



4Q23 and FY2023 Earnings Script

Dusan Senkypl, Interim CEO:

Hello and thanks for joining us for our fourth quarter and full year 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-K, which contain more detail on our Q4 and full year 2023 results.

I will start today's call on **Slide 5** and cover the key takeaways from the fourth quarter.

First, our numbers. I am pleased to deliver another quarter of progress on our reported financial results, as our fourth quarter numbers came in above the high-end of guidance on both revenue and Adjusted EBITDA.

Our strong performance was driven by our North America segment, where revenues in our Local and Travel categories were down a combined 3% year-over-year, a major improvement compared to the same period last year, when these categories were down 31%.

It is encouraging to see the progress in our North America Local and Travel categories, which represent 70% of consolidated revenue. While we are far from declaring victory and clearly have more work to do in our International segment and our Goods category, the improved performance of our main market is a strong positive indicator that our transformation plan is working.

In addition to our topline improvements, we also made progress on the bottom line, where Adjusted EBITDA margins improved 2400 basis points compared to last fourth quarter. A combination of better topline and bottom line performance resulted in positive \$51 million of free cash flow, as our negative working capital cycle benefited from both fourth quarter holiday strength and moderating year-over-year declines.

From my perspective, robust financial performance is the cornerstone of a thriving organization, fueling innovation, employee satisfaction, and long-term shareholder value. I am pleased to end year one of our transformation on a strong note.

Second, our balance sheet. I am pleased to report that the combination of our improved financial performance and increased liquidity resolves our going concern issue.

Since speaking with you on our third quarter earnings call, we closed on our plan to raise \$100 million in liquidity through a combination of asset sales and a fully backstopped rights offering. The rights offering was significantly oversubscribed and I would like to thank all our investors for their support. Using part of the proceeds from the rights offering, in February we prepaid and terminated our credit agreement.

This is an important milestone to provide clarity to all stakeholders, including our customers, merchants, employees, suppliers and shareholders, that Groupon has a solid financial foundation and we are not going anywhere.

Third, an update on our projects. Last quarter I explained that the pace of our transformation will depend on our progress executing key projects across our business. While I will go into more details in subsequent slides, I want to briefly highlight two key projects, our new consumer front-end and our gifting initiative.

Since we spoke last, the team has made significant progress on our new consumer front-end, which is currently running at 3% of North America web & touch traffic and expected to ramp up further in the coming weeks.

Turning to gifting, our v1.0 offering had strong results and we saw December gift orders grow over 50% versus December last year. While these numbers are off a very small base, I am pleased with the early results as they support our thesis that Groupon can become a leading destination for giftable experiences.

Turning to **Slide 6**. I want to take a minute and take a step back. It has been almost one year since I accepted the challenge to lead Groupon. In my letter to shareholders published with Q1 earnings last year, I spoke frankly about the financial challenges our business faced and the need to implement a significant and urgent transformation.

Over the past year, our team has worked tirelessly to deliver hundreds of small improvements, which has strengthened our financial position, improved the topline trajectory and rebuilt the organization.

At the same time, while I am extremely proud of what this team has accomplished, my feeling is we are just getting started on our mission to become the ultimate destination for local experiences and services.

Now that we have a strong understanding of internal mechanics (people, processes, challenges) and made our Company more efficient, we are shifting our focus from mainly internal improvements to delivering projects which will impact our customers - both consumers and merchant partners. We have many opportunities in front of us - much more than our current capacity to execute.

We are taking a long term approach to rebuilding Groupon from the bottom up and avoiding shortcuts that sacrifice the end game for a temporary sugar high to juice topline or bottomline results. Many current projects are laying the foundation for us to become more agile and to increase our capacity to execute.

We are redoing our technology stacks and changing Groupon to become a technology first company. We are changing how we go to market on the supply side and how we understand and interact with our customers. This is a huge lift and will take time to execute.

We also see a massive opportunity to leverage the benefit of AI across our business. In sales, we are looking to use AI to generate leads based on our inventory needs and use AI driven communication to improve sales efficiency. We are progressing on AI tools to help us create higher quality deal page copy and to improve the efficiency of our customer support.

Success in our building phase is really about changing our customers' experience, on both sides of our marketplace, to solve more problems, reduce friction, earn trust and increase engagement and overall satisfaction with using Groupon.

And while progress in transformation is not always linear, we do expect to show improvements in our financial performance along the way.

Slide 7. Our project to re-engineer our front-end stack continues.

As of this week, our new front-end is currently at 3% of traffic, which is behind my expectations. After running at 1% for most of Q1, we are reaching the point where we can start ramping our new front-end without jeopardizing performance. We have fixed many of the issues that hurt the new front-end conversion and now focused on resolving two main blockers, search & relevance and deal page layout.

We expect to ramp up traffic significantly for Web & Touch in North America in the coming weeks. For those interested, next week we will be posting a link to try out the new front-end on the Company's LinkedIn page. Once North America Web & Touch is fully ramped, we will turn to North America app, which we expect to launch shortly after. After NA App is ramped, we will turn to roll out the new front-end in International markets.

To remind investors why we are doing this. Our legacy platform was cobbled together over many years and many acquisitions. As a result, our legacy platform is really several different technology stacks, each with their own challenges and inefficiencies that require different people to manage the different stacks. Other companies who have embarked on similar simplification projects have taken 3-years to consolidate their stacks into one single front-end. We are currently in month 11.

We expect this project will enable us to launch new features in weeks versus months. We believe that this kind of speed and agility to deliver new capabilities will give us the opportunity

to innovate faster for customers and give us amazing breadth to do testing and learning. We will also get much more visibility into our customer funnel, enabling us to deliver further product enhancements.

I would like to thank the team for their tireless efforts and I'm excited to see what we can do with our new platform once it is released.

Slide 8. Gifting. Last quarter I highlighted a gap that Groupon historically had not benefited from the uplift that other marketplaces and retailers typically experience during big gifting seasons.

Repositioning Groupon to play a bigger role in gifting, and specifically last minute giftable experiences, was a key strategic growth thesis that we wanted to test and validate in the Q4 holiday season.

I am happy to report that despite a constrained v1.0 experience on our legacy front-end platform, the data indicates a significant opportunity in last-minute giftable experiences, with the highest demand for gifting starting approximately three weeks before Christmas and peaking the day before Christmas.

Overall for the month of December, we saw gift orders increase off a very small base 67% versus 2022 and 30% versus 2021. And when looking at gifting across our countries, we observe a wide variance of gifting adoption with gift orders as a % of total orders ranging between 5% and 20%.

Going forward, on the marketing side, we will continue our efforts to educate customers about the benefits of experiential gifting at Groupon and we see numerous gifting opportunities throughout the year, with a focus on the US market. On the product side, we have a long list of improvements we are making to gifting on our legacy platform and are also taking our learnings to iterate on our new gifting proposition for our new front-end. On the supply side, we are expanding our work with merchants to highlight giftable products.

These are just a few examples of the initiatives underway to make Groupon more giftable. We believe giftable experiences are 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.

Over time, I believe that gifting can become a big business for us and Groupon can become a leading destination for last-minute giftable experiences. Gifting also showcases the ability of our team to move quickly and execute on a market opportunity. Going forwards, there are significant opportunities across our business, so this is a nice case study of what the team can deliver.

Slide 9. Marketplace management. Overall I am pleased with our daily execution during the holiday season as we connected an improved assortment of deals with a performance

marketing push and active management of how we distribute our impressions. Our customers responded and we saw uplift in our business and improving trends throughout the quarter.

On the demand side of the marketplace, we saw improving trends in the number of unique visitors visiting our website, driven by growth in paid channels and an improved rate of decline of direct traffic. Within paid channels, we delivered on our desired ROI targets while continuing to grow in SEM and display. And while it is very early, we saw success in our revamped affiliate channels including early traction in the influencer market. Search & Relevance continues to be an important priority for us as we improve our algorithm and actively manage the distribution of impressions. Finally, we continue on our initiative to reduce our reliance on promotional spend. As we have discussed before, improving the mix between paid marketing and promotional spend is a key step towards improving the health of our marketplace.

On the supply side of the marketplace, we continue to see strength in our Things To Do vertical and our Enterprise accounts, where we see companies return to our platform after a long hiatus and existing companies increase the amount of business they want to do with Groupon. Both are encouraging signals.

Last year as part of our transformation, we re-imagined the original “city planner” model for modern needs and local nuances. Our effort on this initiative is beginning to pay off as we are seeing strength in local micro markets where this approach was rolled out. We are planning to double-down on our focus to manage our marketplace at a local level. Earlier this week, I was in Chicago with our sales leadership where we announced a plan to shift our go to market in the US into 8 local regions, with dedicated sales reps and regional managers responsible for driving assortment strategy and deal quality.

Finally, as I mentioned last quarter, we have rolled out a new merchant partner success organization focused on actively managing our top 80% of business. This full lifecycle sales team is responsible for the revenue and retention of our highest value accounts. Based on the success we have seen with merchant partners in this program, we have expanded our 1-on-1 account management and continue to build tools, processes and culture around shifting our support to more proactive partner success. Overtime, we expect this team will help our existing merchant partners drive more business with Groupon.

Slide 10.

Let me close with a few thoughts on why I continue to be excited about the prospects for Groupon to create value for shareholders. Groupon is a 15 year old Company, but we see ourselves at Day Zero.

The market for local experiences and services is massive, rivaling other large service markets such as ridesharing, delivery, and hotels. In those other markets, there are scaled marketplaces and OTAs with combined market capitalization in the hundreds of billions of dollars. It is still relatively early days in the experience market going online and we expect an increasing

percentage of this market to be transacted online in the future, fueling a secular growth opportunity.

Our business model is a two-sided horizontal marketplace that operates at a local level. It has attractive gross margins and a fixed cost base that can be leveraged with growth and proper execution. As shown in other categories, when done right, the internet marketplace can be an extremely attractive business model, benefiting from network effects, economies of scale and low capital requirements. And given our local dimension, it will not be easy to replicate our supply side assets.

Groupon has global scale, operating in 13 countries with over \$1.6 billion in Billings, 75 million visitor sessions per month, and over 16 million active customers. We have an underleveraged asset in our brand that has been used over a billion times. Once we improve the customer value proposition, we believe we can leverage our brand recognition to engage and re-engage consumers to come buy with Groupon.

We are drawing inspiration from a successful transformation playbook that starts with a supply-first approach and strategically shifts towards emphasizing quality, value proposition and developing a functional economic model for merchant partners. We are rebuilding the consumer experience with trust and convenience at the center. There are multiple opportunities to improve our marketplace proposition for both consumers and merchant partners. Today we have more opportunities than our ability to execute.

We are assembling an A+ management team with skin in the game and a mindset of ambition, drive, passion, intensity, no egos, partnership-first, continuous growth mindset and love for our work. We are building a humble, meritocratic high performance culture that values execution excellence, first principle reasoning, totally hands-on, toughness to tackle the hard problems, and extreme ownership. We see ourselves as a sports team and we are playing to win. We believe we are providing an environment where talented people with drive can get 10 years of experience in 2 years. For those interested to understand the mentality and culture we are building, I recommend reading my personal assessment which you can find in the appendix of our earnings slides. If you or anyone you know aligns with the mindset and approach, and you are ready to dedicate yourself to the mission, please reach out regardless of the positions you see open.

We are building Groupon to perform in a variety of economic conditions. In both growing and shrinking economies, people love getting good deals on experiences that they love and we want to be a place for them. Our merchant partners have historically used Groupon's platform as a yield management tool, a use case which can increase when demand slows.

And finally, we have taken steps to strengthen our balance sheet and address our going concern issue, which Jiri will go into more details.

For these and other reasons, it is my belief that Groupon has the ability to drive superior value creation through a successful transformation.

Before I turn the call over to Jiri, I want to take the opportunity to thank the Groupon team. Transformations are not easy. We have asked and continue to ask our teams to drive significant changes across our business. Our team has responded with energy and passion to deliver on our mission. I am proud of the dedication and resilience our team has shown and excited to work together as we focus on innovating faster for our users and merchant partners.

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

Jiri Ponrt, CFO:

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

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

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

Turning to slide 12, So let's jump into our Fourth Quarter Summary Financial Results. In the Fourth Quarter, we delivered Global Billings of \$436 million, a decrease of approximately 7% year-over-year. Revenue was \$138 million and declined at 7% year-over-year, a significant improvement in year-over-year trends versus our third-quarter results and above the high-end of guidance.

Moving on, our Gross Profit as a percentage of revenues remained stable at 89%. Marketing expense for the Fourth Quarter was \$34 million, or 28% of Gross Profit. As we have discussed in our last two earning calls, our rebuilt performance marketing campaigns have received increased investment and this trend continued in the Fourth Quarter, where we increased our marketing spend 19% 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 sufficient returns on each dollar spent and driving better topline results.

Contribution profit for the Fourth Quarter was \$88 million, or 64% of Revenues. Adjusted EBITDA was \$27 million, as we recorded the third straight quarter of positive adjusted EBITDA.

Turning to cash flow, Fourth Quarter operating cash flow was positive \$55 million and Free Cash Flow was positive \$51 million, a strong improvement both sequentially and year-over-year, as our cash flow benefited from both Q4 holiday strength and moderating year-over-year Billing declines.

We ended the quarter with \$142 million in Cash and Cash Equivalents, including \$42.8 million drawn on the revolver. Please note that our cash position excludes \$26 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 13. We had approximately 16.5 million active customers worldwide as of quarter end, down 0.5 million from the prior quarter.

Turning to our Local category. Consolidated Local Billings were \$363 million, down 1% compared with the prior year. Within North America, we delivered Local Billings of \$257 million, flat compared with the prior year. Within International, we delivered Local Billings of \$106 million, down 3% year-over-year. Similar to the Third Quarter, our Fourth Quarter performance in Local benefited from the strong performance in our Things To Do vertical and our Enterprise customers.

Moving to our Travel category. In the Fourth Quarter, Consolidated Travel Billings was \$28 million, down 12% year-over-year. Within North America, we can see our transformation strategy taking hold with Travel delivering Billing growth of 4% year-over-year. Within International, Travel still has more work to do with Billings down 33% year-over-year.

Moving to our Goods category. Consolidated Goods Billings was \$45 million, down 36% year-over-year in the Fourth Quarter. Our current Goods business is struggling and we don't see any near-term change in the negative trend. At 6% of Fourth Quarter revenues and declining rapidly, Goods is becoming a smaller and smaller part of our business.

Slide 14. Turning to operating expenses, Fourth Quarter SG&A was \$72 million, down 35% year-over-year and down 9% quarter-over-quarter as we continue to see the benefits of our recent cost saving actions reflected in our financials. SG&A includes \$0.7 million in stock-based compensation and \$6 million in depreciation and amortization.

Creating an efficient cost structure is a key pillar of our transformation plan and as you can see, we have made significant progress reducing our fixed cost base. Going forward, while we continue to see opportunities to further reduce costs, we expect to see smaller declines than we saw in 2023. Many of our projects underway to further reduce costs will take multiple quarters to deliver, such as our cloud cost optimization project and our ERP simplification project. In addition, we are still evaluating investments into our sales organization.

Slide 15. Turning to Free Cash Flow. In the Fourth Quarter, we generated positive \$27 million of Adjusted EBITDA and positive \$51 million of Free Cash Flow.

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

I would like to point your attention to 5 drivers:

1. Capex is primarily driven by capitalized labor
2. Change in Merchant & Supplier Payables is driven by the annual change in Billings along with quarter-over-quarter change in Billings. For example, our December ending Merchant Payable balance benefited both from improving year-over-year trends and the timing of Q4 holiday.
3. Change in Trade Accounts Payable is primarily driven by: A) how much non-payroll SG&A and marketing we are expensing, and B) any changes in our Accounts Payable cycle. 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 the trajectory of our SG&A and other expenses. In the Fourth Quarter, we had an increase in accruals for marketing and several other current liabilities.
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 these drivers, the timing of our working capital cycle and other cash expenses.

Slide 16. Beginning in the fourth quarter 2022, we disclosed conditions and events, when considered in the aggregate, that raised substantial doubt about our ability to continue as a going concern.

Since then, we have taken the following actions to improve our liquidity:

- Our operating cash flow performance has improved for FY 2023 compared to FY 2022 and for Q4/23 compared to Q4/22.
- In the fourth quarter 2023, we received \$18.9 million in proceeds from the sale of a portion of our stake in SumUp.
- In January 2024, we closed a fully backstopped Rights Offering that was significantly oversubscribed and raised \$80.0 million.
- In February 2024, we prepaid \$43.1 million and terminated our credit facility in advance of its maturity in May 2024.

Accordingly, management has concluded that the substantial doubt about our ability to continue as a going concern has been alleviated.

In addition to the completed transactions, management continues to evaluate the monetization of certain non-core assets, including the Company's 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 these future non-core asset sales could generate proceeds of approximately \$100 million.

Slide 17.

Now turning to guidance. As of March 15th, 2024, management is issuing guidance for the First Quarter of 2024 as follows:

- Revenues between \$113 million and \$118 million, or a decline year-over-year between -7% and -3%
- Adjusted EBITDA between \$7 million and \$12 million
- Negative Free Cash Flow

Management would also like to reiterate its 2024 outlook:

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

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

- While we expect to generate negative Free Cash Flow for the First Quarter given the timing of our Accrued Merchant Payables as we exit Q4 holidays, we expect to report a significant improvement in the level of outflows compared to the same period last year.
- There are many drivers that influence Revenue as % of Gross Billings, including merchant margins, segment mix, category mix, local vertical mix, breakage, points utilization and several other factors. Given the number of drivers with some acting as headwinds and others as tailwinds, it is hard to predict with precision where we will land each and every quarter. That said, for 2024, we don't see Consolidated Revenue as % of Gross Billings varying significantly compared to the range reported over the last 5 quarters.
- As Dusan commented in last quarter's earning call, one area of focus for us has been 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. This includes promoting some payment options ahead of others depending on local customer preferences.
- We continue to 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 the delivery of certain projects such as our new consumer front-end.

Given our operating plan focused on driving profitable top line growth plus the value of our non-core assets, we believe we can create increased 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?