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COMPANY PARTICIPANTS

Jennifer Beugelmans - Groupon, Inc., Chief Communications Officer
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Damien Schmitz - Groupon, Inc., Interim Chief Financial Office

OTHER PARTICIPANTS

Trevor Young - Analyst
Chad Larkin - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, everyone, and welcome to Groupon's Third 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. 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

Good morning and welcome to Groupon's third quarter 2021 financial results conference call. On the call today are Interim CEO, Aaron Cooper; and Interim CFO, Damien Schmitz. The following discussion and responses to your questions reflect management's views as of today, November 05, 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 and quarterly reports on Form 10-Q. 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

Good morning, everyone, and thank you for joining us to talk about our third quarter results. Today, I'm excited to give an update on the progress we're making on our strategy to take share in the local market. But first, let's take a step back and reflect on our progress this year. When we kicked off 2021, we told you we needed to execute in a few key areas this year and that doing so would be both indicative of important progress and foundational for future growth.

We told you that we needed to unrestrict our deal inventory. Later, you'll hear data that shows we've don't just that. We told you we needed to scale offers in Beauty and Wellness. And again, you'll hear that we've hit our goal there, too. You'll also hear that we've begun to see impact. You'll hear evidence that strongly suggest that we can bend both the customer and merchant perception of the Groupon marketplace and create value for our stakeholders.

We recognize that COVID is creating a lot of noise. So, let me walk you through our progress and the reasons to believe starting with a few highlights on our financial performance in the third quarter. Local represented 76% of our global billings, demonstrating our continued focus on this category. And despite the impact from the Delta variant, we generated $553 million in billings, $214 million in revenue, and $35 million of adjusted EBITDA, solid indicators that we remain on the path to recovery.

At the same time, we are executing against our strategy to unlock velocity in our marketplace. Over the past year, we've done a lot of work to identify and deliver on our merchant and customer value propositions, and the changes we've made are the most significant fundamental changes we've made to our marketplace offerings in over 10 years. We believe these changes will encourage our customers and merchants to do more with us. And in turn, we think these changes will allow Groupon to do more: take market share, drive profitability, and expand our long-term growth horizon.

So, what exactly have we done? Let's start with our merchant value proposition. We've improved approve the ease with which merchants can interact with the Groupon marketplace, extended their reach to new and existing customers, and given them the monetization levels they need to achieve healthy unit economics. While we still have more work to do, we've made a lot of progress. And I'll be sharing some key results and upcoming milestones in a few moments.

Likewise for our customers, we are focused on giving them the value, selection, and convenience they want, and believe we are on the right path to expanding our wallet share with them. We're still in the early stages of executing on our strategy to drive demand.

But with the success we've had improving the merchant experience, I believe we can accelerate our progress in 2022. Why are we confident we have the right strategy in place? As we've rolled out our strategic priorities, we've been able to test and learn along the way. Let me give you a few key operating results from the third quarter, which illustrate our progress.

On the supply side, we continue to make progress bringing back pre-COVID supply to our marketplace. We also continue to make progress on initiatives to expand our inventory. Merchants are adopting our flexible inventory listing options and we are removing repeat restrictions on more deals. On the demand side, we have early, but very encouraging results from our efforts to drive repeat purchases. I'll walk you through the impact later in my prepared remarks where we are seeing unit growth from our unrestricted deal inventory that we believe set the stage for more progress in 2022.

Before we dive into our strategic progress, I want us to start with a snapshot of our inventory base. Last quarter, I told you we believe the fastest for us to reenergize our local category is to reactivate our top supply, and our team is just doing just. And for those top merchants yet to return, we feel really good about our prospects here. Our team is in active dialogue with these merchants and the message from the majority of these merchants has been clear: it's not a matter of if they will return to Groupon, but a matter of when they will return to Groupon. And this really matters, and here's why.

In the third quarter alone, if these merchants, who are mostly things-to-do merchants, had been (00:06:29) back on our marketplace, we believe we would have picked up between 10 and 12 percentage points of local billing for 2019 levels in North America. In addition, we believe we were impacted by the Delta variant and other transient COVID-related challenges. COVID has had a two-dimensional impact on our business. First, as COVID cases rise, as with the Delta variant, people go out less and interact with local merchants less. They get fewer massages, and facials, and eat in a bit more.

The second impact from COVID has taken a bit longer to fully resolve. Even when cases are down, due to supply/demand imbalances, some of our merchants are unable to serve existing demand. In these situations, these merchants don't want to run a Groupon campaign, which would drive more customers into their establishments and potentially exacerbate their capacity issues. But with line of sight to bring top merchants back to our platform, we feel confident about recovery, but of course we want to grow beyond recovery.

As I mentioned earlier, our growth strategy is rooted in our belief that we should be capturing more of the 80 Grouponable moments that the average customer engages with annually. Quite simply, we believe we need to drive purchase frequency and unit velocity, and this is where we connect back to our core merchant and customer value propositions. As we've discussed in the past, to do this, we started with wholesale changes to the way we work with merchants. We are giving merchants the opportunity to do more with us. In the past, we gave merchants only one way to work with us, deals.

Now, we have the multiple inventory options at multiple prices, which give merchants a dynamic way to list their full catalog with Groupon. Since our test with offers, we've been scaling our offers inventory product for our Beauty and Wellness merchants. We've continued to see merchants adopt offers in a way to expand their inventory at Groupon. And in fact, those who leverage offers have nearly four times more listings than merchants who only list deals. As a result, the unit Beauty and Wellness inventory per merchant increased over 30% in North America since we launched offers.

Offers has expanded our Beauty and Wellness inventory, which we believe is important as we shape Groupon into destination for local. The team is working to improve how customers interact with a full menu experience for merchants, which we believe will allow us to further monetize our expanded inventory selection. Offers has been a great jumping off point for us and are working well for our Beauty and Wellness merchants. We're now leveraging what we've learned and exploring ways to give our merchants in other local categories more flexibility. One thing that has become clear, merchants do want to do more with Groupon, and letting them have more flexibility in how they work with us in an important part of our relationship.

Let me give you a case study to bring this to life. One of our top merchants is a large theme park. By giving them more flexible inventory options, we've allowed them to begin leveraging Groupon marketplace as an always-on sales channel. They're listing more days in inventory across their various park locations and leveraging sponsor listings to reach more customers. In addition, they have integrated their revenue management system with the Groupon platform so that they can dynamically price each of their Groupon campaigns. This has led to a big impact.

Their year-to-date gross bookings with Groupon have grown over 20% versus 2019. And keep in mind that these great results are despite the merchant being impacted by labor shortages and excess demand this summer. As we allow merchant to do more with us, we are also making it significantly easier for them to work with us. Merchants, both large and small, are transitioning seamlessly to self-service, which is quickly becoming the primary way that merchants are launching campaigns on the Groupon marketplace.

In the third quarter, over 50% of deals launched in North America were done via self-service. To put the progress we've made into perspective, in all of 2019, just 8% of our deals were launched via self-service in North America. And self-service adoption is even higher among our smaller merchants who launched approximately 80% of their deals via self-service in the quarter, up 20 percentage points from the second quarter.

We are also striking new partnerships that we believe will enhance our merchant value proposition and help accelerate our progress. Earlier this week, we announced a new US distribution partnership with Google Pay, which will give Google Pay mobile app users direct access to the unique local experiences available on the Groupon marketplace. We expect this partnership to be in market in the first half of 2022.

The new partnership will expand our ability to help merchants reach new customers and also make it easier for more customers to tap into the thousands of local experiences available on the Groupon marketplace. Our goal with partnerships like Google Pay is to bring more demand to our platform or bring our deals to platforms where more customers are in an effort to increase purchase frequency.

If our 2020 customer base bought just one more Groupon annually, it would amount to $1 billion of addition of billings. Beyond our current customer base, partnerships like this one with Google Pay have the potential to meaningfully expand our customer reach over time.

And today, we announced an exciting new partnership with Square, an important local commerce player that allows group local merchants to easily create Groupon campaigns directly from the Square app marketplace, and leverage the booking capabilities of

Square Appointments with our Groupon campaigns. This partnership is a great example of how we're attacking the opportunity to bring more high-quality bookable inventory to the Groupon marketplace and reduce merchant acquisition costs. Better still, we believe this partnership will help merchants attract new customers.

We are excited to partner with market-leading brands such as Square and Google Pay and we look forward to exploring other ways to provide our merchants with a full service platform that they can leverage to build and grow their business.

With the foundational elements of our merchant value proposition and expanded supply in place, we are leveraging our new customer experience and strategic marketing investments to expand the perception of our brand from an episodic inspirational marketplace to a destination marketplace. Earlier this year, we launched a new customer experience that is grounded in helping customers engage more meaningfully with local inventory. Our goal is to deliver more modern, engaging personalized discovery experience that will give customers highly relevant search results and recommendations.

While it's been just a few months since we fully scaled our new customer experience in North America, we've had a number of early wins. Bounce rates continue to improve. Customers are spending more time browsing and exploring our local experiences. And customers are telling us that they're more likely to make a purchase on Groupon than they were prior to the launch of our new CX.

While we're proud of what the team has accomplished in such a short period of time with the new CX, we are just getting started. There's lots of opportunities to optimize the customer experience, and we expect to roll out more enhancements to further personalize the customer journey and drive repeat purchase frequency in the months and quarters ahead.

Along with our CX, marketing is playing a pivotal role in driving demand. As recovery began to take hold in North America this spring, we leaned into marketing to maximize the impact of our progress. And in the third quarter, we began to strategically invest to both mid- and upper-funnel campaigns to drive consideration and awareness.

We launched our Grab Life by the Groupon brand repositioning campaign, began influencer campaigns to expand our audience and reach the younger demographics, and rolled out our new blog, The Gist, to inspire discovery. With this move up-funnel, we got signals that we were able to bend the perception of Groupon.

Following the launch of our Grab Life by the Groupon brand campaign, we saw the most significant improvements to our brand perception that we've seen in quite some time. And we saw a lift in several key metrics such as consideration, likelihood to recommend, and purchase intent. Over time, our goal is to take a full-funnel approach as we believe we can make all parts of the funnel work harder and unlock growth.

So, let's move on to demand. How are our improved merchant and customer value propositions working together to unlock demand? I told you earlier that in order to drive growth, we believe we need to increase purchase frequency and unit velocity in our marketplace. One part of our thesis is that by unrestricting deals customers would make more repeat purchases.

In the spring of this year, we began working with our merchants to make their deals repeatable. And as of today's call, 75% of our North American deal inventory is now repeatable. We're on track to hit our goal of 80% by year end. At the same time, we started our work to take Groupon from being an inspiration-only site to a destination marketplace for customers. We have told customers that not only do we have more of the selection that you want, but we'll allow you to buy the experiences you love with Groupon again and again.

And our thesis is proving correct. Since we began unrestricting deals in North America in April, we've seen a 7% lift in units per customers or approximately 700,000 customers who have purchased local unrestricted deals compared to customers who purchased restricted deals. Keeping in mind that these results are from an early cohort, this is a big deal and a signal that our strategy to drive purchase frequency is beginning to bear fruit. We still have more to do to unlock the demand side of our marketplace, but this early win gives us the signal we need to scale other demand initiatives.

For the last 10 years, customers have been told that they can only buy a deal once with Groupon. So, we're focused on reeducating customers to make sure they're aware that they can buy and buy again with Groupon.

In the fourth quarter, we're rolling out a broad awareness campaign which will prominently feature buy it again banners throughout the customer journey. And we are launching more targeted campaigns to customers who have already purchased repeatable deals. We are also exploring ways to leverage proven marketplace merchandising tactics to drive unit growth, and the team is hard at work laying the foundation to successfully scale multipacks and eventually bundles in 2022. As you've heard, we've made important progress on marketplace supply. We believe we're well-positioned to accelerate demand in 2022 and beyond.

With that, I'll turn the call over to Damien to provide insights on our financial performance. Before I do, let me provide a few words of introduction. Damien has been a strong leader during his nine years on the Groupon team and has extensive experience in many areas of our global finance organization as well as significant knowledge of our business history and opportunities. I worked closely with him throughout my career at Groupon and I look forward to partnering with him as he takes on the role of Interim CFO,

Damien?

Damien Schmitz

Thanks, Aaron, and thanks, everyone, joining us today. Today, I'll use my time to provide further insights into our third quarter operating and financial results and our updated 2021 financial guidance. In addition to my prepared remarks, I encourage you to review our slides which contain additional detail on our outlook for the remainder of the year.

Starting with our consolidated third quarter results, we delivered $553 million of gross billings, $214 million of revenue, $181 million of gross profit and $35 million of adjusted EBITDA. We ended the quarter with $477 million in cash. We continue to make progress rebuilding our North America local customer base. We grew our active local customers for the second consecutive quarter and nearly 90% of our new customers in the third quarter were high-value local-only customers. This resulted in 4% quarter-over-quarter growth for active local customers, partially offsetting the decline in our lower-value billings (00:18:24) customers during the quarter.

While our total North America active customer count came in slightly below our second quarter balance, everything that we're doing, both for the merchant and the customers, is aimed at building a stronger, more valuable customer base. We are focused on growing our high-value local customers and unlocking purchase frequency to capture more customer wallet share and drive more demand to the Groupon merchants. Within international markets, active customers have not yet stabilized given the more prolonged COVID headwinds there.

Next, I'll provide more insights into our third quarter results, starting with our segment and category results. As we expected, trends haven't been linear and recovery continues to ebb and flow with certain verticals and countries. Starting with North America local, billings were 62% of 2019 levels during the quarter. Looking at the trajectory intra-quarter, local billings as a percent of 2019 levels pulled back in mid-July with the emergence of the Delta variant. In international, local billings for third quarter were 47% of 2019 levels on an FX-neutral basis, up 600 basis points versus the second quarter. And as we said before, we continue to expect a longer recovery cycle in international.

Our third quarter global local gross profit benefited from $19 million of variable consideration from unredeemed vouchers that were sold in the prior period. Majority of this benefit was related to our international segment. We continue to observe redemption rates that were lower than our historical estimates for vouchers sold at the onset of the COVID-19 pandemic.

That said, we're encouraged that redemption rates for bookings in recent periods have improved and we expect variable consideration to decrease meaningfully in the fourth quarter. I would also note that we've invested some of the favorability related to variable consideration into marketing in order to engage consumers more broadly.

Moving to our goods category, performance here came in as expected. Goods continues to face known challenges, including the impact of iOS updates as well as competitive dynamics which further supports our de-emphasis on the category. I'm pleased to report that the international goods transition to a third-party marketplace model, which we began in the second quarter, is approximately 85% complete and expected to be completed at the end of the year. Similar to North America, this greatly simplifies the operations of our goods category and allows us to us goods with a leaner cost structure. As a reminder, in the third-party model, we recognize goods revenue on a net basis.

Turning to operating expenses. Marketing expense was $53 million in the third quarter and reflects an increase in spend as we made investments in mid- and upper-funnel campaigns to drive consideration and awareness. SG&A was $119 million. 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 merit, and incremental expenses associated with our ongoing migration to the cloud. Looking ahead to the fourth 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 third quarter performance, we are updating our full year 2021 financial guidance. We now expect to deliver $130 million to $135 million of adjusted EBITDA for the full year and we expect to deliver between $950 million and $975 million of review for full year.

Let me provide some additional context around our updated full year outlook. We expect global billings to moderately increase in Q4 versus Q3 and then global billings may continue to be impacted by factors outside of our control such as the level of seasonal local demand and COVID impacts on merchants and consumer behavior. Our outlook assumes third quarter performance levels for goods will continue throughout the remainder of the year and that we will complete our transition to the 3P model at the end of 2021.

Lastly, our intent is for marketing as a percent of gross profit in the fourth quarter to remain in line with third quarter spend levels. As a reminder, our 2021 outlook does not assume a material contribution from our growth strategy. Looking beyond 2021, we have line of sight to continued recovery next year and strong conviction that we are executing the right strategy to take share in the local market. We are continuing to make progress, improving our high-quality inventory and we are beginning to see a positive impact on consumer demand.

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

Aaron Cooper

Thanks, Damien. Based on everything we told you today, I hope it's clear that we're making substantial progress both in terms of recovery and our strategy. We believe we are well on our way to reposition Groupon to deliver on the promise of being the destination for local. We are showing customers how to do more with Groupon and that they can come on us for the value selection convenience they want. Our local marketplace is simply better than it was before. We believe increase in purchase frequency is the biggest unlock to driving velocity in our marketplace and increasing our share of wallet.

I'm so proud of what our team has accomplished over the last 18 months. We have the potential to drive strong long-term growth. I'm looking forward to seeing what we can accomplish.

And with that, open the call up to questions.

QUESTION AND ANSWER SECTION

Operator

Our first question comes from the line of Trevor Young from Barclays. Your line is open.

Analyst: Trevor Young

Question – Trevor Young: Great. Thanks. First one for Aaron on the two partnerships that you recently announced, clearly two different strategies there in terms of where the inventory ultimately sits. On the Google Pay distribution, I can see the benefits for merchants to get broader reach, but it would also seem that allowing the third-party to own more of the customer relationship outside of the Groupon surface. Do you have any concerns about that? And how should we think about potential future

partnerships like this either on the campaign enablement side like you did with Square, or on the distribution side? And then, second one for Damien, any color on how local unit or billings growth progressed throughout the quarter versus 2019 levels and how that trended into October? Thank you.

Answer – Aaron Cooper: Thanks, Trevor. So, let me take the first one. Then obviously, we'll get Damien's thoughts on your second question. As relates to our partnerships, Groupon is really a beloved brand. We have customers that have been with us for years and, obviously, spend a lot of time and money on the Groupon marketplace. As we look to extend our value propositions to our customers and merchants, key partnerships like Google Pay and Square are really important, and not just important to being able to drive volume to our merchants, but really to extending the value proposition. So with Google, we're going to be able to give users on the Google platform direct access to Groupon deals and that's also, as you pointed out, going to help merchants to do a lot more what they want to do with Google – with Groupon.

And then, with Square, this is a chance for us to build upon what we've already done. A lot of the partnership with Square is built on self-service. It's built on Groupon Connect, things that we just could not have done before. So now, with more inventory, more repeatable inventory, more tools for merchant, yes, you should expect us to do more and build on top of these partnerships. Damien?

Answer – Damien Schmitz: Yeah. Thanks, Aaron. And for some color, commentary on the progression that we're seeing, we saw the pull back from the Delta variant late July and early August, and those are the biggest impacts that we felt overall. We're encouraged with what we're seeing thus far in October, which did improve from those low points earlier in the summer. But keep in mind, as we think about the rest of the quarter, November and December generally play a larger role in the fourth quarter, particularly as consumer behavior shift into a gifting season. And we are cautiously optimistic about the unique opportunity for us to lean in here into local gifting experiences, particularly given the disruption to the global supply chain.

That being said, our guidance does contemplate an increase in billings quarter-on-quarter. But our overall fourth quarter outlook does reflect the uncertainty and volatility created by Delta.

Thanks for the question.

Question – Trevor Young: Great. Thanks, guys. Appreciate the color.

Operator

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Answer – Damien Schmitz: Let me go ahead and then also add just for Trevor's question, to put it in broad context here, because the partnerships that he asked about, I think, are important in the broader context. For our customers, for our merchants, for 10 years, we've been one thing. And now, what you've seen for Groupon, over the last potentially year and a half, is significant changes. We've completely opened up our merchant value proposition, flexing into self-service, which you've seen huge merchant adoption; more inventory options, which again you've seen significant adoption by our merchants. And now, giving – of course giving customers ability to buy and buy again. These profound changes, which just could not have been possible with the old business model and so you see real proof points coming through.

With merchants, we see them trusting more and doing more. Why? These are things that they expect from a marketplace and have long asked for from Groupon. That's why you see the significant uptake in each of these different components.

And now, with customers, you see customers start to vote with their wallet. The 7% lift that we shared in those (00:28:26) 700,000 customers engaged in our repeatable inventory is a really significant deal. This is customers voting saying we want to do more with Groupon and they're starting to understand. It's not just about changing the inventory, but about changing their perception, which is why the changes we made to the CX and our marketing were so important.

Finally, when Trevor asked about the partnerships, we also see partners leaning in from both sides. And the reason was asked why? It's because of the uniqueness of our inventory. Our inventory is some – inventory that nobody else has. And when it shows up in the Google Pay app, that is structured (00:29:03) for them. And then, for these merchants that are on Square, we've given them an easy way to tap into Groupon demand. And I've talked to a ton of merchants and there's many of them that know that they can't get this type of demand anywhere else.

So for us, we see the opportunity is large. We're making ton of progress. These are big changes in a short period of time and you should expect us to continue to scale these wins more broadly in the business and see the benefit build on itself.

Operator

We have a question from Ygal Arounian from Wedbush Securities. Your line is open.

Analyst: Chad Larkin

Question – Chad Larkin: Hey. This is Chad on for Ygal. A quick one on partnerships. Can you share any of the economics around them and how those work? And then, any color you can give on the rollout of inventory scaling beyond the end of the year, when we can see it in more verticals and internationally?

Answer – Aaron Cooper: Yeah. Thanks for the question. So, we're not going to share the partnership economics. But I mean you should understand that our goal here is, in distribution, we're looking to lower our merchant acquisition costs by making things, of course, easier for merchants and creating new merchant acquisition channels for ourselves and likewise, similar on the customer side, is the way we're thinking about these partnerships and extending our value proposition off platform. I'm sorry, and your second question?

Question – Chad Larkin: Yeah. Just on the inventory scaling. Any update beyond the end of the year here extending into new verticals and internationally?

Answer – Aaron Cooper: Yeah. So, what you should expect from us is just continue on what we've done. And so, you should

continue – expect us to continue, of course, to hit our goals that we've already made significant progress on, that's rolling out offers and continuing to build. We already have the inventory growth that we've shared in Beauty and Wellness, over 30%, where partners, of course, are coming on with 4 times as much of inventory. Additionally, we shared an important data point here related to Q3 and what effectively isn't (00:31:25) material, but transient COVID impact, where we expect to have merchants back on our platform that, in Q3, we believe would have made up 10 to 12 points of overall local volume. That's really material.

And so, if you add it together both what we believe to be an extended recovery for Groupon with some of these merchants, then of course we have high confidence these are merchants that we talk to, who understand the revenue management, who understand exactly why and when they'll be back. And with the benefits of the changes to the value proposition, more ways to work with Groupon, more repeatable inventory, we expect these benefits to continue to build on themselves over the coming months and quarters. And then, as we continue to see recovery – asked about (00:32:09) international, we will begin to roll out more of these features and business practices to our international marketplace.

Question – Chad Larkin: Great. Thanks.

Operator

There are no further questions at this time. That concludes today's conference call. Thank you, everyone, for joining. You may now disconnect.