



## Third Quarter 2024 Earnings Script

### Dusan Senkypl, Chief Executive Officer:

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

I will start today's call on **Slide 5** and cover the key highlights of our third quarter:

Overall, despite many positives, we had a tough quarter as our North America business was impacted by previously disclosed technical issues related to our various platform migrations. We ended Q3 at the low-end of our guidance on revenue, but beat the high-end on EBITDA.

Let me outline the key highlights and consideration for the quarter and then I will use my remaining time to dive deeper into each point.

First, we saw a positive development in International Local, where excluding Italy, we delivered revenues -2% Year-over-Year and exited the quarter with stable and improving trends. While International still runs on our old tech stack, we are seeing success implementing our marketplace playbook to reinvigorate our local experiences marketplace in several countries. Just like we saw in North America Local, the positive development in International Local gives us additional confidence we know the steps needed to return this business to growth.

Second, while our overall North American business faced headwinds, we delivered a strong summer Things To Do season, highlighted by expanding relationships with several national brands who turned to Groupon to help drive incremental performance during their most important season. As we review our business performance versus the market and competition, we believe that our Things To Do vertical grew faster this summer than both the market and other online marketplaces focused on this vertical. The strength of our things to do vertical is a positive proof point that when we have the correct value proposition, our platform delivers strong results for both merchants and customers.

Third, we reached an important milestone of 100% mobile web and desktop traffic in North America on our new website. Since reaching 100%, we have already seen a material increase in the speed of new feature development, which will be an important driver of our future product roadmap. We are excited to leverage our new front-end to bring expanded gifting experiences and product features like video to our customers during this holiday season.

Fourth, we are seeing growth of new customer cohorts in North America. This has helped stabilise overall North America active customer counts and we are seeing year over year growth excluding goods. We believe this is a positive signal that our new customer acquisition engine works, an important driver of future growth for our Company.

Fifth, on the balance sheet, we are pleased to announce an agreement to raise \$197 million in new secured convertible debt, maturing 2027 with a 6.25% coupon and a \$30 strike price. While Jiri will cover more details in his remarks, I believe this new round of financing helps to provide the Company with additional financial flexibility to navigate our transformation at attractive terms.

Finally, while we fixed many of our platform migration challenges in the third quarter, we did experience a one-time drop in the retention rates of our legacy customers, which we expect will provide a headwind to future financial performance for a period of time.

#### **Turning to Slide 6. International Local.**

While we initially focused our supply transformation efforts in North America Local, we always believed those same local marketplace principles can also be applied to our International markets. In fact, when I first got involved in Groupon in 2022, Spain was the first market to start applying the marketplace playbook and has emerged as a positive story with strong double digit growth. Spain is a great case study for how our marketplace playbook works.

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. The first step to winning the right supply is rebuilding our sales capacity. We are doing this with localised sales teams covering specific cities and implementing a strong performance management culture with effective sales leadership focusing on activity and consistency.

As we improve the sales capacity, the next step in our marketplace playbook is to repopulate main categories starting with the foundation of basic inventory selection. Think of the merchandise in a convenience store, and the minimum required to be a relevant service in their city. We have robust historical data that shows us what basic services we need to cover for a particular market. The key is to have a super restrictive focus that gives very tight guidelines on what kind of inventory we want our sales representatives to target.

Once we restock the basic storefront, the next step is to bring customers back to our site and interact with our merchandise. Here we have found one efficient way to drive traffic is targeting high volume deals with a focus on national brands.

With an efficient sales strategy focused on rebuilding supply in key categories and customer traffic increasing organically with high volume deals, we then can start ramping up marketing spend which adds fuel to our marketplace flywheel.

Excluding the exit of Italy, we see positive results in International. While not all our countries have made as much progress as Spain, we can see several green shoots and we expect overall International Local to improve further. Importantly, we have not seen a significant impact to international markets from our platform changes as we largely continue to operate those markets on our legacy tech platforms.

**Slide 7.** Turning to North America Local. We took a big step back in the 3rd quarter compared against our 2nd quarter results, moving from +7% to -8% year-over-year.

A few comments to bridge this 1500 basis point change in performance.

First, after commenting for two quarters that we had tailwinds in refunds and variable consideration, this quarter those tailwinds reversed and became headwinds.

Second, the 2nd quarter this year benefited from an easy year-over-year compare in revenue growth from paid marketing campaigns as last year's 2nd quarter was the trough in marketing spend as a % of gross profits as we had rebuilt our performance campaigns and started to ramp up marketing spend in Q3 2023.

Third, legacy customer cohorts. Groupon has many users that made their first purchase over a decade ago and follow a mostly establish pattern of usage. While we expect legacy customer cohorts to decline overtime, we have multiple initiatives aimed at improving retention of these customers. For example, we saw a strong improvement in legacy customer retention during Q4 last year, setting a strong foundation for year-over-year performance in our legacy cohorts in the first half of 2024.

Beginning in July and continuing into August, we observed a decline in retention rates for our legacy customers compared to the same period in prior years.

While we fixed many of our platform changes and migration challenges and saw our retention curves stabilise in September, we have not yet seen a bounce back in those cohort curves. It is possible that they come back this Q4, but it is also possible that the changes we made created enough friction to lose a certain segment of our audience for good. As previously stated, this one-time drop in the retention rates of our legacy customer cohorts may provide a headwind to future financial performance for a period of time.

Despite the step back in performance in Q3, I continue to see massive potential in our North America Local business.

We continue to make progress against our playbook, including ramping up our sales capacity, covering the proper categories and bringing on great volume drivers to get the flywheel going. And we have a lot more room to run. For example, if you look at our top metro areas, we believe we still have significant room to make improvements on our coverage of basic inventory. The way we measure potential is not based on the number of merchants, but rather going at a category level and indexing the relative performance of our best performing divisions weighted by the size of addressable market.

## **Slide 8.**

While there are still many moving pieces in Groupon's transformation, one positive story emerging is our new customer acquisition engine.

When Groupon first launched in 2009, the internet market was a highly fragmented ecosystem of players vying to serve as the "front door" to the internet. Groupon sought to leverage its position in local commerce, e-commerce, and deals to establish itself as one of these key entry points.

Today the online ecosystem has matured and consolidated to a few very large platforms who act as the "front doors" to the internet for a very high percentage of consumers. Many growing and established e-commerce or internet marketplace firms have built their customer acquisition engines on top of these platforms because of their enormous scale and tapping into this traffic is a huge opportunity for Groupon to drive new customer acquisition.

This insight is at the heart of our pivot last year to reposition our marketing engine and marketing spend towards acquiring customers in channels where we can build measurable and scalable campaigns with a clear ROI.

Our current philosophy is to run our marketing channels with target ROI of 1. It means that if we spent \$100 on a campaign, then we expect to earn back \$100 in Groupon commissions over a two week period from that campaign. Therefore as long as we hit our ROI targets, our marketing payback is almost immediate and we profit on any subsequent purchase.

When we look at a monthly cohort view, new customer cohorts are spending approximately 1.4x their initial purchase by the time they reach month 12. This is a good start, but next year, we will be prioritizing initiatives to improve the customer lifetime value and the purchase frequency of new customers.

In the 3rd quarter, we did not achieve our ROI targets as our platform changes resulted in inefficient marketing campaigns. In September and October, we also saw the effectiveness of our campaigns reduce, largely related to what we believe are the impacts to marketing effectiveness during the US presidential election. Since the election, we have observed a significant improvement in our marketing channel efficiency.

## **Slide 9. Moving to Product & Engineering.**

Given the progress in International running on our old tech stack, I believe it is reasonable to conclude that had we not made the tech changes in North America, we would likely be reporting that our consolidated business was growing this quarter.

But then we would still be working on our old tech platform, which is highly inefficient, unstable and extremely difficult to develop on. This technical debt would serve as a heavy anchor on any future product initiatives and while we would have reported a positive quarter, that result would not be building towards a long term future of sustained growth.

In my career, I have been through many platform upgrades and it was common to see a performance drop at the outset of a change before rapid iterations improved the new platform to the point where performance eclipsed the old platform. I am also aware of other legacy technology companies, who embark on multi-year migrations just to modify one small component of their stack in order to protect performance.

At Groupon, given the overall situation, one of my goals was to transform our platform with a neutral impact to performance as quickly as possible. Between the two, for the past several quarters, I was willing to move slower on our projects to protect performance, but now I believe the time has come where we must accept sacrificing some short term performance for the long-term growth of the business as we modernize our tech stack.

I am excited to see how we will be able to use our new front-end platform as a flywheel to power the path to sustained revenue growth. Let me give you a few examples of what we are currently working on:

Platform for Performance: our new front-end will be able get us to faster, more stable customer experiences. While we are not there, we see strong pace of weekly improvements in this direction and we believe by the end of Q4, the new platform will be superior to Legacy - which will also position us better for SEO & SEM as we should be able to drive more traffic and have higher conversions.

Increased Customer Value: New features like improved personalization and search relevance, merchant pages, and AI-driven FAQs inspire customer interactions and increase retention, while optimized targeting and personalized content improve visit frequency.

Global Reach and Flexibility: our new front-end's expanded language capabilities mean we can reach and engage diverse customers and merchants, mainly Spanish-speaking population in the USA, with relevant offerings.

Positive Early Results for App: With the new app in beta showing solid performance in NA, we're focusing on fine-tuning for a full rollout early in 2025 (as we don't want to risk Holiday season and we have sufficient functionality with gifting support in Legacy app). We expect to migrate International markets during the first half of 2025.

Platform for Future: We have high expectations in terms of agility and development speed - we can see significantly faster development times and ability to bring new features to the market vs Legacy.

Gifting: as we enter into Q4 holiday season, we are excited to roll out another new set of gifting features and customer journeys to make gifting and receiving experiences more exciting for everyone.

Video: we have started to add video content into merchant pages and have positive early results. It is still very early and there will be significant improvements in the coming months, but video is just one example of a feature that our legacy platform would have struggled to launch.

Merchant pages and Merchandised pages: with the new front-end in place, we will be moving from our legacy focus on a deal page as the main surface that consumers interact with to also build out merchant pages and category pages. This will allow us to target consumers at different points in their journey and bring them to Groupon to help find the right offering for them.

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

In conclusion, despite some challenges, I'm optimistic about our future. The progress we've made in transforming our platform and enhancing our customer experience is laying the groundwork for sustainable growth. Our International Local business is showing promising signs, and the positive response to our new features like gifting and video content reinforces our belief that we're on the right path. We've seen significant progress in marketplace understanding and in how we operate our sales channels. We're committed to continuous improvement and innovation, and I believe the best is yet to come for our company. I want to express my sincere gratitude to our teams worldwide for their hard work and to our investors and partners for their unwavering support. Thank you for joining us on this journey.

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

- Our third quarter financial results,
- Progress on our cost savings actions,
- Update on the other business items, and

- Our updated outlook.

**Turning to slide 14,** So let's jump into our third quarter Summary Financial Results.

In the third quarter, we delivered Global Billings of \$373 million, a decrease of approximately 10.9% year-over-year. Revenue was \$114 million, a decrease 9.5% year-over-year, at the low-end of our guidance. Revenue as a percentage of Gross Billings was 31%, an increase of 0.5% year-over-year. The percentage remained relatively stable from the prior year and continues to stay within the range of our expectations.

Moving on, our Gross Profit as a percentage of Revenue was 90%, consistent with the prior quarter and continues to stay within the range of our expectations.

Marketing expense for the third quarter was \$36 million, or 35.2% of Gross Profit. This is consistent with our expected range of 30-35% for marketing as a percentage of Gross Profit. As we commented in the second quarter earnings and as Dusan just mentioned, our marketing spend this quarter was not as efficient as expected related to our tech migration issues. Going forward, we expect marketing as a percentage of Gross Profit to stay within our expected range of 30-35%.

Adjusted EBITDA was positive \$15 million, as we recorded a sixth straight quarter of positive adjusted EBITDA. Our trailing twelve month adjusted EBITDA is positive \$78 million.

Turning to cash flow, third quarter operating cash flow was negative \$16 million and Free Cash Flow was negative \$20 million, a slight decline versus last year and in line with our expectations.

We ended the quarter with \$160 million in Cash and Cash Equivalents. Please note that our cash position excludes \$29 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 15.** We had approximately 15 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 third quarter in a row and grew year over year for the second quarter in a row.

Turning to our Local category. Consolidated Local Billings were \$326 million, down 8.1% compared with the prior year. Within North America, we delivered Local Billings of \$249 million, down 4.5% compared with the prior year. North America Local Billings had a positive impact in the prior year period from phasing out our COVID-19 refund practices, with no comparable activity during the current period, which primarily contributed to the decrease in our Local category during the current period.

International Local Billings was down 18.0% year-over-year, as we took the difficult decision to exit the local business in Italy due to a previously disclosed tax matter. As Dusan commented in his remarks, our International local business excluding Italy is recovering nicely and we are seeing positive green shoots in many international countries.

Moving to our Travel category. In the third quarter, Consolidated Travel Billings was \$23 million, down 21.9% year-over-year. Travel category performance has been uneven this year and we expect this trend to continue going forward.

Moving to our Goods category. Consolidated Goods Billings was \$25 million, down 29.6% year-over-year. Our current Goods business is struggling and we don't see any near-term change in the negative trend. At 5% of third quarter revenues and declining rapidly, Goods is becoming a smaller and smaller part of our business.

**Slide 16.** Turning to operating expenses, third quarter SG&A was \$71 million, down 10.9% year-over-year and includes \$9 million in stock-based compensation and \$4 million in depreciation & amortization. Quarter-over-Quarter, our SG&A was down almost \$6 million or 8%, driven primarily by a decrease in cloud costs, a slower than expected ramp in our sales hiring and lower variable compensation as the business performed below our expectations in the third quarter.

Going forward, we expect SG&A to increase quarter-over-quarter to a number closer to where we were in the second quarter as we continue to hire new sales resources and additional savings from our cloud migration efforts will take several quarters to realise.

**Slide 17.** Turning to Free Cash Flow.

In the third quarter, we generated negative \$20 million of Free Cash Flow, similar to last year and in line with our expectations. Relative to the second quarter, we saw an expected negative development change in our net working capital. This is due to the third quarter ending in September, a month where we have large merchant payments from our summer things-to-do season, but billings from our holiday push has not picked up yet.

Importantly, our year to date Free Cash Flow is negative \$23 million, a major improvement versus last year when the nine months Free Cash Flow was negative \$148 million. This positions us well to return to positive free cash flow for the full year.

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 report our trailing twelve month Free Cash Flow at positive \$28 million, which is positive for the second straight quarter after a long period of negative cash outflow.



## Slide 18.

Now turning to guidance. As of November 12, 2024, management is issuing guidance for the fourth quarter of 2024 as follows:

- Revenues between \$124 million and \$131 million, or a decline year-over-year between -10% and -5%
- Positive Adjusted EBITDA between \$14 million and \$19 million
- Positive Free Cash Flow

Management would also like to update its full year 2024 outlook:

- Year-over-year revenue change at -6% to -4%, below our prior outlook.
- Positive Adjusted EBITDA between \$65 million and \$70 million, down from \$65 million to \$80 million, as we narrowed the range due to our lower Q4 outlook.
- Positive Free Cash Flow for the full year

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

- We continue to explore potential changes with our payment methods. After running a test in September and October in the US, we recently made the decision to offer PayPal to all US customers as a payment method. Similarly we returned PayPal to several international countries and we are looking for additional payment options as we try to find the most optimal mix of payment methods for our customers.
- We expect Consolidated Revenue as % of Gross Billings staying within the range we have reported over the last 6 quarters.
- While we still expect revenues to inflect to a sustained positive growth trajectory, given the exit of Italy Local and the hit to North America legacy customer retention rates from tech migrations, we no longer expect to inflect to growth in Q4 2024 and the timing of our inflection to growth may be delayed by several quarters until we address these headwinds.
- While we are not providing guidance for 2025, we currently expect 2025 revenues compared to 2024 to be flat, or up to low-single digit growth, with the first half year down and the second half year up, EBITDA to be similar or better than 2024 and Free Cash Flow to be positive.

Before I close, let me share a few update on our balance sheet and other matters:

First, today the Company announced it has raised \$197 million in privately negotiated agreements with certain holders of our existing Convertible Notes due in March 2026 by (i) exchanging \$176 million of 2026 Notes on a 1:1 basis for a newly issued Secured Convertible Notes due in March 2027 and (ii) issuing \$21 million in New 2027 Notes.

The New 2027 Notes will be due in March 2027, bear interest at a rate of 6.25% per year and will have a strike price of \$30.00 per share, a premium of approximately 184% over the 20-day trailing volume-weighted average price ending on November 11, 2024. The New 2027 Notes will

be guaranteed by certain subsidiaries of Groupon which meet certain threshold requirements. The New 2027 notes will be secured by a first priority security interest in substantially all of the assets of the Company and the Guarantors, subject to certain exceptions and permitted liens.

Management expects that this new financing provides additional flexibility as we continue to execute on our transformation plan to return our consolidated business to sustainable growth.

Second, an update on Italy. As previously disclosed, one of our subsidiaries -- Groupon S.r.l. -- has been litigating a negative tax assessment in the Italian Courts since 2018. As we also previously, disclosed, we began the process in Q2 of exiting the local market. In October, we reached separation agreements and with all employees and exited our lease. The total amount of restructuring is expected to be up to \$3 million USD versus previously estimated \$7 million USD. In the litigation, a second-level appeals court indicated it will rule against Groupon S.r.l. and in favor of the tax authorities at that level of the appeal. We still do not have the formal decision from that Court. Groupon S.r.l. will be able to lodge an appeal to the Italian Supreme Court and eventually challenge the Italian Tax Authority's determination in an international Mutual Arbitration Proceeding. The Company continues to believe that the assessment lacks merit and is vigorously defending the case. The Company does not expect financial exposure that exceeds the assets of Groupon S.r.l. More information about this matter can be found in the Company's Form 10-Q.

Finally, non-core asset sales. 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.

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