PRESCIENCE POINT
CAPITAL MANAGEMENT

Groupon, Inc.

NASDAQ: GRPN

Most people think Groupon is dead (we did). However it has a valuable secret asset, revamped core business poised for accelerated growth, & surprisingly loyal user base, making it worth 2.7x to 4.3x the current share price.

Groupon, Inc. (GRPN) is a misunderstood Company that has been wrongly left for dead due to an antiquated bear thesis and apathetic sell-side. Market participants have completely overlooked the sizable and growing value of Groupon's investment in SumUp, and are significantly undervaluing the Company's core business, which has recently stabilized and is poised for significant growth. We believe shares are worth at least $63.18 today and could exceed $98.00 in a conservative upside scenario.

DATE OF REPORT
12/21/21

SHARE PRICE
$23.20

AVG DAILY VOLUME
1.0M

MARKET CAP
$686M

SHORT INTEREST (% of Float)
13.7%

CONSENSUS FY22 EV/Adj. EBITDA
4.4x

Prescience Point Research Opinions:

- **The market has completely overlooked Groupon's sizable ownership stake in SumUp, which we estimate has grown to at least $268m or close to 40% of the Groupon's current enterprise value:** In 2013, Groupon made a small initial investment in SumUp, a fast-growing fintech with a +50% revenue CAGR. Today, the investment is worth at least $268 million yet it's been largely overlooked by market participants. Even after a recent ~$90 million book value mark-up of the investment, sell-side analysts covering Groupon have continued to overlook its existence.
- **Factoring in the SumUp investment, the market is valuing Groupon's core business at just 2.9x consensus FY 22E EBITDA; at this extremely cheap valuation, very little has to go right in order for Groupon shares to increase substantially from current price levels:** After deducting the value of the SumUp investment, which we estimate to be worth at least $268m, from the current enterprise value, we calculate that the market is valuing Groupon's core business at just 2.9x consensus FY 22E EBITDA. This valuation represents a massive 66% discount to the Company's historical average multiple of 8.7x forward year EBITDA.
- **Despite the severe headwinds created by the global pandemic, Groupon's business has stabilized:** Bears have continued to posit that Groupon is a melting ice cube, while completely ignoring recent evidence that proves otherwise. The pandemic hit Groupon with a vicious one-two punch of behavior modification and labor shortages which gutted demand and supply in key verticals. However, the worst is over for customer attrition as the North America customer base has bottomed and International customers approach trough levels. Despite widespread lockdowns and restrictions and persisting public health & safety concerns, there are ~24M customers that continue to use Groupon. ~15M of these have been customers for >3 years and are among the most active and profitable users. In addition, the largest and most profitable sub-category, Local, is already seeing sequential growth in users and accelerating purchase frequency.
- **Recent, large decline in revenue is largely attributable to a change in revenue recognition accounting:** Historically, the Company's Goods business accounted for ~50% of total revenue. In early 2020, Groupon began to transition its Goods business to a third-party model. Accordingly, Goods revenue began to be recognized on a net basis (previously gross). The North America first party Goods business transition was largely completed in Q4 20, while International will be completed by the end of FY 21. At first glance it appears revenue has fallen off a cliff and will never recover. However, this is largely attributable to this revenue recognition change. Consequently, Groupon likely falls through the cracks of many financial statement screens as prospective investors inaccurately conclude that Groupon's business is in steep decline.
- **With minimal leverage and the leanest cost structure in its history, Groupon is well-positioned to take advantage of accelerating fundamentals:** Groupon focused on liquidity at the expense of growth throughout the pandemic, stripping out >$200 million of fixed

costs while simultaneously strengthening its balance sheet. The time for conservatism is over and we fully expect the Company to deploy significant capital over the coming quarters in the pursuit of long-term sustainable growth.

- **Minimal sell-side coverage and high short interest shows just how misunderstood and overlooked Groupon is:** Three years ago, nine analysts joined the earnings calls, today there are two. Even with the stock near all-time lows, short interest is still relatively high in the mid-teens as bears have failed to re-evaluate their antiquated short thesis given price confirmation and negligible bullish sentiment.
- **Shares are worth at least $63.18 with upside to +$98:** In our sum-of-the-parts Base Case of $63.18/share, we value Groupon's base business at 6.0x (above current levels, but well below the historical average) our FY 23 adj. EBITDA of $286.6m, or $55.35/share + the SumUp stake at $268.6 million, or $7.84/share. A more bullish case, assuming FY 23 adj. EBITDA of $340.9 million and an 8.0x multiple (in-line with historical levels) + a SumUp stake worth $483.7 million, results in a target price of $98.86.

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Executive Summary

Prescience Point is long Groupon, Inc. (NASDAQ: GRPN). Groupon is a misunderstood Company that has been wrongly left for dead due to an antiquated bear thesis and apathetic sell-side. Market participants have completely overlooked the sizable value of Groupon's investment in SumUp, and are significantly undervaluing the Company's core business, whose recent turnaround has been overshadowed by pandemic related shutdowns and a quirky change in revenue recognition accounting. We believe shares will increase >3x from current price levels.

Groupon quietly owns a sizable stake in SumUp, one of the largest and fastest growing mobile payments companies in the world. In 2013, Groupon made a $13 million investment in SumUp in exchange for a 10.3% ownership interest in the company. Since making this investment, based on disclosures provided by the company, we estimate that SumUp's revenue has grown at a CAGR of 50%+ and that FY 22 revenue will exceed $550m.

SumUp's largest competitor in the mobile payments space – iZettle – was acquired in 2018 by PayPal for $2.2Bn or ~13x forward year revenue of $165m. Given that SumUp has more revenue, merchants and a larger addressable market than iZettle, we believe SumUp should, at the very least, be valued at a similar valuation multiple. Conservatively assuming a forward year revenue multiple of 11x, <u>we value Groupon's stake in SumUp at an estimated $268.6m or $7.84 per share – close to 40% of Groupon's current enterprise value!</u> Puzzlingly, despite the considerable size of this investment, sell-side analysts who cover Groupon have completely excluded SumUp in their valuation models, even after a recent ~$90 million book value mark-up.

In addition to ignoring Groupon's sizable investment in SumUp, market participants are also significantly undervaluing the Company's core business. Bears have continued to posit that Groupon is a melting ice cube, while completely ignoring recent evidence that shows otherwise. Despite operating in the most challenging environment in its history, brought on by the pandemic, Groupon's customer base has started to stabilize and is now concentrated with its most loyal and profitable users. Notably, the largest and most profitable sub-category, Local, is already seeing sequential growth in users and accelerating purchase frequency. Additionally, Groupon focused on liquidity at the expense of growth throughout the pandemic, stripping out >$200 million of fixed costs while simultaneously strengthening its balance sheet. As a result, the Company is well-positioned to deploy capital over the coming quarters and take advantage of accelerating fundamentals.

Lastly, a recent overhang on the equity had been the lack of a permanent CEO. Groupon's President of North America, Mr. Aaron Cooper, took the reins in March 2020 and had the interim CEO title for over a year-and-a-half until Groupon announced a permanent replacement, Mr. Kedar Deshpande, earlier this month. Despite now having a permanent CEO in place, there appears to be some reticence that Mr. Deshpande may change-up Groupon's strategy and revert back to the Goods business given his tenure at Zappos, an online shoe and clothing retailer. At the current juncture, we think these concerns are unfounded as Groupon's Board of Directors has been explicitly clear that its goal in the CEO search process was to bring a leader to accelerate the Company's progress in its Local category. Nevertheless, we will be paying acute attention to any strategy shifts as we think it's in the best interest of shareholders that Groupon continue its plan to focus on Local and transition its Goods business to a third-party model. We look forward to seeing Mr. Deshpande push forward Groupon's Local strategy.

After stripping out the value of the SumUp investment, we calculate that <u>the market is valuing the core business at just 2.9x consensus FY 22E EBITDA, which represents a massive 66% discount to the Company's historical average valuation multiple of 8.7x forward year EBITDA.</u> At this extremely cheap valuation, very little has to go right in order for Groupon shares to increase substantially from current price levels, and given the recent turnaround in the business, we believe the core business should trade at a multiple that is at least in-line with its historical averages. Assuming a conservative multiple of 6.0x FY 23 EBITDA, which still represents a significant discount to the Company's historical average of 8.7x, we estimate that the core business is worth $55.35 per share.

Putting it all together, we believe Groupon shares are worth $63.18 in our Base Case and $98.86 in our Bull Case.

Hidden Asset via Ownership Stake in Private Multi-Billion Dollar Mobile Payments Company SumUp Provides Margin of Safety + Huge Upside

In 2013, Groupon made an investment in the Series B round for mobile payments company SumUp.[1] Groupon also participated in the Series C and Series D rounds. The total amount invested and percentage ownership have not been publicly disclosed by either company but we believe Groupon currently has a percentage ownership stake in the mid-single-digits. In Q3 21, Groupon wrote up its investment in SumUp more than 3.5x to $122.9 million, a valuation we believe to be extremely conservative.

We value SumUp based on FY 22 revenue and estimate SumUp's equity is currently worth ~$5.3 billion in our Base Case and ~$9.6 billion in our Bull Case. Our two scenarios and related assumptions are:

- **Base Case:** FY 20 revenue growth inflected downwards to low-end of the Company's historical growth profile and subsequently rebounded with 40% growth in FY 21 and FY 22.[2] We assigned an EV/Sales Multiple of 11x, in-line with current multiples for recent high-growth Fintech IPO's.

- **Bull Case:** FY 20 revenue growth was at the midpoint of SumUp's historical growth profile and re-accelerated to 50% growth in FY 21 and FY 23. We assigned an EV/Sales Multiple of 15x, in-line with upper-tier multiples for recent high-growth Fintech IPO's.

SumUp is Worth at Least Mid-Single Digit Billions

($ in millions)	Base	Bull
FY 22 revenue	$570.2	$705.0
EV/Sales multiple	11x	15x
Enterprise value	$6,272.7	$10,574.6
Net debt[3]	$900.0	$900.0
Equity value	$5,373.2	$9,674.6
Groupon ownership stake in SumUp	5.0%	5.0%
Value of Groupon's SumUp investment	$268.6	$483.7

Source: Prescience Point estimates

The timeline of publicly available information related to Groupon's investment in SumUp is as follows:

- **SumUp's Press Release announcing Series B (June 2013):** In a Press Release on 05/28/13, SumUp announced Groupon was a new investor in its Series B funding round.

[1] In some of its SEC filings and Press Releases, Groupon used the descriptor "a non-US-based payment processor" to identify this investment, in others, Groupon disclosed SumUp by name. We believe these are used interchangeably to describe the same investment.
[2] See Appendix A for FY 19 revenue guidance. Historical growth profile of 30-50%, per a former SumUp executive.
[3] In March 2021, SumUp announced it raised a €750.0 million debt facility and guided to use the funds to pursue M&A, expand product offerings, and retire existing debt. As such, we estimated SumUp's net debt as the value of this loan.

- **Groupon disclosed Series B stake:** In its Q1 13 10Q, Groupon disclosed it had acquired a 10.3% ownership interest in a non-U.S-based payment processor (SumUp) for $13.1 million.

> In February 2013, the Company acquired a 10.3% ownership interest in a non-U.S.-based payment processor for $13.1 million. (Q1 13 10Q)

- **Groupon disclosed Series C investment:** In its FY 14 10K, Groupon disclosed it purchased an additional $2.1 million preferred shares in SumUp for $2.1 million. However, the incremental ownership acquired was not disclosed.

> In February 2013, the Company purchased preferred shares in a non-U.S.-based payment processor for $13.6 million. The Company purchased $2.1 million of additional preferred shares from that entity in July 2014. (FY 14 10K)

- **Groupon sold half of stake to raise liquidity during pandemic:** In Q1 20, Groupon sold 50% of its stake in an other equity method investment for $34.0 million, which we believe to be SumUp. Groupon valued its remaining SumUp ownership stake at $33.7 million. Based on the sale and previous disclosures, we estimate Groupon now has a ~5% ownership interest in SumUp.

> During the first quarter 2020, we sold 50% of our shares in an other equity investment for total cash consideration of $34.0 million, which approximated cost adjusted for observable price changes as of December 31, 2019. In addition, we recorded a $6.7 million impairment during the first quarter 2020 to an other equity method investment as a result of revised cash flow projections and a deterioration in financial condition due to COVID-19. (Q1 20 10Q)

- **Groupon wrote up its SumUp investment by 3.5x:** In Q3 21, Groupon wrote up its investment in a "mobile payments company" (i.e., SumUp) by $89.1 million to $122.9 million. Groupon attributed the write up to "an observable price change in an orderly transaction" and classified it as an unrealized gain excluded from adjusted EBITDA and Earnings.

> During the third quarter 2021, **we adjusted the carrying value of an other equity investment in a mobile payments company due to an observable price change in an orderly transaction, which resulted in an unrealized gain of $89.1 million** for the three and nine months ended September 30, 2021. (Q3 21 10Q) [emphasis added]

Despite marking up an investment that equated to over 10% of Groupon's market capitalization, neither of the two analysts on the Q3 21 Earnings Call asked about the reason for the write-up or for additional color on the investment.[4] Instead, the analysts focused on the recent Square and Google Pay partnerships with a pessimistic overtone. Moreover, none of the sell-side notes post-earnings (JP Morgan and Wedbush) discussed Groupon's investment in SumUp. This is case in point that Groupon is an overlooked and misunderstood Company.

[4] Groupon's market cap closed at $686m on 12/20/21.

SumUp is a Founder-Led, Fast-Growing, and Secretive Mobile Payments Giant

The SumUp management team has always been somewhat reluctant to disclose its growth and valuation and has become even more tight-lipped in recent years. Throughout the course of our research, we found that even some SumUp executives themselves were unaware of the Company's current valuation. However, by piecing together information from press releases over the past decade we found meaningful data points that provide insight into SumUp's breakneck growth.

A Fitting Headline For A Management Team That Values Discretion

FINTECH

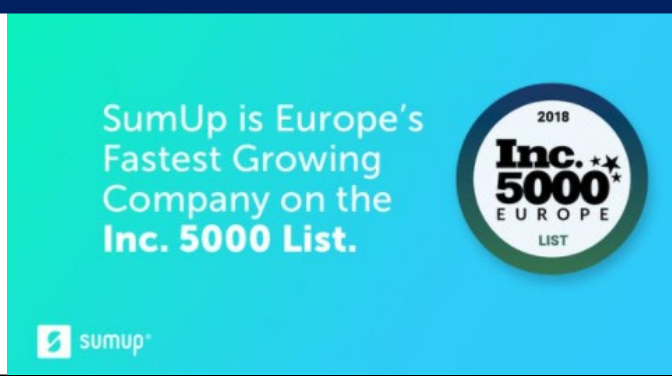
SumUp declines to sum up its valuation following €750m round

Eric Johansson | 16th March 2021 (Last Updated March 17th, 2021 12:51)

Source: [Verdict]

In 2018, SumUp was named Europe's fastest growing company in the 'Inc. 5000.'

SumUp was Europe's Fastest Growing Company in 2018



Source: [Press Release]

SumUp is likely growing at a >50% CAGR, putting it in the upper echelon of fintech startups

Revenue, merchants (i.e., users), and employees have all grown at +50% CAGR's at various intervals over the past five years.

- Employee headcount has grown at a ~55% CAGR over the past five years, increasing more than 20x to over 2,800 employees in October 2021.

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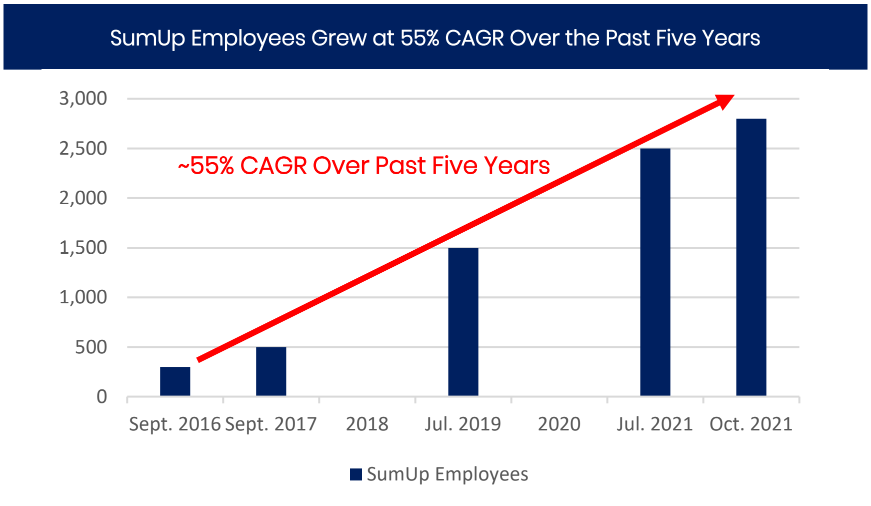
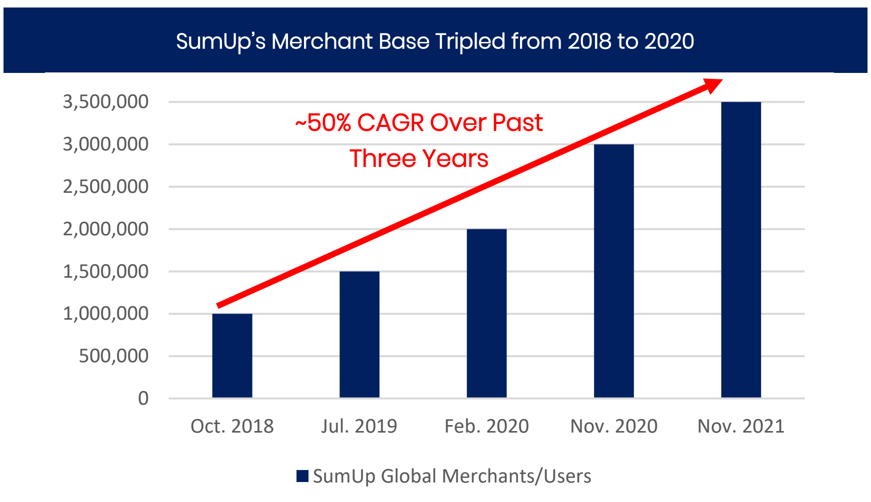


Source: Press Releases, News Articles. See Appendix A.

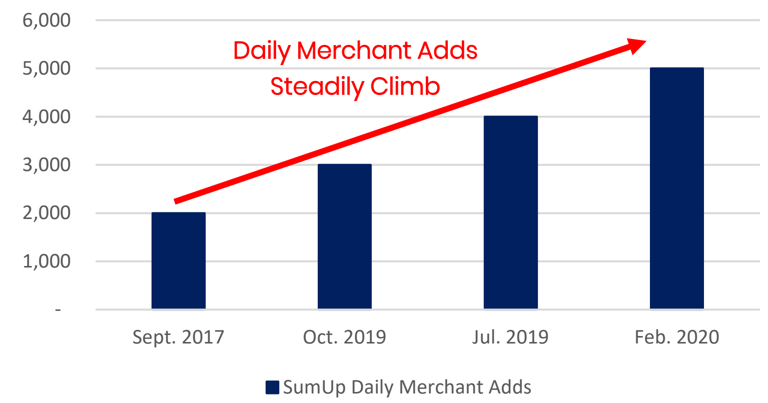
- Global merchant base increased ~3.5x between October 2018 and November 2021, a ~50% CAGR.



Source: Press Releases, News Articles. See Appendix A

- In November 2017, SumUp announced it was adding an average of 2,000 merchants daily, less than two and a half years later, the Company was adding 5,000 merchants daily.

Accelerated Marketplace Adoption

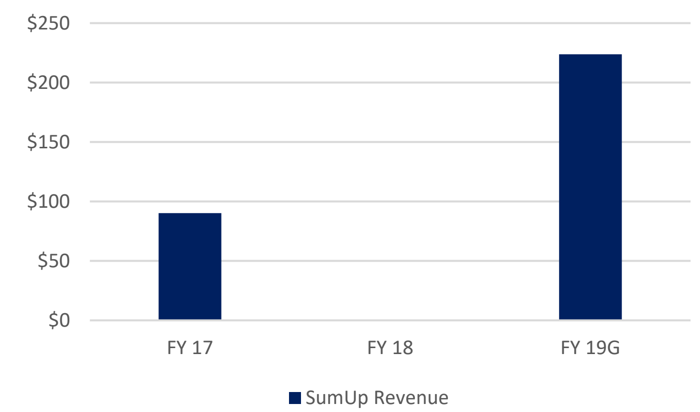


Source: Press Releases, News Articles. See Appendix A

- SumUp has not provided any revenue related disclosure in the last three years and only sparingly discussed it in years prior. In March 2018, the Company highlighted that FY 17 revenue "surpassed £70 million" and later guided for FY 19 revenue to "exceed €200 million" (i.e., an ~50% CAGR).

Revenue More-Than-Doubled in Two Years

($ in millions)



Source: Press Releases. See Appendix A

Although SumUp has not provided any recent revenue update we believe there's a high probability the Company has sustained a significantly high CAGR given merchant and employee trends continued to increase at a similar (or greater) CAGR and the Company was able to raise nearly $1.0 billion in debt earlier this year. In addition, a former executive at SumUp estimated the Company would continue to see 30% to 50% growth in Europe over the next three to five years.

SumUp Growth Expected to Increase 30% to 50% Going Forward

And I think this is similar in Europe. Now where the key sources of growth will come, I think we're going to still enjoy this path in Europe with 30% to 40%, 50% growth every year from at least three to five years down the road, which is very nice.

Source: Tegus

SumUp has been increasingly focused on expanding product offerings through M&A in recent years

In 2016, SumUp merged with Payleven, a berlin-based competitor in the mobile payments market.[5] At the time of the acquisition, Payleven had generated ~$25m in Series A-D funding rounds.[6] While the terms of the merger were not disclosed, we believe the merger likely had a material impact on revenue. However, given all employee, merchant, and revenue figures cited above are post-merger, we believe the merger did not impact CAGR's cited above.

In recent years, SumUp focused its M&A spend on adding incremental functionality for certain verticals, as such we believe subsequent acquisitions (excluding Fivestars) likely had a nominal impact on growth.

($ in millions)	Date	Purchase Price	Description
Payleven	4/27/16	--	Small and Medium sized merchant focused mobile payment company.
Shoplo	2/12/19	--	eCommerce platform for small and medium size merchants
Debitoor	2/12/19	--	Invoicing and accounting software platform for freelancers and small and medium sized merchants.
Goodtil	11/19/20	--	Tablet based PoS technology for the hospitality, venue, and restaurant industries
Payslout	2/02/21	--	Mobile banking platform
Tiller Systems	2/03/21	--	PoS software for restaurants and merchants
Fivestars	10/14/21	$317.0	US based integrated payment and marketing platform

Source: Press Releases

SumUp has not raised equity since 2017 to avoid dilution, issued debt instead

[5] Source: Press Release
[6] Source: Crunchbase

We believe SumUp has raised up to ~$70m in Series A-E funding rounds from 2012 through 2017. Recently, SumUp has issued debt to finance growth initiatives and raised over $1.2B since July 2019.

($/€ in millions)	Date	Capital Raised	Investors / Lenders
Series A	8/23/12	$20.0	Btov Partners, Daniel Guenberg, HV Capital, Klaus Hommels, Shortcut Ventures, TA Ventures, TEV Ventures
Series B	5/28/13	$17.2	**Groupon**, American express, BBVA Ventures, Btov Partners, Klaus Hommels, Propel Venture Partners, Short Ventures, TEV Ventures
Series C	8/15/14	$13.0	**Groupon**, BBV Ventures, Life.SREDA VC, Raffay, Rancilio Cube
Later Stage VC	6/10/15	€10.0	VI Partners
Series D	8/27/15	€10.0	**Groupon**, American express, BBVA Ventures, RTP Global, Seventure Partners
Series E	5/01/17	Undisclosed	Alberto Chalon, Anya Capital, Cenciarini, Seven Investments, VIS Capital
Debt Raise #1	7/16/19	€330.0	Bain Capital Specialty Finance, Bain Capital Credit, Barclays, Goldman Sachs Asset Management, Goldman Sachs Growth Equity, HPS investment Partners, Sixth Street Partners
Debt Refinancing & Raise #2	3/16/21	€750.0	Oaktree Specialty Lending, Oaktree Strategic Income II, Oaktree Capital Management, Bain Capital Credit, Crestline Investors, Tesamek Holdings, Goldman Sachs

Source: Crunchbase & Press Releases

We also believe SumUp may be using a portion of the recent debt raises to create an internal stock buyback program to alleviate potential pressure from employees to go public. As such, we believe the "orderly transaction" that forced Groupon to update the valuation of its SumUp investment in Q3 21 may have been SumUp repurchasing privately held shares. <u>In such a scenario, SumUp would have every reason to suppress its valuation estimate enabling repurchase at the best possible price. We believe this dynamic may very well justify the dislocation between our valuation for Groupon's SumUp investment and the value reported on its balance sheet.</u>

SumUp Using Debt Financing to Create Internal Buyback Program

So we have been financing ourselves with debt for the past three or four years. So we haven't done an equity round forever So in the end, we created a very generous internal program to buy back stock. So there is no pressure from employees to pressure the team to go public. So you give credit to the team. So I have no clue, especially because they're using that number.

Source: Tegus

However, the former employee suggested it was likely that SumUp would go public within the next three years due to the increasing complexity of the required banking licenses and the need for a more robust capital structure.

SumUp Likely to IPO Within Next Three Years

I think we are going to have to IPO in the next three years. I think there's no way around it. Even just for the banking license that we are getting around the globe and the capital structure that you need to. But this is going to be a challenge, I think when you have all these governance and corporate structure in such entrepreneurial company. It's going to be a challenge.

Source: Tegus

Rocket Internet financial statement disclosures valued SumUp at ~€3.2 billion as of 12/31/18

Rocket Internet SE is a Berlin-based company that helps incubate start-ups and owns equity stakes in a variety of internet retail companies.[7] Rocket Internet held a stake in Payleven before its merger with SumUp and subsequently disclosed a stake in SumUp post-merger. In its FY 19 Annual Report, Rocket Internet valued its 3.3% stake in SumUp at €105.6 million as of 12/31/18, implying a total equity valuation for SumUp of €3.2 billion.[8]

Rocket Internet Disclosures Valued SumUp at €3.2B in 2018

(€ in millions)	**12/31/2018**
Rocket Internet AG Equity Ownership Stake of SumUp [a]	3.3%
Value Of Rocket Internet's SumUp Equity [b]	€105.6
SumUp implied equity valuation [b]/[a]	€3,200.0

Source: Rocket Internet filings, See Appendix B

SumUp's largest competitor iZettle was acquired by Paypal for $2.2B in mid-2018 at ~13x forward revenue

In May of 2018, Paypal Holdings Inc (NASDAQ: PYPL) acquired iZettle, a Swedish based fintech company providing payment and point of sale technology for small and medium sized merchants for $2.2 billion. iZettle is one of SumUp's largest competitors in the European merchant point of sale market. Paypal guided for iZettle to generate $165 million in revenue during 2018, **implying an acquisition multiple of at least 13.3x EV/Sales.**[9]

[7] Rocket Internet SE announced a delisting as of 09/30/20.
[8] Rocket Internet represented its reported equity value for SumUP was based on the latest available SumUp financial statements of 12/31/18. As such we believe the reported valuation is as of 12/31/18.
[9] Per CrunchBase iZettle raised €45.0 million in debt in January 2017, and an additional €30,0 million in debt in September 2017. As such, we believe iZettle carried a net debt balance as of the date of acquisition implying an enterprise valuation above the reported acquisition price.

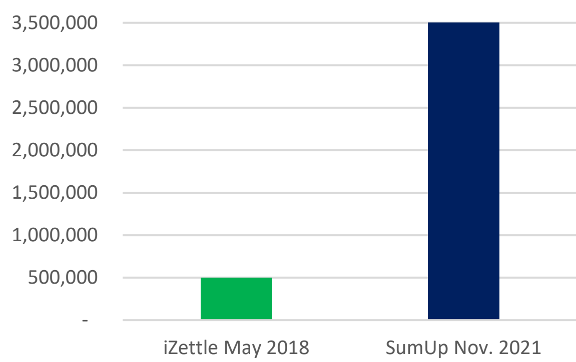
iZettle Acquired for $2.2B at 13.x Sales	
($ in millions)	05/17/18
iZettle purchase price [a]	$2,200.0
iZettle FY 18 revenue guidance [b]	$165.0
iZettle EV/Sales Acquisition Multiple [a]/[b]	13.3x

Source: Paypal Press Release

SumUp has more revenue, merchants, and markets than iZettle

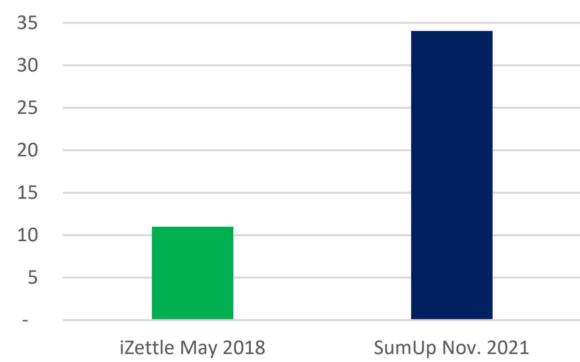
At the time of acquisition, iZettle operated in 11 markets and had nearly 500,000 merchants on its platform.[10] Currently, SumUp operates in at least 3x as many markets and has at least 7x more merchants than iZettle had when it was acquired. Moreover, SumUp's last disclosed revenue figure of "over €200 million" for FY 19 is ~33% higher than iZettle's revenue guidance at the time of acquisition.

SumUp's Merchant Base Dwarfs iZettle



Source: PYPL 5/17/18 Press Release & SumUp 11/18/21 Press Release

SumUp Operates in 3x More markets than iZettle



Source: PYPL 5/17/18 Press Release & SumUp 11/18/21 Press Release

It also appears iZettle may have lost momentum after it was acquired by Paypal. A former SumUp employee went so far to say the after Paypal bough iZettle, it "did kill the company [iZettle]."

[10] Source: Paypal Press Release

SumUp is Beating the Competition (e.g., iZettle) in Europe

Former Executive at SumUp

I wouldn't worry about regulations, not for the LatAm part of the business, not for Europe. If you're talking to management, I would go a little bit deeper on the expansion plan in terms of Africa, Southeast Asia, so on and forth to understand how that is coming up.

And definitely, I'll spend 80% of my time on the banking and how much progress are we're making and then how you're going to tackle credit, so on and so forth. And I don't see competition is an issue at all in many of our markets, like in Europe nice, in show of like after PayPal bought iZettle, it did kill the company. So SumUp is a monopoly in Europe almost now in our space.

Source: Tegus

The Pandemic Proved Groupon is Not a Melting Ice Cube but A Platform with a Sticky Core User Base

Groupon has long been considered a melting ice cube that consistently churns users. In the past, the cache was largely justified as users peaked in 2015, flat-lined through 2018, and then started an accelerated decent, culminating in a massive decline in 2020. However, as we start to slowly emerge from the pandemic, one thing is abundantly clear: Groupon is not a melting ice cube. Instead, the pandemic proved the use case for Groupon's business model as evidenced by a dedicated core user base that utilized the platform despite lockdowns, restrictions, muted supply and negligible marketing spend by the Company.

Since the pandemic began, users have been largely restricted, unable, and/or unwilling (due to health concerns) to utilize offerings in Groupon's largest and most profitable category (Local). Unsurprisingly, this negatively impacted user growth, but in recent quarters, the North America customer base has broadly stabilized while International users appear to be approaching trough levels. Even better, 90% of new customer additions are in Local, Groupon's most profitable category, with North America Local only customers growing sequentially in each of the last two quarters. Additionally, the current customer base is highly concentrated with Groupon's most frequent, loyal, and profitable customers.

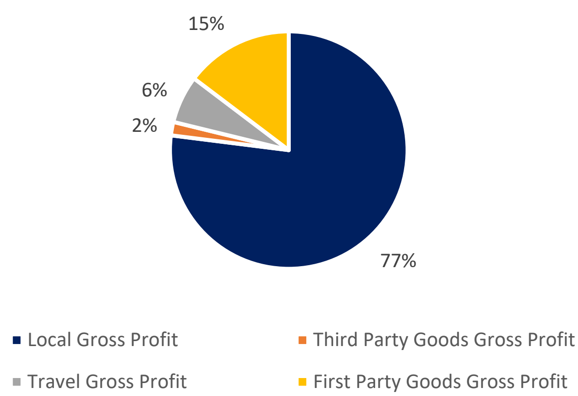
As a result, Groupon stands at the precipice of the most favorable growth prospects in Company history. As we learn to live in a post-Covid world and individuals begin, albeit slowly, to return to somewhat normalized routines, Groupon is poised to capitalize from higher purchase frequency from its core user base in addition to a renewed focus on customer acquisition that funnels new customers to a significantly improved Groupon marketplace. Yet, inexplicably the highest quality customer base and most favorable growth setup in Company history is valued at trough multiples. We believe this dynamic is attributable to the consensus lazily extrapolating pandemic driven pressure in perpetuity.

Lockdowns, restrictions, and health-related safety concerns disproportionately impacted Groupon's largest and most profitable business

Groupon's most important product category, Local, accounted for ~80% of pre-pandemic gross profit. We expect Local will generate greater than 90% of future gross profit as Groupon completes the exit of its first party Goods business.

Local Will Account For >90% of Future Gross Profit

(% of FY 19 Gross Profit)

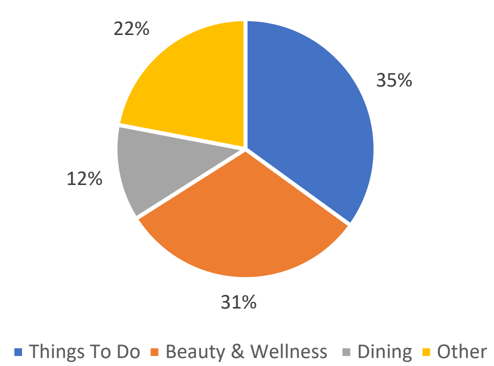


Source: Company Filings

Local is heavily concentrated in three end-markets; things-to-do, beauty & wellness, and dining. In aggregate, these categories accounted for ~80% of pre-pandemic category billings.

Local Concentrated in Things-To-Do, Beauty & Wellness, and Dining

(% of Local Billings)

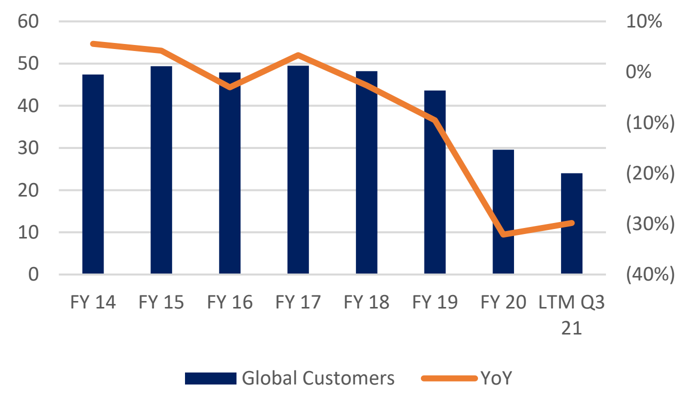


Source: Q1 20 Investor Presentation

Unsurprisingly, COVID-19 restrictions, medical/governmental encouragement to refrain from social outings, and attempts to mitigate infection risk severely impacted Groupon's Local business. Customer purchases shifted away from services and activities in favor of goods and products. Consequently, global customers plummeted in FY 20.

Customer Churn Heavily Impacted by Pandemic-Related Restrictions

(customers in millions)



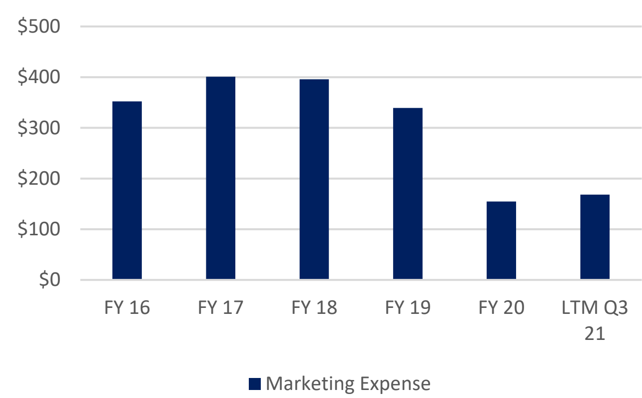
Source: Company Filings

In response to the pandemic Groupon slashed marketing to focus on near-term liquidity

In FY 20, Groupon cut marketing expense by ~55% to focus on liquidity. As of Q3 21, the Company has remained prudent in normalizing marketing spend, continuing to prioritize liquidity at the expense of customer acquisitions.

Marketing Budget Slashed to Conserve Cash

($ in millions)



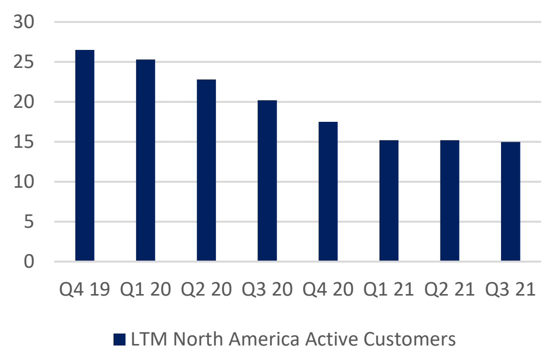
Source: Company Filings

The worst is over for customer attrition as North America customer base bottomed while International nears trough levels

Throughout FY 21, LTM active North America customers stabilized while Q3 21 LTM International customers declined at the slowest rate following the onset of the pandemic.[11] Groupon has routinely attributed outsized International customer declines (relative to North America) to slower vaccination rollouts and lingering COVID-19 restrictions throughout Europe. Moderating sequential active customer declines suggests Groupon is at/near trough International customer levels.

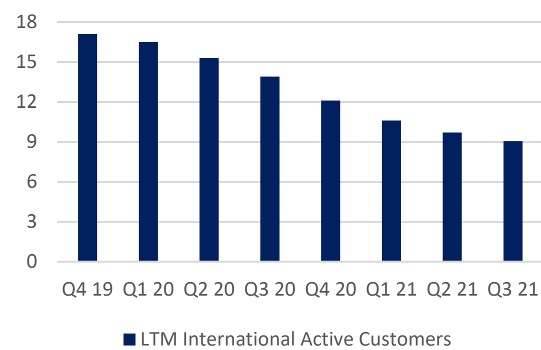
North America Customers Broadly Stabilize in FY 21

(customers in millions)



Source: Company Filings

International Customers Near Trough Levels



Source: Company Filings

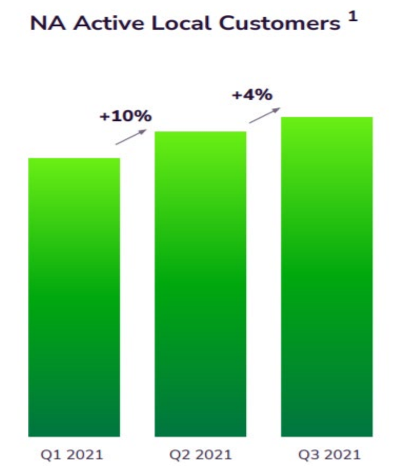
The North America Local sub-category has seen customer growth the last two quarters

In Q3 21, North America Local only customers increased 4% sequentially following a 10% sequential increase in Q2 21. Moreover, the Company indicated over 90% of new North America customers were Local-only.

> "We continue to make progress rebuilding our North America Local customer base. We grew our active Local customers for the second consecutive quarter. And **nearly 90% of our new customers in the third quarter were high-value Local-only customers. This resulted in 4% quarter-over-quarter growth for active Local customers.**" (Interim-CFO Mr. Damien Schmitz, Q3 21 Earnings Call, 11/05/21) [emphasis added]

[11] Groupon defines active customers as unique users who have made at least one purchase in the prior twelve months.

North America Local Customers are Growing + Account for ~90% of New Adds



Source: Q3 21 Earnings Presentation

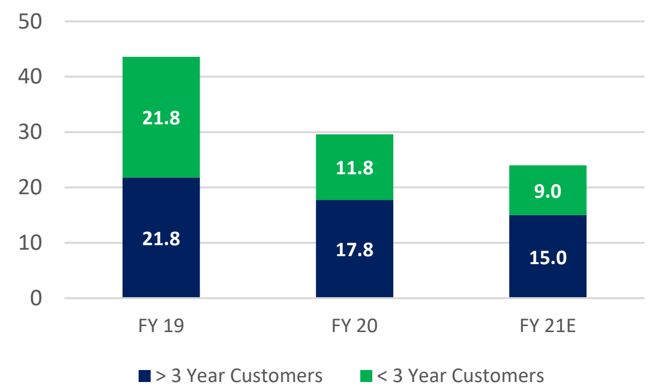
A sticky core user base of ~15M used Groupon despite a global pandemic and minimal marketing

In FY 20, Groupon had 29.6 million active customers, of which 17.8 million (~60%) had been shopping on the platform for more than three years (i.e., "core users").[12] Importantly, this core user base declined only mid-teens vs. 2019, while the customer cohort that had been using Groupon less than three years nearly halved. In other words, the marginal or casual user left the platform during the pandemic, while the vast majority of the core use base continued to use Groupon. There will likely be some additional attrition in FY 21, but we believe core users will bottom around 15 million. As we move into FY 22, we expect core users to begin to return to the platform in addition to new users as marketing spend normalizes and the Company's focus shifts toward customer acquisition.

[12] In its Q4 19 Investor Presentation and Q4 20 Investor Presentation Groupon indicated ~50% (nearly 60%) of its FY 19 (FY 20) global customers shopped with the Company for more than 3 years.

Active Customer Base Skewed to Most Loyal Customers

(customers in millions)



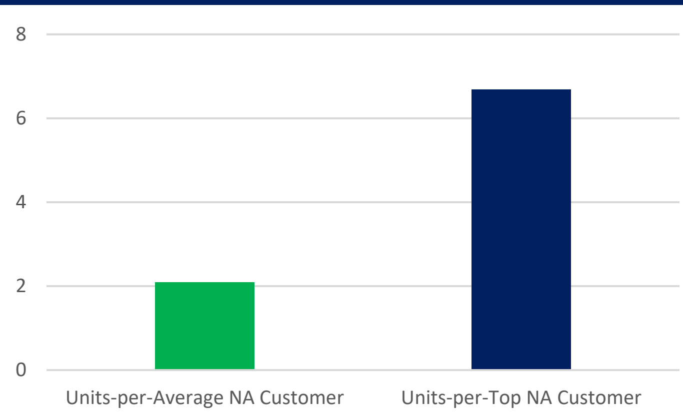
Source: Company commentary, Prescience Point estimates

As a result, Groupon's current customer base is concentrated with its most loyal and frequent users. A dynamic that will help Groupon derive maximum utility from the revamp of its Local offerings while also setting the stage for a re-acceleration of the user base as behaviors slowly normalize in a post-Covid world. Indeed, we believe the ~7 million core users that left the platform since 2019 are low-hanging fruit to recapture over the coming quarters.

Top customers purchase Groupon products ~3x more frequently than the average customer

In its Q4 19 Investor Presentation, Groupon highlighted its top 8 million North America customers averaged ~7 annual purchases and accounted for ~58% of North America units. Accordingly, we estimate the top North America customers, on average, purchased units >3x more frequently than the average North America customer.

Top Customers Purchase ~3x More Frequently

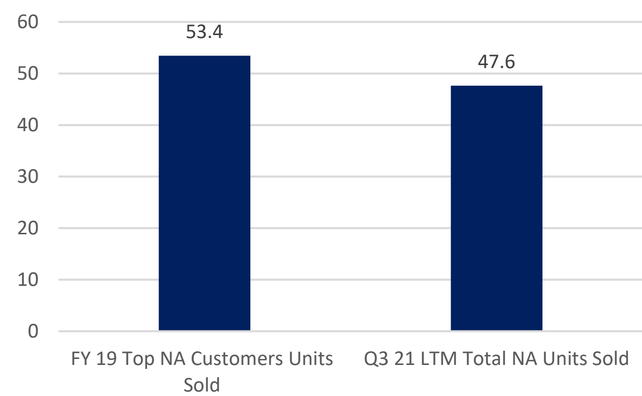


Source: Prescience Point estimates

In total, we estimate the top North America customers purchased ~53.4 million units in FY 19. While the pandemic likely suppressed top customer purchase frequency and contributed to some churn, we believe ~53 million units is likely the floor for units purchased in a normal operating environment. Given LTM North America units purchased as of Q3 21 were 47.6 million, there's meaningful upside from here just from top customers normalizing purchase frequency once pandemic restrictions and fears abate.

Top Customers Provide Margin of Safety Near Trough Levels

($ in millions)



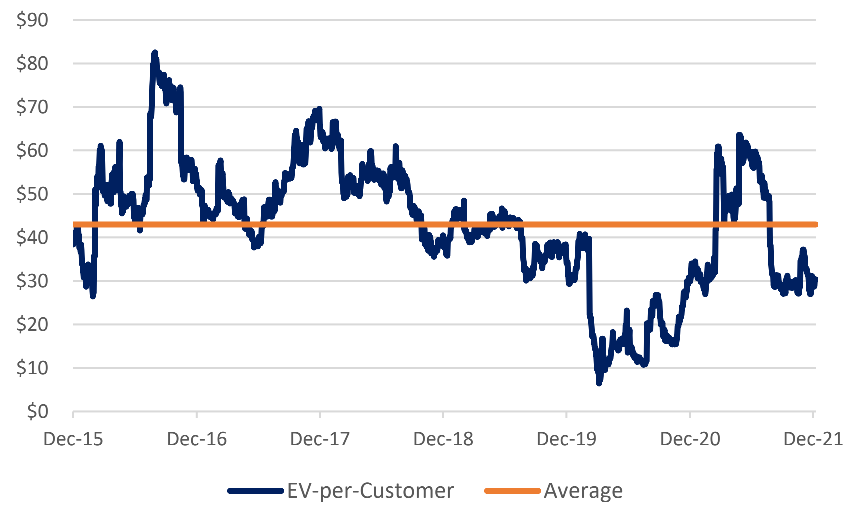
Source: Company filings, Prescience Point estimates

Valuation and quality are extremely dislocated, providing investors with an asymmetric payoff opportunity

While bears continue to liken Groupon to a melting ice cube, they fail to realize the core of that ice cube <u>will not melt</u>, as it is comprised of frequent/long-term customers that have entrenched Groupon into their regular purchasing habits. Today, Groupon's customer base is historically concentrated in its most valuable cohort, however their respective valuation (EV/customer) hovers near trough levels.[13] <u>In short, investors can purchase the highest quality customer base in Company history at near-trough valuations.</u>

[13] We elected to include Accrued merchant and supplier payables in our calculation of net debt.

Customer Attrition De-Risked, Growth Will Catalyze Price Appreciation



Source: Prescience Point estimates

Local is Already Seeing Improvement in Purchase Frequency which will Catalyze Accelerating Growth with Better Profitability

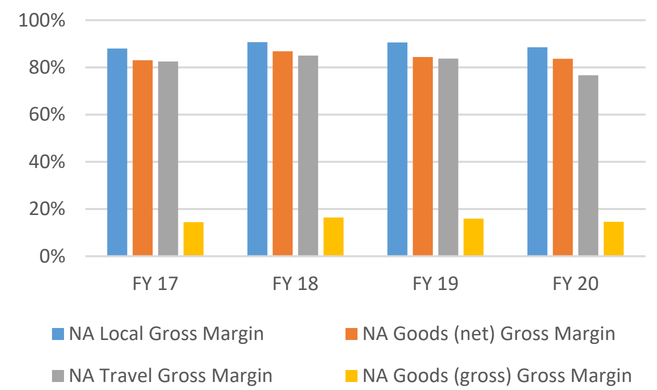
Local is Groupon's largest, most profitable, and most frequently purchased category. Consumer purchasing patterns have already started to normalize and will continue to serve as a catalyst for recovery. Investors are turning a blind eye to a swath of positive developments in the Local category, including customer growth, the deployment of multiple initiatives aimed at accelerating purchase frequency, and improving unit economics. These will serve as the genesis for post-COVID unit and margin growth.

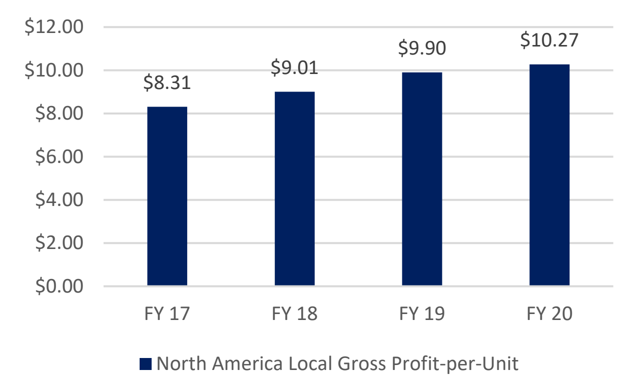
Local customers are the most profitable cohort with ~90% gross margin

Local has ~90% gross margin and accounts for more than 85% of Company-wide gross profit. In addition, Local gross profit-per-unit improved in each of the last three years.[14]

[14] Travel generates the highest gross profit-per-unit given the significantly higher ASP of flights, hotels, and travel packages relative to local products/services.

North America Local Category Generates ~90% Gross Margin	Gross Profit-per-Local Unit Growth Trending Higher





Source: FY 20 10K

Source: FY 20 10K

New initiatives to expand purchase options and streamline listing process for Local merchants will drive product catalog growth and improve purchase frequency

In 2020, Groupon outlined new initiatives to improve Local merchant/customer utility and drive growth through greater purchase frequency.[15]

- **Deals:** Previously, the Deals' high discount and take rates led to merchants restricting purchase frequency and offering limited SKU's, suppressing unit sales. Groupon has removed/is removing repeat purchase restrictions on Deals to drive increased purchase frequency. As of Q3 21, >75% of North America Deals inventory was available for repeat purchase and Groupon saw a 7% uplift in units-per-customer for those who purchased unrestricted deals compared to restricted deals.[16]

- **Offers:** New product offering with lower discounts which will incentivize merchants to offer more SKUs given better unit-economics. The offers category will consist of "always-on" (i.e., non-restricted) inventory allowing repeat purchases.

- **Market Rate:** New product that allows merchants to list their products at standard rates. The market rate category can attract merchants that previously avoided discount marketplaces.

[15] In its Q2 20 Investor Presentation, Groupon first discussed the following initiatives and provided more detail in subsequent investor presentations.
[16] Q3 21 Earnings Call

Revamped Listing Options Will Improve Marketplace Inventory + Drive Higher Purchase Frequency

Source: Q2 21 Earnings Presentation

In the past, Groupon processed merchant requests to join the marketplace, launch a deal, change a price, and/or change content over the phone. This antiquated process was both time consuming for merchants and expensive for Groupon as it required an unnecessarily large sales and support staff. Since the onset of the pandemic Groupon has invested heavily in creating a modernized merchant portal wherein merchants join the marketplace, launch, and/or modify deals online. Groupon is beginning to see the fruits of its labor as over 50% of North America Deals launched in Q3 21 were done via the self-service portal, a more than 6x increase compared to FY 19.

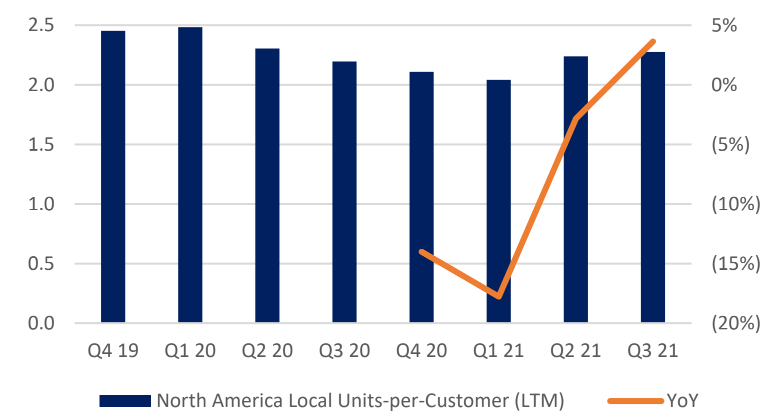
> In the third quarter, over **50% of Deals launched in North America were done via self-service**. To put the progress we've made into perspective**, in all of 2019, just 8% of our Deals were launched via self-service** in North America. And self-service adoption is even higher among our smaller merchants, who launched approximately 80% of their deals via self-service in the quarter, up 20 percentage points from the second quarter. (Interim CEO Mr. Aaron Cooper, Q3 21 Earnings Call, 11/05/21) [emphasis added]

New strategy is showing early success as purchase frequency among North America Local customers has accelerated since Q1 21 despite variant waves and labor shortages

While purchase frequency remains below pre-pandemic levels, growth has accelerated the last two quarters despite the Delta variant wave and on-on-off again lockdowns/restrictions.[17]

[17] North America Local units-per-customer calculated as LTM Local units sold divided by LTM total active North America customers. The Company does not disclose Local only customer counts.

North America Local Units-per-Customer Bottomed in Q1 21



Source: Prescience Point Estimates

While the impact of COVID-19 on the demand for activities and services is widely understood, the negative impact from labor shortages is less obvious. Pervasive labor shortages in key Local verticals have left merchants scrambling to satisfy current demand, in effect quashing the appetite for incremental demand generated by Groupon campaigns.

> COVID has had a two-dimensional impact on our business. First, as COVID cases rise, as with the Delta variant, people go out less and interact with local merchants less. They get fewer massages and facials and eat in a bit more. The second impact from COVID has taken a bit longer to fully resolve. Even when cases are down due to supply/demand imbalances, **some of our merchants are unable to serve existing demand. In these situations, these merchants don't want to run a Groupon campaign, which would drive more customers into their establishments and potentially exacerbate their capacity issues.** (Interim CEO Mr. Aaron Cooper, Q3 21 Earnings Call, 11/05/21) [emphasis added]

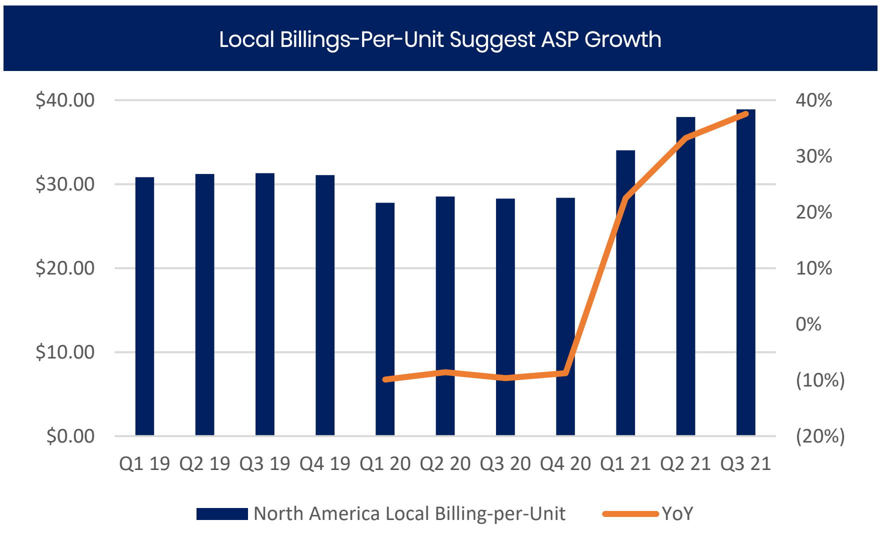
We expect as slow but gradual normalization of labor constraints as hefty unemployment benefits are now in the rearview and pandemic-related concerns slowly subside. As a result, it is a question of when, not if, merchants return to the Groupon platform and the benefit could be massive. In Q3 21, North America billings were ~54% of 2019 levels but Groupon estimated that if top labor constrained merchants were back on its platform it would have picked another +1,000 basis points. We estimate this impact could provide greater than $60 million in annualized gross profit.[18]

> And for those top merchants yet to return, we feel really good about our prospects here. Our team is in active dialogue with these merchants and the message from the majority of these merchants has been clear. It's not a matter of if they will return to Groupon, but a matter of when they will return to Groupon. And this really matters, and here's why. In the third quarter alone, if these merchants, who are mostly things to do merchants, had been back on our marketplace, **we believe we would have picked up between 10 and 12 percentage points of Local billings for 2019 levels in North America.** (Interim CEO Mr. Aaron Cooper, Q3 21 Earnings Call, 11/05/21) [emphasis added]

[18] Prescience Point estimate calculated as 10% of FY 19 North America Local Gross Profit (10% *$643.5 million).

Positive inflection in North America Local billing metrics reinforces efficacy of the new strategy

Unsurprisingly, North America Local billings-per-unit, a proxy for average selling price ("ASP"), deteriorated throughout the pandemic. However, ASP appears to have bottomed in Q3 20 and has subsequently shown meaningful acceleration over the last three quarters.[19] We believe this is indicative of (1) merchants selling higher price items and/or (2) Local "offer" sales increasing relative to "deals." In either scenario, ASP improvement will benefit top-line recovery and EBITDA flow through-per-unit. Moreover, while nascent, this trend is validating the efficacy of the Company's new strategy.



Source: Company filings, Prescience Point estimates

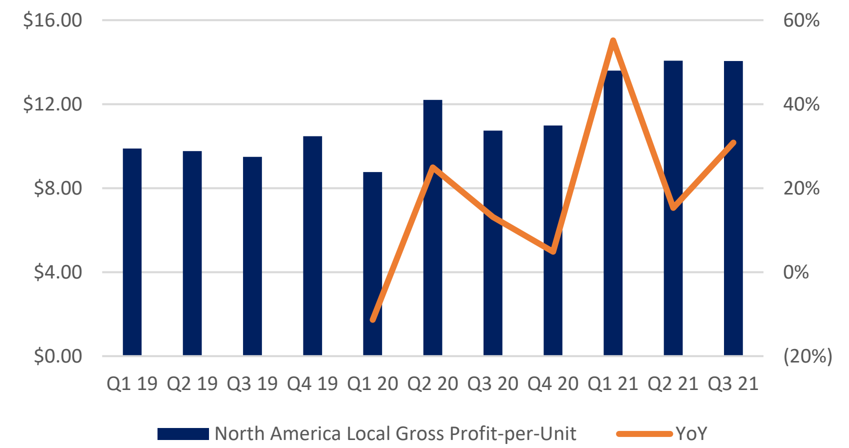
Improving ASPs will drive better unit economics

In Q3 21, North America Local Gross profit-per-unit increased over 30% year-over-year to the second-highest reported level. On its Q3 21 Earnings Call, the Company highlighted Local gross profit benefited from $19.0 million variable consideration from un-redeemed vouchers sold in a prior period as the pandemic depressed redemption rates. However, the Company represented the "majority" of this benefit was related to the International segment. Even after adjusting for the maximum one-time benefit from un-redeemed vouchers attributable to North America, we believe Q3 21 North America Local Gross profit-per-unit is ~30% higher than pre-pandemic levels.[20]

[19] Per discussion with Groupon IR, the variable consideration benefit received from unredeemed gift vouchers (discussed next) did not impact reported billings or units.

[20] Given Company commentary highlighting the "majority" of the un-redeemed voucher benefit related to the international segment, we reduced Q3 21 North America Local Gross Profit By $7.6 million (40% of the total benefit), which we believe to be conservative. Adjusted Q3 21 North America Local Gross Profit-per-unit was $13.13, >30% above pre-pandemic North America Local Gross Profit-per-unit of $9.90 in FY 19. The Q3 21 Gross Profit-per-Unit figure in the chart is unadjusted.

North America Local Gross Profit-Per-Unit Steadily Climbs



Source: Company filings, Prescience Point estimates

New Offers strategy working accordingly to plan for Beauty & Wellness as inventory continues to grow

In FY 21, Groupon launched Offers in its Beauty & Wellness vertical to increase the average listings per North America merchant. So far, the initiative has been very successful as listings per North America Beauty & Wellness merchant have increased over 30% since the program was launched. Moreover, North America Beauty & Wellness merchants who adopted Offers had ~4x more listings than similar merchants only using Deals. Increased Beauty & Wellness offerings may accelerate purchase frequency as Beauty & Wellness products (i.e., haircuts, pedicures, massages, etc.) are more routine/recurring purchases than other Local offerings (i.e., events, concerts, etc.).

> Beauty & Wellness inventory per merchant has **increased over 30% in North America since we launched Offers**. Offers has expanded our Beauty & Wellness inventory, which we believe is important as we shape Groupon into the destination for Local. (Interim CEO Mr. Aaron Cooper, Q3 21 Earnings Call, 11/05/21) [emphasis added]

Improved Cost Structure, Strong Balance Sheet, & Return to Positive Free Cash Flow Will Provide Ample Ammo to Prioritize Sustainable Long-Term Growth

Groupon responded to the pandemic by (1) reducing its fixed cost structure, (2) cutting marketing and variable expenses, and (3) changing FY 20 executive bonus metrics to end-of year net cash. While Groupon's focus on liquidity, at the expense of customer acquisitions, exacerbated pandemic related headwinds (e.g., customer churn), this creates opportunity going forward. Groupon exits the pandemic with minimal leverage and the leanest cost structure in Company history. Last year's customer losses are next year's customer gains as Groupon has plenty of resources to pursue customers it largely ignored for the past 18 months.

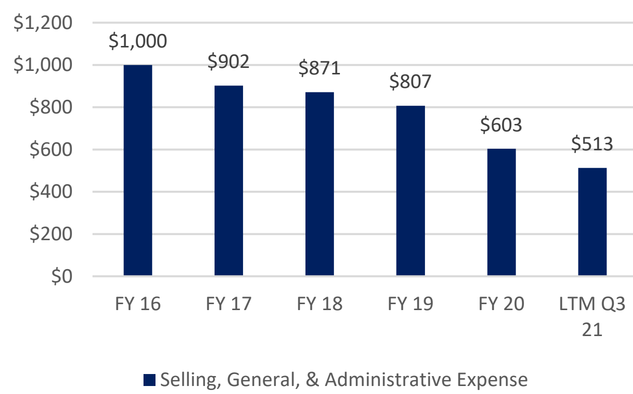
Restructuring guided to reduce fixed cost base by $225 million

Groupon is on track for annualized cost savings of $200 million this year and $225 million in FY 22 vs. FY 19 via layoffs and overhead reductions from the exit of the first party Goods business.[21]

> Net-net, we should continue to expect that our fixed cost base, excluding stock-based compensation and depreciation and amortization, will be $200 million lower than our 2019 cost base. Ultimately, **we remain on track to achieve $225 million of run rate savings in 2022 versus our 2019 cost base.** (CFO Ms. Melissa Thomas, Q4 20 Earnings Call, 02/26/21) [emphasis added]

Restructuring Will Drive Significant SG&A Leverage

($ in millions)



Source: Company 10Ks

Executive incentive targets were changed mid-year in 2020 to prioritize ending cash balance

Historically, annual incentive bonuses for executives were predicated on the achievement of certain gross profit, billings, and/or adjusted EBITDA targets. However, in July 2020, the Compensation Committee adjusted the compensation metrics for performance cash awards to include a year-end cash balance target of $420 million.[22]

> In July 2020, after determining the business had stabilized enough to establish meaningful and motivating performance metrics, the Compensation Committee granted the previously-authorized Performance Cash Awards…with a cash balance metric…The Compensation Committee selected our cash balance ending December 31, 2020 as the performance metric for the Performance Cash Awards. (Proxy Statement, 04/28/21)

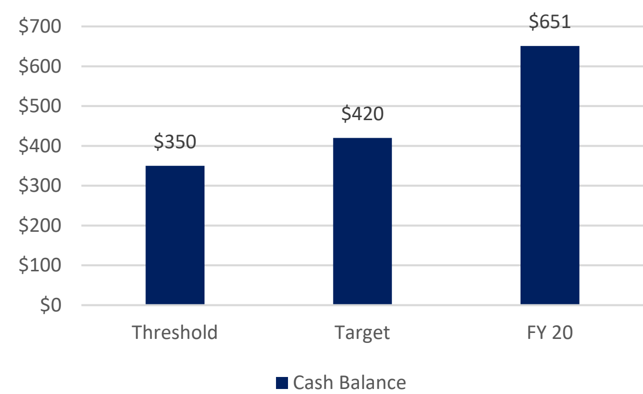
The FY 20 year-end cash balance of $651 million exceeded the target by more than $200 million.

[21] The Company represented the $225.0 million of annualized SG&A savings excluded stock-based compensation and depreciation & amortization.

[22] Cash balance for the performance cash awards excluded any borrowings under the Company's revolving credit facility.

Ending Cash Balance Exceeded Target by Over $200 Million

($ in millions)



Source: Proxy Statement , 04/28/21

While we believe it was a prudent move for the Company to prioritize liquidity given the amount of uncertainty there was at that time, it's clear that customer retention and/or acquisition was not a priority and further exacerbated pandemic related headwinds. The turnaround is already underway, and we expect the management team will once again be re-incentivized to focus on retaining current customers and adding new ones while continuing to profitably grow the business.

Groupon's leverage is nominal

Groupon's net debt (including accrued merchant payables) is only $76.2 million and 0.57x adjusted FY 21 EBITDA guidance.

Net Debt

($ in millions)	Q3 21
Short-term Borrowings	$100.0
Convertible Senior Notes	$223.0
Accrued Merchant & Supplier Payables	$229.9
Less: Cash	$476.8
Net debt	$76.2
FY 21 Adj. EBITDA Guidance (midpoint)	$132.5
Net Debt-to-Adjusted EBITDA	0.57x

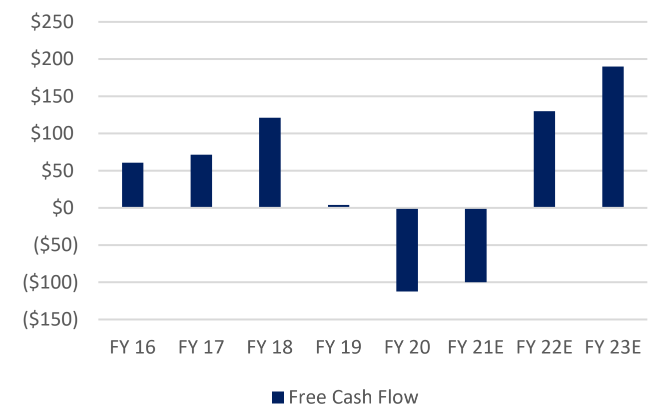
Source: Company filings

Free cash flow set to inflect positive in FY 22 and improved cost structure will provide better flow through as demand rebounds

Despite customer churn, slowing revenue, and operational missteps, Groupon still consistently generated positive free cash flow pre-pandemic. Fixed cost cuts muted the severity of the drawdowns in FY 20 and FY 21 and we expect these cost structure improvements to sustainability benefit cash flow going forward as Groupon returns to positive free cash flow in FY 22.

Free Cash Flow Generation Does Not Support a Zero Thesis

($ in millions)



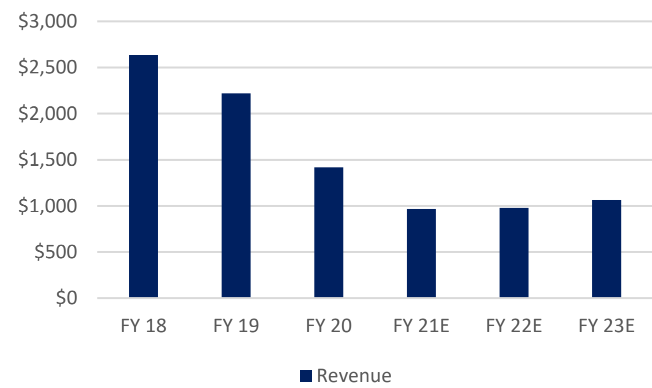
Source: Company filings, Prescience Point estimates

Groupon is a Difficult Company to Screen: Recent Accounting Change Makes Financial Statements & Estimate Trends Look Worse Than Reality

At first glance it appears that revenue was recently cut in half and will never recover to more than 50% of pre-pandemic levels. However, the reality is that this dynamic driven by a change in revenue recognition standards for the Company's Goods business and in no way implies that Groupon will forever be a shell of its pre-pandemic self.

Goods Transition Makes Reported Revenue Look Worse than Reality

($ in millions)



Source: Company Filings, Consensus estimates

Consequently, a surface level financial statement screen of Groupon (on Bloomberg, FactSet, Sentieo, etc.) may lead prospective investors to come to an inaccurate or incomplete conclusion on Company performance vs. pre-pandemic levels. **In short, the apparent revenue cliff is nothing more than noise.**

Groupon shuttered an under-performing and low margin First-party goods business which accounted for ~50% of pre-pandemic revenue, yet only ~15% of Gross Profit

In February of 2020, under former CEO Mr. Rich Williams, Groupon announced it was going to completely exit its Goods business. The rationale was fourfold: Goods revenue and gross profit were expected to remain under pressure, the business consumed a disproportionate share of customer impressions relative to gross profit generated and was a distraction to management, cross shopping between Goods and Local had deteriorated, and the competitive positioning was weak. At the time, the Company's plan was to shift focus and impressions toward the higher margin Local category.

Two months later in April, under new Interim CEO Mr. Aaron Cooper, the Company decided it would no longer completely exit the Goods business but rather transition from a first- to a third-party marketplace model wherein merchants assumed complete responsibility for product procurement, fulfillment, and returns. The change in strategy was a direct result of the pandemic as demand for Local offerings cratered while demand for Goods accelerated.

A 180-degree strategy reversal in such a short time period is not great optically, but over the long-term we believe keeping the Goods business but shifting responsibility to third parties was a good decision for several reasons:

- Reduces headcount, overhead, and executive attention required to run the Goods business.
- Working capital leverage as inventory is removed from the balance sheet.
- Eliminates margin risk from poor purchasing decisions (i.e., inventory markdowns/write-offs, etc.).

- By leveraging its existing online and mobile app infrastructure Groupon can continue to sell goods with minimal incremental cost.

- Third-party Goods business still generates >80% gross margin.

The transition of the North America Goods business was largely completed in Q4 20 and transition of the International business is expected to be complete by Q4 21.

Transition from first- to third-party means reported revenue will be lower as Goods sales will be recorded net instead of gross

The most significant financial statement impact of the third-party transition occurs on the revenue line. Under the first-party model, revenue is reported as the total amount paid by the customer. In the third-party model, revenue is reported as net commissions from the sale (gross billings net of merchant payables). Accordingly, Goods revenue will decline significantly under the third-party model, but absolute gross profit will remain broadly similar.

Financial Metric	First-Party Reporting	Third-Party Reporting
Billings	Total amount paid by customer	Total amount paid by customer
Revenue	Total amount paid by customer	Commission (net of merchant payable)
Cost Of Goods Sold	Product Cost & Selling overhead	Selling overhead

Here's an illustrative example of the financial statement impact of a $100 sale under first- and third-party revenue recognition. The key takeaways are:

- First-party Goods revenue is roughly 6x greater than third-party Goods revenue.

- Gross profit is not materially impacted between first-party and third-party recognition.

- First-party gross margin is significantly lower than third-party given significantly higher revenue recognized.

Third-Party Revenue Recognition Reduces Reported Revenue but Gross Profit $ Remain the Same

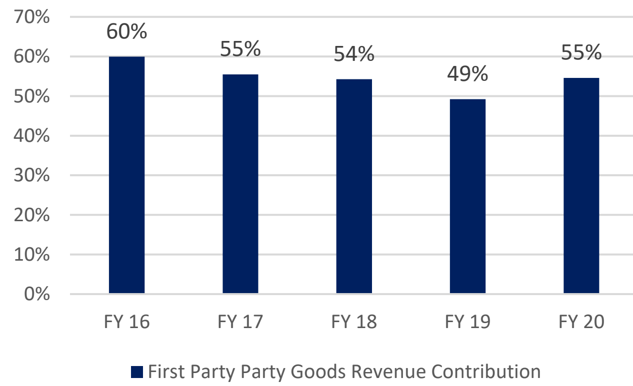
	First Party Goods	Third Party Goods	
Billings	$100	$100	Billings don't change; this is what our customer pays to Groupon
Revenue	$100	$17	In 3P model, Groupon revenue is the commission from the sale (net of merchant payment)
Gross Profit	$15	$15	Gross Profit dollars are not impacted

Source: Q4 20 Investor Presentation

First-party Goods business historically accounted for ~50% of total revenue, so the impact of the transition is material to reported revenue.

First-Party Goods Historically Accounted for ~50% of Revenue

(% of revenue)



Source: Company filings

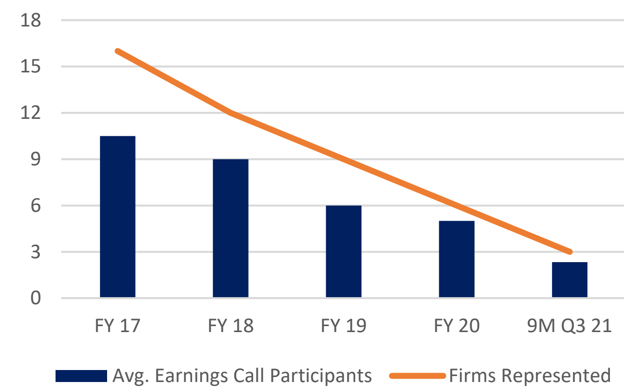
Given the transition of the Goods business won't be complete until Q4 21 and historical financials haven't been restated, year-over-year comparisons of key income statement line items (e.g., revenue) will not provide a complete picture of Groupon's performance. We believe investors should focus on metrics that are unaffected by the accounting of the transition including (1) active customers, (2) units sold, and (3) category level gross profit.

Minimal Sell-Side Coverage and Short Interest in the Mid-Teens Show Just How Misunderstood and Overlooked Groupon Is

Institutional coverage for Groupon remained broadly consistent post-IPO; however, sell-side coverage has eroded over the past five years as shares languished. Groupon's current market capitalization of ~$685 million places the Company in no-man's land for sell-side/institutional interest, too small for bulge brackets and too large for small cap investors.[23]

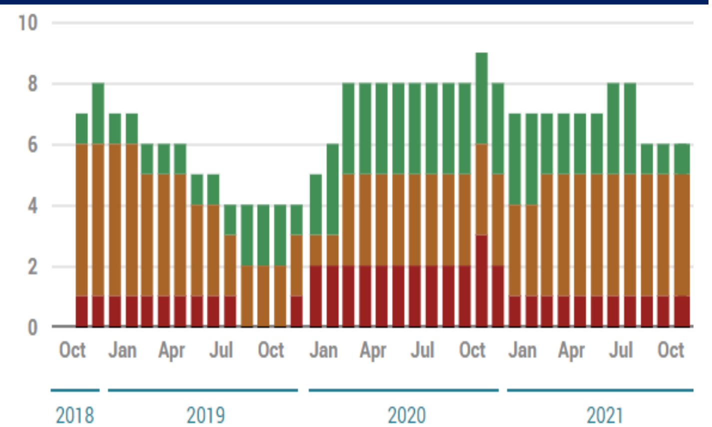
[23] See Appendix C for a history of sell side coverage.

Sell Side Interest Plummets as Share Price Declines



Source: Company Earnings Call transcripts

Sell-Side Very Bearish on Groupon



Source: [*Market Beat*]

Groupon's short interest is in the mid-teens (~14% of float), despite its share price hovering near all-time lows.[24] We believe crowded shorts are relying on a legacy bear thesis and have little reason to re-evaluate their thesis given price confirmation from the recent >65% decline in the share price (from peak 2021 levels) and negligible bullish sentiment.

Relatively High Short Interest Despite Stock Trading Near All Time Lows

Source: *Nasdaq*

[24] Source: Nasdaq

Shorts may be more crowded than it appears

As of October 2021, Groupon co-founder and current board member Eric Lefkofsky owned 4,034,841 shares, representing 16.3% of the float.[25] While Mr. Lefkofsky routinely divested shares in the past, he did so at prices roughly 3x-to-4x the current share price.[26] Moreover, Mr. Lefkofsky has **not** sold any shares since December 2019, and purchased 250,000 shares on 06/18/20 at a price of $21.57, his **first purchase** at least four years.

Eric Lefkofsky Share Transactions			
	2018	2019	2020
Shares (Sold) Purchased	(375,000)	(375,000)	250,000
Weighted Average Price	$76.56	$65.68	$21.57

Source: Company filings, Form 4s

Given Mr. Lefkofsky did not sell any stock throughout 2021 despite a peak share price of ~$64.00 (in-line with previous divestitures), we believe it's unlikely he will sell shares barring a material price appreciation. As such, **the float could be much tighter than it appears**.

Adjusted Short Interest	
	11/30/21
Short Interest (shares)	3,382,434
Reported Float	24,710,000
Less: Eric Lefkofsky Ownership	(4,034,841)
Adjusted Float	20,675,956
Short Interest as % of Adjusted Float	16.4%

Valuation: Groupon's Shares are Worth At Least $60 with Upside to +$95

Groupon's shares currently trade near trough levels (excluding the March/April 2020 sell-off) at 4.4x consensus FY 22 EV/Adj. EBITDA.[27] Moreover, if we factor in Groupon's SumUp investment at its current balance sheet valuation, which we believe could be instantly monetized by the Groupon in its enterprise value, Groupon shares trade at 2.9x. Inexplicably, Groupon's EV/EBITDA multiple has contracted materially despite accelerating profitability, material fixed cost reductions, and an operating environment that continues to improve at the margins. We believe the current multiple is the result of a complacent and pessimistic sell side extrapolating recent COVID-19 induced pressure into perpetuity. We posit the current outlook for the Company has never been better and fully expect a lean and agile Groupon to capitalize in short order.

Given Groupon is currently generating record unit economics and stands to benefit from the most favorable growth tailwinds in Company history, we believe that Groupon shares should at the very least trade near its historical average multiple of 8.7x.

[25] Source: SEC Form 4
[26] 2018 and 2019 number of shares sold and weighted average price adjusted for 20-for-1 reverse stock split
[27] Our calculation of net debt includes Accrued merchant and supplier payables.

EV/EBITDA Hovers Near Trough Levels

Source: Sentieo

For our Base Case, we used a conservative multiple of 6.0x, above current levels, yet well below the Company's historical average. In our Bull Case we used a multiple of 8.0x, slightly below historical levels.

We value Groupon based on FY 23 adjusted-EBITDA. We think this most appropriately reflects a normalized operating environment as persistent COVID variant waves and corresponding restrictions are likely to persist into early 2022. Our two scenarios are:

- Base Case: In our Base Case, we estimate FY 23 North America (International) customers will recover to 77.5% (75.0%) of FY 19 (i.e., pre-COVID) levels. Given our expectation that core customers who left the platform throughout COVID will return and guidance for a normalized marketing spend throughout FY 22, we believe our customer assumption is conservative. We estimate FY 23 Local unit purchase frequency will reach to 100% of pre-COVID levels in North America and 85% Internationally, ascribing zero weight to a likely purchase frequency uplift derived from newly un-restricted deals inventory. Given Q3 21 LTM North America Local units-per-customer was nearly 95% of pre-pandemic levels, we believe our estimate is appropriately conservative. We forecast continued Goods category pressure following the transition to a third-party business model. Moreover, we estimate FY 23 gross profit-per-unit will remain broadly in-line with adjusted FY 21 results (i.e., Gross-profit-per-unit excluding unredeemed gift card benefit). We estimate FY 23 adjusted Selling, General, & Administrative expense (i.e., SG&A excluding SBSC and D&A) will decline $210 million compared to FY 19. Finally, we estimate Groupon holds 5% ownership in SumUp and value SumUp as detailed above.

- Bull Case: In our Bull Case, we estimate FY 23 North America (International) customers will recover to 85.0% (80.0%) of FY 19 levels. We estimate un-restricted deals will provide a 2% uplift to North America Local purchase frequency in both FY 22 and FY 23 (relative to pre-COVID levels). We estimate FY 23 International Local unit purchase frequency will recover to 95% of FY 19 levels. Our expectation for persistent Goods business pressure is unchanged from the Base Case. We estimate FY 23 Local Gross profit-per-unit will increase low-single digits compared to our Base Case. Our Bull case assumes SG&A accretion commensurate with the costs of supporting a larger and more active user base . Finally, we estimate Groupon holds 5% ownership in SumUp and value SumUp as detailed above.

Groupon Shares Are Worth Multiples of the Current Price

($ in millions)	Base	Bull
FY 23 adj. EBITDA	$286.6	$340.9
EV/EBITDA multiple	6.0x	8.0x
Enterprise value	$1,719.6	$2,727.1
Net cash	$177.0	$177.0
Equity value	$1,896.6	$2,904.1
Shares outstanding (diluted)	34.3	34.3
Core business share price [a]	$55.35	$84.75
Value of Groupon's SumUp investment	$268.6	$483.7
Shares outstanding (diluted)	34.3	34.3
SumUp investment share price [b]	$7.84	$14.12
Price Target [a] + [b]	**$63.18**	**$98.86**
Current price	**$23.20**	**$23.20**
% Upside	**172.3%**	**326.1%**

Source: Prescience Point estimates

Appendix A: SumUp Data Sources

Source	Date	Employee Count	Quote
Finextra	9/6/16	300+	"With a team of more than 300 people"
Finextra	9/5/17	500+	"With more than 500 employees globally "
SumUp Press Release	7/16/19	1,500+	"SumUp is looking to grow its 1500+ strong team"
Tiller Press Release	8/31/21	2,500+	"As we join a team of more than 2500 people"
SumUp Press Release	10/14/21	2,800+	"With over 2,800 employees"

Source	Date	Merchant/User Count	Quote
SumUp Press Release	10/11/18	1,000,000	"from SumUp's 1 million active users"
SumUp Press Release	7/24/19	1,500,000+	"Card terminals relied upon by over 1.5 million users globally"
SumUp Press Release	2/18/20	2,000,000+	"SumUp's latest figures show that 2 million merchants currently rely on SumUp's technology worldwide "
SumUp Press Release	11/10/20	3,000,000+	"The number of merchants using SumUp's solutions rise to over three million globally"
SumUp Press Release	11/18/2021	3,500,000+	"SumUp supports over 3.5 million merchants globally"

Source	Date	Annual Revenue (in millions)	Quote
SumUp Press Release	03/20/18	£70+	"SumUp processes more than 100,000 transactions day-by-day, and surpassed an annual revenue of £70 million in 2017"
SumUp Press Release	07/16/19	€200+	"SumUp expects to generate over €200m in revenue this year."

Source	Date	Daily Merchants Joining	Quote
SumUp Press Release	09/05/17	2,000	"Every single day, more than 2,000 businesses join SumUp"
SumUp Press Release	10/11/18	3,000	"SumUp has over 3,000 companies joining every day internationally"
SumUp Press Release	07/16/19	4,000	"SumUp was named Europe's fastest-growing company in the 'Inc. 5000' as over 4,000 companies join the platform every day.."
SumUp Press Release	02/18/20	5,000	"2 million merchants currently rely on SumUp's technology worldwide (with an extra 5,000 joining every day)"

Appendix B: Rocket Internet Financial Statements

FY 19 Rocket Internet Annual Report

No.	Company, registered office	Equity interest in %	via No.	Currency	Net result in million	Equity in million
	Other investments pursuant to Sec 313 (2) No. 4 HGB					
	Germany					
238	Billie GmbH, Berlin[4)]	3.1	11, 13	EUR	-5.0	5.1
239	Global Savings Group GmbH, Munich[5)]	15.2	1	EUR	-0.8	31.9
240	HeyJobs GmbH, Berlin[4)]	9.3	13	EUR	-2.3	1.6
241	home24 SE, Berlin[6)]	10.6	1	EUR	-61.8	158.7
242	Jumia Technologies AG, Berlin[11)]	9.2	5	EUR	-226.3	182.5
243	Personio GmbH, Munich[4)]	4.9	11	EUR	-5.1	3.6
244	Tele Columbus AG, Berlin[6)]	10.0	1	EUR	-161.4	354.7
245	Thermondo GmbH, Berlin[5)]	4.4	11	EUR	-11.8	20.3
246	tink GmbH, Berlin[5)]	5.4	11	EUR	-2.4	2.1
247	Urban Sports GmbH, Berlin[7)]	3.2	1	EUR	-0.3	-0.3
	Other countries					
248	Ace and Tate Holding B.V., Amsterdam, Netherlands[8)]	3.5	11, 13	EUR	-6.1	22.5
249	Canva, Inc., Wilmington, United States[9)]	0.4	11	USD	n/a	n/a
250	Global Fashion Group S.A., Senningerberg, Luxembourg[11)]	18.6	1, 27, 119	EUR	-147.5	649.5
251	Iwoca Ltd., London, United Kingdom[4)]	4.9	11, 13	GBP	1.3	29.0
252	JRSK, Inc., Wilmington, United States[9)]	8.9	11	USD	n/a	n/a
253	Maxi Mobility Inc., Camden, United States[9)]	2.7	27	USD	n/a	n/a
254	Meero S.A.S., Paris, France[5)]	4.0	11	EUR	-3.3	6.6
255	Nium PTE Limited (former: InstaRem PTE Limited), Newtown, Singapore[9)]	7.6	11	SGD	n/a	n/a
256	Proprioo S.A.S., Paris, France[9)]	11.9	11	EUR	n/a	n/a
257	SME Credit Realisation Fund Limited, Saint Peter Port, Guernsey[10)]	9.0	1	GBP	-0.6	308.3
258	SpotHero, Inc., Dover (Delaware), United States[9)]	2.1	11	USD	n/a	n/a
259	SumUp Holdings S.à r.l., Luxembourg City, Luxembourg[8)]	3.3	48	EUR	-1.6	105.6
260	WP XII Venture Holding S.à r.l., Luxembourg City, Luxembourg[4)]	0.9	11	EUR	-0.8	427.6

[4)] Values according to the last available unconsolidated annual financial statements (local GAAP) as of December 31, 2018.
[5)] Values according to the last available unconsolidated annual financial statements (local GAAP) as of December 31, 2017.
[6)] Values according to the last available consolidated financial statements (IFRS) as of December 31, 2018.
[7)] Values according to the last available unconsolidated annual financial statements (local GAAP) as of December 31, 2018.
[8)] Values according to the last available consolidated annual financial statements (local GAAP) as of December 31, 2018.
[9)] The company does not publish its financial statements.
[10)] Values according to the last available unconsolidated annual financial statements (local GAAP) as of March 31, 2019.
[11)] Values according to the last available consolidated financial statements (IFRS) as of December 31, 2019.

Source: Rocket Internet FY 19 Annual Report

Appendix C: Sell Side Coverage Overview

Unique Sell Side Firms Appearing On Quarterly Conference Call				
(# of firms appearing on at least one of the quarterly earnings calls)				
FY 17	FY 18	FY 19	FY 20	FY 21
B Riley	B Riley	B Riley	--	--
Barclays	Barclays	Barclays	Barclays	Barclays
B of A	--	--	--	--
Citi	--	--	--	--
Cowen	Cowen	Cowen	--	--
Credit Suisse	--	--	--	--
D.A. Davidson	D.A. Davidson	D.A. Davidson	D.A. Davidson	--
G Research	G Research	G Research	--	--
Goldman Sachs	Goldman Sachs	Goldman Sachs	Goldman Sachs	--
Jeffries	Jeffries	--	--	--
JP Morgan	JP Morgan	--	JP Morgan	JP Morgan
Maxim	--	--	--	--
Morgan Stanley	--	Morgan Stanley	--	--
Piper Jaffray	Piper Jaffray	--	--	--
Raymond James	Raymond James	--	--	--
RBC	--	--	--	--
--	UBS	UBS	UBS	--
--	Wedbush	Wedbush	Wedbush	Wedbush

Source: Quarterly Earnings Call Transcripts

Sell Side Participation On Quarterly Conference Calls					
(Number of firms on each call)					
	FY 17	FY 18	FY 19	FY 20[28]	FY 21
Q1 Earnings Call Participants	12	9	7	--	2
Q2 Earnings Call Participants	9	8	4	5	3
Q3 Earnings Call Participants	12	10	7	6	2
Q4 Earnings Call Participants	9	9	6	4	--
Average	10.5	9	6	5	2.3

Source: Earnings Call Transcripts

[28] Groupon did not hold a Q1 20 Conference Call.

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