GROUPON

3Q23 Earnings Script

Dušan Šenkypl, Interim CEO:

Hello and thanks for joining us for our third quarter 2023 earnings call. It's a pleasure to be with all of you. Today's prepared remarks are posted on our investor relations website along with an investor presentation which I will refer to during my remarks. In addition, I encourage you to review our press release and 10-Q, which contain more detail on our Q3 results.

I will start today's call **on Slide 5** and cover the key takeaways from the third quarter. From my perspective, the positive signals I see in the quarter include:

<u>One</u>, another quarter of progress as our third quarter financial results came inline with our baseline expectations to deliver sequential improvements in the rate of year-over-year revenue decline, generate positive Adjusted EBITDA and slow our Free Cash outflow.

<u>Two</u>, we announced a plan to raise appromixately $100 million between a $80 million fully backstopped equity rights offering and $19 million in non-core asset sales.

Transforming a business like Groupon is not easy. With this financing plan along with the actions we have taken year to date to create an efficient cost structure, I feel confident that we will be able to provide clarity to all stakeholders - from customers, merchants, employees, suppliers and capital market participants - that Groupon has the liquidity it needs to support our transformation plan. It is management's goal to have no doubt about our ability to operate as a going concern.

<u>Three</u>, I am pleased to see Local Billings return to growth earlier than expected, which helped to drive a significant improvement in the rate of decline for Global Billings. Local Billings was aided by a strong summer season for our things to do offerings, where we saw several important merchant partners return to Groupon after a several season hiatus. In addition, we ran a very popular deal in August offered by a large mutli-national retailer. Experiences like this confirm my view that Groupon is a supply-driven marketplace. If we can get the right assortment on our platform, demand will follow.

While the pace of Billings materially improved, our Revenues trajectory did not improve inline with the Billings improvement. This is a planned divergence and covered in our transformation plan, where we aim to strike a better balance in sharing value on our platform between the consumer, merchant partner and Groupon. By strengthening our merchant partner value proposition, we can improve our assortment of desired deals, which leads to a better customer experience that improves traffic and conversion, which helps drive business to merchants and gets the positive marketplace flywheel going. While it is hard to predict how our Revenues as a % of Gross Billings will vary from quarter-to-quarter, I do believe that overtime we will arrive at the right balance for Groupon to be competitive in the experience marketplace.

On the negative side, it has become clear that several of our more ambitious projects will take longer to deliver than expected. Progress in transformations is not always linear and our ability to deliver on critical projects will materially influence the pace of our financial progress and our ability to return our business to growth. I will return to this topic later in my remarks.

Slide 6. Now I will review where we stand on our transformation plan and the three key workstreams.

Overall, at this stage, the fast transformation is coming to an end and we are now switching from a cost cutting first mindset to a topline first mindset. We are turning our focus to delivering projects across product, engineering, sales, marketing and revenue management that we expect will strengthen our marketplace and position our business to return to growth.

To be clear, our goal to create an efficient cost structure is not yet complete and most likely will never be over. But we have made significant progress reducing our SG&A to $320 million annualized as of the third quarter, a reduction of over $150 million compared to where we stood a year ago. Our SG&A reduction drove a 2,000 basis point improvement in our Adjusted EBITDA margin year-over-year despite revenues declining 12% during that same time period. We now have basic visibility on our structural fixed cost footprint and have long-term projects in place to further reduce our costs, such as cloud cost optimization, software cost reduction, and resizing our facility footprint.

The progress we have made on the cost side combined with our plan to raise approximately $100 million in liquidity between a fully-backstopped equity rights offering and non-core asset sales is a major step forward to strengthening our financial position. Once these steps are completed, it is management's intention to have no doubt about our ability to operate as a going concern.

Moving to our second key workstream: rebuilding our organization. The leadership team we put in place last quarter continues to be aligned and motivated. We continue to build relationships between new and old team members and create a culture of performance and meritocracy across the board. While earlier in the year we adopted new tools and processes for coordinating remote work, this quarter we increased the number of our in-person engagements and saw a pick up in office attendance. In addition, our talent acquisition process was restructured and we are seeing improved throughput and quality from our new hiring engine.

There is still more work to simplify our business and make it more agile. While we made good progress in reorganizing our departments and teams, our attention is shifting to basic infrastructure projects such as upgrading our ERP and business intelligence applications. These are major projects that will take time to execute and won't have immediate contributions to our topline results in the near term, but they are important to build a strong foundation for future growth.

Last but certainly not least, revitalizing our marketplace. Overall, while we have delivered over a hundred small initiatives to improve our marketplace and the teams are pushing changes everywhere, it has become clear that several of our ambitious projects will take longer to deliver than expected. I am going to spend the remainder of my comments to dig a little deeper on our marketplace performance.

Slide 7.
The Q4 holiday season has started and our leadership team is laser focused on daily execution to ensure we can deliver on this important season.

For example, we are actively reviewing our sales processes to remove any obstacles from closing sales. That means postponing activities that may decrease sales productivity and prioritizing a list of merchants who previously worked with Groupon, but for a variety of different reasons we decided to stop working with them.

In addition, reliability on our legacy platform has been a major issue for Groupon. Over the long-term, I believe we can find a few hundred basis points of growth from just improving our platform reliability. For example, one area of focus for us is the checkout process, where we see many opportunities to improve the experience for customers who have made it all the way through our funnel and added items to their cart. In the short-term with Q4 here, we have shifted our resources to attack as many bugs and errors on our legacy platform as possible and ensure intended transactions are completed.

Finally, search & relevance is a big area of focus for us. We are actively working on increasing our visibility on how we distribute impressions, so we can more quickly adjust the deals our customers are seeing based on various factors, such as seasonality or deal popularity.

Slide 8.
One project that came out of our hackathon this past spring was the development of a new consumer front-end. New feature development on our legacy platform takes too long and we quickly realized a new front-end is required if we are going to achieve our transformation goal to raise our product experience to modern marketplace standards.

We believe that quicker development time and quicker releases can help us provide a much better customer experience over time. The ability to release new features every week and deliver feature parity in North America and International in quick succession will be a major change for Groupon.

For example, one feature we want to provide our customers is a more seamless gifting experience and we believe our new consumer front-end will make it easier to build this new gifting proposition.

Building a new consumer front-end is a significant undertaking for Groupon, with approximately 100 people in the company involved. Initial project timeline expectations were two years. After challenging all our assumptions, the team took an ambitious goal of 6 months to have it ready in time for our Q4 season this year. Despite incredible progress by the team, I made the difficult decision to delay 100% roll-out until 1Q24 to de-risk and protect our peak season. I would like to thank the team for their tireless efforts and I'm excited to see what we can do with our platform once the new front-end is released.

In addition to the new front-end, our product and engineering team is busy with several projects across our platform, including a new deal creation tool, a redesign off our merchant center based on the new front-end architecture, changes to our marketplace support ecosystem and launching a redemption API to make our voucher redemption process more efficient for merchants. More to come here in the new year.

Slide 9.
From my perspective, as you review the performance of our business in prior seasons, Groupon has not benefited from the uplift that other marketplaces and retailers typically experience during big gifting seasons. I see that repositioning Groupon to play a bigger role in gifting is a key strategic growth opportunity for our business and a project that I am allocating resources towards. If we are successful in unlocking gifting, I expect that Groupon will generate much stronger performance in the Q4 holiday season than we are used to seeing.

In the third quarter, we launched initiatives across the Company to make Groupon more giftable. Starting with supply, we identified over 25,000 giftable deals and over 4,000 top giftable deals and focused on onboarding new merchants with selected giftable categories. We also worked with existing merchants to improve their deals and add premium giftable options.

On the product side, with the decision to delay the full roll-out of our new consumer front-end, we will be doing our best to adapt our legacy platform to make Groupon more giftable. The legacy platform does have constraints, but we expect to have gifting options on all the important places from homepage to checkout in time for the Q4 holiday season. We have made customized and easy to use gift vouchers and also created themed Groupon gift cards using Groupon bucks. With the introduction of gift vouchers, customers will be able to gift a majority of our offering. We are also updating our sorting and ranking algorithms to generate giftable deal feeds and will be launching special holiday themed gift pages.

These are just a few examples of the initiatives underway to make Groupon more giftable. Giftable experiences is a large untapped market for Groupon and we are excited to build a great gifting offering not just for the traditional Q4 holiday season, but an option that consumers can turn to all year round for their special occasions.

While it is too early to say whether gifting will materially help our results this Q4 season, over time, I believe that gifting can become a big business for us and Groupon can become a leading destination for giftable experiences.

Turning to **Slide 10.** I want to cover where we see things from a revenue management perspective.

As we updated investors in our last two earning calls, reducing our reliance on promotional spend and improving the mix between paid marketing and promotional spend is a key step towards improving the health of our marketplace.

In the third quarter, we continued to shift our spend on the demand side of our marketplace from promotions to marketing. On the promotions side, we continue to make progress to cut out inefficient promotional spending and our promotional spend decreased at a faster rate than Gross Billings. We are making progress shifting our promotional tools to a more personalized approach, where we provide a discount to specific customers who need it to drive conversion. Reducing our reliance on promotional spend is an ongoing effort and I do not expect progress will be linear.

Turning to marketing, marketing as a percent of gross profits increased from 20% in the second quarter to 26% in the third quarter as we successfully ramped up our performance marketing spend while maintaining our internal benchmarks for return on investment. We did observe some constraints in our ability to further increase our performance marketing spend, while maintaining an attractive return on investment, so we made a decision not to increase our marketing spend further.

Geographically, we have found more success in scaling our performance marketing campaigns in North America versus International, where we are experiencing lower conversion rates and lower return on investments. International is an area of focus for the marketing team going forward. Our ability to further ramp up our marketing spend is not static and will be influenced by a variety of factors, including continued improvements in how our marketing campaigns are run and improvements in our product and supply.

While we are making progress to drive traffic growth through our paid marketing channels, traffic from our direct and managed channels is still declining, with traffic from managed channels decreasing at a faster rate than our direct to site traffic. Improving our managed channels performance is a focus for our marketing teams going forward.

Overall, a key focus for our revenue management is pushing top performing deals across our channels. At this stage of our transformation, my view is our deals can be a great marketing tool to drive traffic to our site and improve conversions. We have made changes in our processes so that our marketing teams are cooperating more closely with our supply teams and revenue management. In addition, our revenue management team is actively managing our search & relevance process to more efficiently distribute our impressions.

Slide 11. Turning to supply.

As we have discussed in prior quarters, we see an opportunity to improve the productivity of our salesforce and in the third quarter, we continued to see an increase in year-over-year sales representative productivity. We rolled out a new pipeline management and reporting process, which is helping us monitor progress, set expectations, prioritize, actively manage and hold reps accountable. We are working on projects to add automation tools to help increase our sales efficiency, such as a new lead management tool. We will be working methodically to optimize every stage of our selling process and we see a significant growth opportunity from improving the efficiency of our sales investments.

One area in supply that we are behind on is our geo-focused initiative. Last quarter, we mentioned we expected to expand our focus from the top 5 markets in North America to the top 23 markets worldwide. This rollout is still planned but not moving as fast as expected.

Next, I would like to touch on our existing merchant base. Like many established marketplaces, the vast majority of our business in any given quarter comes from existing merchants. In 2022, all existing accounts were moved to pooled services that were only reacting to merchant inbounds and many merchants were not actively managed. In the third quarter, we rolled out a new customer success organization focused on actively managing our top 80% of Billings. This full lifecycle sales team is responsible for the revenue and retention of our highest value accounts. Overtime, we expect this team will help our existing merchant partners drive more business with Groupon.

Finally, last quarter I mentioned we were evaluating higher investments into our sales network, including potentially increasing the number of sales representatives. In the third quarter, we started ramping up new hires and are also testing alternative more performance-based remuneration and faster training processes.

Slide 12. Before I turn it over to Jiri to provide some insights on our financial performance and provide an update on our outlook and our liquidity position, let me give a few concluding comments.

As I updated you last quarter, our financial results indicate the serious challenges our business faces and underscores the need to implement a significant and urgent transformation. While we made some good progress in the third quarter, I am not happy with the delivery of our projects and progress is taking longer than I expected. Delivery of projects is our main priority as return to growth depends on it. At the same time, as indicated by my commitment to the backstop rights offering, I'm confident that we will succeed in our transformation and we will lay the foundation for our long-term success.

Lastly, I want to update shareholders that Eric Lefkofsky has made a decision to resign from the Board of Directors so that he can focus on his other commitments. Over 15 years ago, Eric co-founded Groupon and helped build the Company into what has been recognized as one the fastest growing internet companies of all time. Throughout the Company's journey, Eric has served in different roles at Groupon including Chairman and CEO and helped lead the Company through several challenging periods, including to but not limited to its response to the COVID-19 pandemic. On a personal note, I would like to thank Eric for the partnership approach he took when Pale Fire first invested in Groupon and his support of my interim CEO candidacy. As Groupon's second largest shareholder, Eric has assured us he is not going far and I look forward to our continued engagement in the quarters and years ahead.

With that, I'll turn it over to Jiri.

Jiří Ponrt, CFO:

Thanks, Dusan, and thank you as well to everyone who is joining us today. It is a pleasure to be here today speaking with you.

I'll use my time today to provide further insights into:

- Our third quarter financial results,
- Progress on our cost savings actions,
- Update on our liquidity position, and
- Our updated outlook

Before I begin, I would like to make an announcement that Kyle Netzly will be moving from her position as interim Chief Accounting Officer to becoming our permanent Chief Accounting Officer. I have been pleased with Kyle's management of the accounting team and her contributions to the business. Please join me in congratulating Kyle and wish her the very best in her new role.

Turning to slide 13, So let's jump into our Third Quarter Summary Financial Results. In the third quarter, we delivered Global Billings of $419 million, a decrease of approximately 3% and a significant improvement from the second quarter, where Billings declined approximately 14%. I will cover more details on the drivers of our Third Quarter Billings later in my remarks.

Revenue was $126 million and declined at 12% year-over-year, a slight improvement in year-over-year trends versus our second-quarter results and in line with our outlook to show a sequential improvement. Revenue declined at a faster pace than Billings. While there are several factors impacting this divergence between our Revenue and Gross Billing growth rate, the primary driver is a reduction in our deal margin. As a result, Revenue as a % of Gross Billings was 30%, a reduction of over 300 basis points year-over-year. Given the many variables that impact Revenue as a % of Gross Billings from quarter-to-quarter, including mix, seasonality, and several other factors, we will not provide forward looking commentary on how we expect Revenue as a % of Gross Billings to evolve in the quarters ahead. That said, as previously outlined in our Shareholder Letter published in our first-quarter earnings, reviving our merchant partner value proposition is an important pillar of our transformation and we believe we need to strike a better balance in sharing value on our platform between the consumer, merchant partners and Groupon.

Moving on, our Gross Profit as a percentage of revenues remained stable around 88%. Marketing expense for the third quarter was $29 million, or 26% of Gross Profit. As we updated you last quarter, our rebuilt performance marketing campaigns were ready to receive increased investment in the third quarter and we increased our marketing spend 30% quarter-over-quarter. As we deliver additional improvements in the efficiency of our performance marketing channels, we will continue to review our marketing spend to ensure we strike the right balance between maintaining adequate returns on each dollar spent and driving better topline results.

Contribution profit for the Third Quarter was $82 million, or 65% of Revenues. And adjusted EBITDA was $18 million, as we recorded a second straight quarter of positive adjusted EBITDA generation as the Company benefited from realized savings from our cost actions on SG&A.

Turning to cash flow, the Third Quarter saw a Free Cash Outflow of $18 million. While this is an improvement versus last quarter and last year, it was still negative as our return to Free Cash Flow generation lagged our return to positive adjusted EBITDA. I will have more to say on the divergence of adjusted EBITDA and Free Cash Flow later in my remarks.

We ended the quarter with $86 million in Cash and Cash Equivalents, including $47 million drawn on the revolver. Please note that our cash position excludes $15 million of Restricted Cash, which is posted as collateral against our outstanding letters of credit and reported on our balance sheet in Prepaid Expenses and Other Current Assets.

Slide 14. We had approximately 17 million active customers worldwide as of quarter end, down 500,000 from the prior quarter.

Turning to our Local category. Consolidated Local Billings were $354 million, up 2% compared with the prior year. This is the first time we have reported Local Billings growth since the start of the pandemic and a nice positive signal for our business. Within North America, we delivered Local Billings of $260 million, up 5% year-over-year. Within International, we delivered Local Billings of $94 million, down 3% year-over-year. As Dusan mentioned in his prepared remarks, our Local category benefitted in the Third Quarter from the strong performance of a large enterprise deal that ran on Groupon during the month of August and also benefited from better performance in our Things To Do vertical, which saw several important merchant partners return to our platform for the summer season. Offsetting this strength was our Health, Beauty & Wellness and Food & Drink verticals, where we continued to experience headwinds.

Moving to our Goods and Travel categories. In the Third Quarter, Consolidated Goods Billings was $36 million, down 34% year-over-year and Consolidated Travel Billings was $29 million, down 16% year-over-year.

Slide 15. Turning to operating expenses, Third Quarter SG&A was $80 million, down 33% year-over-year and down 17% quarter-over-quarter as we continue to see the benefits of our recent cost saving actions reflected in our financials. SG&A includes $3.8 million in stock-based compensation and $6.4 million in depreciation and amortization.

Creating an efficient cost structure is a key pillar of our transformation plan and we have launched multiple projects across the company to reduce our fixed cost structure. We continue to see opportunities to improve Groupon's ability to execute more efficiently and in turn further reduce costs in 2024.

For the fourth quarter, as Dusan mentioned in his prepared remarks, several of our projects to further reduce costs will take time to get delivered and, as a result, we do not expect to see a material change in SG&A from our current levels in the fourth quarter.

Slide 16. Turning to Free Cash Flow. Despite producing positive $18 million of Adjusted EBITDA in the Third Quarter, our business experienced another quarter of cash outflows.

In order to better help investors understand the divergence between Adjusted EBITDA and Free Cash Flow, we have prepared a bridge that reconciles Adjusted EBITDA to Free Cash Flow.

Specifically, I would like to point your attention to 5 drivers of the divergence:

1. Capex is primarily driven by capitalized labor
2. Change in Merchant & Supplier Payables is primarily driven by overall change in Billings and secondarily impacted by our merchant payable cycle. Please note that our quarter ending balance of Merchant Payables can be impacted by seasonality. For example, along with January, February and April, September is one of our seasonally lowest months as we transition from a busy summer things to do season into our Q4 holiday season.
3. Change in Trade Accounts Payable is primarily driven by: one, how much non-payroll SG&A and marketing we are expensing and two, any changes in our Accounts Payable cycle. Year to date, our Accounts Payable cycle has reduced significantly and we do not expect further compression.
4. Change in Accrued SG&A and Other Current Liability is primarily driven by our SG&A and other expenses. As we reduce our overall spend, we will be accruing less.
5. Cash outflow from Change in Net Operating Leases is driven by remaining lease payment obligations on our impaired leases. In 1Q23, the outflow included a one-time payment associated with the early lease termination of our Chicago facility. As we resize our real estate footprint to our current needs, either through the expiration of our current leases or negotiating early lease exits, we expect the working capital outflow from this item will trend towards zero.

Going forward, our ability to convert positive Adjusted EBITDA generation to positive Free Cash Flow will depend on the timing of our working capital cycle and other cash expenses.

Slide 17. As Dusan covered in his prepared remarks, strengthening our financial position is one of the main pillars of our transformation plan. I am happy to see the continued progress the Company has made to create an efficient cost structure and improve the trajectory of the topline performance in the business. Our financial results indicate the serious challenges our business faces and improved business performance is an important factor to our financial position.

As we updated investors of the last two quarters, management has been developing several different options to enhance our liquidity, including potential monetization of certain non-core assets and seeking additional financing from both public and private markets through the issuance of equity or debt securities.

After reviewing a variety of debt and equity financing options, the Board has approved an $80 million fully backstopped Rights Offering. The Rights Offering is expected to be made through a distribution of non-transferable subscription rights to purchase shares of Groupon common stock at a subscription price of $11.30 per share. The Rights Offering is fully backstopped by Pale Fire Capital, who is currently Groupon's largest shareholder and is affiliated with Dusan Senkypl, our interim CEO and a member of the Board and Jan Barta, also a member of the Board. Pale Fire Capital signed a binding agreement to subscribe to their pro rata subscription right and fully purchase any and all unsubscribed shares in the rights offering. Rights are expected to be distributed to common stockholders of record as of November 20th. The Rights Offering currently is expected to commence promptly after November 20th and expire on January 17th. Additional details relating to the Rights Offering will be available in the Form 8-K that the Company will file within four business days relating to the rights offering and the backstop agreement, as well as in the prospectus supplement that the Company expects to file promptly after the record date.

On monetization of certain non-core assets, we have entered into two separate agreements to sell partial stakes of our investment in SumUp. First, as previously disclosed in October, we signed an agreement to sell a partial stake for approximately $9 million, which subsequently we received the cash and the transaction closed. And today, we signed a second agreement to sell approximately $10 million on the same economic terms as the first agreement and expect the transaction to be completed later in Q4. We expect to generate net proceeds from these sales of approximately $19 million.

The approximately $100 million raised from the fully backstopped Rights Offering along with proceeds from signed non-core asset sales is expected to provide the Company with the liquidity it needs to support our transformation plan and management's intention is to have no doubt about our ability to operate as a going concern.

In addition to the announced transactions, management continues to evaluate the monetization of certain non-core assets, including the remaining stake in SumUp, GiftCloud and its portfolio of Intellectual Property. While there can be no assurances as to whether or when a sale of these non-core assets will be consummated, management currently believes it could generate net proceeds of approximately $100 million from potential future non-core asset sales. To be clear, this $100 million would be in addition to the $100 million plan we announced today consisting of the Rights Offering and 2 tranches of SumUp sales.

Slide 18.

Now turning to guidance. Management has made a decision to reinstate formal guidance. While there can be no assurances that the Company will continue the practice of giving formal guidance in future quarters, we want to furnish our shareholders with additional information as they consider a potential subscription to the Rights Offering.

As of November 9th, 2023, management is issuing guidance for the Fourth Quarter of 2023 as follows:

- Revenues between $127.5 million to $137.5 million, or a decline year-over-year between -14% and -7%
- Adjusted EBITDA between $18 million and $25 million
- Positive Free Cash Flow

Management would also like to share a preliminary outlook for 2024:

- Year-over-year revenue change at -5% to 0%
- Adjusted EBITDA between $80 million and $100 million
- Positive Free Cash Flow for the entire year

Finally, I would like to provide some additional commentary to assist with your models:

- While we returned to year-over-year growth in Local Billings earlier than expected, we continue to expect progress will not always be linear and we would not be surprised if Local Billings growth turned back negative in the fourth quarter.
- We continue to expect our Revenue growth trends may diverge from our Local Billings trends depending on the composition of our Local Billings, the timing of our transformation strategy and the trajectory of our other categories.
- For our fourth quarter guidance, as Dusan covered, we made a decision to delay the full roll-out of our new consumer front-end to next year and are working to adapt our new gifting proposition into our legacy platform. The low-end of our guidance contemplates a scenario where our business does not materially benefit from gifting the Q4 holiday season. The high-end of our guidance contemplates a scenario where gifting on our legacy platform is moderately successful during the Q4 holiday season.
- For 2024, we currently expect revenues in the first half of 2024 to decline year-over-year and revenues in the second half of 2024 to grow year-over-year. The trajectory of the year will depend on a variety of factors, including: firstly, where we end up on a

year-over-year basis exiting Q4 and secondly, the timing of launching certain projects, including our new consumer front-end.

- And while we expect to generate positive Free Cash Flow over the full year of 2024, we would expect our First Quarter Free Cash Flow will be negative, given the seasonality of our Accrued Merchant Payables as we exit the Q4 holiday season.

Given our current equity market valuation plus our operating plan focused on unlocking both top line growth and expense savings plus the value of our non-core assets, we believe we can create value for all of our stakeholders as we continue to execute our transformation strategy.

Thank you for your time today, with that, we'd like to open the call up for your questions. Operator?