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<<Kevin Kopelman, Analyst, Cowen and Company, LLC>>

Thanks. Hi, everyone. Thanks for being here at the 47th Annual Cowen T&T Conference in New York. I'm Kevin Kopelman. I cover Hotels & Online Travel for Cowen. We're excited today to welcome Axel Hefer for the CFO of trivago. Thanks so much for being here tonight.

<<Axel Hefer, Managing Director and Chief Financial Officer>>

Thanks for having me.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC>>

So trivago is a leading global hotel search company based in Dusseldorf, Germany, generated an estimated $8 billion in bookings for its advertisers over the last year and $1billion in net revenue to trivago, Axel joined at early 2016, before that he was the CFO and COO of the e-commerce company Home24 AG and before that private equity. So we'll kick it off with a few questions. But we also have time for audience Q&A. And if you have any questions, please feel free to jump in and just raise your hand and we'll get a mic to you.

So just to start out, Axel, since 2010, trivago has grown from nothing to $1 billion in revenue, pioneered hotel metasearch, TV driven marketing, more recently grows hit a bump in the road, but you've begun better optimizing for profitability. Going forward where you see trivago over the next 5 years to 10 years, both in terms of how you expect the product to evolve and also the P&L.

<<Axel Hefer, Managing Director and Chief Financial Officer>>

Yeah. So thanks, Kevin. You’re right. I mean when we built the business, we have built basically organically funded from nothing to at the peak around $1 billion in revenue. And the core value proposition that we have built and that we advertised heavily through TV, which was also in innovation in a way and the Internet space was really making sure that you get the best deal for your next trip.

So very simple value proposition, easy to communicate, works very well on TV, don’t overpay, check on trivago, same hotel room, two different prices. I mean, very, very simple concepts that we use to build the brand. And the brand, if you look at the brand equity does stand for exactly this value this, this deal and character. And that's what our core use of love about the product. It's a very simple product and very fast to serve this one purpose.

What we started at end of 2017 was to invest into a second very big value proposition. And we – what we did as we started to move more into apartments and non-hotel properties. And why did we do that? What we saw was that there was an increasing demand for people that were undecided, which kind of property they would want to stay in and they would consider a multiple different options for their next trip.

And there what we saw was that there was not really a good tool to do that. So even today, if you want to have a family trip or a trip with your family and some friends, and you're not sure should it be a hotel with a certain room configuration or should it be whatever a villa somewhere wake and cook yourself. You need to do that on multiple websites. And it's very difficult to do the tradeoffs, okay. Do I want to have a family room or do where everything is a service in the hotel or do I want to cook myself and have an apartment? And that might depend on location, on facilities, on price, et cetera. And to do that tradeoff is a lot of work today.

So we started pretty much 1.5 years ago investing into that. We have by now, then the number of apartments that are live on the platform has surpassed the number of hotels. But there are still quite some work to be done. It sounds much easier than it is and we believe that it is really this comparing different property types in one search context, would that add the most value? So it doesn't really help, if you can search for hotels and for apartments, then you can also use two websites. You want to have them side by side and compare one versus the other and then decide what exactly you want to have for your next trip.

Which is complicated from technical perspective, how exactly to do the ranking, how to aggregate the data. Apartments obviously most of the time unavailable, unlike hotels, they are most of the time available. You've got a lot more bookings per property. You have got a lot more content per property. So all the challenges that we've mastered 10+ years ago on hotels and now coming up again, because there was just a lot less data density behind individual apartments. And it's a challenge and it's very exciting and we believe that going down that avenue, we can create a very important second value proposition.

That is particularly interesting to the younger generations as they are much more fluid going between the different categories and for family travelers, because for them it really depends on the specific situation. You have a newborn and need a kitchen. Or has your child grown up and you can stay in a hotel. So that is changing quite frequently. And those segments, we believe we will be able to serve for significantly better going forward. And that should also be one of the growth engines that is driving us forward.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC>>

Great. So kind of switching gears and going into some of the recent trends, looking at the auction dynamics, you've described them as relatively stable over the last four quarters or so. What is the latest you're seeing from your advertisers as they're managing their own at ROI budget?

<<Axel Hefer, Managing Director and Chief Financial Officer>>

Yeah. We see stable auction dynamics now for quite some time as you are right to some extent. And we don't see any significant change there. And our assumption for the year is that it will stay on the level where it is today. Obviously there can always be changes, but as of today, we don't have reasons to believe that there would be.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC>>

Yeah. And kind of taking it back to the macro discussion, what's your interpretation of the European travel booking environment based on your business, given one of your major advertisers and also one of your competitors has talked about softness really since the beginning of the year in Europe.

<<Axel Hefer, Managing Director and Chief Financial Officer>>

Yeah. What we talked about in our earnings release was some softness in our UK business. Whether that was because of the uncertainty in particularly in the first quarter about the timing of the implications of a potential Brexit or not. I don't know, but we saw that there the business was doing worse than the comparable countries in Europe. Overall, we don't see a significant change in the overall market environment.

Having said that, given the change that you see in our advertising activity, it would be very difficult for us to see that. So if our OTA partners see something then that is probably more reliable than if we don't see something. Because their business and last quarter has been more stable than the year-over-year trends and analysis has been.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC>>

Understood. Can you walk us through some of the – just kind of walk us through the comps in the second quarter of 2018, you started really embarking on this profit optimization journey. And in the first quarter revenue was down 20%, that ad spend was down 37%. So your profits went up. Now in this, as you're starting to anniversary, your initial efforts in the second quarter, what should investors expect just kind of going through that?

<<Axel Hefer, Managing Director and Chief Financial Officer>>

Yeah. So we started at the mid-to-end of the second quarter 2018 to really recalibrate the business. And the reason why we did there was we incurred significant losses through the change in just marketplace dynamics that we experienced. And we felt that, I mean, of course it's never good to run losses, but that the contrary would be strategically very important to have a certain level of profitability to make sure that we at any point in time have full flexibility over our business and are not pushed around by decisions of – some of our partners that would force us in the short-term to take one action or the other.

So we started to rebalance our spend and optimize our spend mid-to-end of the second quarter, which has some impact on the comps of the second quarter year-over-year versus the first quarter year-over-year. But what that basically means that we have lapped that effect in the third quarter. So you will have more comparable year-over-year comparison. And we guided there we would as a result of that in the year-over-year comparison increase our advertising spend again in the third quarter and also in the fourth quarter. And we are expecting growth in both quarters.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC>>

In terms of the second quarter, should we still expect some seasonal, given there's been a lot of volatility in the last couple of years. Should we expect some seasonal bump up Q-over-Q in both in revenue and ad spend in the second quarter?

<<Axel Hefer, Managing Director and Chief Financial Officer>>

So in the overall year-over-year trajectory, you should expect still a revenue contraction, not as steep as in the first quarter, but still significant given that on the mid-to-end of the quarter. We have implemented these measures, and on the profitability side of significant improvement of profitability year-over-year. And then on the third quarter, as I said, yeah, it will be positive change on the advertising spend and positive on the revenue.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC>>

Yeah, that helps. Thank you. So going into that second half, can you walk us through kind of how you're thinking about the mechanics of deploying additional ad spend? How much of growth in the second half is a function of just the normalization and then how much you're able to come off of the current base and then say, okay, here are the places where we can maybe actually increase our investment levels?

<<Axel Hefer, Managing Director and Chief Financial Officer>>

Yeah. So when you reuse your spend that has as one big benefit, because you don't need to reduce it linearly everywhere pro rata, but you can do patterns. So in certain markets you can cut back your spends to zero. In certain channels and other markets, you can do pattern tasks where you don't do anything in one week and you do what you used to do before. The second week, you can do all kind of combinations and that kind of testing obviously gives you some insight – what's the impact is short-term impact, but also mid-term impact.

And that is a learning that you can then apply when you increase the spend again. Which is it's quite important, if you're coming out of a period as we have in the past where you increase every single year, every single period, basically year-over-year. Then the amount of testing that you can do and that's kind of trajectory is more limited to compare to what we've been doing in the last couple of quarters.

So I would expect our increase in spending to be more targeted and more efficient than it has been before. Obviously, there is no guarantee for that. That's one aspect. The other aspect is we are in a growing industry. Yeah, so if you want to participate in the market growth that is not coming for free. That also means that you have to a certain extent invest into marketing to reach those new users that are coming to the market. And that that has to be a natural driver of your spend. And then it is also just the current baseline that is then lapping the comp effect. That also obviously has an impact on the increase in the year-over-year comparison.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC>>

Is it safe to assume, at least in the short-term that will mean ad spend growth exceeding revenue growth? And to what extent are you willing to have that trend take over as you return to growth?

<<Axel Hefer, Managing Director and Chief Financial Officer>>

So we didn't guide on the contribution profits by quarter. And we just said that both will go up. Generally speaking, the way we are looking at it is that we want to increase the absolute profit year-over-year going forward, which doesn't mean that every single quarter has to be up year-over-year and that is also not the right thing necessarily, because you have investment opportunities at the end of one quarter that brings down one quarter has an impact on the next one and you don't want to take away that flexibility in running the business.

So over the mid-term, you can expect an increase in absolute profit and at the same time an investment into growth, because growth is still in our industry important and there is a strategic benefit of scale. And we believe that investing into scale has a strategic value.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC>>

Absolutely. Just want to pause for a second, just check if there are any questions from the audience.

Q&A

<Q>: Regarding selling apartments, how are you advertising for that? Because I know every millennial I know doesn't have cable.

<A – Axel Hefer>: That is true. That's a good question. So it's not only in the U.S. I mean it's everywhere that the younger generation is not really watching linear TV anymore or very, very little, so traditional TV is more skewed towards the older stuff. I wouldn't say old, but the older generations, which for family travel is the right audience still, but for the younger generation obviously isn't.

So we have diversified away from TV. And we are investing into online video clearly various partners. Having said that, those channels are not as developed as TV clearly. So there are challenges that need to be figured out. But we are working together with various partners to build those channels and make sure that they do work for us and do work for the providers of the advertisements.

So you will need to diversify away from TV step-by-step. The good thing is that, if you look at the average traveler and the average customer tends to be a bit older, so there is time, you don't have to do it overnight, but you have to stay focused on it and make sure that you invest the sufficient resources and talent into it.

<Q>: Can you comment on where you think you stand now on Google Hotel Ads results, I think even maybe like a year ago, I'm remembering sitting here, I think you've sort of suggested you felt you were under index there. How has that changed? Has just the general competitive dynamic versus Google booking changes?

<A – Axel Hefer>: So, that's a good question. So we are now live on more than 50 markets. So in terms of connecting the different markets that we operate, and we are pretty much ramped up. So the technical infrastructure is there, the challenge still is that we haven't fully participated with all of our inventory. So we don't utilize the full potential of the channel. And the reason for that is technically pretty complex integration. We we've never done marketing on a channel where you need to provide live availability and live rates. And if you look at us, as a meta-search, we have to get the rates from all partners, we need to assess which rate we want to show to participate in Google Hotel Ads, and then submit that, and that basically has to be all live.

And so can you imagine the infrastructure is not simple. And we we've invested a lot of time and efforts together with Google to build that infrastructure. And we are now are gradually increasing the volume that is running through that infrastructure. So that's why it has taken some time, but we are very happy with the progress there. In terms of how much potential have we actually tapped into, that is a bit difficult to say. I mean I would say, what's clear that there is significant upside still to where we stand today, whether we will ultimately be more competitive in Hotel Ads versus an AdWords is very difficult to say.

So there is clearly one advantage that we do have in Hotel Ads, which was that we have access to very attractive rates, and rates are obviously part of determining who is getting how much visibility. On the other hand, our big advantage that we had on AdWords or have on AdWords, which is very broad inventory and a very well converting website is not as important and particularly the breadth of the inventory is not that important because you compete on an hotel level or on property level. And how those two, where the balance out, it is very difficult to say. I mean I would assume pretty much the same, but only Google will know how exactly the balance will be.

<Q – Kevin Kopelman>: Can you talk about some of the advertiser dynamics, kind of your key, if we think about your key advertisers, we understand Booking and Expedia. Now looking at the other part, what do you seeing in the trenches from regional or smaller OTAs on the platform outside of Booking and Expedia?

<A – Axel Hefer>: Yeah, I mean there are quite a few locally very relevant OTAs. Absolutely, from a global perspective that the challenges that they are regional but globally not material. But they can be very, very important for the individual marketplace dynamics. What is obviously, the follow-up question to that is, okay, how many of those have the potential to eventually become a global player? The key challenge for every regional player that they tend to have very, very good inventory coverage in their domestic market. They've got good hotels under contract. They've got a lot of hotels do uniquely with them, et cetera. But because they have only in one market, they

don't have that in other markets. So they tend to rely on hotel contracts with others where they don't have the full margin.

So to successfully internationalize, you don't only need to open up a website, but you also need to build up your own inventory and your relationship with the hotel directly to make sure that you have the full margin available, which is important in particular for performance marketing on a channel like us. And that is what limits them the global potential of quite a few of these players. Having said that, I mean, we said, for quite some time, if you take a long time perspective, I'd be highly surprised if none of the Asian players will not invest into that coverage and become a global player, who exactly will succeed, time will tell. But I'll be very surprised if none of them was succeeding.

<Q – Kevin Kopelman>: And how engaged the Ctrip on a platform with the trip.com subsidiary?

<A – Axel Hefer>: Ctrip is one of our very, very important partners very clearly. And they're highly engaged on the platform, as is MakeMyTrip and a lot of the other local players. In the markets where they are strong, they are actively participating.

<Q – Kevin Kopelman>: Yeah. And on that level and kind of moving down that direction, we've seen Airbnb moving along their effort to integrate hotels onto the site with the acquisition of HotelTonight in integrating some of that inventory now, have they started testing as Airbnb started testing on trivago.

<A – Axel Hefer>: So on Airbnb, and on some of the other players. Okay, sorry. Let me go one step back. So when we went into apartments, we said, okay, we will not take as the only measure how many apartments are alive, but we want to add more apartments at the same pace as we are making progress on developing our algorithms. And that's what we've been doing with the quite consistent pace. I mean you can see that we've added roughly the same number of properties on average to the platform quarter-by-quarter. And a large scale integration like an Airbnb, has to be at the right point in time.

So the platform has to be ready for it. And if you are not ready for it, than the challenges that you convince the partner to invest a lot of time and resources, and you then can't deliver the volume that he is expecting is frustrated and might get off the platform and then you didn't win anything. So it is to me, with Airbnb and with many of the other important players on apartments, it's not so much will they be a partner at some point in time, but it's more about making sure that the timing is right, and that we time it right to work together with them and building a value proposition that is really seamless and highly beneficial to our users, starting on us and then ending on them.

<Q – Kevin Kopelman>: And kind of a follow-up to that, and really going back into this, alternative accommodations effort that you have. To what extent are you surfacing an alternative accommodation that's available on one site in interspersing that with your hotel inventory as opposed to getting an alternative accommodation that might be on multiple sites? Like maybe it's on Vrbo and Booking and you're showing it, you're actually comparing the prices just like you would do with a hotel?

<A – Axel Hefer>: Yeah. The price comparison is much more challenging, on apartments than it is on hotels or the matching is much more challenging. We tried to match apartments and where we identify identical apartments, we do match. The even more difficult question is what you match. If it is the identical department, clearly, okay, you do match. But what happens if it is the same building, and it is the same layout but there are two different owners. And one is super fashionable and the other one is super conservative.

You could argue, okay, why don't you match? It's the same building. It's basically the same though as the same thing. Very different experience. Pictures are very different though, so they're probably doesn't make sense to match. So it is just more complicated than with hotels where within one hotel you've got a much more homogeneous experience. And I wouldn't claim that we have fully figured it out what exactly the ride matching logic should be and how exactly to display it. But wherever we see that it is the identical apartment, we show multiple prices.

<Q>: [Question Inaudible]

<A – Axel Hefer>: If you look at the product, I mean there are quite a few things. Obviously, that would have changed in the last couple of quarters. Most of the changes are really small changes. And depending on your cookie, you will see various tests that you might think it is live on the platform already but they are not fully like it on your own part of the traffic. I'm generally speaking, the main direction of their product optimization is to make sure that you have everything that you need to decide where you want to stay and with which advertiser you want to book, and that you have at the place where you expected intuitively expected.

What that means is that, we are trying to reduce unnecessary on non-value adding click-outs. You want to look for the phone number, but you can't see where he expected. You click out, you see the phone number on Expedia, you call up the hotel. That is in a way unnecessary. It's annoying to you because you have to go back, continue the search then on trivago. If it would have displayed the phone number where you would expect it, then you wouldn't have clicked out. And so it sounds a bit generic. But if you just look at the website, you see small changes here and there, that basically add content at a position where we believe it's more intuitive and where we tested that it is more intuitive and where some of these, okay, it's not where I'm expecting it, click-out, I eliminate it. And that's what you can expect to continue. I mean, it's not that the website is very good and it's highly converting. So it's more a gradual and incremental improvement in that direction, then really radical changes. And I think that's the right thing to do.

<Q – Kevin Kopelman>: So last question, we're running out of time. Can you give us a quick update on the competitive landscape? We know TripAdvisor's on TV, they're doing some price comparison messaging. We have Google rolling out a new travel portal, we have OTAs on TV. How is trivago evolving within this landscape and how do you see trivago maintaining a competitive edge?

<A – Axel Hefer>: Yeah, yeah. As I said, I think our core value proposition is on the deal side and that's the core brand equity that we have with trivago. If you do research, that's what people will tell you. We are adding the multiple accommodation type search and comparison, a value

proposition and started to advertise that. So we would expect that, that would add to the brand equity that we have today. Overall, you're right, the industry dynamic is changing. I mean growth has come down over the last couple of years and you see bigger strategic moves or even a small news that might have a big strategic impact from various different players, acquisitions from some of the providers of alternative accommodation, change in the fee structures that could make a big difference, change in the overall product flow with other players.

And it will be very important to carefully monitor exactly what is happening and who is moving and how fast in which direction, to make sure that you don't miss out. Having said that, we do believe that, that these changes are positive for us, because we are in a way – we are a neutral partner of pretty much everybody. So we are a source of traffic for OTA and our apartment partners. We are one of the strongest bitterness on the performance marketing channels. And we are relatively speaking small in the industry, so we are not strategically threatening to anybody. So with things changing, there is always threat and opportunity. And I do believe for our specific situation, there are more opportunities than threats.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC>>

Fantastic. Thanks, Axel. I appreciate it.

<<Axel Hefer, Managing Director and Chief Financial Officer>>

Thank you very much, Kevin.