

trivagoNV

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Unidentified Participant: I'm very happy to have with me this morning Axel Hefer, who's the Chief Financial Officer of Trivago. Axel, thanks for joining us.

I guess where I'd like to start is a couple high-level questions. First of all, I don't think everyone is familiar with the Trivago story, or fairly recent public company. So, if you can just start by giving us some background on the launch of Trivago, your positioning in the industry, and what's the consumer problem that you're trying to solve?

Axel Hefer:

Sure. So, Trivago was founded more than 10 years ago, and the -- and initially it was really about travel, online travel, okay? So, there has to be something online travel that's so inefficient offline, so there has to be a business out there. And so, what Peter and Malte tested around a lot of things, programs for this website themselves (ph), had reviews on there and flight and everything. And then, after I would say the two years, more than two years, they figured out what actually the real problem was that was worth solving, and that was hotels, accommodation (ph).

And why is that? I mean, there's obviously such a huge variety of options that you are having, and there is so much variety, in a way, of your own requirements, being as a business trip or a trip with your wife or with kids, or whatever. So, every trip in a way is different, which is very different to the other verticals, especially if you need a rental car. Okay, you need one that's slightly bigger or slightly smaller, but you know how many providers there are. Flights there, you tend to know what the options are or what the efficient options are, accommodation impossible (ph).

And so, we focused very early on on hotels and accommodation, and the problem that we are using is basically -- that we are solving is basically threefold. I mean, the first one is obviously where to stay, what is for this specific trip the right place to stay. And that, as I said, can vary significantly depending on the purpose and the company of the trip. The second one is availability, so once you've decided where you want to stay, okay, where is it actually still available. Is it still available, and which provider still has access to available rooms? And then, obviously, the third one that I guess is from user perspective, the -- one of the most compelling, but also the easiest to understand is obviously price, what is -- what are the options to book that hotel, and what are the different prices when then helping you to overall speed up your comparison process.

Unidentified Participant: So, can you help us understand the competitive positioning a little bit? There's been an, I'd say, increase in debate among the investment community and the positioning of meta search. You are a meta-search player. Your largest customers, however, are also at a level of competitors. There's a level of cooptation in this market that we don't see in many other Internet models. So, can you give us a sense of can this level of cooptation continue, and how would you compare Trivago's place in the purchase funnel with that of Google, because Google, it appears, continues to generate and capture a really significant

amount of top-of-the-funnel traffic. And so, how would you position Trivago and your meta search competitors with Google, and then, on the other hand, with your OTA customers who are also competing for that same level of top-of-the-funnel traffic?

Axel Hefer:

Yes. So, I would think that it is actually quite common, common structure on the Internet that you compete with your customers and your suppliers, and in various different levels. So, it's absolutely right. We are a customer of Google. We are a competitor of Google, Booking. Priceline is a customer of ours, is a competitor of ours. So, in a way, everybody's competing with everybody.

But, when you look at the industry structure, you basically have couple of different layers, and players play on various different parts of these layers. So, first layer is, from all (ph) perspective, the search layer. So, if you haven't decided already when you start your search process where you want to stay and where you want to book it, and as a consequence, go directly to that provider, you have to go through a search process. And so, there, the main players are Google, obviously, as a general interface and generalist search provider. And at specialist, it's (inaudible), so that's the first layer.

Then, you've got the second layer, which we call the booking layer, so where can you actually book the hotel or accommodation that you're looking for. That can be the hotel directly, hotel chain directly, but that is in many, many cases, is basically an OTA or an Airbnb or HomeAway, et cetera.

And then, you've got the property layer, where do you actually then ultimately stay and have your experience. And so, on that layer, when you look at that over the last 10 years, we think that we gained approximately 10% market share on the search layer, yes? So, when you look at the commodity base (ph), it's difficult to get, obviously, in that market, but what we look at it as is our share of the performance marketing expenditure of Priceline group, which is pretty pure play accommodation of 100% pure play, but pretty pure play, and so that to us is a good proxy of the market share in that layer, which is around 10%.

So, what we've done from a high level, and you look at it from a high level in the last 10 years is we gained this 10% market share by convincing users that the search process throughout is better than going through the more generalist search process. And when you look at our advertisement, that is exactly what it is targeting ads to explain, the value proposition of Trivago and why it is actually better to go through that process rather than a general process.

So, I would say that the struggle is not new. It has been there from the beginning, and let's be honest. I mean, how can you continue to compete with very professional and very large companies? You need to have a better product, and you need to communicate the value proposition and the (inaudible) to users, and by doing that, you can actually compete.

Unidentified Participant:

And you're really competing based on the quality of the traffic that you can deliver downstream and the conversion characteristics of that traffic. Earlier this year before one of your customer pullbacks and a bit of disruption, you had talked about changes that you were making in your marketing approach, tactical changes designed to increase the quality, the conversion characteristics of the traffic you were sending downstream. Wondering if you could talk a little bit about what those changes were. Was it a change to your search marketing, performance marketing strategy? Was it a change to your brand advertising, which I'm guessing everyone in the room is aware of your brand

advertising. It's been so consistent, particularly in the U.S. over the last couple years. What kind of changes did you implement? And can you just provide a bit more color on how you can -- or what kind of results you saw in terms of trying to get better converting traffic?

Axel Hefer: So, it is -- the changes that we've implemented are all focused on forwards marketing. And I guess in performance marketing, we are in a very nice position that we can pay one of our key competitors and take their users and how them our product, which is something quite interesting.

And there, the ultimate question for us is obviously how do we optimize our spend there, and which campaigns do we want to be more aggressive and which campaigns do we want to be less aggressive. And the objectives that we can optimize for are either direct revenue, so how much revenue are we actually making? Well, it's basically the value-add that we're having and that wasn't (ph) expressed, or we can go for the ultimate value creation, that through the marketplace dynamics is then leading to revenue as well, which is then the booking.

And so, the change that we've implemented for part of our performance marketing activities already is that we change our interim retribution (ph) model, or an upgrade of it, so that we can optimize for the ultimate booking, which means that we don't - we eliminate inefficiencies where we were bidding for traffic that had a high likelihood of click, generating clicks, but a low likelihood of generating a booking, which is ultimately, when you think about from our business model perspective, yes, we make some money, but we basically charge our customers for something that is not worth anything for them in the extreme case. And that's obviously an inefficiency, because that is then having (ph) an impact on the overall bidding. And with the changes that we are implementing, we can optimize for the ultimate booking and reduce this click-generating traffic that doesn't really convert.

Unidentified Participant: When you think about the competitive landscape, it looks like the level of competitive spending on brand marketing is increasing. Priceline has come out and announced that they're going to be reinvesting more in brand marketing. Expedia has talked more about leaning into brand marketing behind HomeAway. Your meta competitor, TripAdvisor, has increased their spending levels behind brand marketing. Do you see this as presenting any sort of challenge? I mean, you guys have been very aggressive television spenders. Is the level of rising competition in that medium concern you at all, or is it -- do you think it could lean to any sort of strategic changes on your part?

Axel Hefer: From our perspective, I mean, it was clear that the TV is not unique to our (inaudible). Even in the last couple of years, you always had some players being on and off. So, whether now the overall spending will be -- of all players together will be higher or lower, that will -- to be seen. But, the more -- just conceptually, the more players that are active at the same time on TV, the more you need to be clear who you are targeting and what exactly your message is, yes? So, if everybody is out there with, okay, wouldn't it be great if you would go online, then obviously it gets blurry as you're not efficient in your -- and not effective in your marketing.

I think that our value proposition is very different than the value proposition of the other players that you mentioned. And as a consequence, the target user group is slightly different. Obviously there is an overlap, but people that want to be sure that they don't miss out either on a great opportunity in terms of a small boutique hotel that they might not be able to find on individual OTA side, or they want to make sure that they don't

overpay, would always be more likely to be our users than of any of the other players, whereas if you have somebody who is a business traveler, doesn't really care so much whether you see them paying a bit more or less but everything is super-convenient, and he just need to have a good, decent offer, it's more likely to lean towards one of the large OTA brands.

So, you need to be very clear in your communication what exactly you are doing and why -- or to whom exactly that is really a good value proposition. And in developing or even maturing markets, I think that is something that is very natural. When you think about the mature industry, if you've got different positioning, for example, in the car industry, you've got very different positioning of the different brand. Everybody does advertisement, but still it is effective because you are going with a different shaded message after your target segment.

Unidentified Participant: So, today, we all know that you have a relatively high concentration of your revenue coming from the two large OTA players. However, you do have a product offering for property managers, as well. Could you talk a little bit about where you stand in building relationships with the suppliers directly, and what kind of opportunity you see in the near-term or over time? Certainly a key discussion point for investors around the OTA space has been a growing level of interest, or at least proclaimed interest in driving direct traffic from the hotel chains. How do you view that level of activity, and how should we think about the opportunity that you're providing for property managers specifically?

Axel Hefer: Yes. I mean, there, you need to look at two different groups, and one is the large hotel chains. They've got large teams, big budgets, one-to-one technology platform, and then you've got small, independent hotels. And the challenge is very different. On the hotel chains, we have pretty much everybody connected to the platform. Of course, there are some that are not live, but the access is not really the problem. There it is more how competitive are the hotel chains actually in the option (ph). And the number that you are mentioning shows that their share is not that big, so anyway, they are not as competitive as the 100% online pure play-focused OTAs. That's their core business, whereas for the hotel giants have a huge business, and then it's some part of their business where they aim to catch up, in a way, as they are not online businesses yet.

So, there it is more how can you help your customers to become more competitive, and, as a consequence, gain higher share, because what is very clear is that, everything else being equal, users want to book direct. And if there is any problem, you can call the hotel up directly. You don't go through an intermediary. So, there is a natural advantage which doesn't really fully come out yet because there are disadvantages by catching up on the technology platforms, bidding, sophistication, et cetera, et cetera.

On the individual hotels, it's very different. I mean, there, you've got a lot of hotels that are not really online directly themselves, but go through one OTA that have a website that's not really optimized there -- where the focus is not really on online yet, because the online penetration overall is going up, obviously, but is not at a level that is for all the individual hotels really relevant. And so, there it is -- it's a much more time-consuming process to educate the owners of the individual hotels to connect to the Internet, to upgrade their booking technology, and then to ultimately not just go with one OTA, but with multiple, and to go direct, as well. So, that is something that I don't think you can expect to have any significant impacts in the short-term. That is really a process that will take years and years and years.

Unidentified Participant: So, when we think about the revenue profile of Trivago, or the revenue source profile of Trivago three years out, would you expect it to be largely similar to today, significantly sourced from the OTAs, or are there other opportunities to diversify their revenue base?

Axel Hefer: So, I think the way to diversify is -- it really depends on, A, what product mix you are offering, and then how the competitive landscape in these different products is evolving. And so, obviously, there is an opportunity for the large hotel chains to increase their share. When they will do that, it's difficult to say, but there is an opportunity. We believe there is a very big opportunity by integrating non-hotel accommodation, and so we started a big test with HomeAway some time ago. So, there is definitely big opportunity. That inventory is obviously partially coming from the same groups, partially from other providers, which gives an opportunity to further diversify. And then, ultimately, it's the question on the global concentration of large OTAs, is that increasing, going forward, or is that decreasing because new evolving players will become more competitive and gain market share globally.

So, it's a bit difficult to say, but I would say, looking at the various different trends, there is definitely potential for further diversification. Going forward, it's out of our control to some extent. There are some things that we can control ourselves, but there -- a lot is driven by the relative competitiveness of the large players.

Unidentified Participant: You mentioned HomeAway, and we I think agree with many investors, and look at the vacation rental market more broadly, the alternative accommodation market and believe that the level of efficiency around property discovery there is far behind the hotels, right, so that this is an earlier-stage opportunity with longer runway. When you think about the changes that you might need to make to Trivago's platform to more fully realize the vacation rental opportunity, are they significant, are they not significant? Is it just a matter of training consumers that Trivago is not just hotels, but it's alternative accommodations, as well? Can you just spend a little more time talking about the vacation rental and all the accommodations, and then maybe any discussions you've had with Airbnb?

Axel Hefer: Yes. So, from a technology perspective, it is not that different. It is just more difficult, yes? So, when you think about a small bed-and-breakfast on a Greek island with three bedrooms, that is very rarely booked. The descriptions, pictures, parameters that are not terrific, that is not that different, from a search perspective and from a content perspective, to an apartment in a huge resort that is professionally managed, et cetera. It might be booked all the time, and (inaudible) might be much better.

So, in a way, the alternative accommodation is obviously on the long tail, and there's an overlap in terms of data quality and booking frequency of the long tail of the hotel side. And then, if you look at a private apartment that you rent out once a year, obviously that's an (inaudible) the extreme, yes? So, it is very much they have the same challenges conceptually that you have with long tail hotel offerings.

Having said that, that is obviously something where technology needs to develop further, so how do you make private accommodation searchable? What is actually the experience going to be? Because the challenge is that, for hotels, you have got all these parameters, so you can say very clearly, okay, this is a hotel that might be good for whatever, a romantic weekend, or this might be good for a business trip. The less data you have, the less parameters are set, the more difficult that actually is, and it doesn't make sense to show 40,000 apartments in New York. I mean, that's not a search. I mean, that's then a

data dump, yes? So, you need to find out and filter out the five apartments, the 10 apartments, the 25 apartments that, based on the parameters that you've set for that specific trip, might be relevant for you, and that you might consider as an alternative to a hotel.

And so, I would say it is the same technology, but it has high requirements, so -- and that's why we took the approach to first test with approximately 100,000 properties on the site. After we were satisfied with the results, we then rolled it out with HomeAway, and there we obviously can scale a lot further in their inventory, but continue to test what impact does it actually have on our marketing strategies, this change in inventory mix, what impact does it have on the market-based dynamics, what impact does it have on the product, on the search, as such, on the content generation. And then, when we are satisfied with that, then we would ultimately roll it out to everybody.

But, it's not that we are actively reaching out to everybody. We've got a very clear plan because, in a way, it doesn't really help you if you have now three million more properties on the site and the technology doesn't make it searchable and a good quality. I mean, then it is just noise, and makes the overall product there weaker than better.

From a user perspective, we think it has to be in one product, because when you talk to colleagues, friends, et cetera, and it becomes more and more exchangeable, particularly when you travel with families, obviously, okay, do you stay in a hotel, or do you stay in an apartment? On the same trip, you might do one in one city, one in the other. So, in a way, when we are not decided before you start the search, it has to be in one product, because you might trade off with different alternatives. Okay, yes, this is actually a family suite in a nice hotel. This is actually a pretty good price, so I think I would go for that, or oh, this is outrageous. I'd rather go for an apartment.

So, it is really -- it's a very similar decision process then between different hotels, and so we think it has to be all in one product. And that's -- when you look at the way we are integrating it, it is just part of the overall search.

Unidentified Participant: Wanted to take a moment. Any questions out there? Okay, great. I'm going to keep going. Can you help us think a little bit about -- over the next year, top three priorities for Trivago?

Axel Hefer: Top three priorities for next year? I think the obvious priority is that, with all the noise that we had in the marketplace and the noise that have created in our financials, we need to be very focused on -- I think it is always the same, yes? It's really to make sure that our product is improving and continues to be a better product than our competitor's product, and that we find better and better ways to communicate that value proposition very efficiently, again, as a continuous innovation. Are we still using the right spot? Can we optimize it further? What are better ways, new technologies, to convey the same message? And then, as a result of that, really show what the fundamental growth of the business is, which currently is very difficult to see from the outside and will be difficult, at least in the first half of next year, to see. And so, we are very focused on Q3 next year, and making sure that we work on the right things to show to the outside what the fundamental growth of the business is, even today.

Unidentified Participant: Axel, thanks so much for joining us. Appreciate your time.

Axel Hefer: Thank you very much.