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Groupon, Inc. (GRPN)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone and welcome to the Groupon's First Quarter 2022 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.

Hello and welcome to Groupon's first quarter 2022 financial results conference call. On the call today are CEO, Kedar Deshpande; and Interim CFO, Damien Schmitz. The following discussion and responses to your questions reflect management's views as of today, May 09, 2022 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 Kedar.

Kedar Deshpande

Chief Executive Officer & Director, Groupon, Inc.

Hi, everyone and thank you for joining us. Today, I will use my time to talk about our first quarter results and how we intend to address our performance challenges by reducing our cost structure and creating a more differentiated inventory offering.

Since starting as CEO in December, I have spent a substantial amount of time studying our business, trying to understand why we have not been able to successfully translate our significant assets, scale, data and customers into a sustainable growth engine. Let me be clear, I have good news and bad news. The bad news is that our first quarter results fell short of our expectation and did not demonstrate our potential to create value for our customers, merchant partners, employees and shareholders.

In the first quarter, we didn't see local demand come back as Omicron cases began to subside. We had expected to see a pattern similar to what we saw last year in the wake of Delta. So, we executed on the initiatives that reflected our expectation for increasing demand post-Omicron, but this demand did not materialize.

As you know Groupon is a marketplace that offers discounted experiences and services. And merchants simply did not need to leverage the Groupon marketplace as much as we thought they would, coming out of the pandemic and this has been worsened by inflationary headwinds.

With demand high and capacity low, merchants did not need to sell discounted inventory on our marketplace. In addition, we saw merchant availability contribute to driving refund rates higher, which put further pressure on our inventory levels as well as adjusted EBITDA. While we think this is transient you will hear us talk about our plans to make Groupon more helpful to merchants throughout the economic cycle.

The good news is that we have a plan to address the drivers behind our shortfalls this quarter and grow the business for the long-term. There are two key areas that we need to improve and we are moving quickly to address that.

First, we need to improve our expense structure substantially and we intend to do this fast. We are streamlining our technology platform and our operating processees. By doing this, we believe we can deliver a full year adjusted EBITDA margin in the 15% to 20% range and generate a minimum of $100 million in annual free cash flow starting in 2023.

Second, in order to grow our top-line we need to offer more differentiated inventory, as I will explain. Our marketplace needs to give customers a well-rounded interaction that includes a great selection of experiences and services at a variety of price points.

Today you will hear me talk about two innovative ways that we plan to expand our inventory, curated inventory collections and the launch of Beauty & Wellness marketplace that offers premium experiences.

So let's talk about how we will get this done. Starting with our expense structure. We spend a lot on our tech platform, in fact we devote about 40% of our overall cost structure to technology. This translates to about $210 million per year. We have a legacy platform that was built in 2010 and we need to streamline it to meet the current needs of Groupon.

Over the past 10 years, we created services to handle just about every nuance. At the start of the year there were about 700 services operating behind our platform. This is way too complicated and big for our needs and size. Our move to the cloud really highlighted the cost associated with this legacy technology platform. Our cloud cost per transaction is well above levels I have seen in my previous experience. I believe we can generate meaningful cost savings if we streamline our platform to serve our current needs and cut out any non-essential services that don't need to be migrated.

Next, too many of our processees require human touch. And this is not scalable or sustainable if you want to grow the company. We are looking at all our processees to reduce cost, so let me give you a quick example.

We can do more to scale our self-service automation features and allow merchants to join our marketplace without human touch. We have done a good job of increasing the number of merchants and listings that on board through self-service, but we have many other opportunities to go beyond just onboarding. This should lower our costs related to serving our merchant partners, we also need to streamline other associated infrastructure processees. This work is now underway.

There are many other examples, but what I want you to take away from this conversation is, we are moving aggressively towards automation and we're doing this across our entire organization. We expect this to both increase productivity and reduce our cost. As we march towards automation we believe we can also build a financial model that has a lower fixed cost base. This will allow us to be more nimble as demand ebbs and flows.

Next, we need to drive top-line growth and our marketplace into a new era. What do I mean by this? We need to become a marketplace for all occasions. This means that customers today are looking for one trusted marketplace where they can find all local services and experiences they want, a place where it's easy to transact and interesting to browse.

These shoppers are not always price-sensitive, so they are not always searching for a deeply discounted deal, but they will want a great value. In order to be this marketplace solution our inventory needs to be highly differentiated. So we're going to work on expanding our inventory in two important ways. Uniquely curated collections and a standalone marketplace experience for premium Beauty & Wellness experiences.

In both cases, our goal is to deliver unique inventory that customers can't find elsewhere. We already have a broad spectrum of deal inventory on our core Groupon marketplace. But our offerings is not always differentiated enough to be compelling to consumers. This is where curation comes into play. We will create package inventory listings that combine experiences and services in unique new ways. These collections will span a wide range. From date nights which might include a dinner at a fantastic Italian restaurant and a night out bowling that is packaged and sold as one listing. Our rainy day kids passes that could bring together a great museum experience and a trampoline park for example.

We believe we can create unique experiences that will appeal to existing and new customers alike across a variety of demographic groups. And only Groupon has the breadth of transactable inventory to offer these packages. Whether there is a deep discount or not, the value of packaged inventory is that it's unique to Groupon. Making us a destination for discovery while meeting the intent that customers have when they are searching for things to do on any given day or night.

I believe that this unique inventory will wow our customers, this approach will give more value to merchant partners than Groupon can by just being a destination for deeply discounted inventory. So inventory curation will be an important tool that will leverage to drive customer investment and growth.

But curation is only one part of our inventory opportunity. With the tremendous set of assets we have, we believe we can create even more value for our stakeholders by launching a Beauty & Wellness app that will stimulate both sides of our two-sided marketplace.

I have done something similar in my career. So, let me take a few minutes to give you an example. Zappos was able to attract a variety of popular brands but needed to bolster its table of premium brands. So we created a new experience that could live side-by-side with core experience. Zappos built a website where customers looking for premium brands could be sent and we were able to attract those premium brands to our new destination and service the intent of those customers.

Today at Groupon we lack the ability to attract [ph] mainly (12:47) premium local experiences and services to our marketplace because we typically expect a deeply discounted listing. But when customers have high intent, they are not focused on discount. The discount requirement in our core Groupon marketplace is constraining our ability to acquire and offer the broad inventory selection some of our high intent customers want. This is inhibiting our ability to grow. To take advantage of this opportunity we are planning to launch a new marketplace experience dedicated to providing a great local selection that is not all on deep discount.

Our goal is to introduce this marketplace by the end of this year. We will start with Beauty & Wellness services and Experiences. Trust will be the cornerstone of this new marketplace offering. Consumers will know that they can trust Groupon to deliver premium experiences from quality merchants and that their purchase to redemption process will be seamless.

We will offer a curated marketplace experience with cutting-edge functionality and new standalone branding and we intend to do this by leveraging our improved technology infrastructure and platform. To paint the picture of what we expect this new experience to offer, consumers will receive best-in-class customer service content and price transparency.

We also plan to explore options to offer financing for high-end services such as cosmetic surgery. As many of you know, the Beauty & Wellness industry is a large and growing market and we believe we are well-positioned to capture much greater market share with this.

We expect this experience to be truly unique and to be attractive to our high intent customers. Best of all, this will be complementary to our core Groupon experience and with nearly 100 million unique visitations per month, we intend to move customers between our two website properties as intent dictates.

I knew that when I took this role, the stakes would be high. The path forward would be rocky, but that the rewards for success would be very compelling. So far my journey has met my expectations. I have discovered something about the business that I didn't expect and somethings were in line with my preformed expectations. But everything I've seen is something I've seen before.

Last quarter, I talked about the untapped assets that made Groupon opportunity so attractive. A global scaled platform, large customer base and actionable data, I believe that these assets coupled with a more innovative approach to leveraging our unique inventory position us to grow our business for many years to come.

If you add this growth potential to reduced cost structure and a strong balance sheet that includes our investment in SumUp, I think you will agree with me that Groupon is well-positioned to create shareholder value. We look forward to sharing our progress with you as we work to create the value our stakeholders deserve.

With that, I will turn the call over to Damien to cover financial performance.

Damien Schmitz

Interim Chief Financial Officer, Groupon, Inc.

Thanks, Kedar, and thanks to everyone who is joining us today. I'll use my time today to provide further insights into our first quarter operating financial results, our financial outlook for the second quarter and full year 2022, as well as some thoughts on the potential of our long-term financial model.

In addition to my prepared remarks, I encourage you to review our slides, press release and 10 Q, which contain more detail on our Q1 results and outlook. Starting with our consolidated first-quarter results, we delivered $461 million of Global billings, $153 million of revenue, $134 million of gross profit and negative $7 million of adjusted EBITDA. We ended the quarter with $403 million in cash including $100 million drawn on the revolver.

In the first quarter, our business did not rebound as expected once the Omicron variant abated; however, as Kedar mentioned in his prepared remarks, we're laser focused on two areas, fixing our cost structure and building a more differentiated inventory offering through curation in a new dedicated premium Beauty & Wellness marketplace.

So let me walk you through our first quarter results, business drivers and trends. Starting with our local category, as we discussed on our last earnings call, we had anticipated local performance to be significantly impacted by Omicron in the first two months of the quarter, when COVID case counts were at or near all-time highs. We also expected to see the category begin to rebound in late February and into March as restrictions and mass mandates were lifted and case counts begin to decline. This would be a pattern similar to what we had experienced with prior COVID waves. Instead, however, we saw local performance stall out in the beginning of March and as Kedar mentioned, elevated refunds.

In North America, local billings recovery rates were down 15 points versus the prior quarter and we're at 50% of 2019 levels and in international, local billings were 48% of 2019 levels, a sequential decline of 4 points versus Q4 2021.

We ended the quarter with approximately 22 million active customers worldwide. Within our North America customer base we had 11 million active local customers in the first quarter, down slightly compared to the prior quarter. As a reminder, our active customer metrics are trailing 12-month metrics.

In the first quarter, we observed a decline [ph] of in-period (18:55) local purchasers and within our international markets, we grew our active local customers 8% sequentially versus the prior quarter and 31% year-over-year and as a result had 4.9 million active local customers in the first quarter. This growth in local customers partially offset the decline in our lower value goods customers during the quarter.

Moving to our Goods category, in the first quarter billings were at 22% to 2019 levels, which was below the 30% recovery level we expected to achieve. As a reminder, we completed the international goods transition to a third-party marketplace model in the fourth quarter of 2021, which means we recognize goods revenue on a net basis.

Turning to operating expenses, SG&A was $126 million flat versus the prior year and lower than we anticipated. We remain prudent with our spend during the quarter and were able to fully offset both wage inflation and incremental expenses associated with our migration to the cloud.

Marketing expense was $39 million in the first quarter, or 29% of gross profit which is in-line with our investment in the prior quarter and historical averages. While we intend to take advantage of opportunities to leverage marketing to accelerate our growth over time, we expect to reduce our marketing spend for the rest of 2022.

Turning to our cash position. In the first quarter, we saw cash outflow of $96 million. We typically experienced net working capital outflows in the first quarter due to seasonality and our normal merchant payment cycles.

Net working capital was also impacted by lower sales volume and corresponding cash in-flows given the more muted state of our local recovery. Our liquidity position remained solid and we have a balance sheet that provides us with the financial flexibility to withstand the impacts of COVID and invest in opportunities to drive long-term growth. We ended the quarter with a cash balance of $403 million which includes the $100 million drawn on the revolver.

Now, I will take you through our outlook for the second quarter and full year 2022.

In the second quarter, as a percentage of 2019, April local billings have been trending in-line is slightly better than what we reported for the first quarter. Based on this, we expect to deliver $155 million to $165 million of revenue and zero to $10 million of adjusted EBITDA.

For the full year 2022, we expect to deliver $670 million to $700 million of revenue and $60 million to $80 million of adjusted EBITDA. Our updated guidance reflects a more muted recovery outlook than our prior guidance given what we've observed year-to-date. At the low-end of our guidance range we're assuming local recovery rates in the back half of the year, will improve modestly versus current recovery levels.

And at the high-end of our range we're assuming local recovery rates in the back half of the year are more in-line with the second half of 2021. Keep in mind that our financial guidance for the year does not include any benefit from our new growth initiatives.

Turning to expenses, we expect marketing as a percent of GP to be in the low 20% range. And we intend to continue to manage SG&A closely, despite the increased costs related to wage inflation and migrating to the cloud, we expect to hold SG&A expenses flat to slightly down versus 2021.

For your models, we expect our expenses associated with migrating to the cloud will be approximately $35 million in 2022. Finally, I wanted to provide you with a few insights on cash flow.

Given the cash outflow in the first quarter and our expectations for the second quarter, we no longer expect to generate cash for calendar year 2022. That said, as the recovery picks up momentum and our operating initiatives begin to drive impact, we expect to return to cash generation in the fourth quarter.

Before I turn it back over the Kedar, I want to take a step back and provide some thoughts on our long-term target financial model which we believe can deliver significant value to our shareholders and other key stakeholders.

We believe we have a number of undervalued assets that we can leverage to drive value creation. Let me remind you of the few key points. First, let's look at the big picture. We have built a global two-sided marketplace with tremendous scale that generated more than $1.6 billion in local billings in 2021. We have brand recognition that extends to consumers around the world and we have nearly 16 million active local customers. And second, we also have a strong track record of prudent cost control and have taken more than $225 million of expenses out of our P&L compared with where we were in 2019.

And as Kedar has outlined today, we believe we can streamline our tech infrastructure and automate many processes to unlock further cost reductions and drive efficiencies across the business.

With these financial drivers, we believe we can sustainably deliver full-year adjusted EBITDA margin in the 15% to 20% range and generate a minimum of $100 million in annual free cash flow starting next year.

Looking at all of these assets combined with our balance sheet that includes our investment in SumUp and our new strategy, we don't believe our current market cap reflects the value we believe we're unlocking. Net-net, we believe we're well-positioned to create value for all of our stakeholders.

And with that I'll turn it back over to Kedar for a few final prepared comments.

Kedar Deshpande

Chief Executive Officer & Director, Groupon, Inc.

Thanks, Damien. To be clear, we have a lot of work to do, but I am confident that we have the right resources to make rapid progress. Our entire organization will be focused on the most important work, improving and reducing our expense structure to deliver a strong adjusted EBITDA margin and free cash flow, as we're investing in future growth, and growing our marketplace, offering more differentiated inventory through curated inventory collections, and a new vertical marketplace for premium and Beauty & Wellness experience. We believe success in these two areas will allow us to achieve our financial goals and position Groupon to grow in a variety of economic cycles.

With that I will turn it over to operator for your questions.

QUESTION AND ANSWER SECTION

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

Trevor Young
Analyst, Barclays Capital, Inc.

Q

Great, thanks. Kedar, this feels like a bit of a reset, some user experience work to be done, some improvements in getting the right breadth and depth of inventory, a new Beauty & Wellness marketplace experience this year. All of which would seem to indicate some additional spend is required from here to get those components right.

That feels a bit opposed to the goal of needing to take further cost out after the company has already taken out upwards of $225 million in run rate savings. So just help us understand how you are thinking about balancing the cost reduction versus needing to spend on some of the retooling that you're indicating?

Kedar Deshpande
Chief Executive Officer & Director, Groupon, Inc.

A

Good evening, Trevor. And thanks for asking the question. I think overall what we have is when we look at all our cost at the moment, some of these particular costs are well, put it internally built equations. When I look at it from my external perspective, when I look at it, hey some of these particular costs, are these necessary to run the platform? Are these costs actually add-on to our current customer experience? Those are not required. So that's where we're taking a look at both our technological platform to say is this platform actually serving our need? And is this going to be this large that we need to continue a bit.

The answer to that is no. And so we're going through each of those particular questions and reinvesting some of that particular taken-out cost back into building these particular new marketplaces is where we are going to be focused on.

Trevor Young
Analyst, Barclays Capital, Inc.

Q

That's helpful. And Damien one for you if I may. What gives you the confidence around those 2023 goals, the $100 million in free cash flow and the 15% to 20% EBITDA margin? And just relatedly can you walk us through some of the moving pieces in terms of like take rate, gross margin and key OpEx lines to bridge to that 15% to 20% margin bogey?

Damien Schmitz
Interim Chief Financial Officer, Groupon, Inc.

A

Yeah, sure thing Trevor. And thanks for the question. You know, providing this framework in long-term target financial model is really aimed to kind of answer your first question to Kedar there around how we're thinking about generating profit of – bottom-line profitability for the company. And this framework is really around how we intend to operate going forward net of all those investments and marketing, sales, tech and G&A. As we get closer to 2023, we'll definitely provide you with more details on the specific P&L line items.

But what I can share at this time is that we're confident we can achieve this type of financial profile with just nominal change in the revenue. And some of that is because of those cost opportunities that we do see and why we wanted to disclose our investment in the cloud that we don't see recurring in 2023.

Trevor Young
Analyst, Barclays Capital, Inc.

Q

Great, thanks for that Damien. And just one last housekeeping one, was there any change in the carrying value of the SumUp stake in the quarter? I think that's usually detailed in the 10-Q but I don't think that's out just yet?

Kedar Deshpande
Chief Executive Officer & Director, Groupon, Inc.

A

Yeah, no change there, Trevor.

Trevor Young
Analyst, Barclays Capital, Inc.

Q

Great, thank you, both.

Operator: Your next question comes from the line of Mike Ng of Goldman Sachs. Your line is open.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Hey, good afternoon and thank you very much for the question. I was just wondering if you could talk a little bit about your confidence level in the second half recovery just given how April is pacing and are you assuming a continued recovery into 2023? And I was just wondering if you could offer any thoughts around customer count and whether or not you expect any stabilization this year or next? Thank you.

Kedar Deshpande
Chief Executive Officer & Director, Groupon, Inc.

A

Mike, I will address the first one regarding our confidence, how the April is progressing. So April basically stabilized better than what we had seen in the March. And in general for the back half of the year, I think we have what we're putting out is a number that is scenario-based number, based on what we have seen that, okay, last year there were some scenarios where we actually went up because the COVID recovery was more I would say spikes in and out where there were waves coming in and out. This year we don't expect that sort of spiky recovery, it's more a smooth line recovery is what we will expect for the rest of the year and that's where our scenario equation is based on.

Now as far as the customer interaction, customer counts are concerned, we believe that if we can continue to deliver on the value, particularly we are targeting our Q3 to go back and say, hey, we will have this differentiated collections launch in Q3. We should see a much better response from customers starting with Q3 but that will get much bigger traction in Q4 as well as in 2023.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Great, thank you very much for the thoughts, Kedar.

Operator: [Operator Instructions] Your next question comes from the line of Ygal Arounian of Wedbush. Your line is open.

Ygal Arounian
Analyst, Wedbush Securities, Inc.

Q

Hey, good afternoon, everyone. Maybe to start on the trends in the recovery, I just want to understand a little bit better, so you noted March rebounding like you expected, you mentioned the high demand in [indiscernible] (31:48) availability, it sounds like you were surprised by that, that's something you discussed last year as well.

So – and then – as well if that is the case right now, why expect that that gets any better as we work our way through the year and presumably demand continues to get stronger, does availability get better, is it labor factors, can you just walk us through the expectations around those puts and takes a little bit more?

Kedar Deshpande
Chief Executive Officer & Director, Groupon, Inc.

A

Thanks, for the question, Ygal. I think one of the things we got to look into is what were the inputs, right, so inputs last quarter we had Delta or last year we had Delta and then before that whenever COVID hit, two months later we started to see the customer demand both as well as merchant demand to say, oh, we want to bring back, we want to come back to Groupon platform, come back really fast.

Now this time what is happening is that merchants have the ability to raise the prices to meet their goals in that particular case and don't need to discount as much because their capacity to serve this particular customers is lower but they can meet their goal – financial goals by serving lower number of customers, that was very different from it happened in earlier COVID recoveries.

The second part is also customers are looking for these – some of these particular merchants which are differentiated experiences or which have differentiated quality, these particular merchants they are not looking for those specific set of merchants on Groupon platform because their expectation is I am ready to pay, I'm just going to go and pay that instead of trying to get more discount, both of these two combinations made it difficult for us to see the kind of recovery we're expecting in March.

Go forward, the way I see is that we're trying to build this particular curated collections as I just talked about that one, and then along with that one you can also see that our availability, we are very focused on that one to get back on our platform to say, hey, what are the ways we can get this particular availability back on the platform looking through things such as what sort of inventory density we need to have on the platform? What sort of merchants we need to bring back on the platform instead of just looking for, hey, we need to be focused on this amount of merchants, we can say, it's okay to have one or two merchants, but we just need to make sure that they have availability.

So that's part of our input as opposed to just say X number of merchants need to be back on the platform. We're making sure that the quality – end-to-end quality, not just merchant quality, end-to-end customer quality is also considered while we bring back the supply and that's what gives me confidence that I think it's going to be better in Q3, Q4.

Ygal Arounian
Analyst, Wedbush Securities, Inc.

Q

Okay. Thanks. So, maybe then let's talk about the new marketplace and kind of bundled curated offerings. Can you just talk through that process, like how are you bundling on – what does that involve, what does it require. And then on the new app, maybe just more details, is it a different brand, is it still Groupon? How are you going to get the kind of 0 to 60 in terms of inventory on that. It sounds like it's going to be a completely different experience, maybe if you can just share some more color around that?

Kedar Deshpande
Chief Executive Officer & Director, Groupon, Inc.

A

Yeah definitely, I think the first one, essentially what we are trying to do here is the experience starts by saying what are the things you can bundle together or what are the things that are collected or experienced together. And so it is – the process we are starting is in-house by creating these particular collections manually looking at the pattern what works and then scaling those up in different, different geographies. That's one.

So the capability we are building right now is to combine these particular experiences together such that they actually make sense for our customers. And we will have the traction as we go along. As I said, Q3 is the time.

The second, the differentiated marketplace is going to be completely brand – different brand and the reason it is different brand is because the expectation from a different brand starts differently, the current – whenever you start something with a Groupon brand, the first set of expectation customers have is, it will be discounted.

That's not what this new brand will stand for, the new brand will start – it will be starting with trust. That means you will have the price transparency, you will have the convenience transparency and most important of all, you will have the much richer content in this particular experience.

These three things make this particular brand completely different and the set of merchants or set of actually merchant partners that we can onboard on this new brand will be completely different because they are frankly trying to disassociate themselves in some cases from discounts.

And then taking this new brand and actually powering with the customers that we know are not always looking for discounts, gives us a very good advantage to start and get this particular brand powered up with the right set of customers.

This is something we only can do given that the scale we have with 50 million of local customers and I think this premium brand actually completes the whole gamut of collections in terms of discounted/premium inventory versus right now we are stuck with, hey, we have to have the discounted inventory and you cannot have anything. So, we are focused on local, this gives us the ability to serve all local instead of only discounted local.

Ygal Arounian
Analyst, Wedbush Securities, Inc.

Q

Thanks, and if I could squeeze in one more quickly. Damien you mentioned believing the shares are undervalued, cash flow this year. Sounds like it maybe not negative but certainly not positive as you're calling out. You're expecting return to good amount of cash flow next year, just how you think about capital allocation and buybacks given maybe those three things together? Thanks.

Damien Schmitz
Interim Chief Financial Officer, Groupon, Inc.

A

Yeah, thanks for the question. We're laser focused on realizing the opportunity in front of us and drive, one, stabilizing and fixing our core platform as well as unlocking some of these growth factors that Kedar mentioned.

Playing out some of that scenario all the way into 2023, we're looking forward to returning to cash generation later this year in the fourth quarter as I indicated in my prepared remarks, but then also putting out that type of cash flow -- free cash flow generation on a sustainable basis going forward and that's really the key for us to think about capital allocation.

We need to be delivering that free cash flow on a sustainable basis. I'd also say part of the reason for calling out or – and a reminder on our SumUp investments can be an important shift for us to monetize and address capital allocation going forward for us too.

Ygal Arounian
Analyst, Wedbush Securities, Inc.

Q

Okay, thank you.

Operator: [Operator Instructions] There are no further questions. And with that, this concludes today's conference call. Thank you for participating. You may now disconnect.