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Groupon, Inc. (GRPN)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to Groupon's Fourth 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 Chief Communications Officer, Jennifer Beugelmans. Please go ahead.

Jennifer Beugelmans
Chief Communications Officer, Groupon, Inc.

Good morning and welcome to Groupon's fourth 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, February 26, 2021 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. We encourage investors to use our Investor Relations website at 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 postings.

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 US GAAP.

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

Aaron Cooper

Interim Chief Executive Officer, Groupon, Inc.

Thanks, Jennifer, and thank you all for taking the time to join us today. I'm excited to update you on how we finished 2020 and our plans for 2021. As I reflect on this past year, I, like so many others I'm sure, go immediately to the challenges we all faced, but it's also very important for me to acknowledge the resilience that our merchants, customers and employees have shown during these unprecedented times.

When I think about Groupon, and how far we've come over the past year, I'm so proud of the hard work our team has poured into creating a path to growth. We went from Local units being down nearly 80% and generating negative adjusted EBITDA to delivering $50 million of adjusted EBITDA for the full year, 2020, taking significant fixed costs out, and strengthening our balance sheet.

On top of improving our financial results, we also transitioned our North America Goods category to a third-party marketplace, and developed and began executing on a strategy that fundamentally addresses our merchant and customer value propositions. We built new muscle in 2020. We're moving faster, empowering our teams and focusing on the most important opportunities. In short, we believe we're on a path to growth.

As we move into 2021, we're excited about our path, which we believe will include a second half organic recovery tailwind. This tailwind coupled with a meaningfully lower fixed cost base should allow us to drive sequentially improving gross profit and adjusted EBITDA as we progress throughout 2021. We believe this anticipated recovery scenario provides a framework for how to think about the base case for Groupon, which would suggest meaningful progress from where we are today.

At just 80% of our 2019 gross profit level, we believe we can deliver $250 million in adjusted EBITDA in 2022. Of course, however, our intention is to grow. And in this year, you will see us continue to execute on our two strategic priorities: expanding inventory, and modernizing the marketplace.

In 2021, our goal is to bring these two priorities together to position Groupon for long-term growth. By creating and leveraging a significantly improved experience for our customers, we believe we will be able to drive sell-through of our expanding inventory, which we intend to grow both by making more of our existing supply repeatable and expanding our marketplace to new merchants. We'll then amplify these efforts with an improved merchant experience that will support the continued growth of our marketplace.

Let me first provide you with an update on our inventory strategy. In our four test markets, we are excited to have exceeded our inventory scorecards, which gives us confidence that our execution of our inventory strategy puts us on a path to growth.

Before I go into the details of the test results and what scaling looks like, let me quickly remind you about the inventory test parameter. The goal of our four-market test was to grow inventory and improve both units and billings performance versus our control markets.

We believe we could grow inventory by encouraging merchants to list their full catalogs on the Groupon marketplace and provide customers with a broad portfolio of Deals, Offers and Market Rate experiences. We launched a test so we could first learn and iterate before scaling across the rest of our North American and international markets.

The test was divided into two phases. During the first phase, we focused on growing overall inventory by both removing restrictions on Deals and launching a new inventory product called Offers, which would target high-intent customers and be a lower cost option for our merchants.

Our goal was to prove out the first part of our hypothesis that offering a portfolio of inventory options would open the door for more merchants to sell their full catalog in our marketplace and position Groupon as an always-on sales channel.

Before the launch of Offers, merchants only had one way of working with Groupon, which was often too expensive and ultimately, limited the inventory on our platform. While Offers provide a lower discount for customers than our typical deal, customers can purchase this type of inventory listing again and again.

The second phase of our test focused on driving customer demand and proving the second part of our hypothesis that having more inventory in the Groupon marketplace would improve the customer value proposition, result in a lift in units and billings and longer term position Groupon to grow purchase frequency and drive customer loyalty.

We measured success in the test markets through our inventory scorecard, which focused on both supply and demand metrics. First, on the supply side, inventory in the four markets has grown approximately 65% versus our control markets. We are excited that we exceeded our goal of 50% growth.

In addition, we're proving that Offers provide a new value proposition that's resonating with merchants. In fact, nearly 70% of the supply growth in the test markets has come from Offers. The combination of Deals and Offers provides a portfolio of listing options for every merchant, no matter where they are in their growth cycle.

Next on the demand side, we also exceeded our goal even in the midst of COVID and even before launching significant customer experience improvements we intend to introduce in Q2 of this year. We achieved high-single-digit lift in billings and a low double-digit lift in units in the test markets versus control. And while we still have more to learn, we believe these results demonstrate that our improved value proposition is resonating across many customer groups.

The units and billing lifts came from a combination of an increase in customers and an increase in purchase frequency with existing customers. So, with these strong test results, we're ready to immediately move into scaling, and plan to take a two-pronged approach in 2021.

First, we've identified parts of the strategy where we have high confidence and that we can begin scaling now and quickly. And second, we'll continue to test and iterate in other areas before scaling broadly.

Let me talk through what we're scaling now. First, we are removing repeat purchase restrictions on Deals across all verticals. The restriction we're focused on removing is the inability to repurchase a deal, sometimes within a certain timeframe, sometimes forever.

By removing this restriction, we will increase the amount of purchasable inventory in our marketplace, and help support our ultimate goals of driving customer purchase frequency higher and increasing customer loyalty.

This focus is driven by what our customers and merchants want, and that would be a critical change as we continue to shift our value proposition for customers and merchants and deliver on our promise as a destination for Local.

In addition, as I mentioned on the third quarter call, through the end of the test, we had the most success in growing inventory within our Beauty & Wellness vertical. This growth was driven by higher listings per merchant, and bringing new merchants onto our platform, demonstrating that our new inventory approach has broad appeal.

In the test markets, we found that Offers is resonating with both our merchants and customers. In fact, on the customer demand side, Offers made up 9% of Beauty & Wellness sales in the test markets.

Customers tend to engage in the same set of Beauty & Wellness experiences frequently, and we see Offers as a great opportunity to help merchants build out loyal customer bases and drive purchase frequency for Groupon.

Based on our test market results, we have started rolling out our Offers inventory product to all Beauty & Wellness merchants in North America. We expect both our sales force and our newly improved self-service tool to play a role in securing this inventory.

So, let me summarize our top three priorities as it relates to scaling our inventory growth strategy and navigating the pandemic and related recovery. One, we are removing repeat restrictions on Deals across all verticals.

Two, we are rolling out Offers to all Beauty & Wellness merchants in North America. And three, as we move through the COVID recovery period, we are focused on winning back our merchants that we've lost.

Now, let me outline where we're looking to learn more. We know that we're differentiated in our Things to Do vertical and that our Dining inventory is valued by our customers. During our test, we saw that when we increased supply on these verticals, it resonated with our customers and increased units sold.

These are great early wins, but as you can imagine, COVID has created some noise, so we're gathering more insights on what recovery is likely to look like. In addition to expanding inventory, we also made important progress on modernizing our marketplace in the fourth quarter. I'll take you through a few of the highlights on the merchant side.

First, on our merchant self-service tool, we're excited about the progress we've made here over this past year. While this growth is off a small base, in the fourth quarter, we increased the amount of inventory created through self-service by four times versus last year, and at the same time, we're improving the quality of this inventory, with billings through self-service up seven times. And we continue to make improvements to the tool.

During the fourth quarter, we rolled out additional features, including personalized recommendations. For example, we can now automatically recommend pricing, discount levels and more, based on the type of deal or offer the merchant is looking to list.

In addition, we launched an integration with Booker, a popular Beauty & Wellness booking solution in North America. Booker is our first Beauty & Wellness partner to leverage our Groupon Connect API tool to seamlessly integrate quality bookable supply into the Groupon marketplace.

We are now turning our focus to the customer experience. This means that looking ahead to 2021, we intend to build a significantly better customer experience, one that will leverage and amplify both our expanded inventory base and ongoing improvements to the merchant experience and create a destination marketplace for customers that is highly complementary to the inspiration marketplace that we're already known for.

In the past six months, we've learned from our inventory test that we can create a path to meaningful change in our marketplace in short amount of time. So, we are now taking this bold approach with our customer experience as well. I'm excited to share that we've kicked off a product [ph] sprint (00:12:42) that will allow us to roll out a new customer experience in North America in Q2. This new experience will dramatically improve the customer journey from discovery to search and will focus on driving engagement, conversion and purchase frequency.

Let me give you a few examples of the changes we plan to roll out. First, we'll personalize the home page to make it easier and more engaging as customers search, browse and discover experiences. Second, we're improving our search and relevance capabilities in order to do a better job of matching our customers' intent to search results. And third, we'll be launching a feature set that encourages and makes it easier for customers to repeat purchase, which will include driving awareness to customers that we now have Deals and Offers that can be purchased again and again.

Our goal is to roll out this new experience to every Groupon user in North America across our app, mobile web and desktop, and then expand to international soon after. We have a sense of urgency and believe that time is of the essence as we look forward to a day when our customers have the confidence they need to get back to enjoying all of the Local experiences that the Groupon marketplace offers. When this does happen, we want to be ready to deliver a fundamentally improved experience that can help amplify the tailwind of the COVID recovery.

So, to bring this all together, let me give you a sense as to what you should expect from Groupon as we continue to execute on our growth strategy between now and the end of the year. On inventory, we'll see continued expansion of our overall available supply, with a focus on retaining and, in some cases, bringing back our top merchants as well as attracting new merchants and removing deal restrictions.

Two key goals include: increase the percent of deal inventory available for repeat purchase to greater than 80%; and increase the average listings per merchant for Beauty & Wellness, which is where we're currently scaling Offers.

On modernizing the marketplace, for merchants, we'll continue to prioritize positioning Groupon as a trusted partner, and for customers, we're making it easier for them to find, buy and redeem a Groupon.

In 2021, our goals include continuing to build out tools that will help us be a better partner to our merchants, including our self-service tool, a portfolio of advertising products, including sponsor listings, and new booking tool features that help merchants drive sales on our platform.

In short, we want to be the valued resource that merchants turn to when they're looking to start, build and grow their businesses. And for customers, we believe we'll exit 2021 with a new experience that positions us to drive more engagement, increased repeat purchasers and fundamentally improves the customer journey. In addition to the inventory and marketplace modernization work that I've just outlined, we know that marketing plays an important role in our success.

That said, before I touch on the key elements of how we're approaching marketing in 2021, let me explain how we believe supply, product and marketing fit together as we work towards unlocking the power of our marketplace.

Our brand perception will be led by how our customers and merchants experience our marketplace. This means how much breadth and depth of inventory we make available to customers and how we enable them to interact with our platform, from search, to checkout, to redemption, which are all components of our brand.

As we think about marketing and in particular, brand marketing, we know that any strategy must amplify our marketplace experience. This highlights the importance of first getting the supply and product right on our platform. Then we intend to leverage the power of our improved supply and product to drive our brand and marketing efforts.

As we improve our products and supply, we'll be in a position to deploy more marketing spend in the mid and upper funnel. We believe we can drive awareness and engagement and go top of mind awareness. Whether this means winning back previous customers and merchants or gaining new ones, we want to be the brand that helps merchants recover and get customers back to experiencing their Local merchants.

Before I turn the call over to Melissa, I just want to underscore how pleased we are with our progress, which has been driven by our team's relentless focus on execution.

This quarter, we not only hit our inventory test scores and continue to improve our marketplace value proposition, but we also stood up a product [ph] sprint (00:17:11) that we believe will allow us to completely reimagine our customer experience.

During the fourth quarter, we recovered to nearly 60% of our 2019 gross profit. And despite the pullback we saw in December, we are confident that our progress has put us on the path to profitable growth.

With that, I'll turn the call over to Melissa for a recap of our financial results. Melissa?

Melissa Thomas
Chief Financial Officer, Groupon, Inc.

Thanks, Aaron, and thanks again to everyone for joining us today. As I reflect on 2020, while it's certainly been a challenging year, I'm so impressed with the resilience our business has shown and how we continued to deliver sequentially improving results in 2020. I'm also so energized by how the Groupon team has stepped up and accomplished so much to position Groupon for recovery and growth.

Today, I'll use my time to provide you with a few updates on our financial and operating progress, including a review of our fourth quarter results, business drivers and trends, the status of our restructuring plan, and lastly, insights on our expectations for the first quarter and full year 2021.

Starting with our consolidated fourth quarter results, we delivered $633 million of gross billings, $343 million of revenue, $179 million of gross profit and $40 million of adjusted EBITDA. In the midst of rising COVID cases around the world, we delivered another quarter of sequential improvement in gross profit and maintaining discipline around our cost, proving the resilience of our business.

We ended the year with a solid balance sheet and liquidity. In the fourth quarter, we generated nearly $70 million of free cash flow and ended the quarter with approximately $850 million in cash, including $200 million of outstanding revolver borrowings.

Next, I'll provide more insights into our fourth quarter results, business drivers and trends. We ended the quarter with 30 million active customers. I want to once again remind everyone that since active customers is a trailing 12-month metric, we expect this number to decline as it reflects the ongoing impact of COVID-19.

During the fourth quarter, we sold a total of 25 million units, the most since the onset of the pandemic. Global Local units were 12 million. And while international Local units were heavily impacted by increase in COVID restrictions, North America Local units were 7% higher in the fourth quarter, compared with the third quarter.

Consolidated Goods units were $13 million, which was a 45% increase compared with the third quarter. We were pleased to deliver higher North America Local gross profit compared with the third quarter as well as improved results in our North America and International Goods categories.

Sequential gross profit improvement in North America Local was in part driven by improved unit volume and booking, including within our Beauty & Wellness vertical. In fact, during October, North America Beauty & Wellness bookings were more than 75% recovered, measured as a percentage of 2019.

In addition, certain categories within Beauty & Wellness, such as high-end cosmetic services, were nearly 90% recovered. On a year-over-year basis, North America Local unit performance improved in the fourth quarter compared with the third quarter.

That said, in December, we saw a pullback in year-over-year unit performance due to worsening pandemic conditions and fewer holiday gathering. In international Local, the increased COVID restrictions had a more significant impact on fourth quarter performance.

As I noted on our third quarter earnings call, in late October and into November, we started to see Local down in some countries as much as 80% year-over-year as restrictions were reinstated across Europe.

The restrictions continued and, in some cases, tightened throughout the remainder of the fourth quarter, and we leaned more into Goods and relevant Local supply to keep consumers engaged.

Globally, our Goods category delivered 42% higher gross profit in the fourth quarter, compared with the third quarter. And we completed the North America Goods transition to a third-party marketplace model.

Hitting this milestone allows us to run the Goods category on a much lower fixed cost base and significantly simplify our operations. Starting with the first quarter of this year, you should expect the vast majority of North America Goods revenue to be recognized on a net basis.

Regarding the International transition, we will begin the transition to third-party in the second quarter and expect to be complete by the end of the third quarter.

Moving down the P&L, SG&A was $128 million in the fourth quarter, down over 30% year-over-year. SG&A came in better than our expectations, largely due to lower non-payroll spending as we continue to tightly control expenses during the pandemic.

During the fourth quarter, we remained disciplined with our marketing spend, making targeted investments to engage Local purchasers. Marketing expense was $38 million and as a percentage of gross profit, was similar to what we reported in the third quarter.

Now for an update on our restructuring plan, we realized $140 million of cost savings in 2020 related to our restructuring actions and furloughs, which was in line with our stated goal. We also successfully reduced our non-payroll operating expenses in 2020.

Net-net, we should continue to expect that our fixed cost base, excluding stock-based compensation and depreciation and amortization, will be $200 million lower than our 2019 cost base. Ultimately, we remain on track to achieve $225 million of run rate savings in 2022 versus our 2019 cost base.

Looking ahead to 2021, we continue to deal with uncertainty caused by shutdowns related to COVID, which we saw rise in Q4 and remained persistent so far in Q1. But we want to provide as much transparency as possible into our expectations for the year.

At a high level, it's important to recognize that our first quarter gross profit and adjusted EBITDA are typically lower than our fourth quarter due to seasonality. We've included more details on Q1 factors to consider in our slide deck, which we encourage you to review.

Now, turning to our expectations for the full year 2021, for the full year 2021, we expect to deliver $930 million to $980 million of revenue and $100 million to $110 million of adjusted EBITDA. We expect the recovery to be weighted to the second half of the year, with adjusted EBITDA weighted significantly to the second half of the year and building throughout the year.

It's important to note that this represents our current expectation for Local recovery and our Goods business being largely reported on a net basis, and does not assume a material contribution from the success of our growth strategy. We are excited about our potential this year, and we will be actively looking for ways to leverage opportunities to accelerate our growth into 2021.

Before opening it up for questions, I'll turn it over to Aaron for some closing thoughts.

Aaron Cooper

Interim Chief Executive Officer, Groupon, Inc.

Thanks, Melissa. And as I mentioned in my opening comments, in so many ways, 2020 was a challenging year for everyone. I can't end my prepared remarks without a heartfelt thank you to our team here at Groupon. We called in our entire team to focus, push through walls and make the progress we believe we needed to position Groupon for success. And the team, they answered this call, and I couldn't be prouder.

In 2021, we believe we will make substantial progress towards our mission to be the destination for experiences, where customers discover fun things to do and Local businesses thrive.

Thank you for your time today. And with that, I'll open up the call to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Trevor Young from Barclays. Your line is open.

Trevor Young
Analyst, Barclays Capital, Inc.

Q

Hi. Thanks for the question. The color around the 1Q QTD Local billings was pretty helpful. It seems like the trends seem to be generally consistent with the 4Q results. Was there any change in cadence in like January, from February in North America or abroad? Was January improved in the US before we had the heavy winter weather in some states? And then can you remind us how 1Q 2020 progressed? Did we see a sharp fall off in March as we started to get into the COVID situation? Thanks.

Melissa Thomas
Chief Financial Officer, Groupon, Inc.

A

Thanks, Trevor. Sure, I'll provide some additional color on our Q1 performance quarter to-date. So, thus far in 2021, we are seeing year-over-year billings performance for North America Local kind of few points better than Q4 levels. And North America Local billings are tracking at around 51% of 2019.

So, as you would expect, we are performing better in markets with fewer restrictions and where the weather is warmer. And we are seeing that our Beauty & Wellness and Things to Do volumes are increasing sequentially from January to February, which is encouraging.

And then with respect to International, Local performance there continues to be impacted by government-mandated restrictions that are in place across Europe, with some of the tightest restrictions in place in our largest international markets like the UK and Germany.

From a quarter-to-date perspective, international Local billings are down about 63% year-over-year and tracking at around 37% of 2019 levels. So, while we continue to see near-term volatility, we remain confident in our ability to capitalize on the recovery, which we expect to be weighted to the second half of the year.

In terms of Q1 2020 and when we started to – the question around, when we started to see the impacts of COVID hit, in March of 2020, is really where we started to see the impact. So, what you'll want to do from a modeling perspective, the way that you want to start thinking about it kind of marching forward is looking as a percentage of 2019, the year-over-year comps won't be as meaningful.

Trevor Young
Analyst, Barclays Capital, Inc.

Q

That's really helpful. And just, I guess, bigger picture, are you starting to see merchants set up campaigns for like spring and summer to be prepared for what seems to be this expectation of like pent-up demand coming to market, particularly here in the US? It seems like there's a potential tailwind for both Local and Travel. Is that what you're hearing from merchants? And how are you guys preparing for that?

Aaron Cooper
Interim Chief Executive Officer, Groupon, Inc.

A

Yeah, thanks for the question. So, as we look to recovery, we're looking on both the customer and merchant side. And we're really confident based on what we're seeing. So, let me give you a couple of examples that I think will help you understand. As Melissa mentioned, some of our categories, such as Home & Auto and Beauty & Wellness, have been rather reliable throughout the pandemic once merchants settled in.

Now, [ph] ones (00:29:41) you mentioned such as live events and leisure, where we know those industries will be on the later side of recovery, the way that we're working with those merchants is really special and I think important. When we're talking to some of these merchants, we're hearing some of the complexities they're facing in opening back up.

So, let me give you a couple of examples. [indiscernible] (00:30:02) merchant I was speaking to runs indoor things to do all over the nation. And in some states, they're still completely almost shut down. And in others, they've been open. What they're finding is that Groupon is one of the most resilient channels they have, performing way above-average for their business. And the reason is, is that we have our core inspiration model that we've been known for, where we can inspire demand. We can tell customers that these merchants are open. We can tell customers that they've adopted and added your services, and we can let them know before customers are already searching for those things, before the demand has already passed. So, we're really being able to be helpful to merchants in that type of case.

Another one to call out that struck me as being very interesting, was the way that destinations are – would be using Groupon. So, if you look at national destinations, another one in the leisure space, they're looking and saying, we might not get a lot of demand from overseas, we might not get [indiscernible] (00:31:01) demand traveling from across the country. We need to invent things to happen locally. And so, that's another way that merchants are getting creative and using Groupon to take advantage of the way that they're going to be marketing and running their business in the recovery.

So, across the board, we feel really good about recovery. It's certainly just a matter of when and working with our merchants category by category to bring them back online. And I completely agree with your assessment of pent-up demand across all our categories. Thanks for the question.

Trevor Young
Analyst, Barclays Capital, Inc.

Q

Fair. That's really helpful. Thank you so much.

Operator: [Operator Instructions] Your next question comes from Eric Sheridan from UBS. Your line is open.

Eric J. Sheridan
Analyst, UBS Securities LLC

Q

Thank you so much for taking the questions. Maybe two if I can [ph] or two further (00:31:56). Coming back to the inventory test and what you learned in the four markets, what surprised you to the upside in terms of the test that produce sort of the rate of change versus what your initial goals have been going in, in terms of measuring your sort of confidence interval in the test itself and taking it now wider as you go through the year?

And then maybe the second part would be, when you think about the output or the yield measured against the investments you need to make, can you give us a little bit better sense of sort of the investments that have to go in [ph] through (00:32:31) widening the inventory expansion initiative as we move through 2021? And how investors should think about the yields or the return on the revenue side that comes on the other side of it? Thanks so much.

Aaron Cooper
Interim Chief Executive Officer, Groupon, Inc.

A

Thanks, Eric. I'm happy to hit both parts of your question here. And I appreciate you asking about our strategy. This is where our focus is in. While you look at our business overall, we see these two important horizons. One, recovery, at our low cost base, just a recovery to 80% throws out more EBITDA [ph] than (00:33:00) 2019 and at 90% throws out record EBITDA. And what you're asking about is the second part of that inflection, which is our business growth plan on top of it.

So, as we roll out our test, we were really excited by the significance of the reaction from customers and merchants. And let me ground you in the broader context here. We are opening up our marketplace. We're going from an inspiration marketplace to add destination components. Inventory is one component, our CX and merchant experience is the other component.

What you saw in those test results is you saw an outsized engagement from our merchants, with a 65%, 70% improvement in inventory. You then, with very little change to our customer experience, saw engagement from customers both on the billings and unit side. So, I would say we were actually surprised to the upside because a lot of times when you're rolling out new products, you're looking for 0.25 point improvements, 1 percentage point improvement. And in the middle of COVID, we saw a very significant reaction.

So, if you take that reaction that we saw, we believe that we are walking down a proven path of marketplace dynamics, where we're opening up supply and opening up the customer and merchant experience, really open up both parts of the funnel. Now – and we think that recovery itself will actually be a huge marketing event for us to introduce everything that we're scaling to our customers and merchants.

So, let's talk about the things that we're scaling because you asked about the investment there. We're going to go ahead and we're going to scale removal of restrictions. We're going to go ahead and we're going to scale rolling out Offers, and we're going to go ahead and we're going to scale changing our customer experience to really open up our marketplace adding destination features.

This is in addition to the other leverage work we're doing, where we're scaling our self-service on the merchant side, and we're scaling sponsored listings as well on the merchant side, so merchants can do more. So, all of these proven marketplace tactics and features are what we're scaling. And to punctuate the point, we feel really good about our cost structure, we feel really good about the investment. This is a matter of focus and prioritization, and increased throughput, and that's all muscle this team has built over the last year. So, I'm really proud of their energy and focus, and I really appreciate your questions on strategy.

Eric J. Sheridan
Analyst, UBS Securities LLC

Q

Great. Thanks, guys.

Operator: Your next question comes from Michael Ng from Goldman Sachs. Your line is open.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. Thank you very much for the time and the question. I was just wondering if you could talk a little bit more about the removal of deal restrictions.

Specifically, you talked a little bit about how the value proposition for both the merchant and the consumer might change a little bit as a result of that, how are merchants thinking about the removal of deal restrictions? Does it change their view of Groupon as a channel to help with user acquisition, and eventually buy more Market Rate goods to looking at Groupon as more of a kind of revenue and profit driver? And [ph] a bit of (00:36:19) color there would be very helpful. Thank you.

Aaron Cooper
Interim Chief Executive Officer, Groupon, Inc.
A

Thank you. So, in our now suite of inventory products, we have Deals, Offers and Market Rate. And you were specifically asking about removal of Deal restrictions, which is one lever that merchants have.

We found that our merchants are very willing to remove the restrictions, and that they're excited to be able to win customers back multiple times. And the customers going back multiple times gives merchants confidence that they'll turn into loyal customers.

Of course, merchants have the option to also add an offer, where a Deal converts to an Offer over time, so that the actual overall all-in costs can come down for that repeat purchaser.

So, we've given merchants all of the tools for them to be able to take advantage of an always-on interaction with Groupon, where they can take advantage of our unique inspiration components, which is with Deals. And they can also take advantage of engaging with high-intent customers, which is Offers and Market Rate.

Is there another question?

Operator: Yes. Your next question comes from Douglas Anmuth from JPMorgan. Your line is open.

Doug Anmuth
Analyst, JPMorgan Securities LLC
Q

Great. Thanks. You talked about rolling out new customer experience in 2Q to all North America users, just want to hear a little bit more about what you're seeing in terms of the early testing there?

And then secondly, just as you think about trying to make the business more kind of always-on basically and getting towards more repeat purchases, could you just give us a sense of how merchants are – maybe what percentage of merchants you're seeing that kind of activity from? And then, I guess, also within the test markets, some of those results as well. Thanks.

Aaron Cooper
Interim Chief Executive Officer, Groupon, Inc.
A

Thanks. So, as we put this in the context, again, we're opening up the marketplace on both sides. So, your first question, you asked about the customer side. And so, we'll point out the [ph] fact – we (00:38:27) got the results that we got in our test without any changes to our CX.

In fact, when you look at our homepage, it hasn't been substantially updated in five years. So, the CX changes that we're making make this business more modern. In research that we see with our customers, it's intuitive, and it helps them search and browse and engage more and more deeply, which that homepage, that's our brand. That's what we want to be known for. So, as we steer reputation from being episodic and inspiration only to more of a destination, the effectiveness of the CX rollout is really important, which is why we're spending so much time, researching and engaging with customers as we develop this.

So, the components to look for when this will be live in Q2 is a redesigned homepage, more category buttons and easier to search, better relevance in our search so the results are better, and we're very excited to have core repeat purchase features, which draft off of the evolved inventory and the improved inventory that our merchants are now putting on. This isn't something that was a focus of Groupon before because we were so focused on inspiration. But as we set ourselves up to be more an always-on sales channel for our merchants and a site that our customers can use more frequently, repeat purchase features are critical.

Your other question talked about the merchant side of the marketplace. What are we seeing there? And what we saw pretty quickly when we rolled out Offers is we saw really strong engagement in our Beauty & Wellness category. That's why we're rolling that one out at scale. This is where merchants can add on things that they could never afford to add on before, and they could invent customers to repeat with them over and over again. So, we saw a significant uptick there.

And then we've seen, even in the midst of COVID, customers engaging in inventory that merchants could not [ph] before (00:40:23), which is exciting on both sides of the marketplace.

As far as Deal restrictions, this is something that we'll be rolling out across the board. Of course, merchants always have full control of what they want to do on Groupon. But many of these merchants we haven't seen, especially now, any significant headwinds that we see to our ability to hit the targets that we've set out, which is 80% of our inventory will have restrictions removed, and we'll be rolling out Offers at scale to increase our inventory in Beauty & Wellness. So, we've seen really good receptivity on both sides of our marketplace, which when you take a step back, isn't that surprising because all we're doing here is rolling out proven marketplace dynamics and features on top of our already scaled marketplace.

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

Great. Thank you.

Aaron Cooper
Interim Chief Executive Officer, Groupon, Inc.

A

Thanks for question.

Operator: There are no further questions today. So this concludes today's conference call. Thank you for participating. You may now disconnect.