S&P Global
Market Intelligence

Groupon, Inc. NasdaqGS:GRPN

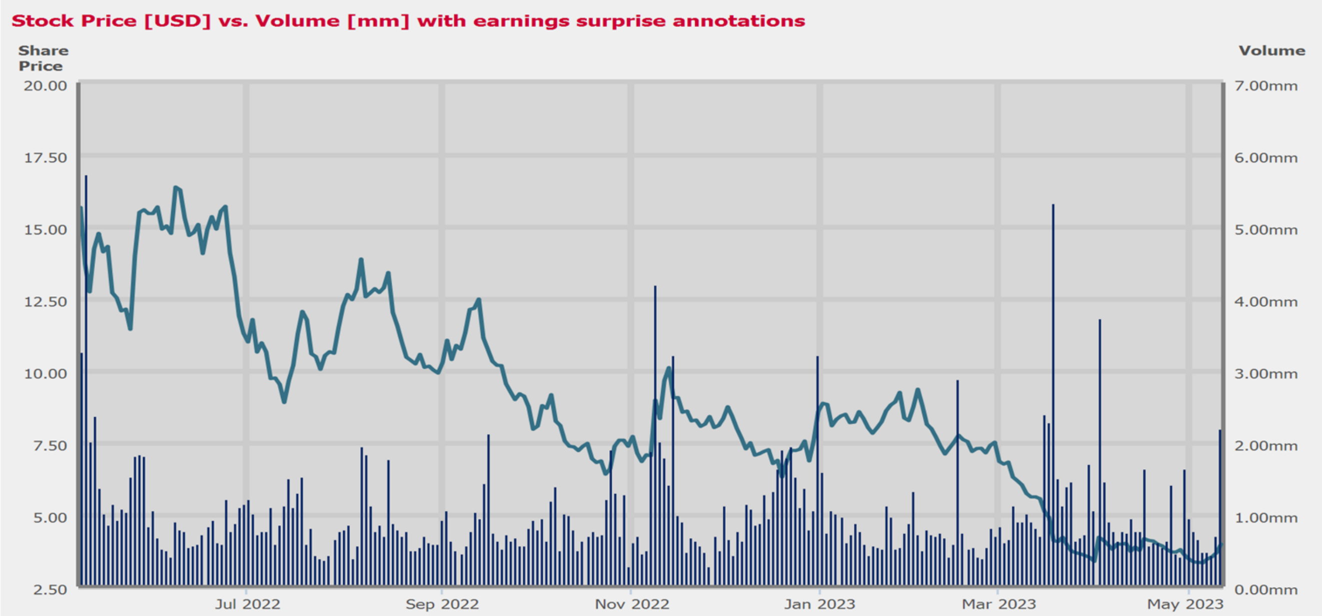
FQ1 2023 Earnings Call Transcripts

Wednesday, May 10, 2023 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	-	-	-	-	0.79	1.32
Revenue (mm)	134.92	121.61	▼ (9.87 %)	138.07	545.52	560.76

Currency: USD
Consensus as of Apr-07-2023 10:33 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	(0.44)	(0.34)	NM
FQ3 2022	(0.44)	(0.68)	NM
FQ4 2022	(0.36)	(0.38)	NM
FQ1 2023	-	-	-

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Call Participants

EXECUTIVES

Dusan Senkypl
Interim CEO & Director

Jiri Ponrt
Chief Financial Officer

ANALYSTS

Eric James Sheridan
Goldman Sachs Group, Inc., Research Division

Trevor Vincent Young
Barclays Bank PLC, Research Division

Presentation

Operator

Hello, and welcome to Groupon's First Quarter 2023 Financial Results Conference Call. On the call today are Interim CEO, Dusan Senkypl; and CFO, Jiri Ponrt. [Operator Instructions] As a reminder, today's conference is being recorded.

Before we begin, Groupon would like to remind listeners that the following discussion and responses to your questions reflect management's views as of today, May 10, 2023, only and will include forward-looking statements. As results may differ materially from those expressed or implied in the company's forward-looking statements. Additional information about risks and other factors that could potentially impact -- the company's financial results are included in their earnings press release and their filings with the SEC.

We encourage investors to use Groupon's 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, the company will also discuss the following non-GAAP financial measures: adjusted EBITDA, non-GAAP SG&A, free cash flow and FX-neutral results. In Groupon's press release and our filings with the SEC, each of which is posted in our Investor Relations website, you will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures to the most comparable measures under U.S. GAAP. Unless otherwise noted, all comparisons are provided on an FX-neutral basis.

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

Dusan Senkypl
Interim CEO & Director

Hello, and thanks for joining us for our first quarter 2023 earnings call. It's a pleasure to be with all of you. In addition to today's prepared remarks, I encourage you to review our shareholder letter, press release and 10-Q, which contain more detail on our Q1 results.

On our call today, I will cover 4 key topics: First, what I've learned during my first days at Groupon. Second, the challenges that we face as a company and our new transformation strategy that our team is executing on to address our challenges and make the most of our opportunities. Third, the highlights of our Q1 performance; and lastly, our outlook for 2023.

Before I get started, I would like to briefly introduce myself. I'm an entrepreneur by trade, and I have created several global e-commerce and technology products used by more than 250 million users. I built ePojisteni.cz and Netbrokers Holding, a dominant FinTech player with more than 400 employees, which was bought by a German media group or media in 2018. All my projects were bootstrapped, which means that it's my nature to build a highly effective, agile and performance-oriented companies.

In 2015, I cofounded Pale Fire Capital, an entrepreneurial investment firm that has grown rapidly to approximately $1 billion in the net asset value and is currently Groupon's largest shareholder with ownership of approximately 22%. Its private equity portfolio includes almost 30 companies, including several marketplace companies. At Pale Fire, I served as the Chairman and CEO and was responsible for leadership, strategy development, organizational design, go-to-market and product development. Pale Fire also has a track record of successful transformations, including its investment in IKEA, which is Central and Eastern Europe version of ebay.com, which increased the GMV by 2.4x in 3 years, while maintaining healthy profitability.

I'm really proud of the approach we developed at the Pale Fire to drive business transformation, and I'm excited to bring my experience to help lead Groupon. Now the reason I'm telling you this is that my experiences make me what I am today. You will find me a leader who keeps things simple, keeps customers at the center of everything, short-term inpatient and long-term patient is not afraid of challenges and determined to beat them. I understand your disappointment with Groupon, and I want nothing but to be honest, transparent and to deliver results.

During my first 40 days as the CEO, I've listened to and learned a lot from our employees and our partners. I immersed myself into our products and technology into our value proposition and into how we meet the market's needs. Through all of these conversations, I've been struck by the opportunities we have internally to operate in a much more efficient and productive way. We can generate much higher output with the same or even less resources. My initial focus is to execute on these opportunities so that we have a solid base for future growth. I also acknowledge that we are facing challenges that we need to others and that you are all looking for responses from us.

We recognize that turning our business around is going to be tough and that it won't happen overnight. This requires a focused transformation and requires that we leverage all of our assets. We have developed our transformation strategy by drawing inspiration from the principles of building a successful Internet marketplace; b, automate Groupon a past success and; c, a Groupon Crown in the Czech Republic, which successfully completed its transformation from a daily deal discount flash site with destination experience marketplace.

Our transformation plan is built on 8 strategic pillars where it will provide focus, organize our teams and drive momentum. These are: first, fix the supply side of our marketplace; second, raise our product experience to modern marketplace standards; third, do our marketing engine towards lower funnel performance channels; forth, assemble a high-performance team with a focus on operational excellence, 5, rebuild our organizational structure, business processes and management systems; 6, create an efficient cost structure; 7, leverage our other business lines to support local and 8, improve our financial flexibility.

Each of these pillars are detailed in our shareholders letter, but I will say a few words on each year one by one. Firstly, fix the supply side of our marketplace. Everything starts with supply. If we end the right supply, demand will follow. Our plan to fix the supply side of our marketplace involves reinvigorating our margin value proposition, returning to geo focus and recommitting to a sales-driven marketplace.

Groupon needs to improve its value proposition for merchant partners as its current approach of heavy discounts and expensive deal margin structure has led to increased churn of its supply base to strike a better balance between consumers, merchants and Groupon, the company aims to offer more flexible and dynamic partnership solutions that meet merchants, individual needs and marketing goals. This process will take at least 12 months to transition and achieve the right balance.

Groupon has refocused on a geo-targeted approach to match local demand with local supply. Performance varies significantly across our top 30 markets with some growing and average shrinking double digits year-over-year. By prioritizing merchant acquisition in their top 5 North American markets, we see early encouraging signs and believe we can execute more consistently and drive better performance as we rather focus to running our marketplace at the local level.

Finally, we consider our sales force critical for securing unique supply on our platform exceeded gross profit on most of our new supply in North America with only 20% of new local deals selling to more than 10 units. To improve our ROI, we are unifying our sales leadership, implementing a new compensation plan and centralizing our global sales operations. Our second strategic pillar is raising our product experience to modern marketplace standards. Improving the technology infrastructure is a key part of Groupon's transformation strategy to enhance customer and merchant partner experience. The current product offering falls short of modern marketplace standards, resulting in an attractive ROI despite high resource allocation.

Groupon has taken steps to right size the tech organization and increased focus on product development, including an ambitious Hackathon initiative to quickly launch product improvements, such as gamification, personalization and generative AI assisted the deal creation. Our third strategic pillar is tune our marketing engine to focus on lower funnel performance channels. In Q1, Groupon improved the efficiency of our marketing spend by focusing on lower funnel performance channels and shifting away from incrementality to ROI targets.

This resulted in a decrease in marketing spend as a percentage of gross profit, but gains in efficiency, especially in search engine marketing. Groupon is now focused on improving returns and performance channels before returning to mid- and upper-funnel channels. Our fourth strategic pillar assembled a high-performance team with a focus on operational excellence. Attracting top talent is a crucial to Groupon success, and the company is seeking individuals who Groupon has recently hired talent through Pale Fire Capital's network in the Czech Republic and is also actively recruiting both inside and outside the compelling.

The goal is to create a winning team our, fifth strategic pillar, rebuilt our organization structure, business processes and management systems. Groupon is prioritizing operational exporting systems are in place. The organization is becoming flatter and leaner to enable faster execution of high-priority projects, breaking down silos and implementing a performance culture with metrics and KPIs. We have also improved our management system by reducing meetings and implementing a modern project management tool.

Our sixth strategic pillar, create an efficient cost structure. Groupon's opportunities to improve efficiencies through automation, simplification and implementation of AI tools to reduce costs. The company is reviewing large and small categories of spend and is on track to exit the year with a non-GAAP SG&A run rate of $290 million. We believe we can improve our bottom line by implementing proper organization structure and the mindset of frugality. Our seventh strategic pillar leverage our other categories to support local.

We plan to shift our merchandising strategy in goods and travel categories to complement our experiential value proposition and mission to be the ultimate destination for local experiences and services. In goods, we will offer seasonal trends and inspirational gifts while Travel will pursue experiential travel by creating packages that include inductions and accumulations. Our goal is to create a portfolio of experience offerings with balanced acquisition, retention, engagement and margin to unlock the synergy potential of our horizontal marketplace business model.

Our eighth strategic pillar, improving our financial flexibility. Groupon has taken steps to improve its financial foundation through January restructuring announcement and large amendment to its credit facility among other plans. The company believes it will have sufficient liquidity to meet its obligation in the next year and is exploring strategies to further enhance its liquidity position, such as cost savings, additional financing and potential monetization of noncore assets.

Let's now look back at Q1. We had a disappointing quarter for both revenue and adjusted EBITDA. While Jiri will provide more details later, our first quarter 2023 billings and revenues were down 14% and 21% year-over-year. We generated negative $5 million in adjusted EBITDA and free cash outflow of $86 million. With the results indicate the business is facing serious challenges that we must address as a company and underscore the need to implement a significant and urgent transformation.

Lastly, our outlook for 2023 and beyond. 2023 will be an important year. We have a lot of work to do and the results will take time. I will make sure that in 2023, we transformed the company and laid the foundation for our long-term success. As I spoke about earlier, a key objective for the long-term health of the business is to fix the supply side of our marketplace.

Finding the right balance with our merchant partners will make our business more healthy and sustainable over time. Within this long-term context, we took a realistic view on the 2023 business. As a result, I expect our second quarter revenues to decline year-over-year at a similar rate to what we observed in the first quarter. And while we expect our third and fourth quarter to decline year-over-year, I would expect to see a slight improvement in the rate of declines in each quarter.

As our transformation strategy takes hold, we expect to see an increase in year-over-year local billings by early 2024, while our revenue growth trends may diverge from our local billing trends depending on the trajectory of our other categories and the timing of our transformation strategy. When I next communicate in about 90 days, I intend to provide more details to help you monitor our progress towards our priorities.

I'm a firm believer in transparent communication and dialogue with all stakeholders. I strongly believe in delivering on our commitment and doing what we say we will do. I will, therefore, strive to be as open as possible in discussions with all of you to provide regular updates on our progress towards our strategic, operational and finance goals.

With that, I will turn it over to Jiri to provide some insights on our financial performance. But before I do that, let me provide a few words of introduction. Jiri Ponrt is a highly regarded leader, evidenced by his successful carrier as CFO of Alza.cz, one of the biggest e-commerce players in Central and Eastern Europe. He brings to Groupon the experience and tenacity we need to help us fulfill our potential. I've worked closely with him during our time together at Bel fire, and I look forward to partnering with him as he takes on the role of CFO.

Jiri Ponrt
Chief Financial Officer

Thanks, Dusan, and thank you as well to everyone who is joining us today. It's a pleasure to be here speaking with you. I believe my time today to provide further insight into. Our first quarter operating and financial results, progress on our cost saving actions and starts to consider for the remainder of the year.

Before I begin, I would like to briefly introduce my slot and share a few initial observations I had on our business. I joined Groupon month ago because I acted as the group CFO of are. During Q1 2023, I helped the board that is oversight of our finance function. So I had some opportunity to orient myself to the Groupon Finance department. A big part of the Groupon CFO scope is familiar to me as I acted for more than 7 years as a CFO of Alza.cz. One of the major Central European e-commerce players with a turnover of about USD 2 billion.

During my time at Groupon, under the legacy system and purchases for the company's quick and acquisitive growth at its onset that I believe can be part of the freeline. So my priorities apart from more focus on management and decision-making will be focus on the equity and cash flow management, simplification of the structure and purchases as well as the alignment across departments and automatization of purchases.

So I'll let up into the consolidated first quarter results. We delivered $396 million of gross billings, $122 million of revenues, $105 million open gross profit and negative $5 million of adjusted EBITDA. First quarter free cash outflow was $86 million, and we ended the quarter with $164 million in cash, including $48 million drawn on revolver, and we had over 18 million active customers worldwide.

Turning to our Local category. Consolidated local billings were $316 million, down 8% compared to prior year. Within North America, we delivered local billings of $222 million, down 11% and had 9 million local customers as of March 31, 2023, down 2% sequentially and 19% year-over-year. Visit International, we delivered local billings of $94 million, flat compared with the prior year and had 5 million active local customers, flat sequentially and up 2% year-over-year.

Moving to our Goods and Travel category. In the first quarter, consolidated group billings was $46 million, down 35% and consolidated travel billings was $35 million, down 11%. Turning to our operating expenses. First quarter GAAP SG&A was $102 million and down 20% compared with the prior year as we begin to see the benefits of our resin cost saving actions reflected in our financials.

Our non-GAAP SG&A, which excludes store-based compensation and depreciation and amortization was $92 million, down 17% year-over-year. As a reminder, we completed our migration to the cloud in the first quarter of 2023 and remain committed to significantly reducing our cloud cost over time, which will be complemented by a lower payroll expenses resulting from the cost-saving actions we announced in January.

During the first quarter 2023, we incurred $9 million in onetime pretax charges related to our restructuring plan. Marketing expense for the first quarter was $25 million or 24% of gross profit. As we continue to deliver improvements to our fundamental marketplace experience, we believe we kept more out of our marketing dollars. Our goal is to sustain our marketing expense to below 25% of gross profit in 2022.

Turning to our cash position. We ended the quarter with $164 million in cash, including $48 million drawn or revolver. In the first quarter, we had net operating cash outflows of $76 million, including $10 million onetime payment for termination of our Chicago office lease. As a reminder, we typically experience net working outflow since the first quarter of the year due to seasonality and our normal merchant payment cycles. We also repaid $27 million of borrowings under our revolving credit facility during the word. In the second half of 2022, we completed the majority of cost actions related to Phase 1 of our restructuring plan, which is expected to remove $150 million of cost for the business.

And earlier this year, we began executing on the second phase of our plan and are back to substantially complete discussions by the end of Q2. In total, we expect these cost actions will reduce our expense structure by $250 million. These cost actions as well as our March amendment to our credit facility examples of Groupon has taken towards improving its financial foundation to support our information this year. With these actions and additional management plans, we believe we will have sufficient liquidity to meet our obligations as they become due over the next 12 months. Groupon continues to hold a 2.29% equity stake in the privately-held global payment provider summer.

As a reminder, the reflect the value of the stake as well as other minority investments on our balance sheet. The carrying value for this investment is approximately $120 million. While there is no public market for some of securities at this time. If an opportunity area is to monetize this asset, we would consider as part of -- to help you with your models, let me walk you through how these savings are expected to translate to our panel during 2023.

We began to see these cost savings during the first quarter of 2023 and estimate full year non-GAAP 2023 SG&A to be approximately $320 million. Beyond 2023, we will be able to lower our annual non-GAAP SG&A run rate expenses to be approximately $290 million. Given we are in the mid of executing our turnaround strategy, we are not providing formal guidance at this time. In light of this, we are providing more details on our expectations for the year.

As Dusan mentioned, we expressed our second quarter revenues to decline year-over-year at a similar rate to what we observed in the first quarter. And while we expect our third and fourth quarter to decline year-over-year. I would expect to see a slight improvement in the rate of declines each quarter. As our transformation strategy takes hold, we expect to see an increase in year-over-year local billings by early 2024. So our revenue growth plans might diverge from our local billings and depending on the perfecter of our other categories and the timing of our transformation strategy.

Turning to profitability. We do expect to generate positive adjusted EBITDA for the remainder of the year as we start to realize the benefits of our restructuring actions more meaningful. On free cash flow, we were able to convert positive adjusted EBITDA to positive free cash flow will depend on the timing of our working capital cycle and other cash expenses.

As a reminder, our working capital has historically remained impacted by seasonality with our first quarter generally experiencing a large negative working capital impact and our fourth quarter experienced a positive boring. Given our current equity market valuation, our summate and our operating plan focused on unlocking both top line growth and expense savings basically we can cure value for all of our stakeholders as we continue to execute our strategy of transformation.
Thank you for your time today. With that, we would like to open the call up for your questions. Operator?

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Trevor Young with Barclays.

Trevor Vincent Young
Barclays Bank PLC, Research Division

Great. 2, if I may. First one, just any color on North America and international local billings in March and so far into 2Q. I think the data points that we had last print were that January and February were trending around 46% of 2019 levels. And it looks like full quarter results was a little bit softer than that, but maybe some FX noise in there. So just trying to understand whether trends deteriorated in March and where we are so far in April? And then second question, I appreciate the comments and the letter evaluating strategies to enhance liquidity. Investors naturally migrate to that sum up stake, and I realize there's no active market for that. But can you just help us understand if there's any like restrictions or impediments that would prevent you from monetizing that in the next 3 to 6 months, if there were a sufficient bid from some party?

Dusan Senkypl
Interim CEO & Director

Okay. About the local buildings in Northern America, we have for Q1 of USD 222 million, which was down 14% quarter-over-quarter and 11% year-over-year. And -- now to your second question about balance sheet and sum up and so on, yes, we can imagine potential monetization of certain noncore assets, including our stake in Samat, ownership of Giga our portfolio of intellectual appropriately, the same way as we are pursuing additional cost actions or seeking additional financing from both public and private markets.

Operator

We'll take our next question from Eric Sheridan with Goldman Sachs.

Eric James Sheridan
Goldman Sachs Group, Inc., Research Division

2, if I could, just coming back to the 8 strategic pillars you laid out. I wanted to hone in on #2 and #3. So in terms of how you might want to invest and arc or change the product experience to align it with modern marketplace standards. I'd love to go a little deeper there on what you see as some of the key white spaces to attack or areas of investment to possibly pursue. And then the second would be your third pillar. How should we be thinking about sort of arcing or changing the marketing engine inside the company to align more closely with lower funnel performance channels? How should we think about that in terms of either investments that need to get made or possibly changing some of that user funnel and user conversion pathways that the marketplace has had over time.

Dusan Senkypl
Interim CEO & Director

Great. Thanks for the question. Regarding the first part, pricing our product experience to modern marketplace somewhere as one of the first initiatives which we started when I joined the group on is that we launched Hackathon project, which includes a big part of our engineering team and which is to say, developing several major changes to our user experience which we have on our website. And we are making sure that we not all processes we have on one now and the flexation than we have right now.

And that's one example of change which we are developing, for example, the use of generative AI we will be using for our self-service for our merchants, but also for our sales team. Right now, the whole process reflects emanates and, let's say, the quality of deals which are generated to some service in general is lower of our lower-performing comparing deals, which are created by Egan using the AI, we are able to based on the best side of the merchant and experience from our own data set and similarly -- from the similar campaigns from similar category to generate [indiscernible], which will be much higher quality, which means that the whole setup for merchants will be much more simple.

And we have like many more examples in development on checkout page and experience of customers on the website. So this is the second question on marketing engine. I'm turning up the old the lower funnel performance channels -- we are kind of revisiting the top of all performance marketing channels, which we have, and we are trying to put her a little bit more of geo focus and a little bit more measurement of performance in, let's say, small CC, small locations so that we can adjust the spend and spend, let's say, higher spend towards the campaigns and deals which are higher performing versus there...

Operator
Thank you. And this does conclude today's presentation and the question-and-answer session. Thank you for your participation, and you may now disconnect.