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PRESENTATION

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

Good afternoon, everyone. Welcome to day 2 of the Morgan Stanley TMT Conference. We're pleased to be joined by Matthias Tillmann, CFO, Managing Director of trivago. Matthias, thanks for being with us.

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Thanks for having me.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

Absolutely. So you guys know the deal. But before we start, I have to read through the requisite disclosures. So please note for all disclosures, including Morgan Stanley holdings disclosures, you could find them on the Morgan Stanley public website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative. So with that, let's dive right in.

QUESTIONS AND ANSWERS

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

Matthias, I want to start high level and talk about what we're seeing with recent travel trends and the slope of the recovery into 2022. Now level set the discussion for us. Where are we currently with respect to the recovery? And how do you expect the slope for the recovery to pace as we head throughout the rest of 2022?

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes, sure. I mean, first, I have to say it's good to be back and see real faces -- to be back in person. I mean this conference was the last I attended in person and that is 2 years ago.

So I think that shows that things are going in the right direction, generally. And that's what we have seen last year already during summer. In particular, in our core markets in Europe and Americas, we had seen a significant rebound and there was a lot of pent-up demand.

So it looked quite good during summer and then going into autumn and winter, we have seen a setback with a spread of Omicron in particular, in Europe. So in December, our travel volumes on all platforms went down 50% compared to October.

Now if you look at prepandemic historical levels, there was more around minus 20%. So a clear impact from Omicron and we saw that also at the beginning of the year. But since then, we have seen a week-by-week improvement in Europe and Americas.

And that makes us confident that as early as spring, we could see a more broader recovery and then also into summer. And now that is for Europe and Americas. The picture is very different for our segment Rest of World.

So there, we haven't seen a broader recovery yet. And in fact, in some markets like Hong Kong, we have seen the situation worsened again in January with a high number of cases and then demand coming down.

And then what I would also say is Eastern Europe is part of that segment as well. It's a small subsegment for us. In a small segment, Rest of World, but obviously, with the recent developments in Ukraine, that segment has been hit hard.

I don't think it's an isolated event just affecting the Ukraine. If you look at the news in Europe these days, I mean, over the last 2 weeks, COVID completely disappeared from the news and it's all about the war in Ukraine adding quite some uncertainty.

And the concern, for example, in Germany, is that can this spread to other NATO countries as well and things like that. We have seen a spike in energy prices, as I'm sure you are well aware of. So there the question then is, how can that impact transportation and prices for flights, et cetera, going forward.

So looking at our core markets, we have seen a slight negative impact over the past 2 weeks, not big but you can see it. And overall, I think no impact in Americas. So overall, not a big impact right now, but certainly have more uncertainty in the near term. And yes, we need to see how that situation develops there.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

That's very helpful. I want to key in on that week-over-week comment, in Europe. Just to be clear, that pertains to the current state of the business, improving week over week in Europe? Despite what we're seeing in Eastern Europe, you're not seeing the effects of that Rest of World segment impact the Europe segment currently?

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

So when you look at Europe specifically, we have seen that we got a weak improvement up until 2 weeks ago and since then have seen a slight drop there.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

That's very helpful. I want to speak on broader travel trends for a second. One of the things we've seen over the past couple of years is a shift away from city travel. Just level set for us again, how important is city travel for trivago and how do you expect that to recover as we head into 2022.

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes, sure. So pre-pandemic, city travel accounted for a large part of our business. And in a way, that makes sense because our value proposition works very well for city travel because you have a high density of hotels, there is high competition. And for a hotel like this, we might have 30, 40 or more advertisers, meaning there can be significant price differences and competition is high in the auction.

Now in the first phase of the recovery, we have seen that segment under indexed. And again, that makes sense because most of the reasons why you plan a city trip in the first place weren't possible, like restaurants were closed, museums, events did not happen.

And business travel is also a segment that's relevant for this trip type. With big trade fairs being canceled, there was less business travel as well. And in the first wave of the recovery, we have seen people more traveling locally and more to rural, nature, beach destinations.

Now recently, we have seen a more positive trend. And I think that is related to the fact that all these things I just mentioned are now possible again. I mean, everything is mostly open. And we have seen the demand, for example, in the last couple of weeks in Europe for big cities like London, Rome, Barcelona, Paris, going up again.

Still under indexing in the overall recovery, but gaining momentum. Same is true for the U.S. Cities like New York, San Diego, Anaheim are on top of the list.

So I think we have seen a positive trend lately. And I don't see any reason why the mix should be very different compared to prepandemic as we continue to see the recovery. In fact, I think there's a lot of pent-up demand and people want to travel to cities, want to enjoy what they enjoyed before.

I also think business travel will come back maybe more slowly, but surely. And overall, we expect a broader recovery over the next couple of months. And then whenever -- what the right point in time is, I don't know, but I don't think the mix will be very different from what we've seen prepandemic.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

It's certainly good to hear that city travel is returning. It's good to be back here in San Francisco. At the same time certainly consumers have been exposed to the category of alternative accommodations. Throughout the past couple of years, you've seen mix shifts towards that category.

It's 20% of your business. What are some of the unique challenges that come with being successful in the alternative accommodations business? And what are some of the learnings you can use from that core hotel business that you can apply to alternative accommodation?

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes. So alternative accommodations is a very fragmented market. And what I mean by this is, if you take this hotel as an example, probably has more than 500 rooms. But we don't need to expose all 500 rooms. We show one property, it's a 4-star hotel. So you have a very good idea like what to expect. Then there are certain room types, yes, but in general you know, pretty much what you can expect of this.

If you want to add the same inventory, the same supply where alternative accommodations, let's say, apartments in San Francisco, you're talking about 500 different apartments. And there it's very difficult to understand what is the difference.

You cannot expose this all in your result list. I mean, nobody wants to go through that and check every single apartment and see what exactly to expect. So one challenge we have been working on for a couple of years now is to, A, cluster certain apartments and make them comparable; and then the second one, and that's something we did early on, we integrated apartments in our main search, so comparing apartments side-by-side with hotels.

And that is because from our user data, we can see that users are, generally speaking, agnostic to the accommodation type and want to compare. And I think now with the shift you mentioned during the pandemic a lot of people got exposed to that category. And certainly, people that didn't book an apartment before. So they are now more likely to do so.

So I think, yes, that is here to stay. And for us, what we will continue to work on is getting better content, helping people to navigate through that and come up with a relevant result list. So what can we use from what we have done on the hotel side, I think once you succeed there and you have a good sense of the relevancy for hotels versus alternative accommodation, then we can use that and leverage our ranking from hotels because there we have very good data, conversion data, et cetera.

We know what people with certain search behavior typically are looking for. So once you have done that exercise, you can translate that into alternative accommodations as well. But I think there's more headroom and more work to be done on our side.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

In conjunction with the mix shift to alternative accommodations, we've also seen a greater affinity for local travel. You launched the weekend product. Talked to us about current adoption of that product. How do you expect it to impact growth going forward? And when should we expect to see it really impact that top line growth for you?

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes, sure. So we have seen certain iterations of our weekend product. So the first idea when we launched it almost 2 years ago, was to benefit from a shift towards local travel. And we built a more inspirational product showing you great deals for travel locally.

Then with our acquisition, weekend.com, we tried to integrate package deals as well for short term weekend getaways. And last year, added a lot of inspirational content and features to make that product also usable for you when you don't want to travel. Like you're in San Francisco, you're already here, you book the accommodation, but you still want to know what's going on, what can I do.

And the idea was there to increase the frequency of our product. Now what we have seen is that from where our brand equity is, that was maybe one step too far ahead. So people generally know us for looking for deals, doing the price comparison, being ready to book and not necessarily to get inspiration, et cetera. And that's why as of end of last year, we said, okay, let's take one interim step and focus more on the offerings that we got through the weekend.com acquisition and focus on inspirational deals.

So still, it's a use case for people that are flexible that don't know maybe where to go, but still want to look for this deal. And we are doing that now and focus on that for the next couple of months.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

I'd be remiss not to talk about a couple of your other new offerings as well. You launched a CPA product. Can you talk to us a little bit about the customer set for that product? Is it a new customer who hasn't necessarily used trivago before? Or is it the same customer, who is now just using trivago more frequently because they can iterate across multiple different options of the CPA product.

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes. So CPA cost per acquisition, that's a model we introduced at the start of pandemic. And that was really because we saw an increased volatility in our traffic quality. And in particular, for medium and small-sized advertisers, it was very difficult to deal with our CPC auction, cost per click.

So by offering the CPA, we took out that volatility for them and we, as a platform, can manage that better. And I think that was very well received. So we saw great adoption in 2020. And then also last year, the number of partners that actively engaged with that product tripled. And feedback overall is very positive.

I believe it's also one factor why we have seen a significant improvement in our auction dynamics because we have those partners to bit efficiently. And the end result is that there's higher elasticity in the auctions, meaning when you bid up, you get more traffic, when you bid down, you lose traffic. And that is important for our marketplace.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

That's very helpful. And I know a lot of the focus has been on these new products, but you're also very excited about the improvements you're making in the core product. Talk to us about the improvements in conversion, the improvements in quality in the core products that you're making. How far are you along that journey currently? And what other steps can you take to continue to improve that product going forward?

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes. So I think there are a couple of points there. So the first lever to increase conversion is better content. So we talked about alternative accommodation. That's an obvious one, where the more content you have, the more curated the content is and the better you display it, the higher the conversion.

I mean, we see that one-to-one. So that's again, an area of investment for us and a very, very simple example. Another one on better content is the map, for example. So there you can do things like adding point of interest and other features that make the map more usable. And by adding this content, we do see there is an increase in conversion as well.

So I think in the last year, we focused more on ground work on the back-end side. So we have done that. That's done. And now this year, the focus is more on developing these front-end features that can help to drive conversion.

Another one I would mention is our value communication. And it sounds simple, but again, if you take this hotel as an example, and let's assume we just had 2 advertisers, one is showing us a $300 offer and the other one, $329, then you would say, yes, you should only expose to $300, that's the lowest price, that's what you're expected to do as a Meta service.

And so why would you even bother. But then if you assume that the $329 comes with free breakfast and maybe also with free cancellation, then it's less clear. So which one is now the better offer? That is not easy to answer. And it can also be subjective. If I don't care about free breakfast then I only care about the lowest price.

And there's even one dimension further we look at, and that is once you do the click out on our site and go to the partner site, what's the user experience there, what's the customer service of that partner.

So those are all factors that we try to incorporate and reflect in how we display prices. And that's why not always the lowest price is in the prominent position. But I think where we need to get better and where I see the leverage for us is communicating that more clearly to other users so that they understand why we are showing one price more prominently than the other, although it's not the lowest. So that's the second.

And then the third one we're working on is building features for different use cases. So in the past, we mainly focused on optimizing the product experience for an average user. But there are certain use cases that are specific and for those you need different features. For example, family travel, if you travel with a party of 4, you need different features and different information to make your decision compared to, let's say, a business traveler, who travels by herself and for business purposes.

So that's another area of investment for us. So I think if you take those 3 levers together, there's quite some things we believe we can do to improve the product experience and ultimately drive conversion up.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

You talked about the improvements you can make there. We talked a little bit about the new products as well. How should we think about the level of tech and content investment that you need to spend in order to achieve these improvements in the products? How should we think about the growth in that bucket going forward and throughout '22 into '23?

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes. So it's certainly an area of investment for us. And tech and content is 2 things. I mean, the majority of that bucket is a salary-related compensation. And there, we have seen that the market is hot right now for tech talent in Europe and elsewhere.

So wages have gone up. So you see some inflationary pressure. And we want to invest in that because we believe it's important and we believe it's a lever for us. I mean, in the broader context, what we said is when we restructured our business in 2020, so at the beginning of the pandemic, we reduced our costs quite a bit through headcount reduction but also because we simplified our setup.

So we closed most of our remote locations, we reduced our office space in Dusseldorf. All leading to a significant cost reduction. So now when you look at this year, we said that compared to last year, we expect our operating expenses to slightly increase again.

And that is because, A, there are certain factors that scale with the revenue and we do expect higher revenue this year than last year, like digital sales taxes or cloud-related costs. And then certain items that were lower during the pandemic, but expected to come back this year like team events, like campus related costs and also some corporate travel.

And then on the tech side, as I mentioned, wages are going up, so that's reflected in there as well. But even if you take this all together, our costs will still be significantly below pre-pandemic levels. And most of the savings, we believe, will be permanent for us.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

I want to dig into that guidance a little bit. You talked about costing above 2021 levels, but below 2020 levels. Is there a certain level of top line that you have in mind that gets you to that point? And is there a world where if the travel recovery happens, much faster and to a greater degree than we all expect, we could actually see those OpEx buckets exceed, say, 2020 levels? Or is that -- you're fairly confident that it's below 2020 levels?

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes. So if the market recovers faster than we expect and our revenue recovers faster than we expect, except for those buckets I mentioned that are directly related to revenue, like cloud costs, et cetera, I don't think that should have an impact on our operating expenses, excluding advertising spend.

That is obviously different. So if we do see that, then we want to invest into that and want to scale up our marketing investments to gain market share. But that is not related to the OpEx side. So I think there, at the moment, we see the market recovering, we believe we will drive leverage from our fixed costs.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

I want to touch on the advertising spend for a moment. How should we think about the trajectory of return on advertising spend. You talked about on the earnings calls, you don't have necessarily the buildup in brand marketing spend that you maybe would have had in a normal period over the last couple of years because we've been in this situation with COVID.

How should we think about the trajectory of return on marketing spend? When does that get back to 2019 levels? Or how should we expect that to trend over time?

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes. So in general, there is a certain seasonality in our return on advertising spend. And that is obviously how we deploy our marketing budget. And what we did prepandemic usually is invest into the peak summer season in Europe and North America.

And that's why historically, you have seen that in the second quarter, ROAS was lower than in the first. And then as we continue to spend and invest into the higher demand, in Q3 it was similar.

Before then in the fourth quarter, our ROAS goes up normally because we approach low season. So there's less demand, we spent less. And in particular brand marketing becomes more expensive ahead of the Christmas season.

And that is very, very similar to how I envision it now for this year as well. So we should see a similar seasonality for Europe and Americas. As we said before, we believe that or we want to invest into the recovery and we plan with a higher brand marketing budgets than last year.

For rest of world, it's slightly different. I mean, there you see right now very high ROAS numbers. But then again, it's because of the recovery or lack of recovery, I should say. And we don't invest much there. But even a normal year where we increase our ad spend, there's less of a seasonality given the mix of that segment as we have more countries in different parts of the world and there's less of a seasonality than for Europe and Americas.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

We've heard from your travel peers in recent weeks throughout earnings about their willingness to invest into the recovery. With that backdrop in mind, how does it impact the way you think about your spend to the recovery as well?

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes. So I don't think it has a direct impact on what we do. It doesn't change our marketing plan, for example. It doesn't change anything we do on the product side. It's true though, we have seen that. And I mean, I mentioned the improvement in our auction dynamics.

I think that is partly driven by that as well. We see that large OTAs are very engaged and bidding in our auction, which is good. But it's also volatile. It's something we cannot directly control. So that's why we focus more on that all advertisers can participate and bid efficiently in the auction. And we mentioned CPA, so that's one thing.

And then obviously, it's positive for us. But yes, again, it's nothing we can control and it doesn't change how we look at our own marketing.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

That makes sense. We touched a little bit on the expenses there. I want to talk about margins. You talked about long-term margin guidance on past earnings calls. When we think about the leverage needed to get to that point, what are the key buckets that you see as being the main source of that leverage?

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes. So a couple. So first, as we discussed cost is important. So again, as I said, we believe we can ramp up our revenue here and participate in a recovery without scaling our fixed cost at the same level.

So there is some leverage coming from our overhead. And then marketing efficiency as well. We got quite a few valuable data points over the last 2 years, in particular on the brand side. And we also saw efficiency gains in performance channels. So at the moment, I think we should keep those as we ramp up.

Obviously, in particular in performance channels, that could change, dynamics could change. And on the brand side, what will be interesting for us is now that we scale up how much of those efficiency gains we can keep in the ramp-up phase.

But that's the second key element. And then the third one is the conversion piece we talked about. I mean, obviously, if we are able to improve our conversion, that has a direct positive impact on our revenue per qualified referral and that impacts the top line and bottom line. So overall, I think those are the 3 key levers that will help us to improve our margins over time.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

That's helpful context. How should we think about that mix of brand and performance going forward? Is brand something you're going to lean into early to reestablish the brand and then ultimately scale performance longer term. How should we think about that mix of spend?

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes. So I think, first of all, it's important to understand, we don't have a target. I often get the question, what's your mix? And is it 50-50? Should that be steady or not? We have seen it, it was quite volatile over the past 2 years.

And we look at the channels separately. So on the performance side, we have clearly defined ROI targets. We focus on the segment that we believe is highly relevant for Meta to be less in direct competition with others and our partners in particular.

And then on the brand side, obviously, we look for long-term positive returns. And there we have seen now during the recovery that there are different phases where different things make sense. So what I mean by that is when a market starts to recover, going full in with TV might not be the best idea because it's a mass medium and you don't have the same efficiency you have when the market is fully recovered.

So that's why we added more targeted branded channel into the mix, like online video, connected TV. And then as we see progress, add TV to that mix. And that's different to what we have done pre-pandemic. So we got some nice learnings. What that means long term then? Difficult to say.

I would say at this point, it's still different by market. what we do, and that's why the mix is also very different by market and can change, changes with seasonality as well. And again, we don't have a target. It's in the end, an outcome and we look at the ROI levels that we can achieve and make sure that we are happy with that.

And then in the end, the mix will be an outcome. But obviously, once we are getting more to a steady state, I think also the mix will be more steady like we had seen prepandemic. But yes, too early to tell what exactly that mix will be then.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

Unfortunately, we're running low on time. So I want to give you the stage with the last question. What do you think are 1 or 2 of the key things that investors just aren't fully appreciating about the trivago story? 1 or 2 things maybe that they're not necessarily focused on that you think they should be focused on? Any insight there would be appreciated.

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Yes. So I think in general, our recovery trajectory is not well understood. And what I mean by that is I get the question sometimes if the market recovers to 2019 levels, why would trivago not be at 2019 levels? Or why can't you spend the same brand marketing amount at 2019 levels?

And there, what is important to understand is that in 2019, we benefited from high brand marketing spend in the prior years, like '17, '18 and '19 as well. We don't do that this year. So we are coming out of a period of reduced brand marketing spend for the last 2 years.

And we want to ramp that up. We want to rebuild our brand baseline, but it will take time. And even if the market recovers to 2019 levels, we wouldn't go back in one go to 2019 brand marketing spend levels because we don't think that's healthy and we need to build that up over time.

And that has nothing to do with Meta is underperforming in the recovery or is losing share, but it's purely our decision how we trade growth with profitability and get this improvement on the brand marketing side.

Matt Bombassei - *Morgan Stanley, Research Division - Associate*

Perfect. Well, Matthias, thank you very much. We appreciate the time, as always. Everyone else, enjoy the rest of the conference.

Matthias Tillmann - *trivago N.V. - MD, CFO & Management Board member*

Thank you.
