

# Groupon, Inc. NasdaqGS:GRPN

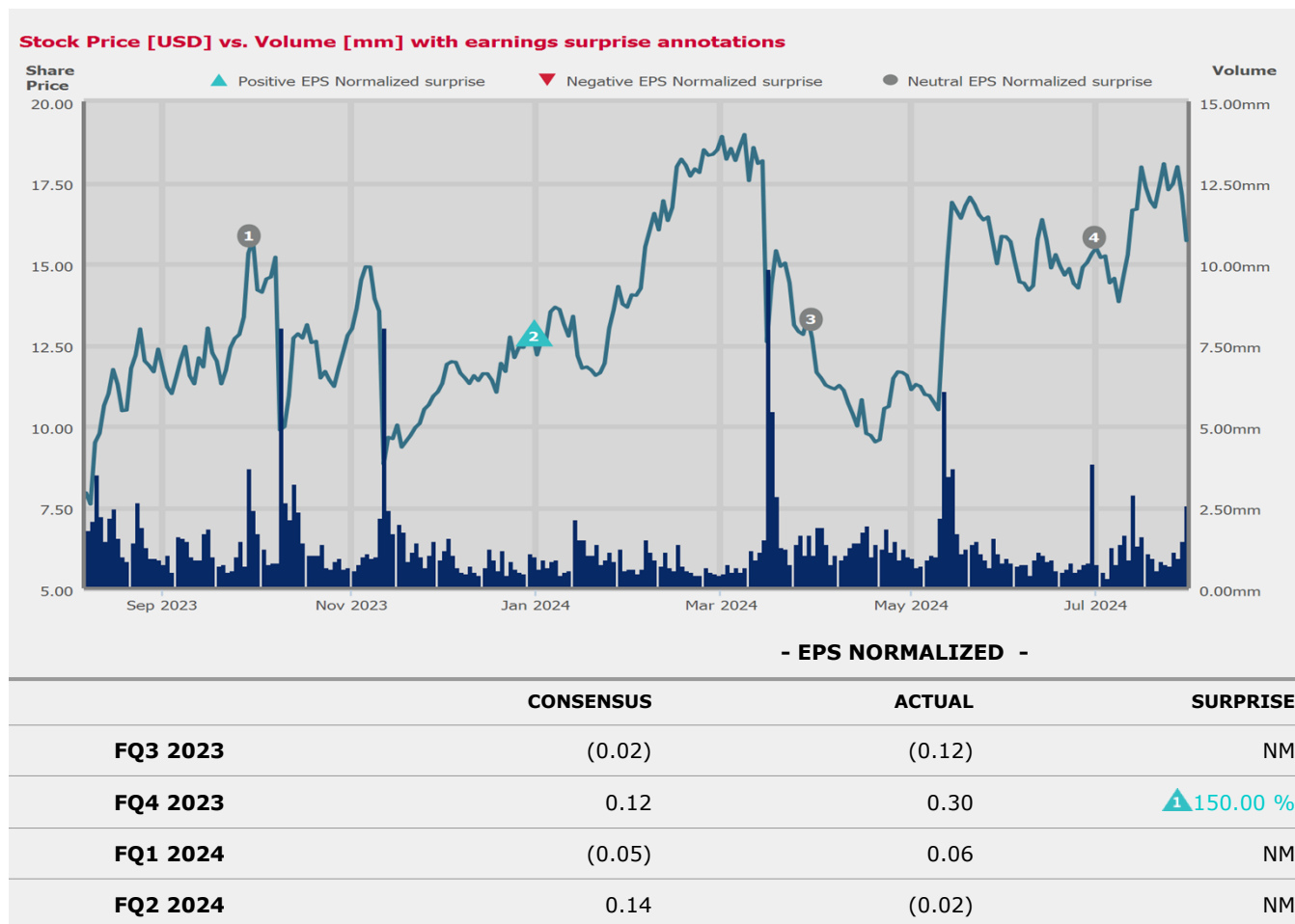
## FQ2 2024 Earnings Call Transcripts

**Tuesday, July 30, 2024 9:00 PM GMT**  
S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	0.14	(0.02)	NM	0.27	0.96	1.04
<b>Revenue (mm)</b>	121.56	124.62	▲ 2.52	130.57	519.20	539.55

Currency: USD

Consensus as of Jul-24-2024 7:50 PM GMT



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# Call Participants

## EXECUTIVES

**Dusan Senkypf**

*CEO & Director*

**Jiri Ponrt**

*Chief Financial Officer*

## ANALYSTS

**Pierre Riopel**

*Goldman Sachs Group, Inc.,  
Research Division*

**Robert Thornton Brooks**

*Northland Capital Markets,  
Research Division*

**Sean Patrick McGowan**

*ROTH MKM Partners, LLC,  
Research Division*

# Presentation

## Operator

Hello, and welcome to Groupon's Second Quarter 2024 Financial Results Conference Call. On the call today are CEO, Dusan Senkyp; CFO, Jiri Ponrt; and SVP of Corporate Development and Investor Relations, Rana Kashyap. [Operator Instructions] Today's conference call is being recorded.

Before we begin, Groupon would like to remind listeners that the following discussion and responses to your questions reflects management's views as of today, July 30th, 2024 only and will include forward-looking statements. Actual results may differ materially from those expressed or implied in the company's forward-looking statements. Groupon undertakes no obligation to update these forward-looking statements as a result of new information or future events. Additional information about risks and other factors that could potentially impact the company's financial results are included in its earnings press release and in its filings with the SEC, including its quarterly report on Form 10-Q. We encourage investors to use Groupon's Investor Relations website at investor.groupon.com as a way of easily finding information about the company.

Groupon promptly makes available on this website the reports that the company files or furnishes with the SEC, corporate governance information and select press releases and social media postings. On the call today, the company will discuss the following non-GAAP financial measures, adjusted EBITDA and free cash flow, in Groupon's press release and their filings with the SEC, each of which is posted on its Investor Relation website. You will find additional disclosures regarding these non-GAAP measures, including reconciliation of these measures to the most comparable measures under U.S. GAAP.

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

## **Dusan Senkyp** *CEO & Director*

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 12 months adjusted EBITDA of approximately \$80 million, cementing our ability to generate strong adjusted EBITDA while investing to inflect the top line to sustained growth.

Turning to cash flow, we had positive \$11 million in free cash flow, better than we expected. This takes our trailing 12 months free cash flow to positive \$30 million. After enduring a 3 year period where the business consistently generated negative free cash flow on a trailing 12 months 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 1 year ago. Our strong June results demonstrate that when we have the right supply working with proper functioning product and 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 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 issue quickly enough to avoid impacting our third quarter financial results, which is weighted towards July and 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'm 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 for 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 and 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.

6 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.

First -- 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 sales force 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 greenlighted an investment into sales that I expect will support our growth in local in 2025 and beyond.

Slide 7. Turning to marketing and 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 top line 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 objective is to grow to our top line 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% to 87%, while we allocated about 30% to 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 focus on lower-funnel performance channels. As a result, marketing as a percentage of gross profit dropped to 20% to 24% in the first half of last year, before ramping back to the 26% to 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% contributing -- 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 percentage of gross profit in the 30% to 35% range, and contribution profit as a percentage of revenue in the 58% to 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 and engineering, but without a satisfactory return of product innovation.

While we made a 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 work stream 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 and 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 top line, 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 and 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 it 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, whereas legacy still outperforms our new platform on desktop.

We still face a couple of blockers to ramp up 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 which 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 am looking forward to our discussion. I will use my time today to provide further insights into our second quarter financial results, progress in our cost savings actions, update on the other business items, and our updated outlook.

Turning to Slide 10. 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 to our gross profit, as a percentage of revenue was 90%, consistent with the prior quarter. Going forward, we expect gross profit as a percent [Technical Difficulty] 88% to 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 top line 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 12 months 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 12 months 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 were \$29 million, down 8% year-over-year. Within North America, we delivered travel billings 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 were \$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 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 it includes \$6 million in stock-based compensation and \$4 million in depreciation and 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.

Including stock-based compensation and depreciation and 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 and 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 our accounts payable and accrued expenses and 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 first 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 this -- that it's more useful for investors to judge our free cash flow on a trailing 12 months basis. We are pleased to see our trailing 12 months free cash flow return to positive territory earlier than expected. This ends a 3 year period where the business consistently generated negative free cash flow on a trailing 12 months 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 minus 10% and minus 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 minus 4% to 0%, with the low-end slightly better from our prior outlook. While our first half -- first half year 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 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 a percentage 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's possible that we will rebalance some of the payment methods which we deprioritized last year.

Before closing, let me make a few comments on other business updates. First, in addition to the completed transactions, including the sales of non-core intangible assets completed in April '24, 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 non-core assets 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 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 EUR 48 million, made up largely of intercompany receivables and includes approximately EUR 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 setback. 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 would like to open the call for your questions. Operator?

# Question and Answer

## Operator

Our first question comes from Sean McGowan from ROTH Capital.

### **Sean Patrick McGowan**

*ROTH MKM Partners, LLC, Research Division*

Appreciate it. Your first question is about the guidance at the high end kind of staying the same, given the setback in July and the commentary on the third quarter suggests that the business really did accelerate. So I guess the question is, how are you able to keep that guidance at the high end unchanged given the setback in the third quarter? Are you obviously kind of expecting a lot more in the fourth quarter? And do you think that momentum will continue?

### **Jiri Ponrt**

*Chief Financial Officer*

Yes. It's true. On the other side, our first quarter was more positive. So we are building on that. And also, we are strengthening our sales organization mainly in Northern America.

### **Sean Patrick McGowan**

*ROTH MKM Partners, LLC, Research Division*

Okay. And can you comment on kind of what the timing was of this disruption and what your exit rate of business was at the end of -- before that disruption started to affect the business like what was at the end of June?

### **Jiri Ponrt**

*Chief Financial Officer*

I don't know, if I will answer. So I will start and maybe Dusan will chime in. We had -- as described in Dusan part of the comments, we were very good, and we believe we were close to inflection point in June. We are not disclosing monthly numbers.

### **Dusan SenkypI**

*CEO & Director*

Yes. So Sean, thanks for the question. We were very happy with the development, both the fixing the original issue. We can't disclose the exact number. But as we mentioned in the script, we were expecting based on June results, that we will be talking about the inflection point. So this is the best guidance I can provide you right now.

### **Sean Patrick McGowan**

*ROTH MKM Partners, LLC, Research Division*

Okay. That's helpful. Last question is, the increase that you saw in June, was that -- had you already started to expand the marketing spending? What is it that's driving you to expand the marketing spending at this point? Is it because you're getting good results? Or do you feel like you need to work harder to get those results?

### **Dusan SenkypI**

*CEO & Director*

Like in general, we were very happy with our ability to bring traffic with the reasonable cost, and we were very happy with the performance of our supply. So that was behind it. If -- actually, if -- and as we were guiding the expectations going forward, if we would have the site and platform performing at the same level as June, we would continue in this trend long-term.

## Operator

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All right. Our next question comes from Bobby Brooks from Northland Capital.

**Robert Thornton Brooks**

*Northland Capital Markets, Research Division*

I guess the first thing I kind of want to jump back or go back to the June quarter. So obviously, you talked about June being really strong and leading you to believe that third quarter would be an inflection point, right? So could you maybe discuss what exactly you saw in June that led you to believe that? Was it better conversion? Was it the same type of conversion that you saw in April and May, but more web or just more foot traffic to the site? And prior to the site stability issues that came up in July, what were you thinking that -- what were you thinking third quarter guidance would have looked like?

**Dusan Senkypf**

*CEO & Director*

So I can comment on the first part. Thank you, Bobby, for that question. Like we were fixing the conversion during the April or the issues which we had were reflected in the lower conversion of the website, which means that also buying external traffic, spending on marketing is less efficient. So our output in May, what we were able to fix allowed us to generate higher performance from the website with pretty much same level of marketing. We were scaling up marketing in the first half of Q2.

So I just consider that level sustainable. We still -- as I mentioned it in the script, we still believe there is a room to go, and we were running most of the quarter on legacy web platform. And as we mentioned, we see -- at some point, we were at very high numbers in terms of ramp-up of mobile next new platform. We saw that it's incremental. So it would be another driver of growth going forward.

**Robert Thornton Brooks**

*Northland Capital Markets, Research Division*

Got it. Understood.

**Dusan Senkypf**

*CEO & Director*

Yes.

**Robert Thornton Brooks**

*Northland Capital Markets, Research Division*

Cool. And so then kind of going back to conversion rate, obviously, that's a major piece of the return to growth story here, right? And while I see how conversion could improve with the better checkout system with far less clicks and easier payment options, I don't think it's been discussed too much about just the rate of improvement that you guys have seen in terms of conversion. So I was just curious if you could talk broadly on how conversion has trended. And obviously, it probably stepped down a little bit in July, but maybe if conversion was a 2 out of 10 when you guys took over, is it now maybe 5 out of 10 with a healthy amount of room to run in terms of conversion? How much more do you think it can improve? And how much has it already improved?

**Dusan Senkypf**

*CEO & Director*

So like my personal rating is that we are at 3 out of 10. And while -- the reason for that number is while we did some like very positive changes in terms of conversion. At the same time last quarter, I was talking about some legacy [ PCs ] of the platform, which we still need to replace, which were kind of degrading and performance. So partially, some of our optimizations were offset by lower performance of parts, which we are replacing in the platform. So there is still way to go. We see plenty of opportunities for further improvement in conversion, specifically on the checkout.

**Robert Thornton Brooks**

*Northland Capital Markets, Research Division*

Got it. And then I just wanted to make sure I understand this clearly, you mentioned in the prepared remarks about the new web and -- the new website and application roll-out and mentioned how in North America, you wanted to get that rolled out before the fourth quarter holiday season. Is it still the fact that you want to get that rolled out internationally as well before fourth quarter holiday season? And -- or is it maybe just focusing on getting North America rolled out first and then 2025 roll-out -- rolling out globally.

**Dusan Senkypf**

*CEO & Director*

So you know that we are talking about the roll-out of new mobile platform for a long time. So right now, we are very -- I would say, very incremental in North America. At the same time, we are at like 1% of traffic in pretty much every country or -- every country which we have with Groupon. So it's not that we didn't progress also in international, but given the business size and opportunity, the ramp-up in North America is clear focus #1 for us. So we will try to be in as many countries as possible as we see a major upside from new platform. But if we will be in North America, it will still be a huge win for us for Q4.

**Robert Thornton Brooks**

*Northland Capital Markets, Research Division*

Cool. And then just maybe one last question for me before going back to the queue is just, you mentioned about some exciting new enterprise merchant setups or sign-ups and the revamped merchant -- revamped sales force to target North American local business, right? And so, I was just kind of curious about how do you -- what's kind of the go-to-market strategy in terms of bringing in new business -- bringing in new merchants into the fold? And specifically, maybe if that's different between our local trampoline shop versus a nationwide oil chain shop, does that change?

And just any color and insight you could provide there? And maybe just a little curious on just the video aspect that you mentioned. I think that could be interesting. Would that be something where you guys are spending money on creating your own video or it would be something where you ask the merchant to provide a video summarizing their business themselves.

**Dusan Senkypf**

*CEO & Director*

Okay. So I can start with the video part. With videos, we currently have several dozens of videos from merchants in one big location, which we selected for a test. And we are trying different methods from obtaining or creating video with our own resources or resources which we hire. At the same time, we are using micro influencers. So we are looking for the best way, so that we can scale it up, obviously, in the first wave, it will be mainly initiative driven by us, by Groupon, but based on the numbers which we see, we expect that it will help us to improve the conversions, and we will expect that the merchants will be interested to do their own videos, because we will be able to get better positioning on the platform.

On the first part of your question, in terms of supply, we have the departments split into local business and enterprise business. So these are 2 very different product cycles. Enterprise business is targeting our enterprise merchants. And this is the part which we were focusing in the first place when we started the transformation, and we see very positive results growing year-over-year.

The local part where we are investing more into sales force, it was regionalized in the last quarter in Q1 actually. And we have -- we call the position market managers. Market managers are pretty much specialized on one location, one region, and we are trying to create a guide or creating a guide how the ideal curated group on marketplace should look like. And then they are asking salespeople go and bring this trampoline park or go and bring the SPA or massages, because we know that there will be the biggest benefits for merchants, for us, for Groupon, if we bring those types of deals.

**Robert Thornton Brooks**

*Northland Capital Markets, Research Division*

Awesome. Really appreciate the color and congrats on the progress. I'll return to the queue.

**Operator**

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Our next question comes from Pierre Riopel from Goldman Sachs.

**Pierre Riopel**

*Goldman Sachs Group, Inc., Research Division*

This is Pierre on for Eric Sheridan at Goldman. Maybe just following up on the question on supply. We just wanted to dive deeper on your capital allocation philosophy and just key factors that help you build confidence in accelerating those sales force investments, how you were ultimately able to remove the blockers that limited investment prior? And how investors should ultimately think about your priorities looking ahead and balancing reinvestment and profitability as you look to position the local business for durable growth as you look into next year and beyond.

**Dusan Senkypf**

*CEO & Director*

Okay. So Jiri, do you want to take the question or should I take it?

**Jiri Ponrt**

*Chief Financial Officer*

No, I will start, and you can probably add. So certainly our position improved significantly. We are in positive adjusted EBITDA. We don't have going concern. We were able to create next -- in last 3 quarters -- out of -- last 3 quarters, 2 of them were cash positive. So we can also now little bit think about the growth. We were financially stable. We decreased our SG&A costs. So it allows us to not only spend money on marketing, but also building or starting building a long-term future in Northern America, which is our biggest market.

And therefore, we are now investing to new additional business development structure in Northern America in the key cities, which we -- and regions where we're operating, because we believe there is a high potential, which can be utilized with positive ROI.

**Dusan Senkypf**

*CEO & Director*

And maybe to add a little bit more picture. We are very cautious and go really step by step. So we just don't expect or don't see this as a project with like 8 digit numbers, like investments into the sales force. We have some model behind it, some basic model. We will be like adding a lot of salespeople in the Q4, but it will not be a major expense for Groupon. And once we validate our numbers, we will be able also to share with our shareholders by the financial model for expansion. If we see that we should accelerate, this will be something which we will be talking about both with you and with few shareholders.

**Pierre Riopel**

*Goldman Sachs Group, Inc., Research Division*

Got it. Extremely helpful. And maybe just one follow-up from us. In terms of your mention of your ability to remove blockers behind your marketing investment and now having an ability to step that up again and maintaining ROIs. Can you just talk about the drivers of what's enabling you to invest deeper into that performance marketing curve, whether that's just the supply position improving, some of the conversion dynamics you talked about, or how we should think about those new levels of investments?

**Dusan Senkypf**

*CEO & Director*

It's complete mix. We need to start with supply, because I really see Groupon in very different position. We had courage, let's say, to remove a lot of low-performing deals, which overall helps performance of the website. We are curating the deals, which in the end of the day, significantly helps the conversion of deals if you have better images, if you have better deal structure, if you're simply selling the deal better. So it was a must have, which we had to do before we were ramping up investment.

And as the conversion is improving, we are able to spend more, because simply Google, Facebook and other marketing providers or partners for us are able for the ROI, which we are targeting bring more traffic to us. And I mentioned in terms of on -- when Bobby was asking about the potential, there is still a way to go, we were talking about the video is something which can also help us with conversion. So we expect that this trend will continue.

**Operator**

There are no other questions. This concludes our call for today. Thank you, everyone, for joining. For additional information, please go to [investor.groupon.com](https://investor.groupon.com).

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