



Second Quarter 2024 Earnings Script

Dusan Senkypl, Chief Executive Officer:

Hello and thanks for joining us for our second 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 second quarter Results.

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

After a weak start to the quarter, where April was significantly impacted related to previously disclosed site performance issues, we finished the quarter with a very good June and ended overall with a decent quarter.

Our improving performance continues to be driven by North America Local, where revenues grew year-over-year and active customers grew sequentially, both for the second straight quarter.

We generated a fifth straight quarter of positive Adjusted EBITDA and a second straight quarter of trailing twelve month Adjusted EBITDA of approximately \$80 million, cementing our ability to generate strong Adjusted EBITDA while investing to inflect the topline to sustained growth.

Turning to cash flow, we had positive \$11 million in Free Cash Flow, better than we expected. This takes our trailing twelve month Free Cash Flow to positive \$30 million. After enduring a three-year period where the business consistently generated negative Free Cash Flow on a trailing twelve month basis, our return to positive cash flow performance strengthens our financial position, builds a more resilient foundation for future growth and is a positive indicator that our transformation plan is working.

Overall, our financial results are significantly improved compared to where we were one year ago. Our strong June results demonstrate that when we have the right supply working with proper functioning product & marketing, we can grow the business. Based on our June performance, we were expecting to share today that Q3 would be an inflection point for growth.

Unfortunately, our performance in July has been hit heavily again due to unexpected site stability issues mainly related to a cloud migration project. While we are confident that we will handle this temporary issue within the quarter, we do not expect we will be able to resolve the issues quickly enough to avoid impacting our third quarter financial results, which is weighted

towards July & August due to the busy Things To Do season. Therefore, we are revising down our guidance to reflect this lost quarter of performance.

While our transformation is taking longer and is harder than I expected, we remain committed to our transformation plan. I am confident that we can restart the engines of growth and realize our mission to become the ultimate destination for local experiences and services.

I will spend my remaining time discussing: a) what are the supply drivers of growth in North America Local, b) our decision to invest more into marketing and c) update on site reliability issues and our projects in product & engineering.

Slide 6. Supply drivers for North America Local.

As we highlighted in our transformation plan back in the first quarter of 2023, everything starts with supply: if we win the right supply, demand will follow. We initially decided to focus our supply transformation efforts in North America Local, given the size of the business. Six quarters later, we can see positive results from our focus. And while there is no one silver bullet to explain our improved performance in North America Local, I want to highlight several drivers on the supply side.

First, we are prioritizing the quality of deals over the quantity of deals. Our vision is to build a curated marketplace with high-quality supply that delivers exceptional value for everyday experiences. Over the past several quarters, we've taken decisive steps to remove lower-quality deals from our site that don't align with this brand promise. While the total number of deals is lower than a year ago, the deals that remain are performing better per unique visitor. We've also made substantial progress in curating our deals, with enhanced presentation, improved deal copy, and better images.

Second, we continue to see growth from our large enterprise merchants, both by expanding relationships with existing partners and adding new brands to our platform. In addition, with the arrival of summer, our busy "things to do" season has kicked off, showing robust growth in family-friendly activities ranging from trampoline parks and bowling alleys to amusement parks and water parks. We expected to see continued growth in these areas.

Third, regionalization. We completed our first full quarter under our new regional structure, with dedicated teams focused on driving freshness and account managers committed to maintaining and growing existing business, all guided by expert market managers. While it is still early in our regionalization efforts, we saw improved results in our local market performance in the second quarter.

Next, I want to highlight a new initiative that underscores how supply isn't just about the type of merchants, but also the kinds of offerings we can promote. In the first quarter, we tested a new Flash Sale concept with one enterprise merchant, offering an amazing deal for a limited 48-hour period. This led to an impressive jump in performance and engagement. We expanded this

program in the second quarter, running over a dozen flash sales with existing merchants to drive incremental performance and enhance freshness and engagement on our site. While this is still a relatively early initiative, similar to gifting, it demonstrates the potential for us to expand our business by developing new products to cross-sell and up-sell into our existing supply base.

And finally, after establishing a strong performance management culture and fine-tuning the ROI of our new business acquisition engine for local, we are ready to ramp up new sales hiring. The current size of our salesforce in North America is simply inadequate to properly cover the market opportunity. With a compelling business case and our regional teams in place, I have green-lighted an investment into sales that I expect will support our growth in Local in 2025 and beyond.

Slide 7. Turning to Marketing & Contribution Profit.

Our progress in reallocating and increasing marketing spend to more productive channels is one of the key drivers of our progress on improved topline to date. I want to spend a few minutes explaining how we approach marketing spend in the context of ROI and incremental margins.

With a fixed cost base that we believe we can leverage and scale over time, one of our financial objectives is to grow our topline at a healthy contribution margin, which will drop to the bottom line, driving faster bottom line growth and improving bottom line margins over time.

Looking back to 2019, when we were still in the first-party goods business, Groupon had approximately 35% Contribution Profit as a percentage of Revenue. After exiting first-party goods and with the economy reopening post-COVID, our incremental margins increased into the 60% range as Gross Profit as a percentage of Revenue rose to 83-87%, while we allocated about 30-33% of Gross Profit to Marketing. However, our business was declining rapidly.

Starting in 2023, as part of our transformation playbook, we pulled back on marketing spend to rebuild our marketing campaigns with a focus on lower-funnel performance channels. As a result, Marketing as a percentage of Gross Profit dropped to 20-24% in the first half of last year, before ramping back to the 26-28% range over the last several quarters.

We have previously discussed our desire to continue ramping marketing spend as long as we can maintain our desired ROI targets, but faced operational blockers that prevented us from efficiently scaling our marketing efforts further.

In the second quarter, we successfully increased Marketing spend to 32% of Gross Profit while achieving satisfactory ROI targets. Simultaneously, we achieved over 90% Gross Profit as a percentage of Revenue, resulting in 61% Contribution Profit as a percentage of Revenue.

Looking ahead, we expect the second quarter is an indication of what we can expect going forward, with approximately 90% Gross Profit as a percentage of Revenue, Marketing as a % of

Gross Profit in the 30-35% range as a percentage of Gross Profit and Contribution Profit as a percentage of Revenue in the 58-62% range.

Slide 8. Rapidly increasing the velocity of new product innovation is a key pillar of our transformation.

In order to execute on this pillar and raise our product experience to modern marketplace standards, we are investing significant resources in making our platform more efficient, stable and agile.

First, efficiency. Rewind 18 months ago and we had very high spending in product & engineering, but without a satisfactory return of product innovation. While we made good progress last year making our platform more efficient, we still have ongoing projects in place to further reduce costs, including our cloud cost optimization project. In the second quarter, we ramped up one workstream to shift our cloud workloads from a multi-cloud environment to a single-cloud provider. Over the last several weeks, we migrated many critical workloads and expect this project to be fully delivered in the second half of this year. The benefits from this project will be lower cloud costs per order, improved latency and a simpler platform to do future development. In the meantime, this project is taking up significant bandwidth for the Product & Engineering team, slowing delivery on the rest of our product roadmap and has impacted our site stability, which I will cover next.

Second, site stability. Our performance issues from April have largely been resolved, although there is still room for further optimizations. Based on our June performance, we anticipated an inflection point for growth in Q3. However, we encountered another round of site performance issues primarily related to our cloud migration project, which significantly impacted the stability of our site and the performance of both paid and managed channels. Despite our best efforts to protect our topline, we are challenged by a complex legacy platform with accumulated technical debt and executing on multiple projects to modernize our technology foundation. I expect these issues to be resolved within this quarter, but it is impacting our Q3 guidance as we were unable to fully participate in the peak season for Things To Do. While we are limiting the number of large projects going forward, we can't entirely disregard possibility of additional site performance issues in the future.

Third, agility. We have allocated significant resources to building a new front-end which we expect will dramatically increase our ability to roll out new features. Once we launch our new application, we will have a single platform across Web & App to further accelerate our product development cycle.

In the second quarter, we made progress on our project to launch a new front-end experience, but not as much as I expected. We now have enough data to share some insights on performance per unique visitor. Over the last 30 days, the new front-end is incremental versus our legacy site on monetization per unique visitor. Digging in a bit further, the positive

performance is mainly driven through mobile website sessions, as our new front-end design is more consumer friendly on smaller form factors versus our legacy design, whereas legacy still outperforms our new platform on desktop.

We still face a couple of blockers to ramp our new front-end to 100% of North America web traffic, primarily related to how managed channels and performance marketing channels perform that need fixing to ensure we aren't losing any potential visitors to our site. Our goal is to have the new front-end fully ramped on both web and application in North America in time for the Q4 holiday season.

Once we have our new front-end deployed, one of the new features we are most excited about is video. We believe video is a great medium for presenting experiences online and believe it can drive increased consumer and merchant engagement on our site. In the second quarter, we started a few small tests that showed a lot of promise. Our plan is to continue to iterate and test our video product throughout the second half of this year and have it ready to scale sometime in 2025.

Taking a step back, while we have made significant progress on a key pillar of our transformation plan to fix our technology infrastructure, there is still a long road ahead before we reach my objective to have a stable, efficient and agile platform; my own estimate is we are probably only 25% complete on this journey.

As I have said before, our ability to inflect our business to sustained growth is in our hands and dependent on the pace of our projects.

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. I apologize in advance for my voice as I'm a bit under the weather today, but I'm looking forward to our discussion.

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

- Our second quarter financial results,
- Progress on our cost savings actions,
- Update on the other business items, and
- Our updated outlook.

Turning to slide 10, So let's jump into our second quarter Summary Financial Results.

In the second quarter, we delivered Global Billings of \$374 million, a decrease of approximately 5% year-over-year. Revenue was \$125 million, a decrease 3% year-over-year, above the high-end of guidance. Revenue as a percentage of Gross Billings was 33%, an increase of 1% 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 Revenue was 90%, consistent with the prior quarter. Going forward, we expect Gross Profit as a percent of revenue to remain in the 88-90% range.

Marketing expense for the second quarter was \$37 million, or 32% of Gross Profit. As covered by Dusan, this is higher than our previously communicated range, and given the attractive returns and our focus on accelerating topline growth, we now expect marketing as a percent of Gross Profit to stay in this new range of 30 to 35%.

Adjusted EBITDA was positive \$16 million, as we recorded the fifth straight quarter of positive adjusted EBITDA. Our trailing twelve month adjusted EBITDA is \$81 million.

Turning to cash flow, second quarter operating cash flow was positive \$15 million and Free Cash Flow was positive \$11 million, a strong improvement versus last year when we reported Free Cash Flow of negative \$45 million. As Dusan noted, this takes our trailing twelve month Free Cash Flow to positive \$30 million, a nice milestone for our business to hit.

We ended the quarter with \$178 million in Cash and Cash Equivalents. Please note that our cash position excludes \$28 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 11. We had approximately 16 million active customers worldwide as of quarter end, down 0.3 million from the prior quarter. Within North America, our active customer count was flat sequentially, and when you exclude our goods category, our North America active customers grew sequentially for the second quarter in a row.

Turning to our Local category. Consolidated Local Billings were \$317 million, down 1% compared with the prior year. Within North America, we delivered Local Billings of \$244 million, up 5% compared with the prior year. North America Local Billings benefited from favorable refund rates and an increase in demand.

International Local Billings took a step back, down 17% year-over-year, as we took a decision to pause sales of Local vouchers in Italy in mid April due to a previously disclosed tax matter. Excluding Italy, International Local Billings would have declined 9%.

Moving to our Travel category. In the second quarter, Consolidated Travel Billings was \$29 million, down 8% year-over-year. Within North America, we delivered Travel Billing growth of 1% year-over-year. Within International, Travel still has more work to do with Billings down 27% year-over-year.

Moving to our Goods category. Consolidated Goods Billings was \$28 million, down 34% 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 second quarter revenues and declining rapidly, Goods is becoming a smaller and smaller part of our business.

Slide 12. Turning to operating expenses, second quarter SG&A was \$77 million, down 20% year-over-year and includes \$6 million in stock-based compensation and \$4 million in depreciation & amortization. Quarter-over-Quarter, our SG&A was up almost \$3 million or 4%, driven entirely by increase in stock-based compensation related to expensing our previously disclosed performance stock units. Excluding stock-based compensation and depreciation & amortization, our SG&A was flat Quarter-over-Quarter.

Given the timing of our cloud migration project and our decision to ramp up investment in new sales hires, we no longer expect to realize additional savings in our SG&A in the second half of this year. Excluding stock-based compensation and depreciation & amortization, we now expect SG&A in the third quarter to be similar to our first and second quarter. Depending on the progress on our investment into sales, our fourth quarter may increase slightly.

Finally, we expect stock-based compensation expenses to increase going forward this year given our new performance stock units.

Slide 13. Turning to Free Cash Flow.

In the second quarter, we generated positive \$11 million of Free Cash Flow, a \$55 million improvement compared to the free cash outflow in the second quarter last year. The main driver of our improved performance was better Change in Net Working Capital related to more favorable changes in accounts payable and accrued expenses & other current liabilities. Last year, our working capital cycle was heavily impacted by both unfavorable supplier terms related to our going concern issue and deleveraging of our cost base. This takes our year to date Free Cash Flow to negative \$3 million, a major improvement versus last year when 1st half Free Cash Flow was negative \$130 million.

Slide 14. Given the Quarter-to-Quarter variability in Change in Net Working Capital due to timing, we believe that it is more useful for investors to judge our Free Cash Flow on a trailing twelve month basis. We are pleased to see our trailing twelve month Free Cash Flow return to positive territory earlier than expected. This ends a three-year period where the business consistently generated negative Free Cash Flow on a trailing twelve month basis and is a positive indicator that our transformation plan is working.

Slide 15.

Now turning to guidance. As of July 30, 2024, management is issuing guidance for the third quarter of 2024 as follows:

- Revenues between \$114 million and \$120 million, or a decline year-over-year between -10% and -5%
- Positive Adjusted EBITDA between \$6 million and \$11 million
- Negative Free Cash Flow

Management would also like to update its full year 2024 outlook that was first issued in November 2023:

- Year-over-year revenue change at -4% to 0%, with the low-end slightly better from our prior outlook. While our first half performance was better than expected, the slow start to Q3 related to site performance issues is causing us to take a cautious stance for the remainder of the year.
- Positive Adjusted EBITDA between \$65 million and \$80 million, down from \$80 million to \$100 million, due to our lower Q3 outlook and our expectation to increase spending on marketing and ramping up the sales organization.
- Positive Free Cash Flow for the full year

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

- We expect Consolidated Revenue as % of Gross Billings staying within the range we have reported over the last 5 quarters.
- While we still expect revenues to inflect to a sustained positive growth trajectory, we now expect the timing to be more back-end loaded towards the fourth quarter. The final 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 payment methods which were deprioritized last year.

Before closing, let me make a few comments on other Business Updates.

First, in addition to the completed transactions, including the sale of non-core intangible assets completed in April 2024, 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.

Second, moving to the topic of Italy. As previously disclosed, we received a negative ruling related to a tax assessment for one of our Italian subsidiaries, Groupon S.r.l. In April 2024, Groupon S.r.l. paused the sale of local vouchers in Italy and the Company has been evaluating its options regarding operations in Italy. After a careful review of options, in July 2024, we

decided to exit the local business in Italy. We expect to incur total pre-tax restructuring charges of up to \$7.0 million in connection with the exit. The restructuring actions are expected to include an overall reduction of approximately 33 positions, with the majority of these reductions and payments expected to occur by the end of 2024. The Company does not expect incremental financial exposure that exceeds the assets of Groupon S.r.l. As of December 31, 2023, Groupon S.r.l. has assets of approximately €48 million, made up largely of intercompany receivables and includes approximately €1 million in cash and cash equivalents.

Overall, while I am frustrated by the slow start to the third quarter, we are in a strong position to weather this minor set back. 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?