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Groupon, Inc. (GRPN)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to Groupon's Second Quarter 2021 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.

Jennifer Beugelmans

Chief Communications Officer, Groupon, Inc.

Good morning, and welcome to Groupon's second quarter 2021 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 06, 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.

Thank, Jennifer, and good morning, everyone. It has been an exciting first half of 2021 at Groupon and I'm pleased to report another solid quarter of financial results. In the second quarter, we generated nearly \$430 million in global local billings, the highest quarterly level since the pandemic began, and \$41 million of adjusted EBITDA. The macro recovery, as expected, is proving to be an organic tailwind as economies around the world reopen and consumers get back to enjoying local experiences.

While the recovery in North America has continued to ebb and flow, second quarter North America local billings grew 20% versus the first quarter and reached 67% of 2019 levels, the highest quarterly recovery rate since the onset of the pandemic. We ended the second quarter with 15.2 million active North American customers, which was stable compared to the first quarter and is an important milestone that you'll hear more about from Melissa later in the call.

For our International business, in the second quarter, countries began relaxing COVID restrictions as vaccinations accelerated. And in June, International local billings reached the highest recovery rate since the onset of Wave 2 in October 2020. International local billings also stepped up nicely quarter-over-quarter, growing nearly 30% in the second quarter versus the first quarter. But similar to what we've seen in North America, we expect performance to ebb and flow across international markets. And as we've said before, we expect a longer recovery cycle in International, where restrictions have been more prolonged and stricter and the vaccination rollout has been slower.

As we leverage these macro recovery trends to our advantage, we are also continuing to execute on our growth strategy. We told you that our goal was to grow high-quality local inventory. So far, our efforts have centered around growing offers inventory within Beauty & Wellness and removing restrictions on deals across the marketplace.

We've also begun to modernize our marketplace with a new customer experience and new feature sets for our merchants, including expanded self-service. Overall, despite the overhang of the pandemic, we are seeing green shoots that give us confidence in our ability to reshape Groupon into a destination for local experiences, which we believe will provide a foundation for growth in the years to come.

Our growth thesis is rooted in our ability to deliver the value propositions our customers and merchants want. Everything we're doing is focused on improving these value propositions. We want to improve the ease with which merchants can interact with the Groupon marketplace, extend their reach to new and existing customers, and give them the monetization levels they need to achieve healthy unit economics.

Likewise, for customers, we intend to expand our wallet share by giving them the value, selection and convenience they want. Expanding our inventory is a key element of our growth strategy and our teams have been making meaningful progress on two fronts, bringing back pre-COVID supply to our marketplace and growing offers in repeatable inventory.

First, let me touch on the team's progress on bringing merchants, particularly top merchants, from 2019 back to the marketplace. Many of you have been asking us about the health of our merchant base. So I wanted to provide you with some additional color to highlight our progress to date. My comments will focus on North America, which is leading the way.

When we think about recovery in our merchant base, we believe the fastest way for us to reenergize our local category is to reactivate our top supply. So we have placed a lot of focus on this goal and our efforts are beginning to pay off. At this point, we have brought many of our top merchants back to the marketplace. While we are encouraged by our progress in bringing these merchants back and retaining them, we know we have to move this number even higher. As I said, we're confident we can continue to do that and here's why.

First, our team is in active dialogue with our top merchants who are not yet back on the platform and many of them are telling us they want to come back to Groupon, but the timing is not yet right. This is particularly true among our Things To Do merchants, which, on a billings basis, was our largest vertical in 2019. We are hearing from many of these merchants that they are capacity constrained, largely driven by labor shortages, lingering COVID restrictions and high consumer demand. This has led to a supply-demand mismatch. However, other verticals, like Beauty & Wellness and home and auto are more recovered, and we have more of these merchants back in the Groupon marketplace. We believe this demonstrates that they view Groupon as a valued partner.

And second, as we continue to engage with our top merchants, we are seeing top supply metrics improve weekly across all verticals. We believe merchant capacity constraints are transient and that we will successfully bring back top supply, although the timeline to achieve this will likely extend into next year. The great news on this front is that as our top merchants return, they will be returning to a fundamentally improved Groupon experience when it does a better job of driving customers through their doors.

You're hearing that we still have some work to do on this front, but our progress bringing top supply back on the platform is certainly trending in the right direction. To help you triangulate on why this is important, top supply recovery has been correlated with our bookings recovery in North America local. We believe that as high-quality merchants return to our marketplace, this is stimulating consumer demand.

Beyond just our top merchants, we have broad supply with market-leading selection of local experiences that support the vibrancy of our marketplace. We are leveraging our sales team, self-service and our inventory partnerships to continue to grow our inventory base and further strengthen our competitive position. While we are focused first and foremost on recovering our top supply, we are also doing all we can to help small businesses find their footing as they reopen their doors. We love seeing these local businesses come back and partner with us, which helps to strengthen our position as the destination for local.

So we've talked a bit about recovery, let me now switch gears and update you on our growth efforts. The team is making steady progress on our inventory initiatives, which we believe will allow us to transform our marketplace by growing high-quality local supply. As we've discussed in previous calls, in North America, in 2021, we're focused on removing repeat restrictions on deals across all verticals and increasing the average number of listings for Beauty & Wellness merchants. I'm excited to announce that as of today's call, more than 70% of our deal inventory is now repeatable. This is an important milestone as we strive towards our long-term goal of increasing purchase frequency and overall marketplace velocity.

Unrestricted deals will give consumers the opportunity to engage more frequently with more inventory through repeat purchases. While it is very early days, which means we haven't fully leaned into marketing these deals, we

are encouraged that merchants who have lifted repeat restrictions saw an initial 2% lift in units per customer. We have also hit our goal to increase the average number of listings per Beauty & Wellness merchant.

In the first half of 2021, we grew inventory within our North American Beauty & Wellness vertical, with the majority of this growth driven by offers. In fact, listings per Beauty & Wellness merchant have grown over 20% since we launched offers, which means that on average, these merchants now have about four options for purchase in the Groupon marketplace.

Digging in one level deeper, Beauty & Wellness merchants, who leverage offers, have nearly 4 times more listings than merchants who only list deals. This further demonstrates that our merchant value proposition is resonating and our new offers product is unlocking Groupon's opportunity with Beauty & Wellness merchants. We will continue to focus on driving listings per merchant higher when and where it makes sense.

Let me provide some additional context for how this progress is showing up in merchant and consumer behavior as well as our business. As we look at the four cities where we tested offers, Detroit, Denver, Dallas and Seattle, during the second half of 2020, we can see the impact of offers. Offers have now been part of our sales pitch in these markets for about a year. We're still early, but we'll be seeing a positive response from both sides of our marketplace.

So here's where we are today. On supply side, merchants are embracing offers. The initiatives we have in place are driving Beauty & Wellness supply growth in our marketplace. And we are testing these initiatives and others to power supply growth in other verticals.

On the demand side, customers are also responding, particularly high-intent customers. That said, again, we're still a bit early. And while we're seeing encouraging signals, we have work to do to unlock our full potential. It's also really important to keep in mind that our markets have yet to fully benefit from our new customer experience from marketing investment. The pandemic has created a lot of noise, and there's a lot of seasonality that makes measuring incrementality difficult.

Remember, however, that we've tackled the two root causes that have prevented customers from doing more with us. With unrestricted supply, which now allows customers to buy more than 70% of our inventory again and again, we systematically gone after full menu with merchants so they can do more with us and help give customers the broader selection of experiences they want. These are fundamental challenges that we had to overcome.

Bottom line, we have high conviction that unrestricted inventory and providing new inventory products will help us drive demand over time.

As we continue to scale elements of our growth strategy, we're positioned to leverage these elements throughout our business to create even more opportunities to drive growth, such as launching new products focused on driving frequency, rolling out new branding and exploring new ways to attract loyal customers.

Now that we are beginning to make substantial progress, both recovering our pre-COVID supply and unlocking merchants' potential to do more with Groupon, we're ready to leverage proven marketplace tactics like inventory multipacks and other merchandising initiatives that were not possible before.

Let me take you through how we are leveraging these marketplace tactics within our strategic priority to modernize the marketplace experience from merchants and customers alike. Let's start with the merchant experience. We're leveraging technology across our merchant platform to deliver the ease, reach and

monetization that local businesses want from Groupon. We have launched new features to significantly improve our self-service capabilities and it is now much easier for our merchants to create, update and optimize listings. In short, Groupon is becoming a better partner to our local merchants around the globe.

A best-in-class self-service option solves two key challenges for us: number one, it addresses a key merchant pain point; and number two, it creates leverage for our sales team as we expand our local inventory. New and existing merchants alike are transitioning seamlessly to our self-service platform. Let me provide a little color on how self-service is beginning to show up in our merchant data.

In the past 12 months, we've made strong progress getting merchants to adopt self-service. In the second quarter alone, nearly 50% of the deals launched in North America were launched via self-service. We expect this number to continue to grow over time. Moving forward, we believe self-service will be an important and standard way for merchants to interact with Groupon.

Now that we have made significant progress optimizing our merchant platform to handle standard business operations, we are moving to enhance our feature set with capabilities that are unique to Groupon and our opportunities. For example, in the fourth quarter of 2020, we launched a new recommendations feature, which is beginning to deliver results. Among our top merchants, those that have leveraged our recommendations realized nearly 20% more bookings versus merchants who did not.

In late June, we launched a significant new recommendations feature set, the Merchant Advisor, a tool that further strengthens our ability to give our merchants more strategic campaign recommendations to drive growth. This new feature dynamically analyzes merchant campaign performance and provides bespoke recommendations that help merchants manage their entire portfolio of listings, such as recommending new deals to launch based on a merchant's menu of services. We plan to scale this to all merchants in the third quarter and believe it will provide merchants with even more actionable insights to drive growth, a win-win for both merchants and Groupon.

In addition to self-service, we're also leveraging partnerships integrations, when we see an opportunity to accelerate improvements to the Groupon merchant experience. A great example of this is our new partnership with Booksy, a popular Beauty & Wellness appointment app. Now existing Booksy merchants can easily connect their inventory to the Groupon marketplace and Groupon will be able to offer our merchants free access to Booksy's suite of scheduling and business management tools.

Local inventory is an important characteristic of high-quality supply, particularly in the Beauty & Wellness vertical. And these types of partnerships can help accelerate growth of our bookable inventory while also enhancing the customer experience. Offering a portfolio of free and paid merchant services as part of our overarching long-term strategy to provide merchants with a full service platform that they can leverage to build and grow their businesses.

This is a great segue into our progress modernizing the customer experience. By now, many of you in North America have interacted with our new customer experience. As a reminder, our overarching goal of the new experience is to drive sell-through of our expanding inventory base, grow purchase frequency over time and begin to bend the customer perception of Groupon from an inspiration-only marketplace to a destination for local experiences.

We want to deliver a modern, engaging, personalized discovery experience that will give consumers highly relevant search results and recommendations to consider and interact with that will help drive conversion over the

long run, and drive more customer engagement with our content, which should also lead to an increase in purchase frequency.

With millions of consumers coming to Groupon every day, interacting with our home page, we have a unique opportunity to educate consumers on how they can leverage our platform to explore the world around them and participate in the 80-plus Grouponable moments happening every year. We've made a lot of progress on this mission-critical initiative. And as of last week, our new customer experience has been launched 100% of North American users across the app, mobile web and desktop. A huge shout out to our product and engineering teams for all their hard work to get this new CX launched.

We haven't profoundly changed our customer experience in over five years and this launch is an important point in our journey to becoming a destination for local. In addition, it was also completed in a much shorter timeframe than any previous changes going from concept to delivery in just six months.

Let me share a few early learnings, 90 days post launch. We are prepared to see a typical drop in conversion rate that usually happens when you launch a new CX. And while conversion rates are still below prelaunch levels, we've been encouraged to see the impact to conversion was less than anticipated and we've seen conversion improve steadily since the launch.

Engagement is also a bright spot for us. We're seeing customers spend more time engaging with our marketplace. Our homepage bounce rate has gone down and category page views have gone up as customers spend more time browsing, exploring local experiences.

Finally, the early read on our Likelihood to Purchase Survey indicates that our new CX is helping us shift our brand perception. While based on a small sample size, through this data, we have seen that our new experience is outperforming our old experiences as customers tell us that Groupon is showing them the businesses and listings they're interested in and helping them discover new experiences.

In terms of what is next for our new CX, this recent launch is only the beginning. Now that we have unlocked new inventory growth avenues and have launched a foundational new user experience that is local-first and showcases Groupon as a destination marketplace. We're focused on improving the way we surface full menu inventory options and building and launching more features to drive more engagement and repeat purchases.

One example of our inventory, merchant and customer initiatives are coming together to pave the path forward for the new Groupon as our new recent pilot of inventory multipacks, which allows customers to buy multiple experiences in a single purchase from a merchant at a discounted price. We're exploring how we can leverage multipacks and eventually bundles to drive unit growth. While this product is still in early development, the initial read from customers has been positive, leading us to believe that we can capture additional wallet share.

Less than a year ago, a product like this would have not been possible. We have been able to create an entirely new product that speaks directly to our merchant and customer value propositions. And as I mentioned, we believe this is only the beginning.

With our progress on the inventory front, and the rollout of our new CX in North America, and its local communities continue to reopen around the world, we've begun to lean into marketing to maximize the impact of our progress. As we look to reeducate customers and expand the perception of our brand from an episodic inspirational marketplace to a destination marketplace, we are being strategic with our marketing investment and we are focusing on deploying resources in a balanced way to make all parts of the funnel work harder. Being

strategic also means that we'll continue to assess any impact from the Delta variant and pandemic-related constraints.

In the second quarter, we continued moving our spend up the marketing funnel with the ultimate aim of reshaping our brand perception as a destination for local. We saw some great results with our mid-funnel efforts and tested new channels to reach a new younger audience.

We've also begun to showcase and leverage our brand repositioning through creative marketing. This week, we launched our new brand campaign, Grab Life by the Groupon, asking people to choose whether to accept life as it is or grab life like their life depends on it. This campaign brings our inventory and marketplace modernization work to life and we're excited about this campaign's potential among customers who are ready to get out and explore their local communities.

Before I turn the call over to Melissa, I want to take a step back and remind everyone that everything we're doing is to transform the Groupon marketplace. If you look back over the past 10 years, Groupon was really only able to offer one local inventory product, deals. Merchants had only one way to interact with Groupon and there was no opportunity for them to do more with us. And with only one product and limited purchasable inventory, we trained customers to think about us only episodically. We fundamentally altered the customer-merchant value propositions over the course of just the last year. And we're bringing our merchants to ease, reach and monetization they need to help their businesses succeed with Groupon and giving our customers the value selection convenience that they want.

As we've shared today, we've already made significant progress rolling out our new value propositions. It will take time to [ph] influence (00:21:14) the hearts and minds of our customers, given our long-standing reputation as an inspiration-only marketplace, but we're well on our way, and we're excited about what lies ahead.

With that, I'll turn the call over to Melissa to provide insights on our financial performance.

Melissa Thomas

Chief Financial Officer, Groupon, Inc.

Thanks, Aaron, and thanks to everyone who is joining us today. I'm proud of the progress we've made during the first half of 2021 and look forward to bringing this energy into the rest of the year. Today, I'll use my time to provide further insights into our second quarter operating and financial results, our restructuring plan, and lastly, our updated 2021 financial guidance.

In addition to my prepared remarks, I encourage you to review our slides, which contain additional information on our outlook for the remainder of the year.

Starting with our consolidated second quarter results. We delivered \$608 million of gross billings, \$266 million of revenue, \$194 million of gross profit and \$41 million of adjusted EBITDA. We ended the quarter with \$565 million in cash.

We are encouraged by the recovery trends we have seen. As expected, trends haven't been linear and recovery continues to ebb and flow in certain verticals and countries. As Aaron mentioned, in North America local, Q2 was the highest quarterly billings recovery rate since the onset of the pandemic. In International, within the second quarter, local billings reached the highest recovery rate since the second wave of COVID impacts began in October 2020.

While we are pleased with our results to date, we believe that billings recovery has been limited, given the challenges that merchants are now facing due to the ongoing COVID impact, including the Delta variant, capacity restrictions and labor shortages. That said, we believe these challenges are transient and we continue to be focused on what we can control.

North America active customers were stable in the second quarter and ended the quarter at \$15.2 million, the same balance at the end of the first quarter. But for us, it's not just about stabilizing the base. It's also about increasing customer purchase frequency, which we believe starts with improving the quality of the customer base.

Let me give you a little more color on the progress we're making on this front in North America. We are improving the value of our customer base, adding a higher mix of local customers. And despite having fewer customers than we did prior to COVID, we are improving the gross profit we are generating per customer.

Local customers have a higher value than our Goods customers. Local-only customers increased approximately 10% versus the first quarter. And about 85% of new customers in the second quarter were Local-only customers, up 500 basis points versus both the first quarter of 2021 and pre-COVID 2019 levels. International active customers have not yet stabilized. This is largely dependent on the timing and extent of Local recovery, which has been more prolonged in our international markets.

Next, I'll provide more insights into our second quarter results, starting with North America Local. As I mentioned, we drove a sequential increase in local billings in the second quarter compared with the first quarter. Looking at the trajectory intra quarter, local bookings as a percent of 2019 levels peaked in the month of April and then pulled back beginning of May. The performance in May and June was primarily driven by our Things To Do category, where supply is less recovered versus 2019 levels, and we didn't see the typical level of seasonal step-up in bookings for this vertical.

In international countries, the macro environment started to improve during the second quarter, as the vaccination rollout picked up and restrictions were eased across Europe. Given this progress, International local bookings started to inflect in May with a further step-up in June. International local billings for the second quarter were 41% of 2019 on an FX-neutral basis.

In addition, it's important to note that our second quarter global local gross profit benefited from \$10 million of variable consideration from unredeemed vouchers that were sold in a prior period. The majority of this benefit was related to our International segment. We are observing redemption rates that are lower than our historical estimates for vouchers sold at the onset of the COVID-19 pandemic that are now reaching their expiration. That said, we're encouraged that redemption rates for bookings in recent periods are more in line with 2019 levels.

While customer redemption rates have been more volatile since the onset of the pandemic, we know that redemption is a key sign of a successful customer experience. Our efforts are focused on increasing redemption rates, which we believe will ultimately lead to increased customer purchase frequency, a win-win-win for customers, merchants and Groupon.

Moving to our Goods category, global Goods performance continues to be challenged. This is driven by the intense competitive environment for Goods, which includes heightened competition in paid marketing channels, ad targeting headwinds from the recent iOS updates and consumers returning to physical stores. We are redeploying marketing spend to alternative marketing channels, but we have seen ongoing impacts to Goods in July.

Lastly, on Goods, I'm pleased to report that the international transition to third-party marketplace model, which we began in the second quarter, is over 60% complete and expected to be completed at the end of the year. As we saw in North America, this greatly simplifies the operations of our Goods category and allows us to run Goods, rebuilding your cost structure. This simplification will help us to remain focused on winning in Local, a category where we're most differentiated.

Turning to operating expenses, marketing expense was \$44 million in the second quarter and reflects an increase in spend as consumer demand for Local returned. And we made investments in our brand repositioning. SG&A was \$138 million. Our restructuring actions are now largely complete and we expect to achieve \$225 million of run rate savings by the fourth quarter of this year. Keep in mind, as you think about the SG&A run rate on a go-forward basis, we do expect normal inflationary increases, such as [ph] merits (00:28:14) and incremental expenses associated with our ongoing cloud migration.

Now for a quick update on the liquidity front. Earlier this year, we issued \$230 million of convertible notes due April 2026. In the second quarter, we used the net proceeds from the convertible note issuance, which was included in our restricted cash balance as of March 31, as well as cash on hand to fund the early repurchase of \$250 million convertible notes due April 2022.

Looking ahead to the third quarter and beyond, we remain laser-focused on tackling the most important priorities. We believe that we're taking the right steps now to position Groupon for the long-term. In light of our second quarter performance, we are updating our full year 2021 financial guidance. We now expect to deliver \$115 million to \$125 million of adjusted EBITDA for the full year, and we remain on track to deliver between \$950 million and \$990 million of revenue for the full year.

Let me provide some additional context around our updated full year outlook. We expect local performance to continue to ebb and flow in the second half of the year, largely driven by factors outside of our control, such as the Delta variant and the supply-demand mismatch that merchants are facing, particularly in the Things To Do vertical. With respect to Goods, in light of the headwinds I mentioned earlier, Goods performance levels stepped down in July to approximately 30% of 2019 billings globally. Our outlook assumes July performance levels for Goods to continue through the remainder of the year and that we will complete our transition to a 3P model at the end of 2021.

Lastly, our intent is for marketing, as a percentage of gross profit, to step up further in the second half relative to Q2 spend levels, as we invest in our brand repositioning. However, the timing and extent of the step-up of our marketing spend will depend on the macro dynamics we are observing. Given these factors and the second quarter benefit from variable consideration for unredeemed vouchers, you should expect our third quarter adjusted EBITDA to be lower than the second quarter. As a reminder, our outlook does not assume a material contribution from our growth strategy.

One final thought before I turn it back over to Aaron. We are excited about our path forward and believe we are executing a strategy that will position us for growth over the long-term. While the potential resurgence of the pandemic and related restrictions is a very real headwind that may extend our recovery timeline, we see this as a transient challenge and remain optimistic about our future.

I'll now turn it back over to Aaron for some closing thoughts.

Aaron Cooper

Interim Chief Executive Officer, Groupon, Inc.

Thanks, Melissa. Before we move onto the Q&A portion of our call, I'd be remiss if I didn't take a moment to acknowledge all of the incredible work our team has been doing. We've come a long way since the start of the pandemic and it would not have been possible without their dedication, resilience and hard work. They continue to rise to the occasion and I couldn't be prouder of their efforts.

Our people are most valuable asset and our team has set out to make Groupon the place where high-performing, accountable, engaged and diverse employees come to work to be inspired and feel connected to one another. We've recently launched a variety of new diversity, equity and inclusion culture and volunteer initiatives to support these goals. Happy and healthy organization is integral to our success as we drive towards our long-term vision of being the destination for local experiences. And we look forward to updating you on our progress in the second half of the year.

And with that, I'll open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] For the first question we have Trevor Young from Barclays. Your line is open.

Trevor Young

Analyst, Barclays Capital, Inc.

Q

Great. Thank you. Two from me. First one for Aaron. You're seeing some good green shoots as you put out some good innovation on product, the improving CX, inventory growing, et cetera, but it still sounds like maybe some hesitation from merchants and even some of those larger merchants you've worked with in the past, still some choppy trends. What does it take to get merchants to really jump in so that you can harvest some of those innovation improvements that you put in place?

And then second one, I didn't hear any mention of the \$250 million EBITDA bogey if you were to reach 80% of 2019 GP levels. Is that still one of the milestones you're aiming towards? Or is there may be a change in strategy a bit here that you're going to lean in on spend more, whether it's R&D to drive innovation or maybe on the marketing side to drive merchant and customer adoption to get that flywheel going, now that you have some of the tools for inventory and interface addressed? Thank you.

Aaron Cooper

Interim Chief Executive Officer, Groupon, Inc.

A

Thank you. Good to hear you. Let me take the first question and then Melissa will take the second. So when you asked about all the changes we're making on the merchant side, and your question related to what's going to take it to us time – what's going to need to happen for them to jump in? If you look at the numbers like our merchants are taking advantage of this at a steady clip. It's just going to take a matter of time, especially when you have merchants who have been working with one – with Groupon for one way for so long. It's a matter of introducing them to our new offering and having them get familiar with it.

So if you think about the key components of what we started to do with merchants, I'd say the foundational element is self-service. For over 10 years, again, merchants have been using Groupon in a more manual way and now they have a chance to use it with self-service. Something that starts with something simple like putting up a deal or deal [ph] at it. (00:33:59) But as a self-service tool continues to engage with our merchants, there's so much more that we can do. Adding sponsored listings, which is now integrated into our self-service tool, and we'll

begin ramping into the back half of this year and into 2022 is one of a number of things that our merchants can now take advantage of in a far easier way. And easier for them also means it's lower cost. So there's more – less staffing they can put on managing Groupon, and there's more that they can do.

So for us, honestly, it's just a matter of time. The things that we're doing and the uptick that you see us getting is a testament to the fact that, one, we're hunting in the right direction, but also these are things that merchants have come to expect of any ad platform. And when we put them out there, they're taking advantage of them. Melissa?

Melissa Thomas

Chief Financial Officer, Groupon, Inc.

A

Yeah. Thanks, Aaron. Thanks, Trevor, for the question. Regarding the \$250 million and 80% recovery, that was intended to illustrate the power of our financial model on a significantly reduced fixed cost structure. We have not provided guidance for 2022 at this stage, but it's something that we'll look to do on our fourth quarter earnings conference call. I think what I would highlight is that we're really excited about the progress that we're making on our growth strategy and the foundation we're laying there, but more to come in terms of 2022. We'll look to provide clarity as we get closer – or as we get to our Q4 call.

Trevor Young

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Operator: For the next question we have Ygal Arounian from Wedbush Securities. Your line is open.

Ygal Arounian

Analyst, Wedbush Securities, Inc.

Q

Hey, good morning, guys. Thanks for the questions. The first one, and sorry if this puts you in a little bit of an uncomfortable position, apologies in advance. But it's been a year and a half since you took over as Interim CEO and – I would say it was – at the very beginning of the pandemic, I would say, over the last year, the message and the strategy has been really as consistent as we've seen it from Groupon, the vision that you're laying out, really long-term strategy. And I think it's been the kind of really strong road map – early part of the road map. I'm just wondering from maybe your point of view or what investors should think of what the board is kind of looking for to play out for – you will kind of take over in a permanent role. I think from some investors that we speak to, there's always question marks around a really long-term vision and strategy that can potentially get changed under different leadership. So that's the first one.

And then on the marketing efforts early on and clearly, a really important component of trying to change the brand image with a lot of things that you're trying to bring on board. What are the things that you're looking for to feel like you're being successful in the marketing efforts? And you've talked a lot about the brand strategy. Is there a performance campaign around this too to drive more traffic to the app and drive more consumers to the product? Thanks.

Aaron Cooper

Interim Chief Executive Officer, Groupon, Inc.

A

Thank you. Ygal, I appreciate your question. So, first off, as it relates to – yeah, you're asking about like the strategy, the consistency and related to the CEO search. So, no update – new update on the CEO search, but what's most important here is that the board, our team, we are all aligned behind the strategy. This is something that we are working on together and this is – the strategy is not changing. So I wouldn't have any concern with

that. And now you can see that from the increasing level of execution that we're getting across the board. So this is very much our obsession.

Now, I will say, when you asked the question, you seemed a little nervous to me, so I appreciate that. So I'm going to recommend for you a reflexology Groupon. [ph] I just had it (00:38:18) a couple of weeks ago. [ph] It's about a (00:38:21) foot massage, followed by some shoulder work, and it's great quarter of Health, Beauty & Wellness business, and we sell millions of them. Now, hopefully, you're picking up on that. It's actually awesome.

Now, for your question on marketing, this is – think about the arc of what we're doing. We said, and I told everybody, that we were going to change our merchant value proposition to get more better supply. Then, we said we had to start to change our customer discovery experience, and we've now rolled out our CX. That customer discovery experience is really the first part of our marketing effort because now it more intuitively communicates what we want to be known for. I mean, if you pull up the old site, the flash deal site that where you have these big, episodic, scroll-oriented experience, we now have a destination-oriented experience.

When we put that in front of customers, and we measure it by the brand metrics and make sure that they understand the brand that we want to be known for and the reputation we want to have as a destination for the categories they're interested in. And that's how we're seeing that performance that we want because the mission we're on is not about near-term performance marketing, which we're very good at and the [ph] team is (00:39:31) great and always been good at execution, but it's about changing this experience so that we start to benefit from destination-oriented traffic.

Now that is now backed up by us launching our new marketing campaign, moving more to the mid-funnel, which we did in Q2, and we'll continue to do and now upper-funnel with our Grab Life by the Groupon campaign. So this long arc of our strategy very much works together. I know you've asked me about the marketing portion of it, but changing that perception for Groupon is obviously core to the strategy and something that we're working on across all components of our execution. Great questions. Thank you.

Ygal Arounian

Analyst, Wedbush Securities, Inc.

Q

Thanks. And yes, I just – I didn't want to make you comfortable, so that's why I was a little nervous. But just a quick follow-up for Melissa on Trevor's question. I fully understand that \$250 million and 80% wasn't guidance or intended to be guidance, but are you coming off of that view or should we no longer be thinking of if you get there that's the EBITDA level?

Melissa Thomas

Chief Financial Officer, Groupon, Inc.

A

I think the point you got to take away is that we've created a lot of leverage in our model and significantly higher flow-through to EBITDA as a result of the significant reductions that we've made to our cost here over the – our cost structure over the last year and change. So I mean that's really, I think, the key takeaway there. We aren't providing guidance on 2022. But I think the big takeaway is that we've created a lot of leverage in the model.

Ygal Arounian

Analyst, Wedbush Securities, Inc.

Q

Okay. Thank you.

Aaron Cooper

Interim Chief Executive Officer, Groupon, Inc.

A

Thank you, Ygal.

Operator: [Operator Instructions] For the next question we have Douglas Anmuth from JPMorgan. Your line is open.

Neeraj S. Kookada

Analyst, JPMorgan India Pvt Ltd.

Q

Hi. This Neeraj on for Doug. So just a couple of questions. Number one is just on the cadence of the gross profit and EBITDA, I guess, on first quarter, you kind of provided the cadence would be improving numbers quarter-on-quarter throughout the year. So just as you highlighted on the Things To Do issue, supply-demand issues. So anything else that we need to read there?

And number two would be on the Goods business, you kind of pointed out, it's going to be close to 30% of 2019 level. So how should we think about Goods business in the long term? And how much are you putting forward in terms of marketing in terms of the Goods business? Thank you?

Aaron Cooper

Interim Chief Executive Officer, Groupon, Inc.

A

Why don't I start on – I'll take your Goods question first and then Melissa will come back and take your first question. So as it relates to Goods, the way to think about Goods is pretty consistent with how we've talked about it. We have significantly reduced the cost structure of our Goods business. Now winning for us is on the other side of winning in Local. And so for us, now with the reduced cost structure in our Goods business, we'll get better EBITDA flow through out of that business. Our focus, though, is on Local. And so do expect over time for Goods to continue to kind of face the back, but that really is just based on our focus on Local and getting Local growing.

Melissa Thomas

Chief Financial Officer, Groupon, Inc.

A

Yeah. Thanks, Aaron. So as you think about the drivers of our outlook, there's a couple of things that I'd highlight as you look at kind of quarterly ebbs and flows. So, first, we did have a larger-than-expected impact from variable consideration in the second quarter. So we did have a \$10 million benefit come through related to prior period bookings. So that was something that we hadn't anticipated. The second point that I would call out, as you mentioned, we did see a step down in our global Goods performance from the second quarter to July to around 30% of 2019 levels. We are assuming in our outlook that the competitive headwinds that we've seen will continue.

And then as you think about the EBITDA side, it is important to take into account our progression on marketing spend. So if you look at how that investment has progressed through the year, we stepped up investments in Q2 relative to Q1. And as we think about the second half, we expect to further step-up our investments in marketing, and we would expect marketing as a percentage of gross profit to be higher than it was in the second quarter. And as you think about that, we're seeing local demand continue to return. But in addition to that, we are stepping up our investment in our brand Goods positioning. So that's what you'll really look to see from us in the second half is that higher level of marketing investment.

On the local side, we are encouraged by the recovery that we saw in the second quarter, but we do remain cautious in the near term just in light of the spread of the Delta variant as well as the dynamics within our Things

To Do category that we mentioned, where our supply is less recovered in that vertical relative to 2019. So those factors are taken into account into our guidance. And then as you think about seasonality, Things To Do category is an important category for us typically in the second and third quarter. So just keep that in mind.

And then I would say bigger picture to the point that Aaron made Local is really where we're focused, that's where we are most differentiated. We remain positive on our opportunities in Local even as we face the transient headwinds that we're seeing now.

Neeraj S. Kookada

Analyst, JPMorgan India Pvt Ltd.



Thank you

Operator: There are no further questions at this time. Thank you, presenters. Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day. You may all disconnect.

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