GROUPON

First Quarter 2024 Earnings Script

Dusan Senkypl, Chief Executive Officer:

Hello and thanks for joining us for our first quarter 2024 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 First Quarter Results.

I will start today's call on **Slide 5** and cover our First Quarter numbers.

Our business grew +1% year-over-year in the First Quarter.

While 1% growth is far below my ultimate goal and the opportunity I see ahead, I am pleased to achieve this milestone - you need to travel back 8 years to 2016 to find the last time that Groupon grew revenue on a consolidated basis.

Our strong performance in Q1 was driven by our North America segment, where revenues in our North America Local and Travel categories were up a combined 8% year-over-year. In addition, our active customers in North America Local & Travel grew on a sequential basis. As a reminder, these two categories represented 74% of our total business in Q1.

While we are far from declaring victory and clearly have more work to do in our International segment and our Goods category, we believe the improved performance of our main market is a strong positive indicator that our transformation plan is working. There is no single silver bullet that drove this improved performance; it is a result of many changes aligned with our transformation plan across our business, including but not limited to: rebuilding our performance marketing channels, reducing our reliance on promotional spend, improving our productivity through addressing low hanging fruit across our business, and improving supply quality through our sales transformation efforts and returning merchants as the macroeconomy normalizes.

Taking a step back, a year ago, our business was declining over 20% with negative Adjusted EBITDA, and we had disclosed substantial doubt on whether we had enough cash on hand to meet our bills as they came due over those next twelve months.

Fast forward to today, we can see our topline is stabilizing and our last twelve month Adjusted EBITDA is at $80 million. Our Q1 cash flow performance is significantly improved compared to prior years and there is no longer substantial doubt on our ability to meet our obligations as they come due.

In short, our business, which was in critical condition after a long losing spell, is back on its feet, but not yet firing on all cylinders. Momentum is in the right direction, but continued rehab is required to get back to winning again. With enough time, discipline and consistency, I am confident we can restart the engines of sustained growth and realize the potential we all see for our business.

Slide 6. Marketplace management.

On the demand side of the marketplace, we continue to see improving trends in the number of unique visitors, driven by growth in paid channels and improving rates of decline in direct and managed channel traffic.

Within paid channels, we delivered on our desired ROI targets while continuing to grow in SEM and display. As a reminder, in Q1 and Q2 of last year, we rebuilt our performance marketing campaigns and we were just starting to ramp up our paid spend, so we are lapping easy comparisons this quarter and next quarter.

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 former Groupon merchants return to our platform after a long hiatus and existing Groupon merchants increase the amount of business they want to do with Groupon. Both are encouraging signals.

We also saw great performance from North American Travel in Q1. The largest driver was an increase in the number of days live on our site by our largest accommodation merchant. In late 2023, we implemented a connectivity solution with this accommodation merchant. By removing friction from the booking process, we've been able to reduce their operating costs and become a more favorable channel for them to distribute their inventory on a more consistent basis. The integration also leads to a better customer experience. This is a great example of the bookability flywheel in practice and one we are looking to build on across our business. That said, going forward, I don't expect North America Travel to post a similar growth rate in Q2, as several factors, including recent site performance issues which I will cover on the next slide, have hurt our North America Travel performance in Q2.

Finally, as announced at our last earnings call, we have taken a regionalized approach to managing our sales teams for Local in the US, with each sales region with dedicated sales reps to drive freshness and account managers to maintain and grow existing business all guided by an expert market manager. The inclusion of territory expertise adds another dimension to our sales reps, providing several benefits including: a local market understanding of gaps between inventory and customer demands, awareness of competitive supply and impacts of shifting sales, and local nuances in preferred deal structures and target economics.

Slide 7. Product updates.

Starting in mid-March, we started to experience an unexpected drop in performance as we saw a pull back in our conversion funnel despite minimal change to traffic trends. This has impacted our April results and continued into early May.

The drop in performance happened around the same time we were ramping-up our new front-end, which initially led us to suspect our new front-end was causing the performance change. Under further investigation, we diagnosed the conversion issues were mainly related to two separate short-term technical issues.

First, as part of our efforts to modernize our technology stack, we launched a new 3rd party tool that identifies potentially fraudulent transactions on our platform, replacing an old internal tool that was very manual, inefficient and delivered a poor customer experience. Every month, our customers were sending us thousands of complaints about unfulfilled orders, which at the root were caused by lengthy order processing times linked to fraud verification. Our new process evaluates transaction risk in an instant, resulting in a much improved customer experience. Overtime, we expect our upgraded fraud platform will lead to better conversion. Unfortunately, due initial learning curves specific to our business, the new process initially hurt us more than it is helped us. We have been working hard to close the gap and have almost achieved performance parity with the old solution in the last few days.

Second, we ran into a challenge with our legacy search & relevance algorithm. We previously made a decision to move away from our internally developed algorithm and adopt a 3rd party tool, which is already powering search & relevance on our new front-end and several legacy applications. Unfortunately, one of our larger legacy applications still relies on our legacy solution. We made the basic fix, but the longer-term fix will require us to migrate 100% to the new front-end. Search & relevance is a core service for our marketplace and I see a significant opportunity to drive better conversion overtime once we have our new front-end in place.

This is a lot of operational detail, but I want investors to understand what is driving our performance as well as our challenges. Overall, we have already recovered the majority of the performance drop, but we are still not back to where we would like to be. We expect it will take us the better part of the second quarter to get back on track and is the main reason behind our second quarter guidance which Jiri will provide.

Turning to the new front-end, in the midst of the performance issues, we made a decision to pull back on the ramp-up of our new front-end, which at that time was running at 50% of web traffic in North America. It is currently back to 3% and we expect to start ramping back up later this quarter. Our goal is to have the new front-end fully ramped on all surfaces in all regions in time for the Q4 holiday season.

Navigating the operational complexity facing our business has made it significantly harder than I expected to make quick changes to our product proposition. Based on my prior experiences building internet products, I believe it would take a small team of developers a matter of months to recreate Groupon.com's front-end experience. The difficult part for Groupon is integrating the new front-end into the wide array of existing legacy internal services that make up the rest of our technology stack. We are making progress and I am confident that we will deliver on our goal to modernize Groupon, but it is taking longer than I originally expected. Given the operationally complex turnaround, I expect we will continue to face hurdles which may delay our progress and may impact short-term performance, but not lessen our resolve.

I still expect our business to inflect to sustained growth sometime in the second half of this year, but exactly when within that six month period we inflect will depend on the delivery of our projects.

Slide 8 and **slide 9**.

As we updated investors at our last earnings, we have shifted into the building phase of our transformation and are working on many projects across the Company to change our customer experience on both sides of the marketplace.

Our vision is to build a healthier marketplace at Groupon through driving merchant and customer flywheels. The core idea is that changing Groupon's value proposition for a consumer or business won't come from a single grand gesture or a splashy brand campaign but through a series of never ending product enhancements that address customer pain points. Each incremental change builds on the value on both sides of our marketplace from doing business with Groupon and reinforces the flywheel effect.

Trust is at the center of our efforts on both our customer and merchant flywheel and we believe it is essential for a healthy marketplace. For merchants, we want to become a trusted marketing partner for them to acquire and retain customers. For consumers, we want to be a trusted & convenient destination for local experiences and services.

Let me provide a few examples of what we are doing to build trust in our marketplace.

First, we recently delivered a new feature to our Local merchants in North America to enhance transparency for merchants by providing them with dashboards to monitor deal performance and sharing the impact on their sales when running on promotions. This is just the beginning; we are laying the groundwork to offer advanced but simple tools to help merchants manage their deals and achieve their business objectives.

Second, on our strategy of shifting from quantity to quality, we have taken action to remove low quality deals from our inventory and progress on an initiative to help quality merchants curate their deals. We are using AI to identify merchants' unique selling points and then significantly enhance deal content, including imagery and in the future video, to capitalize on what sets these merchants apart and drive demand to their deals.

Third, our bookability initiative. I earlier mentioned how connectivity help drive better performance with one large accommodation merchant in Travel. We recently launched an integration with Siteminder, a leader channel manager with over 41,000 hotel connections globally. Connections will help us more seamlessly and dynamically onboard, price, transact, and redeem new hotel partner inventory, while also providing customers with a smooth online booking and redemption experience. Only roughly a third of our direct accommodation inventory in Travel is bookable and our penetration is even lower in Local. Overtime, our strategy is to significantly increase the number of bookable deals we currently offer.

Before I turn the call over to Jiri, let me provide a few closing remarks.

As announced earlier this week, I reached an agreement with our Board to assume the role as permanent CEO. First, I want to thank the Board for their confidence in me to continue to lead the Company. Second, if you want my motivation for taking this permanent role - the work is not done. My aim is to bring Groupon to a sustainable growth trajectory and build a motivated performance driven management team which can push Groupon to new levels.

The topline opportunity ahead for Groupon is massive and we are drawing inspiration from a transformation playbook with a track record of success. Our main blocker in this respect is our capacity to execute, which really comes down to people. Building a motivated performance driven management team made up of A+ players is a necessary condition to achieve our ambition.

Compensation is a crucial ingredient in recruiting, retaining and motivating our team. My desire is to have one of the most pro performance-oriented compensation program in all of NASDAQ and use it as an invitation to A+ players around the world that Groupon can be a great place to build, achieve their ambition, and be appropriately rewarded with a piece of ownership in our Company. This is why, starting with my new CEO compensation package, we are rolling out a new multi-year performance compensation program for our entire senior leadership team.

The main concept we are bringing is that our leadership team should only earn equity in our business if we create sustained value for shareholders above a certain hurdle rate. I simply don't believe our leaders should earn equity in our business solely based on time served. At the same, above a preferred return for investors, I believe our leaders should share in a portion of the upside.

While more details of the program are disclosed in our proxy and in my CEO Performance Share Agreement ("PSU Award") filed along with the CEO announcement in our recent 8-K filing, a few principles I want to share here:

- We have established Stock Price Hurdles that are sufficiently challenging to produce market beating returns and reflect ambitious growth rates for the underlying fundamental drivers of our business.

- PSU awards will vest only if both a Stock Price Hurdle Requirement and a Service Condition Requirement are achieved. This means if no hurdles are achieved, no shares will vest. Or if a hurdle is achieved but not the service condition, those shares will not vest. As an example, if the 90 calendar day average stock price reaches $15.00 a year from now, approximately 8% of the outstanding PSU awards would vest.
- In total, we currently expect to award roughly 4 million shares to our existing management team equally split into tranches or roughly 1 million shares per each Stock Price Hurdle.
- We do not expect to issue any time-based restricted stock awards in tandem with the PSU awards to our senior leadership team.
- As long as I am leading this Company as CEO, I don't anticipate a scenario in which I would ask shareholders for additional shares until our stock price exceeds $70 per share.

Please reach out to ir@groupon.com with any questions. Your vote is important to me and I look forward to receiving your support.

Turning around a business like Groupon is tough and, like many entrepreneurial endeavors, there are daily roadblocks and negative data points. But it is important to separate noise from signal. The current Groupon experience, on both sides of the marketplace, is filled with friction. While customer obsession is a common talking point for many management teams, Groupon has been internally focused for too long and solving more of our customer paint points will be the key to finding our way to sustained growth.

Another big positive I see is the Groupon brand strength. Internally, I was positively surprised to see how many Grouponers “bleed green” and are committed to making Groupon successful. When I see the emotional attachment our team has to the Groupon brand, how deep that connection is, I feel a lot of admiration and I want to build on this heritage and develop Groupon into something we can all be proud of. And externally, I am positively surprised by the reactions we have on social networks and influencer posts when a great Groupon deal is being shared. There are so many people who remember (in a very positive way) the Groupon brand. Our brand is an asset which will help us in the future.

With that, I’ll turn it over to Jiri.

Jiri Ponrt, Chief Financial Officer:

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 First Quarter financial results,
- Progress on our cost savings actions,
- Update on the other business items, and

- Our updated outlook

Turning to slide 11, So let's jump into our First Quarter Summary Financial Results.

In the First Quarter, we delivered Global Billings of $381 million, a decrease of approximately 4% year-over-year. Revenue was $123 million and increased 1% year-over-year, a significant improvement in year-over-year trends versus our fourth-quarter results and above the high-end of guidance. Revenue as a % of Gross Billings was 32%, an increase of over 150 basis points year-over-year, as we benefited from favorable variable consideration trends while other factors were relatively stable.

Moving on, our Gross Profit as a percentage of revenues was 90%, a slight improvement from the prior quarter. Going forward, we expect Gross Profits as a percent of revenue to remain in the 87-90% range.

Marketing expense for the First Quarter was $29 million, or 26% of Gross Profit. Going forward, we expect marketing as a % of Gross Profit to remain within the range we reported over the last three quarters.

Adjusted EBITDA was positive $20 million, as we recorded the fourth straight quarter of positive adjusted EBITDA. Our last twelve month adjusted EBITDA has now reached $80 million, a $93 million increase versus our previous twelve month adjusted EBITDA a year ago.

Turning to cash flow, First Quarter operating cash flow was negative $10 million and Free Cash Flow was negative $14 million, a strong improvement versus last year when we reported Free Cash Flow of negative $86 million.

We ended the quarter with $159 million in Cash and Cash Equivalents. Please note that our cash position excludes $30 million of Restricted Cash, which primarily relates to collateral posted against our outstanding letters of credit and reported on our balance sheet in Prepaid Expenses and Other Current Assets.

Slide 12. We had approximately 16 million active customers worldwide as of quarter end, down 0.4 million from the prior quarter. Within North America, our active customer count was down sequentially very slightly, and when you exclude our goods category, our North America active customers grew sequentially.

Turning to our Local category. Consolidated Local Billings were $316 million, flat compared with the prior year. Within North America, we delivered Local Billings of $231 million, up 4% compared with the prior year. North America Local Billings benefited from lower refund rates. Excluding this positive impact, North America Local Billings would have declined slightly. Within International, we delivered Local Billings of $85 million, down 9% year-over-year.

Moving to our Travel category. In the First Quarter, Consolidated Travel Billings was $36 million, up 2% year-over-year. Within North America, we delivered Travel Billing growth of 30% year-over-year. Within International, Travel still has more work to do with Billings down 39% year-over-year.

Moving to our Goods category. Consolidated Goods Billings was $29 million, down 36% year-over-year. Our current Goods business is struggling and we don't see any near-term change in the negative trend. At 4% of First Quarter revenues and declining rapidly, Goods is becoming a smaller and smaller part of our business.

Slide 13. Turning to operating expenses, First Quarter SG&A was $74 million, down 27% year-over-year and includes $2 million in stock-based compensation and $5 million in depreciation and amortization. Quarter-over-Quarter, our SG&A was up almost $2 million or 2%, driven by increased stock-based compensation, timing related to our cloud migration project and incremental payroll costs.

While we still expect to realize further savings in our SG&A, we expect the timing of these initiatives to be realized in the second half of the year and expect our second quarter SG&A to be similar or slightly higher compared to our First Quarter.

Slide 14. Turning to Free Cash Flow.

In the First Quarter, we generated negative $14 million of Free Cash Flow a significant improvement of $72 million compared to the free cash outflow in the First Quarter last year.

The $72 million improvement was achieved primarily through:

1. $26 million improvement in our accounts payables
2. $24 million increased in Adjusted EBITDA
3. $13 million improvement in our merchant & supplier payables
4. $10 million improvement in operating lease obligations

While the conversion of Adjusted EBITDA to Free Cash Flow will move around from quarter-to-quarter depending on the timing of our working capital cycle and other cash expenses, we are seeing many of the working capital and cash expense items become more predictable and stable.

However, Change in Merchant & Supplier Payables is still a major swing factor from quarter to quarter, evidenced by $50 million difference between the Fourth Quarter last year to the First Quarter this year. Change in Merchant & Supplier Payables is driven by the annual change in Billings along with quarter-over-quarter change in Billings.

Overall, our significantly improved Q1 free cash flow performance sets us up well to deliver on our full-year guide of positive cash flow.

Slide 15. Other Business Updates.

We have completed the following transactions to improve our liquidity position:

- 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.
- In April 2024, we received proceeds from the sale of non-core intangible assets.

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 and GiftCloud. 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 $90 million.

Moving to the topic of Italy. On April 15th, we updated investors on an negative ruling related to a tax assessment for one of our Italian subsidiaries, Groupon S.r.l. Since then, Groupon S.r.l has temporarily paused the sale of local vouchers in Italy as we evaluate our options.

We continue to believe that the tax assessment is without merit and Groupon S.r.l. has been vigorously defending itself in this matter. The best case scenario is we will prevail on the merits of the case and resume our Italian operations. In the worst case, if we are unable to find a reasonable solution to continue operating Groupon S.r.l, we will consider an exit of the local business in Italy.

Local voucher sales in Italy generated revenues of approximately 1 million euro per month. We do not expect our financial exposure to exceeds the assets of Groupon S.r.l.

Slide 16.

Now turning to guidance. As of May 9th, 2024, management is issuing guidance for the Second Quarter of 2024 as follows:

- Revenues between $116 million and $122 million, or a decline year-over-year between -10% and -5%
- Positive Adjusted EBITDA between $12 million and $17 million
- Negative Free Cash Flow, however, we expect it to be better than Q1

Management would also like to reiterate its 2024 outlook that we first issued in November 2023:

- Year-over-year revenue change at -5% to 0%
- Positive 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 you with your models:

- As Dusan commented in his script, our platform is facing several technical issues which has impacted performance in April. While we are confident in our ability to resolve those issues, we expect it will negatively impact our Second Quarter results and explains why our second quarter guidance represents a step back in our business versus the First Quarter.
- We expect Consolidated Revenue as % of Gross Billings staying within the range we have reported over the last 5 quarters.
- We 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.
- We continue to explore potential changes with our payment methods. Now that our going concern issue is behind us, it is possible that we will rebalance some of the checkout options which were deprioritized last year.

Overall, I am pleased with our financial results in the First Quarter. While progress in transformation is not always a straight path, I am confident that our transformation plan focused on driving profitable top line growth can generate attractive returns for our shareholders over the long-term.

With that, we'd like to open the call up for your questions. Operator?