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TRVG.OQ - Q4 2019 Trivago NV Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by and welcome to trivago's Fourth Quarter Earnings Conference Call 2019. (Operator Instructions) I must advise you the call is being recorded today, Wednesday, the 12th of 2020.

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.

The following discussion, including responses to your questions, reflects management's views as of today, 12th of February 2020 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 fourth quarter operating and financial review and the company's other filings with SEC for information about factors which could cause trivago's actual results to differ materially from these forward-looking statements. You will find reconciliation of non-GAAP measures to the most comparable GAAP measures discussed today in trivago's operating and financial review, which is posted on the company's IR website at ir.trivago.com. You are encouraged to periodically visit trivago's Investor Relations site for important content. Finally, unless otherwise stated, all comparisons on this call will be against results for the comparable period of 2018.

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

Axel Hefer - *trivago N.V. - CEO & Member of Management Board*

Welcome to our Q4 earnings call.

As you might have noticed, we have changed the form of our release and sent out the shareholder letter yesterday covering the key developments of the business and the market. Therefore, we are going straight to our Q&A. Operator, we are ready to take the first question.



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QUESTIONS AND ANSWERS

Operator

The first question comes from the line of Naved Khan.

Naved Ahmad Khan - *SunTrust Robinson Humphrey, Inc., Research Division - Analyst*

Yes, maybe a couple of questions. So I think in your prepared remarks, Axel, you talked about running large-scale tests in the first half. Can you maybe give some color on what kind of tests these might be? What kind of geos would they cover? And then I have some follow-ups.

Matthias Tillmann - *trivago N.V. - CFO*

Sure. Hi, Naved. So thanks a lot for the question. I mean, I hope you can understand that we cannot give more details here beyond what we have disclosed already. But what I would say is this. We are currently running larger incrementality tests in certain performance marketing channels. And the aim of that is to help us to really understand better where we are spending efficiently and at the level that is right for us and sustainable in the long run. But at this point, we cannot give more details than what we have disclosed already.

Naved Ahmad Khan - *SunTrust Robinson Humphrey, Inc., Research Division - Analyst*

Got it. And then maybe a few clarifications. So on the coronavirus, obviously it seems like the situation is pretty fluid. But maybe can you share some color on like maybe last few weeks, what you might have seen in like volumes may be dropping off? What is it that you're seeing the most? And then maybe just as it regards your exposure to Asia, what markets are you most exposed to?

And on the guide, maybe. So on the first half, you said you expect positive EBITDA. Should we expect EBITDA to grow year-on-year? Or is that not necessarily the case?

Matthias Tillmann - *trivago N.V. - CFO*

Yes. So, on your first question. I mean, as you know, generally speaking, it is very hard for us to quantify what the exact impact of the coronavirus is. We do see a drop in revenue specifically in Asian Pacific countries. So that's the region that is most affected. But again, it is very hard for us or anyone also to forecast how this will develop. And we looked back what other data points are out there and obviously SARS is one, but it can play out very differently and we have not been around as a company back then. So, at this point, it's too early to say what the impact will be. But as I said, we do see softer business in those markets and revenues are down, but how big the actual impact is, is a bit hard to tell.

On your second question on guidance. So yes, we said that first half will be positive. If you look at first half 2019, we had an EBITDA of around EUR 40 million. So saying it's positive means clearly that it's down year-over-year. But as we also said, our ambition is still for the full year to increase slightly our EBITDA. So that's our focus. But first half will be down year-over-year, but positive.

Operator

The next question comes from the line of Brian Fitzgerald.

Brian Nicholas Fitzgerald - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

In the letter, you mentioned leveraging some of the learnings from your brand campaigns in the Americas. What do you see working there? Is it some of the recent Mr. trivago creative? Anything else you can call out?

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And with the shift in brand messaging towards this value prop of price comparison, how has that been resonating through? And what are you seeing in terms of impact to traffic and conversion?

Matthias Tillmann - *trivago N.V. - CFO*

Yes. Thanks, Brian. So in Americas, we really started to focus more on our key value proposition early last year, so in Q2. That's when we tested a slightly more focused message, and then we rolled that out over our peak season in Q3. And there, we have seen very positive results. So, if you watch those commercials, they are still with the Mr. trivago, so in the same concept. But I would say that the key difference is that we are just more focusing and trying to basically show what's our key value proposition, so how we compare. As we've said before, given the success, we are planning to adopt those also for other regions, and we have actually started early this year. So similar spots are running right now in Europe and in rest of the world. However, at this point, it's a bit too early to tell if they are equally successful. But the plan is really to get the insights and data now to be ready for the peak season in Q3.

Brian Nicholas Fitzgerald - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Great. And then I had one other one that was on the ad mix in terms of the market dynamics and ad spend and related party revenue mix on the slide in the deck. And by the way, thank you for providing us beforehand. Did booking step on the gas? Did Expedia pull back? Or did everyone pull back and Expedia pulled back more? Any color you can give us on just how that as a bucket is trending.

Axel Hefer - *trivago N.V. - CEO & Member of Management Board*

Yes, sure. So indeed, the mix has changed. So Expedia has reduced the overall relevance for our business and booking has gone up. But we, I mean as in the past, don't comment and cannot really comment on individual advertisers and their behavior in the marketplace. But the overall result on our revenue mix is exactly what you're describing.

Operator

The next question comes from the line of James Lee.

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

Just want to update, a follow-up on the question regarding Booking.com and OTA spending and maybe in the context where you talk about potentially double-digit revenue decline in EU in the first half of '20. Because last quarter, you guys mentioned that you reversed the landing page assessment and you also did some testing that seemed promising. Maybe help us reconcile your statement on EU versus some of the positive developments that you've seen with OTA advertisers?

And also, my second question is regarding a statement that you made in the shareholder letter where you talked about significant changes with your approach with advertisers that include recalibration of marketing mix, changes in marketplace and introducing alternative revenue stream. Can you elaborate those 3 elements, please?

Axel Hefer - *trivago N.V. - CEO & Member of Management Board*

Okay. Thank you for the question. I think question one and two are related. So just to clarify the comment in the letter, so we are conducting a very significant test in the first half of the year that is aiming to optimize and recalibrate our performance marketing spend. And the expected impact of that on rest of the world, just of that optimization alone, may be double digit. So that's how the two questions, I think, are related. So that is just

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the impact of the testing in addition to the underlying business performance. The results of the test, obviously, are very difficult to forecast. But the aim of these tests is to calibrate the spend to an optimal level.

So, coming to your third question, alternative revenue streams. So, we are running various tests to test whether other revenue streams than our traditional CPC-based revenue are accretive to the overall business. And as with any test, it's difficult, obviously, to share too much insight because they are tests as they have still uncertainty. One that I can share is that one of the revenue streams that we are looking into is sponsored listings. So we are, as of today, as far as I know, one of the very, very few remaining players in the industry who does not offer the opportunity to really sponsor a listing and significantly boost a listing. And there is significant demand for that product coming from our advertisers. It's a very frequent request. And we started to build infrastructure to really test this concept a couple of months ago and are testing it as of today as we speak. So that is a potentially promising alternative revenue stream, but there are also others that we look into.

But even with the sponsored list, just to be very clear, if we are not satisfied with the test results, we will not proceed. So we continue to stay very focused on our test-and-learn approach. We are testing various things in parallel and will adapt and fine-tune our strategic direction, as I said in the letter, as we see the results.

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

Okay. And just to clarify your statement about declining on the EU. So that headwind, specifically to the large-scale testing you have on performance advertising, as far as the testing that you did with some of the OTA advertiser, including Booking.com, that continued to be positive. Is that fair to say?

Axel Hefer - trivago N.V. - CEO & Member of Management Board

What I said is that the double digit, potentially double-digit impact is just the impact of the test. So we did not comment specifically on the underlying business performance. There is a headwind overall through the coronavirus, clearly. I mean much, much stronger than in Asia Pacific than in other markets, but you do see it, to a certain extent, in other markets as well.

And there is some general softness in Europe and rest of the world overall. But yes, I mean those are basically the 3 ingredients that you need to put together to come up with an estimate of the trajectory in the region.

Operator

The next question comes from the line of Shyam Patil.

Ryan Michael Lister - Susquehanna Financial Group, LLLP, Research Division - Associate

It's Ryan on for Shyam. Just wanted to ask about your alternative accommodation strategy in 2020, kind of how material that can be to the business?

And then, secondly, you talked about Google a little bit in the letter. How do you view the role of meta going forward given Google's recent initiatives?

Axel Hefer - trivago N.V. - CEO & Member of Management Board

In the alternative accommodation, the focus of last year has really been to increase the overall availability and also to build relationships with all the key players in the market, whereas this year, the focus is on really improving the product. So what you can expect to see is more and more product features that are specifically designed for alternative accommodation and a better integration of all the alternative accommodation into our standard flow. So there, we've got a nice pipeline of things that we are working on.



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In terms of financial impact, I don't think it's fair to say that this will have a huge impact on this year. I mean this is more a strategic direction of ours where we do believe that the increasing hybrid user behavior and the increasingly hybrid inventories that are out there will lead to a significant growth of demand for a product that is comparing across different accommodation types. But these kinds of things don't happen from one day to the other. Those are more trends that evolve over years. We do believe that we are currently leading in terms of offering a tool in that direction, and we want to continue to lead that development. So it is more a strategic direction that we do think will be a big differentiator in the future.

Axel Hefer - *trivago N.V. - CEO & Member of Management Board*

Your second question on Google. Yes, in terms of product changes, product development, there are obviously continuous changes in the product. But we don't see a significant change there. We see the dynamic pretty much stable. What is the future of meta? We continue to believe that there is a pretty significant user segment that is requiring a meta product because they are not decided and their travel frequency is moderate. And we do think that by offering a focused and specialized product, we have an edge over a generalist. On the other hand, it's also fair to say that by competing with a player that has a very, very large share of users starting every single journey on the platform, that is a key advantage. So it will be a tough competition going forward, but we do believe by specializing and developing a tailored product, just specifically for accommodation search, we will continue to have an edge from a user value perspective.

Operator

The next question comes from the line of Doug Anmuth.

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

This is Dae on for Doug. I have two. The first one is around privacy focus, regulatory and platform changes that limit targetability, has been a focus lately. I'm just curious to hear if you're seeing any changes in your ability to target users in your marketing channels.

And then, secondly, you talked about large-scale testing, affecting Developed Europe revenue and coronavirus in Rest of World. Just wondering what you're seeing in terms of or what you're expecting from Americas since that region doesn't seem to have the kind of issues that you have in Developed Europe and Rest of World.

Matthias Tillmann - *trivago N.V. - CFO*

Yes. Thanks, Dae. So on your first question, I guess you're referring to the litigation in Australia. I mean there, the court provided new guidance on how a result of comparison sites like trivago and others should be displayed in Australia. We've been working to understand the implications of this decision on our website design and its overall impact on the Australian travel industry and the way websites are to be designed in Australia.

I mean, obviously, we plan to keep operating in Australian website, and we will take steps to comply with the requirements communicated in the decision. How it relates to other jurisdictions, I mean there the only thing I would say is parts of the court's opinion included views that differed significantly from those of other national regulators that we have worked with. But that being said, we expect to continue to see an increasing regulatory scrutiny on the consumer-facing business practices of providers of online travel search and booking services.

Your second question was on the large-scale test in Europe. You want to know if we plan anything similar in other regions as well? Or what was your question? Can you please repeat?

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

Yes. Just around what you're expecting from Americas in the first half, given you're not planning a large-scale test there. Or Wuhan coronavirus impact should be somewhat limited in that region. Do you expect growth there?



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Matthias Tillmann - *trivago N.V. - CFO*

Okay. Yes. Thanks. No. That is correct. So if you look at the 2 big impacts for Q1 and potentially beyond, the large-scale test is so far limited to Developed Europe. So there, we do not plan to do that any time soon in Americas or other regions. Coronavirus mostly affects countries in rest of the world. So there, we see a very, very limited impact on Americas. If you look at Q3 and Q4 of last year, you already saw that Americas was outperforming, and that is a trend that continues so far in 2020. And then, obviously, the 2 impacts support that direction.

Operator

The next question comes from the line of Lloyd Walmsley.

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

Two, if I can. First, just going back to thinking about monetizing sponsored listings. How do you guys feel about EXIT Media? Is that something you're investigating as well? And what are the key things you're looking to determine as to whether to make these tests permanent?

And then, secondly. I guess at the time of the IPO, you always showed the cheapest booking option at the top under each hotel, and it was the hotel sort order that was determined by pricing. So I guess that changed. When did that change? And kind of what are the key drivers of the algorithm for hotel sort at this point?

Axel Hefer - *trivago N.V. - CEO & Member of Management Board*

Okay. Thanks, Lloyd. On sponsored listings and other alternative revenue streams. I mean if you look at the history of trivago and also the product as it stands today, it is extremely lean, extremely clean. And that is what our users appreciate. For any other revenue stream, the challenge is to increase the revenue per user at the same time, not impacting the value proposition and the look and feel of the product. So the smoother and the more seamless an alternative revenue stream can be integrated into the existing product and the less intrusive it is, the more likely it is to be permanent. And that is one of the key trade-offs that we are looking at for any of these revenue streams.

Having said that, that's why I actually picked out sponsored listings, that is probably of all the different options that we are thinking about one that is most natural if you look at competitors' products and is very, very nonintrusive to the overall user experience and even positive in a lot of cases. So that's the key trade-off. I mean any more detail is very difficult to give, but that's the basic idea that we are testing and where we are balancing the different data points against each other.

On the algorithm, I mean I cannot share with you exact details when exactly we are changing what because it's obviously very sensitive and also competitive from a competitive perspective topic. But we have continuously changed our algorithms, so it's really evolving. And we tend to test obviously all changes that we are doing. We do think that the more recent design changes that we have rolled out are really industry-leading in terms of transparency and also promoting the core value proposition of ours, which is comparison, and that the design is better than what we have used in the more recent past.

Operator

The next question comes from the line of Brian Nowak.



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Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

I have two. Just the first one, it's a little bit going back to Lloyd's question of sort of the IPO versus where we are now. I guess, actually, I'd be curious to kind of hear your perspective as you look back over the last few years on user growth. Talk to us about sort of some of the biggest learnings you have on what has worked well in driving users and where you still face challenges in bringing more users to the platform. And as you look over the course of the next year or 2, what do you think is the key to really driving faster, sustained user growth over the next couple of years?

And then the second one, just to kind of get a little more into the 2020 guide, so we can understand the puts and takes. Talk to us about sort of the expected total spend on marketing and advertising internally. Is that directionally going to be up, down, stable? So how are you thinking about marketing investment through the 2020 year?

Axel Hefer - *trivago N.V. - CEO & Member of Management Board*

Yes. Sure. So what has worked well in attracting users and what hasn't? That's a very interesting question. I think if we just don't go back to the IPO, but even a bit further, I mean the core differentiator that we've had in the market was always our TV advertisement. And by going very, very early very aggressively in the TV advertising, I think we had a unique opportunity to build a brand even as a relatively speaking small player with a unique positioning. And I continue to believe that, that is really absolute core of our marketing communication.

When you then look at the times of really rapid growth, we saw a big opportunity and also significantly invested into performance marketing. And since the IPO, I mean we've talked about this many times. We have seen this mix of traffic mix of roughly 50-50 as optimal. And to be perfectly honest there, I mean one of the reasons why we are now conducting these tests is that we are not sure that in the current market environment, this mix is still the right mix. And we want to challenge our view there and see whether it is actually better to change that mix going forward. And if we wouldn't have a hypothesis there, obviously, we wouldn't do a large-scale test. So we do think there is a good chance that the 50-50 is not the right approach for the future. But again, as on a lot of the other points that we've discussed, we are very test-and-learn-driven, so we will only do things where we see positive results from our test. So it is too early to be very, very certain about the direction, but we have a clear hypothesis there.

Matthias Tillmann - *trivago N.V. - CFO*

Yes. And then on your second question on guidance. So, we've decided to not give specific guidance at this point. And the reason being that it is quite volatile right now, and we are running certain tests that make it very difficult also for us because the results will depend on the outcome of those tests. Specifically to ad spend, the large-scale tests we are running in Europe has an impact obviously on the level of our ad spend, and it's too early to tell what the right level will be but depending on the outcome, it could change.

Then in addition to that, with the situation in Asia right now with the coronavirus, I mean obviously, there you see a drop in business volume. So we started to adjust our spend levels. And depending on how this develops, we could ramp up quickly again or spend limited advertising dollars in that region. So that's also a bit hard to tell. I mean what I can say is that revenue will be down, and we believe that RPQR, revenue per qualified referral, will be broadly flat, including a positive mix shift towards higher-RPQR countries.

And then, as we mentioned in the shareholder letter and discussed earlier, we expect EBITDA to be positive in the first half and our ambition is there to increase the full year EBITDA year-over-year.

Operator

The next question comes from the line of Tom White.



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Thomas Cauthorn White - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

I apologize if I missed this, but could you guys comment on any impact from the bid modifiers that you rolled out in the back half of last year to either the quarter or how their impact may be contemplated in the outlook? And also curious if the outlook presumes that you guys will roll out any additional meaningful bid modifiers for advertisers?

Axel Hefer - *trivago N.V. - CEO & Member of Management Board*

Absolutely. So -- on the rolling of the bid modifiers, we have to say that the adjustment of our market participants is taking longer than what we anticipated. And so we still do think that there is some level of not optimal bidding going on with certain advertisers. Our expectation is that until mid of the year, at the latest, that will have been optimized by everybody and we are working closely with everybody who needs our support there. Having said that, that doesn't mean that there are not additional dimensions and optimizations regarding bid modifiers that are positive from our perspective and that are worth rolling out. So we are looking into some other modifications to make the auction even more granular and allow for more targeted bidding, which is something that we do believe is, in particular, in a market environment where the overall growth is coming down, becoming more and more important.

So to summarize, there is still some adjustment going on and we are planning to make further changes. But we will, of course, consider the pace of adaptation and adjustment and we don't want to rush changes.

Operator

(Operator Instructions) Speakers, there are no further questions at this time. Please continue.

Axel Hefer - *trivago N.V. - CEO & Member of Management Board*

Many thanks for joining our Q4 earnings call.

Just to summarize, the times are rough, we do have a clear plan, and we are focused on what we can control. Thanks again and talk to you next quarter.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect. Have a nice day.

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