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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the trivago Q4 Earnings Call 2022. (Operator Instructions) I must advise you the call is being recorded today, Wednesday, the 8th of February 2023.

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

The following discussion, including responses to your questions, reflect management's views as of today, Wednesday, February 8, 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 Q4 2022 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 recognitions of non-GAAP measures to the most comparable GAAP measures discussed 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 the results of the comparable period of 2021.

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

Axel Hefer - *trivago N.V. - MD of Legal, Marketplace, People & Culture and Technology, CEO and Management Board Member*

Thank you, everyone, for joining us for our Q4 earnings call today. 2022 was a very strong year for trivago. We saw leisure travel bouncing back as COVID restrictions were lifted around the globe. The pent-up demand was fueled by consumer savings during the pandemic and a strong desire to travel.

As prices for accommodation continue to rise, consumers need to compare prices more to maximize their savings. We are therefore confident that the role of metasearch will become even more relevant this year.

Moving forward, we are further developing and strengthening our core product and unique brand positioning. We're leveraging growth opportunities by offering travelers more direct access to hotels in addition to our traditional online travel agency offering.

In Q4, we've run a new product design in 5 test markets, allowing us to generate valuable learnings in how to expose travelers to more prices and qualify their intent further before passing them on to our advertisers. In addition, we have established the building blocks of our direct hotel strategy, and we will build up on those in 2023. At now more than 50% of direct hotel rate coverage, we are getting close to the next phase of our strategy, launching consumer-facing features around direct hotel access.

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Thank you, Axel, and good morning, everyone. As Axel said, we are very pleased with our Q4 and full year 2022 financial results.

Last year, our revenue increased by 48% year-over-year to EUR 535 million, while our marketing efficiency measured as return on advertising spend, improved 8 percentage points to 164.4%. Due to the impairment charges recorded in the second and third quarters of 2022 totaling EUR 184.6 million, we had a net loss of EUR 127.2 million.

The combination of greater marketing efficiency and continued cost discipline led to an increase in adjusted EBITDA, which excludes the effect of the impairment charge of 210% year-over-year, reaching a full year record for the company of EUR 107.5 million. This is an increase of more than 50% relative to our most profitable year before the pandemic in 2019. And for the first time, we achieved an adjusted EBITDA margin of over 20%.

Now looking at the fourth quarter. Our referral revenue grew 21% year-on-year, driven by continued higher ADRs, which led to an increase in overall average booking value. Other revenue declined by EUR 2 million year-on-year to EUR 3.4 million as we stopped certain B2B products like white label solutions and display ads as we mentioned during the summer.

Net income decreased year-on-year by EUR 4.8 million to EUR 10.4 million. The decrease was mainly driven by the nonrecurrence of a EUR 12 million COVID-19 subsidy that we had received from the German government in the fourth quarter of 2021 and recognized as other income. Excluding this onetime subsidy payment, our net income increased by EUR 7.2 million. Adjusted EBITDA also increased by 15% year-on-year to EUR 22.6 million.

In the following, I will give a bit more color on the drivers of our referral revenue development relative to 2019 levels for our 3 regional segments in the fourth quarter. Starting with developed Europe. Qualified referrals were at 72% of 2019 levels, roughly at the same level as in the third quarter. Revenue per qualified referral recovered to 102% of 2019 levels as ADRs continue to be above 2019 levels and bidding levels of our partners reflected the increase in traffic quality.

In Americas, qualified referrals relative to 2019 levels decreased slightly sequentially from 59% in the third quarter to 56% in the fourth quarter, primarily driven by qualified referral declines in Latin America, resulting mainly from a large-scale market test in Brazil that led to a significant decline in qualified referrals in that country. However, on the flip side, the click-to-book conversion increased significantly in Brazil, which had a positive impact on our revenue per qualified referral.

Similar to Europe, revenue per qualified referral in Americas also benefited from continued high ADRs relative to 2019 levels. In addition, positive foreign exchange and country mix effect were similar to what we already observed in the third quarter, leading to an overall increase of revenue per qualified referral in America of 33% relative to 2019.

Lastly, our segment Rest of World continues to be impacted by the war in Ukraine and the fact that China was still mostly closed during the quarter. Consequently, our qualified referrals remain significantly below 2019 levels at 47%. While we do not operate a Chinese platform, we believe that the opening of China will have a positive impact on many agent platforms for us as it will be possible again to travel to China and Chinese travelers will increase the demand for hotel rooms in the region which we expect will be positive for ADRs. We already observed a positive impact from increasing ADRs in the fourth quarter and revenue per qualified referral improved sequentially from 91% of 2019 levels in Q3 to 94% in Q4.

Moving on to advertising expenses. As we entered our low season quarter, we pulled back on advertising expenses in the fourth quarter relative to the third quarter as we have always done historically. Advertising expenses were 55.4% of referral revenue in the fourth quarter compared to 63.1% in the same period in 2019 as we continue to be disciplined with our marketing ROI targets and improved our marketing efficiency.

Consequently, our return on advertising spend improved 22 percentage points in the fourth quarter relative to 2019 levels. However, contrary to last year, we started to run some brand TV campaigns in selected markets at the end of the quarter in anticipation of higher travel demand going into the new year and we continue to expect to increase our brand marketing investments in 2023 relative to 2022.

I will now discuss our operational expenses, excluding advertising expenses relative to last year. In the fourth quarter, our operational expenses, including share-based compensation, decreased by EUR 2.9 million by 8.6% compared to the same period in 2021. The main drivers for the decrease were lower other marketing expenses, lower share-based compensation expenses and a decrease in depreciation. Other marketing expenses decreased as a result of lower TV production costs and lower commission fees for acquiring traffic as we started to sunset our white label product.

The decrease in expenses was partly offset by an increase in IT-related costs, mainly due to setup fees for the onboarding of independent hotels and an increase in cloud costs as we made progress with our migration from data center to the cloud. As we have mentioned before, we expect to reduce our operating expenses in 2023 relative to 2022 despite the inflationary pressure, mainly through the headcount reduction we have done in the second half of 2022.

We expect our quarterly operational expenses, excluding advertising expenses and excluding share-based compensation going forward to be roughly in line with what we have reported for this quarter. The strong operational performance in 2022 led to a significant increase in our cash, cash equivalents and short-term investment position to EUR 293.9 million as of December 31, 2022, compared to EUR 256.4 million at the beginning of the year. The increase of EUR 37.5 million was mainly driven by strong operational results which more than offset financing activities resulting from the repurchase of shares and penalty payments from the litigation Australia.

Our liquidity position is stronger than ever, and we continue to be debt-free. As we expect to continue to generate positive free cash flows, we will continue to look at different ways to return capital to our shareholders in the future.

Now moving on to trends in January. As expected, year-on-year referral revenue growth was strong in January at over 30% as a result of continued robust travel demand trends and favorable comps due to corporate-related travel restrictions in January 2021. As in prior years, monetization levels decreased sequentially in January relative to December. And overall, we were at similar monetization levels as last year in January. However, as ADRs continue to be strong and booking conversions improved, our revenue per qualified referral increased year-over-year in January, more than qualified referrals.

Developed Europe, in particular, benefiting from easier comps in Q1. And consequently, we saw a healthy increase in both qualified referrals and revenue per qualified referral in January. We started to invest opportunistically in brand marketing, also beyond TV advertisement. For example, we were the main partner of the Handball World Cup in Sweden and Poland, which we believe had a positive impact on our branded traffic in the Nordic region as well as core European markets like Germany, France or Spain. We will continue to invest in brand activities and expect to be able to increase our brand marketing expenses in the coming months.

In Americas, qualified referrals continue to be negatively impacted by the large-scale market test in Brazil. In Latin America, qualified referrals were down low double digits, which was partly offset by a single-digit qualified referral increase in North America. Revenue per qualified referral increased around 20% year-on-year in the segment, decelerating from the 44% year-on-year increase in the fourth quarter as positive foreign exchange and country mix effect and our monetization were lower compared to Q4.

In Rest of World, we have a single-digit increase in qualified referrals in January year-over-year, while revenue per qualified referral increased significantly, driven by strong increases in booking conversion, average booking values and positive country mix effect. Consequently, referral revenue increased around 60% year-on-year.

While the near-term macro outlook is still uncertain, the underlying trends remain unchanged. Travel demand continues to be robust, while ADRs continue to be at elevated levels. While we continue to see some changes in consumer behavior like shorter length of stay, more interest in cheaper destinations or more clicks on lower hotel offers, we do not believe these trends change the overall picture. We believe that metasearch is well positioned in this environment as consumers shift their focus to cost savings, and we will focus on improving the user experience and make it even easier for travelers to find great deals on our platforms.

In summary, we are very pleased with our financial results in 2022 and the progress we have made with key strategic initiatives. We believe that we are well positioned to increase our investments into brand marketing, thereby driving further branded traffic growth and to execute on key strategic projects like increasing the coverage of independent hotels, while still expecting our full year 2023 adjusted EBITDA to exceed our pre-COVID adjusted EBITDA in 2019.

With that, let's open the line for questions. Operator, we are now ready to take the first question, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question today comes from the line of Tom White from D.A. Davidson.

Wyatt Swanson - *D.A. Davidson & Company - Equity Research Associate*

This is [Wyatt] following on for Tom. My first one is you mentioned the opportunity you see in operating travelers direct access to the hotel in addition to the traditional online travel agency offering. Can you talk a bit about what level of incremental investment might be required to roll this out globally in all your markets? Or is it more about just leveraging and deepening the existing relationships that trivago already has with the properties listed on your platform?

Axel Hefer - *trivago N.V. - MD of Legal, Marketplace, People & Culture and Technology, CEO and Management Board Member*

Sure. So there are basically 2 ways to connect additional hotels. One is where we do have an existing connectivity, so where we pay basically for the infrastructure already and where we need to onboard the hotels to the platform. So that does not come at additional technology costs.

The other one is what Matthias was talking about, our partnership with UBIO, where we do have ramp-up costs, and we do expect the cost to stay in line with what we have spent in Q4. And that investment will allow us to get to 80% coverage by end of the year.

Wyatt Swanson - *D.A. Davidson & Company - Equity Research Associate*

Great. And then my second one. In terms of the significant decreases in qualified referrals in Americas, can you provide a bit more detail on the full market test in Brazil? What exactly were the changes you tested? Is the test going into full production? And will this drag on Americas QRs going forward?

Axel Hefer - *trivago N.V. - MD of Legal, Marketplace, People & Culture and Technology, CEO and Management Board Member*

Yes. So basically, we have done something that we have not done that often in the past. We've taken 5 markets and 1 of those markets being Brazil and rolled out a very different user flow in those markets to get learnings from more long-term user behavior.

And what you see there is basically we are exposing users to a lot more different rate options. And by doing that, we qualify the users further, which basically means that they are not clicking out as quickly. But when they click out, that they are more ready to book. And that's what we're saying so that has a negative impact on QRs and a positive impact on RPQRs, which is what you see on the overall Americas numbers.

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

And just to add to that, in terms of impact on qualified referrals, I mean, I gave a bit color on January, where we did have a similar impact. But going forward, we might change the design of the test, et cetera. So there might be a few changes, and that could lead to a change in clickout distribution again. So it's not clear at this point how this will impact qualified referrals going forward in those test markets.

Operator

The next question today comes from the line of Jeremy Liu from UBS.

Jeremy Liu - *UBS*

I have 2 questions. The first is what impact might we see from the European DMA gatekeeper rule coming into effect this year? Do you have any early indications of how this will impact Google travel or how it might impact trivago? And the second is, is the consumer trade-down behavior widening out, I believe you called out Europe specifically at our conference in December and in the 3Q call.

Axel Hefer - *trivago N.V. - MD of Legal, Marketplace, People & Culture and Technology, CEO and Management Board Member*

Yes. On the DMA, it's a bit too early to tell, to be honest. We do expect first effects in 2024, and it will depend very, very much on the approach of the commission and also then the reaction by Google. And yes, so we don't really have a good prediction of what exactly the solution will be. What is clear is that it will lead to a more favorable competitive environment for us. How much better, again, is impossible to predict.

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

And then on your second question, I mean, first of all, ADRs remained strong with click prices on our platform in all segments being roughly 20% higher than in 2019 in the fourth quarter. But as we mentioned last quarter, we are seeing signs of consumer trading down by reducing the length of stay. We have seen that in all segments. In the fourth quarter, length of stay was roughly 5% below 2019 levels, which is an improvement in Europe compared to the third quarter, where that drop was higher, while length of stay was roughly flat relative to 2019 levels in Americas in Q3. So there we now saw in Q4 that the number also dropped slightly.

We also see that the typical seasonal increase in click prices towards the end of the year was less pronounced in Europe last year compared to 2019. And in all regions, the click-out share on our platform for 4- and 5-star hotels decreased slightly year-over-year. So I guess, while we expect ADRs to remain strong, we are seeing some offsetting effect presumably as consumers are becoming more price conscious.

Operator

The next question today comes from the line of Doug Anmuth from JPMorgan.

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

Great. This is Dae Lee on for Doug. I have 2. So the first one, I mean, you were able to drive strong improvement in margins over the years. And it seems further expansion in margins is possible given your comments on OpEx. So with that said, could you share your thoughts on where margins could go from here in the near term? And then is the 25% the right long-term target? And I have a follow-up.

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Yes, sure. Dae, so we mentioned in the past that our long-term EBITDA margin goal is to reach at least 20%, and we did reach that in 2022. And our goal is to grow the business sustainably from our post-pandemic revenue baseline, focusing on high-quality and repeat traffic. And that is more important to us than hitting 2019 revenue levels. And consequently, we will continue to be disciplined with our marketing investments.

However, if we do see opportunities to invest to accelerate our growth profitably at the expense of short-term contribution, we will do that even if it means that our margin would temporarily go down. For 2023, we do expect to increase our brand marketing investments. With the benefit of hindsight, we believe we could have invested more last year, in particular during the peak summer period and also because our own auction was strong. Having said that, while we do plan to ramp up our investments, we do not expect to go back to 2019 margins level, which were below 10% EBITDA margin.

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

Got it. Okay. And then, I guess, as a follow-up. In terms of ADR, you talked about growth there still being strong. So are you seeing any signs of that slowing down? And I guess with that, how do you think about ADRs going from here? Do you think this level of ADR is sustainable?

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

You were breaking up a little bit, but I think I got most of your questions. So the question is if ADRs can be sustained at these levels. Obviously, it's difficult to say, and I'm speculating. But at least looking at the underlying dynamics, why ADRs are up? I think that there are good reasons why they will stay at current or similar levels. In particular, last year, in summer and the peak season, we have seen that supply was tight in certain destinations, in particular, popular holiday destinations.

And the reason for the increase in ADRs were driven by a cost increase, and we still continue to see that there's labor shortage, energy prices are still higher than they were a year ago. And these cost drivers, I mean, if you can or if hoteliers can, they pass it on to the consumer. And I would expect that to be the case going forward as well.

So the then related question is, will that drive a change in consumer behavior? And again, I cannot predict the future. But given what we have seen last year and also what we are seeing now in January, we do not see that overall demand is coming down. We do see some signs that people try to mitigate the effect, as we called out, but it's not that overall demand levels are lower because of that, at least from what we can see in our numbers. Does that answer your question?

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

Yes. Great.

Operator

The next question today comes from the line of Ron Josey from Citigroup.

Michael Gerbino - *Citigroup*

This is [Mike Gerbino] on for Ron. You mentioned potential uplift from the reopening in China. Can you maybe talk about any early benefits you might be seeing now that COVID restrictions have been lifted there? And could you maybe frame the size of the potential impact there as the recovery accelerates?

Axel Hefer - *trivago N.V. - MD of Legal, Marketplace, People & Culture and Technology, CEO and Management Board Member*

So yes, absolutely. We don't operate a platform in China. So the benefits that we are seeing and expecting are twofold. One is obviously more travel into China and particularly from Asia. And the other one is higher ADRs in Asia and in big Western cities from outbound Chinese travelers. The latter we have not seen yet. But we have seen a significant increase in searches and also bookings into China.

The overall impact is difficult to quantify. We have still some travel restrictions in place in some markets into China. So we do expect that trend to accelerate. But it is too early to tell and to quantify the exact effect for this year.

Operator

The next question today comes from the line of Kevin Kopelman from Cowen.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Great. So a couple of questions. First one, on the January metrics you gave, can you give us a sense of what those look like relative to 2019 for referral revenue specifically?

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Kevin, yes. I can give you a bit more color. However, I deliberately not comment on 2019 levels as it's been 4 years now, and we have re-based our revenue and trading at a different gross margin profile than before the pandemic. So we think the year-over-year comparison is more meaningful, and that is how we look at our business now. But let me be a bit more specific with what we see year-over-year.

As I said, demand continues to be robust. Qualified referrals increased by more than 10% year-on-year in Europe and around 5% in Rest of World, while qualified referrals decreased slightly year-on-year in Americas due to the decline in Latin America, which more than offset the increase in North America. Revenue per qualified referrals in Europe and Americas were up around 20% and slightly more in Europe than Americas and around 50% in Rest of World.

And then one other thing to call out. I mean I mentioned that referral revenue was up more than 30% year-on-year globally. You should keep in mind that January was lower relative to February and March as a percentage of 2019 levels in 2021. So everything else being equal, year-over-year revenue numbers for the quarter will be lower than the January figure just due to this comp effect. I hope this gives you a bit more color and helps to model the quarter for you.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Yes, for sure. And then just a different question. Could you talk about how bid intensity has trended on the platform, on average over kind of Q4, Q1 quarter-to-date?

Axel Hefer - *trivago N.V. - MD of Legal, Marketplace, People & Culture and Technology, CEO and Management Board Member*

Yes, sure. So Q4 was very strong. I mean, so we've seen a high level of competition both on our platform but also on other performance marketing platforms and channels that we engage in. And we've seen a seasonal decline in bid intensity, which is quite common from December into January. So the current bid intensity is lower in January compared to what we've seen in Q4.

Operator

(Operator Instructions) The next question today comes from the line of Brian Fitzgerald from Wells Fargo.

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

This is Stan Velikov for Brian. On your platform, we have a good mix of hotels and alternative accommodations. So my question is, have you seen any divergence in the trends for traditional versus alternative so far in Q4 and in January this year?

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Sure. Yes. So the click-out share of alternative accommodation had increased during the pandemic on our platform. But we called out already last quarter, and I think even before that it trended back to our mix that we had pre-pandemic. So right now, it's roughly flat vs. 2019 levels, as city trip approach pre-pandemic levels as well in our travel type mix. And with travel recovering and in particular, city trips and international travel coming back, we have seen a reversal of the trend towards hotel, and that is not unexpected, to be honest.

So I think alternative accommodation has a meaningful share in our traffic mix and will stay relevant for our users going forward. However, our key value proposition is the hotel price comparison and has a significantly higher share than alternative accommodation for us.

Operator

There are no additional questions waiting at this time. So I'd like to pass the conference back over to Axel Hefer for any closing remarks. Please go ahead.

Axel Hefer - *trivago N.V. - MD of Legal, Marketplace, People & Culture and Technology, CEO and Management Board Member*

Thank you for taking the time to participate in today's earnings call. We appreciate your continued interest. We are very proud of the operational results achieved this year, and we are very excited by the year to come. Our continuous focus on price, combined with the positive start of our Hotel Direct strategy, is giving us confidence that we can better serve our users and reach more travelers in the years to come. Thank you very much, and see you next quarter.

Operator

This concludes today's conference call. Thank you all for your participation. You may now disconnect your lines.
