've done an excellent job articulating your plan. The question that I had is what are the metrics by which management's going to be measured from a compensation standpoint? Is it going to be revenue growth, billings growth, EBITDA margin? Can you give some thoughts on that? Thank you.

**Aaron Cooper**

*Interim Chief Executive Officer, Groupon, Inc.*

Sure. Let me tell you about our strategy and the way that we're thinking about it. And I want to back up to the broader thesis here as it relates to the way that we're thinking about the business. And then, I'll ask Melissa to fill in, and we'll get after your question.

So, one, thanks for calling out the quarter and the work that the team has done. Across the team, it's been really good work. And I've actually been incredibly impressed with the team's resilience and their ability to just absolutely do a job under tricky circumstances working virtually.

So, with the business itself, things weren't certain at the beginning of March – at the end of March, beginning of April. And what I was impressed to see was the durability of the business overall.

Even in those darkest times, we were doing over \$5 million in gross sales a day. What the management team has shown and what I'm particularly impressed with, is that this team was able to flex down our cost structure [ph] with ease (45:14) and adapt to support our customers and merchants, utilizing the full breadth of our assortment, while focusing on this new growth strategy.

So, looking forward, and what we're most focused on now and what's most important is that we have two major horizons of value. First is getting 90% to our historic size will produce record gross profit, as Melissa mentioned, and execution of this strategy. This is an enormous focus of ours.

And, as Melissa mentioned as well, one additional purchase would be about \$750 million in billings and help us show up and taking share of that \$1 trillion TAM we've been talking about. So, our focus, we think the local recovery case is clear, and management believes we have an absolute ton of upside. Melissa, anything to add?



**Melissa Thomas**

*Chief Financial Officer, Groupon, Inc.*

A

Yeah. So, Tom, as you think about how the management team is being evaluated, more broadly, I would call out two key areas first, right, in the midst of COVID, making sure that we can stabilize the business and put the company in a position to pursue its growth strategy.

And then number two, executing on that strategy. So, the KPIs that we have outlined are certainly going to be ones that are going to be of focus and ones that management is going to be measured on. But really, what we're trying to do here is return Groupon to long-term sustainable top line growth, as well as delivering strong EBITDA levels. So, that's ultimately what we, as a management team, are going to be judged on from a success perspective.

**Tom Forte**

*Analyst, D. A. Davidson & Co.*

Q

Thank you for taking my questions.

**Melissa Thomas**

*Chief Financial Officer, Groupon, Inc.*

A

Thanks, Tom.

**Aaron Cooper**

*Interim Chief Executive Officer, Groupon, Inc.*

A

Thanks, Tom.

**Operator:** Our next question comes from the line of Deepak Mathivanan with Barclays. Your line is now open.

**Deepak Mathivanan**

*Analyst, Barclays Capital, Inc.*

Q

Great. Hey, guys, thanks for taking the question. Two questions from us. First, Aaron, the new initiatives you listed sounds really good. How should we think about where your economic take rate, either on revenue or gross profit basis, land over the long-term compared to current levels?

And then, the second question was, Melissa, can you provide some color on monthly cadence in various categories or verticals, and perhaps maybe how some of those are trending in July? Thank you.

**Aaron Cooper**

*Interim Chief Executive Officer, Groupon, Inc.*

A

Sure. Thanks, Deepak. Why don't I start on the economics and I'll ask for Melissa's thoughts as well. So the entire approach that we're looking at is the way that other proven marketplaces have been built. And what I love about this strategy is it just means so clearly that we're an under-optimized business and that we're now going to apply proven practices that we've seen other places at scale, in many other marketplaces and advertising platforms.

So Offers, which we will start at a lower margin, we will get the flywheel moving, because we already know that the customers are interested and we believe the demand is there and will be strong. With that, we aim to get to our tipping point, which really represents a new tier of strength in the marketplace.

As we get there, and this is important to the economics point, is what marketplaces do is they allow the sellers, in our case, the merchants, to compete on an opt-in basis using tools like sponsored listings or promoted results, and there's many other tools as well, which allows us to capture later margin there as well beyond just unit transaction margin.

Melissa, maybe to add?

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**Melissa Thomas**

*Chief Financial Officer, Groupon, Inc.*

A

Sure. There's two things that I'll call it. First, I'll just point out that, Deepak, one of the things I mentioned in my prepared remarks that's really important is really, given the cost reductions that we've taken, even just sustaining those cost reductions, and GP returning to only 80% of pre-COVID levels, we believe we can be in a position to deliver \$250 million, so definitely highlighting the power of our financial model, given the right-sizing we've done at the cost structure.

Then when you talk about the strategy, and that's really further unlocked that model, as Aaron mentioned, I think he did a pretty good job there of articulating what the P&L will look like. But I think the call-out that I would make on Offers, in particular, is that we do expect that to create some pressure on GP margin over time. But it's important to remember that we do believe that Offers will be largely incremental to the business. So that is something to keep in mind there. And then we bring that margin up over time once we introduce merchant monetization tactics.

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**Deepak Mathivanan**

*Analyst, Barclays Capital, Inc.*

Q

Got it. And then the second question, on monthly cadence, anything you can add there?

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**Melissa Thomas**

*Chief Financial Officer, Groupon, Inc.*

A

Sure. In terms of monthly cadence, there's a few things that I would call out. So in June, mid-June, when we released our results, we did – following that, we did see continued acceleration in local recovery throughout the month, as you can see from our Q2 beat. But as we headed into July, as we mentioned, we did see some volatility, particularly on the North America side of the business. So when you think states within North America, so Texas, Florida, California, the places that led the recovery for us in Q2, we did see a slight pullback there. But states that were slower to reopen, so think Northeastern states, as well as Illinois, those have served as an offset, because we have seen sequential improvements there in July.

When you think about international, there, we did see acceleration through the month of July. And the key – as compared to June. And I think the key context I provide there is just from a geographic standpoint, one thing to remember is UK is our largest market historically in international, and that was a country that was much slower to reopen. It didn't reopen really until early July and has taken a very measured approach to that reopening. But that has served as a tailwind.

And then, when you think about the category side, HBW has certainly led the recovery for us on the local side – or our beauty and wellness business, that has led the recovery for us on the local side. And then, as you would expect, as local recovers and we're getting more velocity there, our Goods business would be kind of falling to the background there. But we are taking a market-by-market approach here.

So as I mentioned earlier, we'll be toggling between the different categories and making sure we're servicing up relevant supply to our customers on the site. So we believe we demonstrated the durability of our model in Q2 and we plan to continue to leverage that as we proceed through the balance of the year, because we do expect there will be some volatility over the next six to 12 months.

**Deepak Mathivanan**

*Analyst, Barclays Capital, Inc.*

Got it. Okay. Thank you very much.

Q

**Operator:** And our last question comes from the line of Michael Ng with Goldman Sachs. Your line is now open.

**Michael Ng**

*Analyst, Goldman Sachs & Co. LLC*

Hey, good morning. Thanks for the question. It was helpful to hear about the new inventory initiatives. And maybe to ask the margin question about Offers in a different way, I think during your prepared remarks, you said that some of the traditional deals would result in merchants funding about 75% of the costs. Can you talk about what it looks like from the merchant side for some of your new inventory products, like Offers or Market Rate relative to that 75%? Thanks.

Q

**Aaron Cooper**

*Interim Chief Executive Officer, Groupon, Inc.*

Absolutely. And then, Melissa, please add. So the way that we're explaining this to merchants – and again, right now, our test will inform exactly the margin structure we go with, which is why we've constructed it in the way that we have. The key with this suite of inventory products is that Deals continue to drive the inspiration at a discount. Deals are for new customer acquisition, to introduce new service and to get that volume that Groupon is known for and has just perfected in our inspiration model for years.

A

What Offers do, is Offers fill out the marketplace. That's the same as every other marketplace-oriented business and advertising platform out there. So the economics will be in line with other marketplaces and other advertising platforms. That allows Offers to compete as an always-on option to complement our Deals inventory. Melissa, anything to add?

**Melissa Thomas**

*Chief Financial Officer, Groupon, Inc.*

So, I think the key point here is that Offers really provides a lower cost option to get some of that full catalog inventory on the site and fill out the marketplace and drive further velocity on the platform.

A

**Michael Ng**

*Analyst, Goldman Sachs & Co. LLC*

Great. Thank you both.

Q

**Operator:** This concludes Groupon's second quarter 2020 financial results conference call. Thank you for your participation. You may now disconnect.

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