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PRESENTATION

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

Good morning, good afternoon, good evening, everyone. My name is Brian Nowak. We are thrilled for our next panel here at Life After COVID to have trivago with us. Matthias Tillmann, the CFO of trivago, is joining us. Matthias, thank you so much for joining us today.

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

No, thanks for having me. It's a Pleasure.

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

So before we get started, I do have to read the obligatory disclosures. For important disclosures, please see the Morgan Stanley research website, disclosures at www.morganstanley.com/researchdisclosures. If you have any questions at all, please reach out to your Morgan Stanley sales representative.

So Matthias, you've been the CFO for a few periods now. It's been a while. You know the company even longer than that. So you have years of experience in the travel industry. It has been quite the run through shelter in and now sort through recovery. So it's always good to kind of touch base on what you're seeing in the industry. We really appreciate you taking the time.

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

No. Sure, absolutely.

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

So for anyone who Zoomed in just, it's a heads up. If you do have questions, you want to make sure we cover, please, you can e-mail them to me brian.nowak@morganstanley.com, or you can also put them in the webcast as well, and we can answer the questions there to make sure we're handling the questions that are most important to you all.

QUESTIONS AND ANSWERS

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

So the first one, in my sort of prepared questions, Matthias, is just sort of a high-level question. As we're continuing to have the rollout of the vaccines in some of the key markets, just talk to us about some of the latest trends that trivago is seeing in those key regions. What are you seeing about travel demand? Sort of how are you seeing it unfold globally as vaccine rollout continues?

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Yes, sure. No, thanks. So while there are some differences in our key regions, we could observe certain trends in almost all markets, and we have called them out before. So first, very limited intercontinental and business travel still. Second, higher share of alternative accommodation versus hotels compared to what we have seen pre-COVID. And then third change, a change in destination mix, so a shift towards more rural in nature destinations.

However, there are also differences between countries. So if you take the U.S., as an example, lockdowns in different states were not as strict as in Europe, and hence, travel demand did not decline to the same extent in the first quarter. And then with significant progress in rolling out vaccines, travel demand has greatly improved in the U.S. So beach destinations, I think we called that out in our last earnings call, already fully recovered in April for the U.S. on our platform compared to 2019, while city trips are still lagging behind in the recovery.

In Europe, on the other hand, restrictions are being gradually lifted now as the number of new infections is coming down and countries are making progress with the vaccination programs. So Italy, Greece, France, all opened up recently. I think Austria followed like 2 days ago or so. And this has led to an increase in demand for the upcoming summer holiday season, while short-term getaways are still lagging behind in Europe.

So the recovery of travel demand in Europe is currently largely driven by leisure summer holidays in European destinations. And hence, length of stay, we talked about that before as well, has increased compared to prior years. And that is really different to the U.S., where we have seen more immediate travel with shorter booking windows.

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

Interesting. Okay. There's a lot there to sort of peel back a little bit. Let me ask you about the alternative accommodations piece. It's interesting, you talked about the shift toward alternative accommodations last year. And then sort of the difference in length of stay dynamics you're seeing in Europe versus U.S.

So as you sort of look at your customer base and the traffic you're seeing, are you seeing that alternative accommodation shift from last year reverse back to hotels? Or has it has proven to be more resilient? Or do you think people are sort of -- who use alternate accommodations are continuing to use them this year still?

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Yes. So I think there are 2 effects really. So one is, as you rightly mentioned, that there is more demand for alternative accommodation, clearly driven by the pandemic, because it's perceived as -- we can see that also through service we are running, but people feel more comfortable having their own private space, not being in common areas, et cetera, like you have in a hotel normally. So that is one part.

The other one is more indirect, I would say, and that's more driven by the shift in the destination mix. So what I called out before that we see more rural beach destinations compared to city trips. And for those trips, there's a higher share of alternative accommodation relative to hotels. So that's why as most countries started to prepare opening up restaurants and activities again, I would expect that we also see a return of city tourism. And as more and more people are being vaccinated, confidence in going on sightseeing trips, et cetera, will increase.

And if you look at our market, for example, right now, you can get pretty attractive deals in popular cities like Rome, Paris or London, for example, while in some rural, domestic destination, prices have increased and supply is getting tight. So I would expect that we see a greater reversal of the shift from city to more rural destinations. And with that, also then a reversal of the shift from hotels to AA. As again, this is, to some extent, driven by the supply in the respective destinations. And so I do expect that we see some reversal, at least.

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

Got it. Okay. That is really helpful. And then lastly, just sort of talk through what you're seeing in recovery sort of real time, if you will, your different customers, your different constituents you work with. Talk to us about how you're seeing the large OTA players react through the reopening with spending as opposed to how the hotels are reacting to spend? Who's spending faster, who is spending slower? How are they different? And also how they're handling the paid marketing channel through recovery?

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Yes. That's a very good question. And it's very difficult to give one definite answer because it's really diverse in what we are seeing in the marketplace. And we called out before that some advertisers have pulled back and are more conservative and are looking closely at cancellation rates, et cetera, while others are more focused on keeping their share. And then others again have completely pulled out and waited. And now that demand is coming back. So where we see demand is coming back, we also see that advertisers have become more active again.

One pain point for, in particular, smaller advertisers was the volatility and the data sparsity as well. And that's why we reacted fast last year to come up with our CPA product to help really small advertisers to handle the volatility better. And I think that has been a success, and that has been helpful and has helped some partners to come back sooner now and also be more aggressive.

But when you, for example, look at our share that we disclose on a quarterly basis, share of our revenue, you have probably noticed a shift between the large partners. I think you need to be a bit careful still to look at that because there are so many mix effects in there. There are country mix effects in there. There are region mix effect in there. And I would expect that to normalize to some extent as we see a broader recovery globally.

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

Got it. Okay. And then, I guess, from your perspective, it's interesting because if the ad markets are not -- they're not as aggressive and maybe the CPCs are lower, et cetera. How do you think about sort of investing in your own paid marketing channels to continue to grow trivago's presence at the top of the funnel to make yourself even more ingrained in travel behavior?

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Yes. So that's another good question. So I would start with pre-COVID, some OTAs and hotel chains talked a lot about focusing on direct traffic and initiatives to increase the share versus paid channels. And I guess that makes sense. Everyone wants to own the customer in the end. But I don't think that is an issue for us because we do not compete with OTAs or other booking sites for direct traffic necessarily. Our target user is someone, who is price conscious and wants to compare. And that is the core of our value proposition. And for that segment, I would say it's always difficult for OTAs to own these customers. And we are focusing on that segment, and we believe that we have the best product for that.

And through marketing, we want to get users to our site, so they have the trivago experience. And obviously, you will also get people to your site, who don't know what they are missing out on, if they don't compare. But once you had, what we call, trivago moment, so seeing that you can vastly overpay if you just blindly go to your favorite booking site, you are likely to come back to trivago and are more likely to be part of that segment.

So as we expose more and more people to our product, our direct user base increases. And that was really the flywheel that we have created in any market for many, many years. And we are convinced that advertisers will always be willing to pay for this high-quality traffic as they will struggle to own these customers. So now what we have seen pre-COVID is that large OTAs were less willing to acquire users at a loss in the first transaction from us as it is difficult for them to convert them into loyal users themselves, for the same reasons I just described. And there's nothing wrong with that. But they are willing to acquire these users from us at attractive ROIs. And that is what we deliver to our advertisers. And as we continue to do that, we can increase our share of travel advertisement.

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

Got it. Okay. One of the new initiatives -- you have a series of innovations sort of rolled out. One of them is the weekend. I guess for anyone who has sort of zoomed in, like talk about what the weekend is. It's in the U.K. and the U.S. now. What is it, and what has been the early feedback?

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Yes. So it got a bit confusing, I guess, from the outset, because we were running basically multiple tests last year when we started the product and first, it was called Discover. And the essential idea there was to create a local travel product because we saw a shift towards more local travel. And we also saw that a lot of our users didn't have specific destinations in mind. Usually, you know, "Okay, I want to go to Greece for my summer vacation", for example, but now you were like, "Okay, I can't do this, but I still want to go on holidays. So let's say, for example, in Germany, but I have no idea where to go."

So the idea was to create this local travel product, that is, by definition, more inspirational. And that we called Discover. And while we developed that and launched the first version, the idea became more, as we saw, okay, people are engaging with the product, and it's a bit different compared to our core product, which is very transactional. And we developed the idea, okay, why don't we add more content, be more helpful for our users, because just applying the same logic of our core product to a more inspirational product doesn't really make sense because you don't have the same information and you need more content.

You want to know, "Okay, why is trivago recommending me to go to place A, B or C," and that was really the next step, and that is what we launched, and we now call it trivago weekend, and it's really aimed at short getaways. And mostly, those include the weekend. That's why we call it weekend. And yes, we have launched it in U.K. and U.S., that's right. And we see encouraging early signs and good results so far. And hence, we continue to develop the product further by integrating more local content and local things to do.

And as a next step, we will add local events as well. And then in the second step, we will roll it out across core markets. But the idea is now with the first launch in the U.S. and U.K. to qualify it, improve it and then run it, roll it out further, and we will also start small scale marketing tests soon to get more traffic to that product. But the main focus for this year, and I think that's important, is really to increase the engagement with the product and gather more data and make sure we really build a good product that will have an impact next year then.

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

Got it. Okay. One of the other areas of innovation has been around B2B and sort of your B2B products with CPA products, display products, sponsored listings, you mentioned about 100 different advertisers onboarded now. I guess, just for everyone who is kind of watching, talk to us about how you see the overall core monetization engine evolving in the next couple of years? And what does that mean for sort of the potential slope of the ad recovery at trivago?

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Yes. So we really added 3 more products over the last year. And as you mentioned, there are CPA, Display ads, Sponsored listings. And the 100 advertisers that we mentioned, as a data point, was combined for all these products. So let me start with the CPA product. So there, I would say that the rollout is progressing nicely, and we continue to onboard more advertisers. And the feedback, as I said before, remains positive so far. And I think it has helped, in particular, in the current situation.

So we continue to believe that this will help many partners to handle the volatility in the auction and will help them to buy traffic in an efficient way. But I also think we will only see the real benefits once most advertisers are fully back and confident with cancellation rates again.

On sponsored listing and display ads, it's still early for both products and given limited volumes during the pandemic, we have not explored the full potential yet. But revenue from both products nicely increased in March and April now that we saw traffic and volume is increasing again. We were also able to onboard new partner for both products and believe we have headroom to scale this further. But as we mentioned before, please keep in mind that we continue to optimize for incremental value here, hence, carefully monitor the impact on conversion in our main auction.

And I think this can be different to other players in the industry that had those products always on the platform and just looked at the absolute numbers. For us, it's really the incremental value we are making -- we are generating here. And I would not expect this to be a significant driver over the next couple of months. However, those products are nice additions, which we believe will help us to improve our margins longer term.

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

Okay. That's a good perspective on those. There's a lot -- the comments made by the online travel agencies, so the slope of the recovery has been interesting. I mean they talked about how their mix shifting more toward direct traffic, ROIs seem to be a little better. I guess from your perspective, I'd be curious, are you seeing a higher percentage of direct and repeat traffic at trivago at this point? And I will ask about ROIs in a second.

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Yes. So again, it's a good question, but it's very difficult to answer, like overall globally we see an increase or decrease because it's really different by country. And why is that because -- let me give you an example. Let's say, the U.K., where we have seen start of a recovery in Q1 but not to the same extent compared to the U.S., for example. So the market is clearly still significantly down compared to 2019. And in that situation it is not really efficient for us to advertise on TV like we did in the past. And if you recall what we said before always is branded traffic is for us someone coming direct, but it was always supported by this brand TV spend. And the moment you don't have that, it's not really a like-for-like comparison.

But what you can do, you can be more targeted with performance channels or with other branded channels, and then there are a lot of mix effects in there. Obviously, the moment you pull back, you still have some direct, so direct goes up. That's the first reaction that we also saw when you start advertising more on performance because it is more efficient and then that share increases. And the moment we add brand to the mix again, we again see a shift. So those are kind of the stages. And that we have seen very consistently across many markets, but then every market is in a different stage, which then if you just look at the overall number gives you a bit of a distorted picture.

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

Got it. Okay. And on the ROIs, and I think with the U.S. being by far this long in the recovery state, I guess you have ROIs that are high, it means maybe pricing is lower. So where were are you on sort of pricing in the U.S. now versus where you were in 2019? Is it still lower just because you don't have the competitive dynamics yet?

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Yes. So you mean RPQRs, right?

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

Yes.

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Yes, it is still below. I think we gave a data point during last earnings. So it recovered nicely now, but it's still below 2019 levels. But if you compare that, for example, to qualified referrals, then you would see that RPQRs rebounded faster. And let me remind you that revenue per qualified referral, RPQR, is the product of our monetization and how well we convert booking intend to bookings.

And the bigger driver for the current year over 2 years, so comparing against 2019 decrease is our monetization, which itself is driven by higher cancellation rates and higher uncertainty on future cancellations and that is still at a higher level compared to 2 years ago. It has improved, but it's still higher. And that really led to an improvement in the growth rate, so the improvement in cancellations in April and that's the data point we gave. And while we have only limited visibility into cancellations, I should also say that, we assume that this is our major driver.

And in addition, we have seen, as I mentioned before that as travel demand is coming back that some advertisers became more active again, but overall, we believe there's still headroom in our monetization, and we expect this to improve further as the volatility of booking decreases and cancellation rates converge to lower historical levels. On the other hand -- so that's monetization. On the other hand, we are happy with the gross conversions that we are seeing now and we like to scale our volumes around current conversion levels. So again, we expect an improvement in RPQR, but it will ultimately depend on the shape and volatility of the recovery.

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

Okay. And a couple of more I want to ask you about. One of the other initiatives you guys talked about is activities. I think you mentioned it a little bit earlier you know getting more things to people who do in-destination through weekend, et cetera. Ramping supply there is difficulty. Talk to us about where you are in sort of continuing to grow out the activities opportunity.

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Yes. Absolutely. I think activities is one of the biggest vertical in the travel sector and hence represents -- presents a significant opportunity. And we are really excited to jointly go after that opportunity with TUI Musement, and believe that we have found the right partner for us. So through Musement, we have access now to more than 55,000 activities. And most of those activities are offered in our key destinations, so there's a big overlap, which ensures the great relevance of the Musement offering.

And it will strengthen our value proposition to engage with our customers and stay relevant also during the trip. And additionally, that's what I mentioned before, we started to integrate local activities in our weekend product, and we will work with different partners there to make sure we have high quality and relevant supply. And over the medium term, we could also see that we integrate the Musement activities into the weekend product as well, but it is still early days and we just launched it, so we will look at the performance and figure it out then.

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

Got it. Okay. Last one, I have for you is on profitability sort of post recovery. You have a series of initiatives, like the weekend, activities you're investing in. You also did some pretty aggressive cost cuts last year. How do you think about sort of the profit margin structure of the business post recovery, if you get to 2022, 2023, and the business is the same size in '19, 10% higher than '19. How should we think about the profitability of the business going forward?

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Yes. That's a very good question. And as I mentioned before, with all the new initiatives, our goal for this year is to build really good compelling products that will have an impact next year and beyond. However, while we are testing and adopting, it is difficult to put numbers behind that. So we have to be a bit patient there. But what we mentioned before is a 25% margin target, and we talked about that during our IPO 4 years ago. And the logic back then was that to get there, you need roughly 155% ROAS and a 10% overhead.

And at the time of the IPO, we had achieved that ROAS numbers in some of our core markets already. Obviously, I mean, you know the story. Since then, we have faced some margin compressions as large advertisers have adjusted their ROI targets, which has put some pressure on our monetization. And in 2019, we had to readjust our marketing spend accordingly, driving leverage from our brand marketing spend, and by doing so, compensated for the monetization headwind, which resulted in an increase in our global ROAS number, albeit a slight revenue decrease.

And then going into 2020, our ambition was to outgrow the market again, so we had this transition year 2019, and then for 2020, we wanted to outgrow the market, which we estimated to grow at high single digits. And that is still our expectation for the post-COVID period. And the key initiatives we talked about all aim at driving further leverage on our marketing spend. So we still believe that we can achieve those ROAS targets while getting back to our pre-COVID scale.

And with the cost cuts that you mentioned from last year, our overhead costs as a percentage of 2019 revenue have come down to around 15%. So we are a leaner company now, and we expect revenue to scale without an increase in our fixed base. So if you take that all together, our target margin is still in the 20% to 25% range.

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

Got it. Okay. All right. That's very helpful. It's good to catch up Matthias. You guys have a lot going on. And hopefully, the travel recovery continues. It's good to see the -- it looks like the EU is going to be opening up now. It should be a great tailwind to the business. And hopefully, we can touch base in a couple of months for now we're further along through vaccination and more people traveling.

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Absolutely. Now is the exciting time of the year. Everyone is waiting for the peak summer season. So we are excited about it. So thanks again for the opportunity today, and happy to talk to you later.

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

Great. Thanks, Matthias. Thank you, everyone.

Matthias Tillmann - *trivago N.V. - MD, CFO & Mgmt Board Member*

Thank you. Bye.
