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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by,and welcome to the trivago Q2 Earnings Call 2023. I must advise you the call is being recorded today, Wednesday, the 2nd of August 2023.

We are pleased to be joined on the call today by Johannes Thomas, trivago's CEO and Managing Director; and Matthias Tillmann, trivago's CFO and Managing Director.

The following discussion, including responses to your questions, reflects management's views as of today, Wednesday, the 2nd of August 2023 only. trivago does not undertake any obligation to update or revise this information. As always, some of the statements made on today's call are forward looking, typically preceded by words such as we expect, we believe, we anticipate or similar statements. Please refer to the Q2 2023 operating and financial review and the company's other filings with the SEC for information about factors which could cause trivago's actual results to differ materially from these forward-looking statements. You will find reconciliations of non-GAAP measures to the most comparable GAAP measures discussed today in trivago's operating and financial review, which is posted on the company's IR website at ir.trivago.com. You are encouraged to periodically visit trivago's investor relations site for important content. Finally, unless otherwise stated, all comparisons on this call will be against results for the comparable period of 2022.

With that, let me turn the call over to Johannes.

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

Good morning, everyone, and thank you for joining our Q2 2023 Earnings Call. As this is my first call since returning to the company, I wanted to take this opportunity to share some of my initial observations and thoughts on our strategic direction. Firstly, I'm thrilled to be back at trivago and equally excited to be joined by our new Chief Marketing Officer, Jasmine; and our new Chief Product Officer, Andrej. I'm also excited to team up with Matthias again. We have been part of the leadership team that scaled trivago across the globe. With our deep understanding of the company and the relevant know-how in marketing, product and technology, we feel confident to guide the company's future. Our first months have confirmed our belief in the potential of the business and the capabilities of our teams. We have a massive brand in a massive industry. Travel is one of our biggest sectors and it has proven its robustness. The Hotel segment is very attractive and highly fragmented. As a metasearch, we bring clarity to complexity. We aggregate content, reviews and rates for more than 5 million properties from hundreds of travel sites. Most importantly, we deliver a strong value proposition on price, the factor that travelers care about when considering a website to search or book a hotel.

Our strategic focus remains on hotel and accommodations. This focus on one vertical enabled to market trivago's tremendous growth in the past and carries considerable advantages for the future. It allows us to position our brand uniquely as the (inaudible) go-to place for searching hotels. The claim, "Hotel? trivago" speaks for itself and is well known across the globe. In many large markets, we are still among the most recognized travel brands, and every year, millions of travelers start their search on trivago with a product that is focused on hotels, we can deliver a search experience that surpasses all others in simplicity and seamlessness.

We understand the obstacle our business has faced in the wake of the pandemic. Keeping trivago at the forefront of travelers' minds through brand marketing has been a steeper challenge in the past few years. Simultaneously, trivago has cautiously cut back on marketing spend, in a push for higher profitability. We have rejoined trivago with a firm belief that we can return the business to a growth path. As the new management team, our core responsibility lies on striking an optimal balance between growth and profitability, aiming to maximize long-term shareholder value. To realize this, we will continue investing into our brand presence. Television remains an essential part of our marketing efforts due to its vast reach and effectiveness. We have already adjusted our media-buying tactics during our initial months and continue to optimize our media channel and market mix. We have also become more experimental in our television advertisement to understand how we can improve direct response and activate more travelers when they see our ads. Beyond brand, we see plenty of opportunity to enhance our core product, with a goal to further improve user experience and retention. We want to provide everything travelers need to confidently search, compare and choose their ideal hotel. We believe in price when it comes to loyalty. We will cement our position as a shortcut to find the best rates and will reinforce our capabilities as a deal-signing platform. Yet the foundation of our ambitions is our people and the culture we foster, our success has always leaned on the commitment and creativity of our team members, who have boldly turned their ideas into reality. We will revitalize our culture of micro innovation, continuous improvement and disciplined execution. It will make us take better decision, learn faster and create more value for our users and advertising partners.

We are excited for what's ahead and are committed to leveraging our experience, our brand strength and our value proposition to move trivago forward.

With this, I'm handing over to Matthias.

Matthias M. Tillmann - *trivago N.V. - CFO and Management Board Member*

Thanks, Johannes, and welcome to your first earnings call with us. Good morning and good afternoon to everyone on the call as well.

The second quarter proved to be challenging for us with a referral revenue decline of 13% year-over-year. While last year's Q2 results were positively impacted by pent-up travel demand driven by travel lockdowns and restrictions in the first quarter of 2022, in particular in Europe and Asia, we observed the normalization in seasonality this quarter. Last year, we also experienced higher monetization levels in our auction as our advertising partners aimed for growth during the reopening. In the first half of this year, the seasonal pattern and bidding dynamics in our auction normalized, which led to lower levels of monetization year-over-year. In addition, we observed that Google rolled out a sponsored ad format in their search engine result pages mid-May, and we believe that this initially captured a significant impression share from traditional Adwords. The combination of a normalization in seasonality, lower levels of monetization and Google ad changes had a negative impact on our performance marketing volumes. As a result, the year-over-year referral revenue decline in the second quarter was higher than we anticipated at the beginning of May.

We continue to execute on our plan to ramp up brand marketing investments as we see positive results from our brand campaigns. We believe it will help us to rebuild our brand baseline traffic long term even though the investments lead to lower levels of return on advertising spend in the short term. Our consolidated ROAS declined to 144.6% in the second quarter, down from 165.9% in the same period last year. Our net income was EUR 5.8 million compared to a net loss of EUR 59.8 million last year. The increase was mainly driven by an impairment of intangible asset and goodwill of EUR 84.2 million recorded in 2022. The increase in brand marketing expenses and lower levels of monetization led to a decrease in our adjusted EBITDA to EUR 12.2 million in the second quarter of 2023 compared to EUR 30.3 million in the same period in 2022.

Let me give you some color on the dynamics in the second quarter for the different regions, starting with our segment Americas. Our referral revenue declined by 23% year-over-year. The decline was largely driven by a loss in performance marketing volumes, as we did not observe the same uptick in monetization, our own auction as last year and Google ad changes that I mentioned before, which led to a reduction in impressions and ultimately traffic for us. Average booking values were roughly stable year-over-year, as the tailwind from higher ADRs was offset by a decrease in length of stay and negative foreign exchange effects.

In Developed Europe, the year-over-year referral revenue decline was less pronounced than in Americas, as the headwind from lower levels of monetization was partly offset by an increase in booking conversion. ADRs increased year-over-year by mid- to high single digit. However, the increase was offset by a similar decline in lengths of stay. As a result, our average booking value was roughly flat compared to the same period in 2022.

Referral revenue in our segment Rest of World increased by 21% year-over-year, as the recovery in many Asian markets continued, most notably in Japan and Hong Kong. While overall length of stay was also shorter in Rest of World compared to the same period in 2022, this was more than offset by an increase in ADRs of over 20%. In addition, we saw an increase in booking conversion as many Asian countries continued to recover post COVID. Foreign exchange rates had a negative impact of around 10% in that segment for us.

Moving on to our operational expenses. Excluding advertising expenses and the impairment of intangible assets and goodwill from last year, we saw a decline of 11% in our operational expenses in the second quarter compared to the same period in 2022. Compensation expenses, including share-based compensation, decreased mainly as a result of headcount reductions compared to the second quarter in 2022. Further, we recorded lower commission fees for acquiring traffic, as our white label product is fading out.

We remain well capitalized with approximately EUR 298 million in cash, cash equivalents, restricted cash and short-term investments, and we continue to be debt free.

Let me close with an outlook on third quarter. As expected, we saw a significant increase in referral revenue month-over-month in July in line with general travel seasonality as we enter the peak summer period. The year-over-year referral revenue decline in July improved significantly compared to June as we were able to regain performance marketing traffic volumes. The main travel trends remain stable. We continue to see elevated average booking values in all regions. In Americas and Europe, average booking values are roughly flat compared to last year, as the further increase in ADRs is largely offset by shorter length of stay. In our segment Rest of World, average booking values are still higher compared to a year ago, as the increase in ADRs is still strong and only partly offset by shorter length of stay. Overall travel demand continues to be robust and our auction dynamics improved slightly in July, however, still at monetization levels that are lower compared to last year. Despite those monetization headwinds, we plan to invest into brand marketing at similar levels to last year in the third quarter and therefore expect a decrease in ROAS and contribution compared to the same period last year.

For the full year 2023, we continue to expect to exceed our 2019 adjusted EBITDA of EUR 70 million.

With that, let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Naved Khan from B. Riley.

Naved Ahmad Khan - *B. Riley Securities, Inc., Research Division - MD of Internet Equity Research*

Congrats, Johannes, on your return. Just a couple of questions. So maybe one on the Google ad changes that you saw. What is the extent of that? Is that mostly in the U.S., or are you seeing that across all the geos? And then secondly, you spoke about maybe increased focus on brand advertising. I'm just trying to figure out what's the lag that you expect there in terms of that translating into better performance in your core business.

Matthias M. Tillmann - *trivago N.V. - CFO and Management Board Member*

Yes, thank you, Naved. On your first question, it was really across all geos, so it's not U.S. specific, but it includes the U.S., yes. So obviously it's always a bit different market by market and there are different dynamics. It's not only the rollout of the ad but also how competitors react, how people participate in that format and how the normal dynamic is in Adwords. And so there can be slight differences market by market, but it's not that we observed that this was rolled out in one geo or one market and not in others. It was really global. And then on brand advertisement, I think our general philosophy has not changed. And Johannes can add to this and share his thoughts, but we already said last year that we believe that brand marketing investment into brand has been a key secret sauce for the company for many, many years; and that's how we build a global brand in many countries. And obviously it was difficult to run that playbook through the pandemic. And in particular, when we saw first countries and regions recovering, it was difficult to navigate because TV and that's the main channel for us still today in brand, is really a mass channel and you cannot selectively target certain audiences. And that's why, in the ramp-up or start of the recovery, it can be quite expensive to advertise there. And that's what we tried to balance over the last couple of years, in particular in 2020 and '21; and then last year, we started to ramp up. As you surely recall, the first quarter was still difficult, in particular in Europe and in Rest of World. And that's why we, in hindsight, probably were a bit too cautious going into the summer period; and that's what we said where we want to change this year. And that's why we started earlier to invest into brand and that's what you can partly see in the numbers as well with a ROAS decline as we have started to advertise earlier than last year into brand. Having said that, and that's my last comment, obviously everything we do in brand has a long-term impact, so we don't aim to have a positive return on investment in the short term. So it comes at negative contribution. And I mean, from the learnings we had pre COVID and also when we ramped up last year, we know that it takes a bit longer to see the positive effect on the brand baseline and then on revenue and contribution, but we are convinced that we will see those effects in the future. And that's why we keep investing.

Naved Ahmad Khan - *B. Riley Securities, Inc., Research Division - MD of Internet Equity Research*

Okay, a quick follow-up, if I may. So your prepared remarks talk about improvement in booking conversion. I am curious what drove that.

Matthias M. Tillmann - *trivago N.V. - CFO and Management Board Member*

Yes. So I mentioned that we saw an improvement in booking conversion in Europe and Rest of World. Starting with Rest of World, I think that is primarily driven by the recovery. In Europe, it can be a mix effect; for example, a channel mix effect, which makes sense if you combine that with the other commentary we made because we lost performance traffic volume and brand conversion tend to be higher, so there's nothing to call out in terms of significant changes we did on the product side. As Johannes mentioned in his remarks, the philosophy is more to invest into the product and try to improve it incrementally, so by building smaller features and continuous improvement, but it's not that we aim for this one big change that gives you a step change in the conversion, which is difficult to achieve, to start with. So I think it's more from a mix, channel mix and maybe country mix side as well than any bigger changes on the product side.

Operator

Our next question comes from James Lee from Mizuho.

James Lee - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*

Congratulations, Johannes, for coming back to trivago. Basically I have 2 questions here. I was wondering. Can you give us your long-term view about the metasearch business given the continued Google headwinds we're seeing here? And also can you talk about the strategy for the company going forward? How is that different than the prior CEO?

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

Yes. If I look at the space, I think most important, when I look at it is, are we solving a problem? Is there an added value that we are creating? And I think that's what I outlined. We see that there's still a very strong price disparity. There's a lot of different advertisers with different prices, so there is a reason to exist. As a metasearch, we simplify the world for users; and that's why they're coming to us. And this has not changed in our research and the feedback we are collecting from users. There is certainly a segment that goes for convenience, regular travelers that certainly have a good reason not to use a metasearch, but overall, I think the proposition is as strong as it always was. And then it's a question do you get this across to the users. As spending much less on marketing now, we need to be smart and more efficient to do that. And I think that's a differentiation to Google. Google cannot capture the mental space that they are about to tell. They're a search engine, much broader. Yes, people start there, but I think, with our brand marketing approach, it has always been trivago as the starting point and you check in with trivago when you're in your research and plannings phase. And this fundamentally doesn't change. And I think it's then up to us. Do we build a better product? Do I believe we have a better product? Yes. And we need to continue to innovate and improve our core product. And that's why I believe last year and coming to your strategic question, Last year, the shift has gone back to core product, and that is what I would sign 100%. I think the market is huge. The brand is very strong. Capturing space in that market at our size should be very reasonable, and that is what excites us to be here. And fundamentally it's about rebuilding our brand and being efficient in marketing and converting them into our products. And then yes. You had a second question?

James Lee - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*

Yes. Go ahead, please.

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

No. You had a second question. Or...

James Lee - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*

No, no, no. The second question is for Matthias. Johannes, if you maybe go ahead and finish your commentary about strategy, that will be great.

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

No. I think that was my points on strategy and how I look at the space, big market, big brands and a product that solves a problem.

James Lee - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*

Awesome. And for Matthias, a couple of housekeeping question here. I think on the press release you said length of stay is a little bit shorter, continued to be shorter. I was wondering. Can you give us more color? Last quarter, you said, was down low single- digits. And also you say you continue seeing trade-downs. And can you give us a little bit more color? Is that across the board? You're seeing all region. Or in specific regions, you're seeing a little bit more trade-down activities.

Matthias M. Tillmann - *trivago N.V. - CFO and Management Board Member*

Yes, sure. Thanks, James. So first of all, we see a reduction in lengths of stay across all regions. Last quarter, we said it's low single-digit. It's a bit higher than that now. And I think that makes sense given that approaching the summer season with an average length of stay that is longer, it makes sense that the decrease is increasing as well. It's very similar to what we saw last year, in the third quarter, already in Europe. And I mean, to give you an idea, it's when it was low single-digit in the first quarter, then it's now high single-digit kind of. And it's very, very similar in the different regions; a little lower in Rest of World, but there you need to be careful given that there are lots of mix effects in that segment. That segment consists of 30 markets for us. There's also some noise in the year-over-year comparisons as last year. We didn't see all markets fully recovering. Now it's a bit different, which leads to a country mix shift this year as well but overall same story and similar trends. What is different in Rest of World, and I called that out, is that the ADRs in the year-over-year comparison are increasing stronger. And what you should also reflect is that in the numbers we report in euros, that there are negative currency effects in there. And that is a bit bigger in Rest of World. I think I mentioned the number was a headwind of around 10% for us. In Americas, there was also a currency effect of around 5%; and in Europe, not so much. It's only the pound sterling, but that wasn't as big.

In terms of trading down, it's really length of stay is the one that stands out and where we see an impact that is quantifiable. It's not that we see a significant shift in search behavior or travel behavior that I would call out.

Operator

Our next question comes from Ron Josey from Citi.

Ronald Victor Josey - *Citigroup Inc., Research Division - MD and Co-Head of Tech & Communications*

I got a few, please, one on just maybe we'll start with the Google changes intra-quarter. I think you said the impacts were mostly in May, but July, we did see some increases in referral revenues. Johannes, Matthias, can you just help us understand a little bit more on where we are in recovering from these Google changes from back in May and sort of how you feel going forward? I wasn't quite clear. And then Matthias, the cash balance continues to be pretty strong. Can you just talk to me or talk to us a little bit more about your plans with trivago's cash overall?

Matthias M. Tillmann - *trivago N.V. - CFO and Management Board Member*

Yes. Thank you, Ron. Let me try to clarify a bit the cadence of revenue maybe in the quarter and what we saw in July and link that to the Google ad changes as well. So if I start with the -- with our referral revenue development on a global level. We said last time that our referral revenue declined by a low single-digit in April. And then for the second quarter, we reported a decline of 13%. So May and June was down more than the 13%. In July, the decline improved from June to be more in-line with the decline we saw for the second quarter overall. So that gives you an idea roughly of the improvement in July versus June. And I think it's a combination of factors that led to, first, higher-than-expected year-over-year declines in May and June. I called them out, just to summarize again, a normalization in seasonality and travel demand and our levels of monetization. I guess that's clear. Last year, we saw strong pent-up demand going into summer. And our advertising partners leaned in, so we observed strong auction dynamics as well. And both are leading to difficult comps now. And now that we see a normalization in seasonality. And then the other one is the Google ad changes that we started to observe mid-May. Again it's a bit harder to quantify that given everything that's going on and that it always depends on bidding dynamics by other partners as well, but I think what's important to take away here for us is that in July, some of these factors improved. And as a result, we saw an improvement in our performance marketing volumes. So I think that gives you an idea of the level of improvement in July versus June. And again it's driven by a slight improvement in monetization, which is still down year-over-year; and also by the Google dynamics, as we saw that we captured more volumes again. Does that answer your question on the revenue cadence?

Ronald Victor Josey - *Citigroup Inc., Research Division - MD and Co-Head of Tech & Communications*

Yes. That makes sense. And any insights on the use of cash or just plans for capital?

Matthias M. Tillmann - *trivago N.V. - CFO and Management Board Member*

Yes, sure. So I think we acknowledged that in the past that our current capital structure is not optimal. We have quite some cash on the balance sheet. It gives us some flexibility, though. And the new management team just started a few months ago. And they will also evaluate unorganic growth options, though that is not the primary focus for us right now, but what that means is that we are not in a rush but we will continue to look at ways to optimize our capital structure and might do something in the next couple of months.

Operator

Our next question comes from Lloyd Walmsley from UBS.

Lloyd Wharton Walmsley - *UBS Investment Bank, Research Division - Analyst*

Great. So last quarter, you guys commented on customers increasing ROAS threshold targets. You've talked about commercialization being a little bit weaker. Can you just help us bridge? Is some of these customers still looking for higher ROAS marginally? I think, what other feedback are you hearing from some of your bigger customers on that side?

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

So yes. I mean we call it out as a normalization. And I think that is what I would also answer here, that we think it's at good levels and we don't have any signals that this would be changing. I think overall it's important to stay relevant to build a brand, so we deliver great-value customers to them. And as long as we deliver on that, I wouldn't have major concerns.

Lloyd Wharton Walmsley - *UBS Investment Bank, Research Division - Analyst*

Okay. And then, I guess, just following up on some of the geographical changes, can you elaborate a bit on what you're seeing in the Americas? Obviously, like, it sounds like the Google changes are global, but the conversion divergence in the U.S., anything more you can share there?

Matthias M. Tillmann - *trivago N.V. - CFO and Management Board Member*

Yes. Thanks, Lloyd. I think there is not much to add, to be honest here. So I mean I said that how to think about July is looking at the second quarter overall in terms of revenue decline. And that is true by region, so it's not that one region performed significantly better or worse than others relative to the second quarter in July. So that makes it quite simple. And in terms of conversion, there is not really much to add, yes. So it's relatively stable in Americas. We don't see a big change there. We saw an improvement in Europe again which is mostly driven by mix effects. And then in Rest of World, it's I would say it's partly that, mix effects, as well, and partly due to the recovery as the booking conversion overall is increasing in that segment but catching up to pre-COVID levels. And that's all I would mention here on the conversion side.

Lloyd Wharton Walmsley - *UBS Investment Bank, Research Division - Analyst*

Yes. And then, I guess, just if you could explain in maybe a little bit more simple terms what exactly the search changes are at Google that you're seeing and kind of how that's playing out.

Matthias M. Tillmann - *trivago N.V. - CFO and Management Board Member*

Yes, sure. So Google rolled out a so-called property promotion ad format in their search engine result pages, yes. So the list when you type in hotel New York, then that page that shows up, there you see now a property promotion ad. And that was not there before. And we did not participate in this ad format prior to this rollout, and when this got more visibility at the expense of traditional advert placements, we lost traffic volumes. And in July, we launched first campaign to test this unit; and we will see how that will develop. I guess those advertisers who participated gained now insights into conversion of that ad unit and how that compares to traditional AdWords; and then maybe results that come underneath, in GHA, for example, as well. And based on that, we expect that bidding dynamics might change as well; and with that, visibility of that unit, I mean obviously we can't predict that. We are participating in that format now and we will get our own learnings on conversion and returns, and based on that, yes, we will decide how to proceed with that further.

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

And it's basically to have maybe a visual impression about it: It's basically a list of hotels that is horizontally on top of the hotel and on top of the Adwords, text ads; and that leads directly to the advertiser. And I think the important thing, we haven't been part of it because it was part of the Google hotel ads product, and it's still. And we haven't been a part of this sponsored ad basically in Google Hotel Ads because we tested it and didn't perform well. That's why we were not part of it now, and now we are getting into it basically.

Operator

Our next question comes from Kevin Kopelman from TD Cowen.

Kevin Campbell Kopelman - *TD Cowen, Research Division - MD & Senior Research Analyst*

Great. I was wondering. Could you give some more color on the response you're seeing for the ramp-up in advertising? Maybe, anything you could share in terms of traffic levels or engagement responding initially to the ramp-up in the second quarter of ad spend, how that's compared to maybe how users have responded before the pandemic and if that can give you an indication of how it's going to perform going forward?

Matthias M. Tillmann - *trivago N.V. - CFO and Management Board Member*

Sure. Thanks, Kevin. So as I said, we are happy with the results. That's why we continue to invest and stick to our plan to ramp up brand investment despite lower monetization levels. And what does that mean? I mean, short term, what we try to measure is direct response. So with our ads, how effectively can we bring people to our website? And obviously what is relevant is that incremental traffic, and that's what we are trying to measure. So if I compare what I see right now to pre COVID, then obviously there are some differences by market. And in some markets, it's better. In some markets, it's slightly worse. On average, I would say pretty similar, which is good because we ramped up. And we still, compared to last year, for example, see the same respond at a higher scale. And that's why we'll continue to invest and yes. In terms of engagement, I think that there's not a big change to call out, which is also positive. So it's not that you bring traffic to the website and that traffic doesn't engage or you see lower conversion or anything. It's pretty good, from what we see, and again not materially different from what we have experienced maybe in 2019 or pre COVID.

Kevin Campbell Kopelman - *TD Cowen, Research Division - MD & Senior Research Analyst*

Okay, great. And then just a separate one. There was a European low-cost airline mentioned that they had seen some softening in closed-in bookings in Europe in June and July. I'm just wondering if you had seen anything similar.

Matthias M. Tillmann - *trivago N.V. - CFO and Management Board Member*

I could not call that out. I mean, as I said, for us, in July, dynamics improved relative to June, but this could also be because vast majority of our traffic is not related to airline traffic. It could be one reason. It could be our mix. And obviously there's a lot of noise with all these changes in performance marketing channels, so maybe there was some change and we just couldn't see it because of all that noise, but looking at Johannes as well, I don't think there's anything we can call out.

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

No. ABVs are stable high. And you don't see a dip. And I think that's what we are hearing from airlines and car rentals, I think, as well. That's not what we are seeing at the moment.

Operator

(Operator Instructions) Our next question comes from Brian Fitzgerald from Wells Fargo.

Stanislav Nikolaev Velikov - *Wells Fargo Securities, LLC, Research Division - Associate Equity Analyst*

This is Stan Velikov for Brian. First, I guess, when you look at the factors that contributed to the softer revenue in Q2, you mentioned Google ads changes, lower traffic, lower monetization, shorter trip size, how would you rank these with respect to their level of impacts on revenue? And then second, if you could exclude the brand advertising portion from total advertising spend, just looking at the performance marketing, I guess, how would ROAS look like on a year-over-year and quarter-over-quarter basis?

Matthias M. Tillmann - *trivago N.V. - CFO and Management Board Member*

Yes, thanks for the 2 questions. Both are good questions, I think, difficult to answer, though, to be honest. The impact of revenue is difficult to quantify because obviously there are dependencies. Like when you experience a lower level of monetization, then yes, you can measure the direct impact, but what is harder to measure is the second-order impact. And in particular, when there is something else going on in the auction like we saw with the Google ad changes and then on top of that, obviously you operate in a dynamic marketplace where there are the advertisers and they might change their ROI targets as well, so that's why we look at the aggregation, I think, and the aggregated impact. And obviously we only call out drivers if we think they are significant enough and contributed to the overall dynamic that we are seeing. And I can't tell you it's 50% normalization in seasonality and 50 or 30% in monetization. And then the rest is Adword changes, yes. It's just that those are key drivers and they all contributed to it. On the brand with performance split, I mean, we don't provide that split. What I mentioned is that we continue to be disciplined with our ROI performance targets on performance marketing channels. Obviously there is some volatility always given changes in monetization, given the competitive dynamics we see in the auction, but overall our philosophy has not changed. We'll continue to run the auction and our performance channels at ROI targets that are similar to what we have seen in the past.

On the brand side, that obviously, I mean, what I said is the incremental ROAS is obviously below 100%. So the more you spend in the ramp-up, the more negative the impact is. Again I can't give you a specific number on how much that contributed, but I think the general direction is, the moment you ramp up your brand spend, that is a short-term headwind to your ROAS number.

Operator

Our next question comes from Doug Anmuth from JPMorgan.

Dae K. Lee - *JPMorgan Chase & Co, Research Division - Analyst*

Great. This is Dae on for Doug. I have 2. So the first one, could you elaborate a little bit more on your comments on overall travel demand? I know you talked about it being robust, but it feels like your advertisers aren changing their ROI targets on your platform, so curious to hear if you think that's driven more by consumer demand shifting a little bit. Or do you feel like the demand level is still very strong and they're just upgrading ROI targets and it's just taking up of our comp? And then second question is where are you guys on your ramp-up in brand investment. Do you expect to continue to ramp up brand spend going forward? And related to that is when do you expect ROAS to start expanding again.

Matthias M. Tillmann - *trivago N.V. - CFO and Management Board Member*

Yes, thanks, Dae. So on your first question: I mean the change in ROI targets of our advertisers, that's something we called out already for the first quarter, yes. So it's not that it happened now. And to be honest, it's also not that surprising. We mentioned last year that we think that we benefit from a strong auction. We saw that with markets in Europe and in Americas coming back, rebounding strongly from COVID, that advertisers were leaning in. And the mindset was more let's participate in the recovery. Let's make sure we gain market share and grow. And there was not a strong focus on profitability. I think, towards the end of last year, that started to change. The overall mindset started to change not only in travel but in general. Market seemed to favor more profitability over growth, and with that, we started to see a change in our monetization as well or ROAS targets of our advertisers on our platform. And as Johannes said, it's not that we think it's low right now. That's why we talk about a normalization. We think the auction is good. It's healthy but not as strong as last year. And I don't think that is related to any changes in demand. Demand, as I said, we don't see big changes. It continues to be robust. I mean that was a question we got a lot in the last 6 months or so where people wanted to know, with the continued high ADRs, will that lead to lower demand at some point. That is not what we are seeing. So we are seeing that both ABVs are at high levels. And the only thing we called out is shorter length of stay, but we haven't seen a dip in demand, at least not that we can measure that on our platform.

On your second question, where we are with our brand investments. I think it's still early, yes. So it takes time. It's not that you ramp up in 1 year and then, next year, you have all the effect. It's a long-term investment. And what is also important to understand, you can't go from 0 to 100 in one go, but you have to build it up over time. And then you create this flywheel and it compounds year by year. And I think it's still early given that we haven't invested really invested in 2020 and in 2021 and only started last year selectively. Now this year is more broadly, and in some markets, we are ramping up, so the way to think about it is that we create or rebuild our brand base and traffic over the next couple of years. And then probably, I mean, every year, you will see a slight improvement, at least from the inside. And then we will comment on that, but normally how it work is you see that improvement and then you use that to invest further and grow it further. And at some point, you will also see it from the outside. Obviously, being now at the end of July, what we always do every year once the peak season is over for us, so mid- to end September, we will look at the overall summer campaign and evaluate how it went and what went well and what we can improve. And based on that, we then make a decision on the plan for next year, and yes, we will update you on that next time.

Operator

Thank you. There are no further questions on the line, so I'll now hand back to Johannes for any closing comments.

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

Thank you for joining the call. We appreciate your continued support and confidence in us, and we look forward to sharing our progress in the quarters to come. Stay safe. And remember: When you think hotel, think trivago. Thank you.

Operator

That concludes today's conference call. Thank you very much (inaudible).
