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TRVG.OQ - Trivago NV at Citi Global Technology Conference

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SEPTEMBER 04, 2019 / 6:10PM, TRVG.OQ - Trivago NV at Citi Global Technology Conference

## CORPORATE PARTICIPANTS

**Axel Hefer** *trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board*

## CONFERENCE CALL PARTICIPANTS

**Kevin J. Toomey** *Citigroup Inc, Research Division - Senior Associate*

## PRESENTATION

**Kevin J. Toomey** - *Citigroup Inc, Research Division - Senior Associate*

Good afternoon, everyone, and welcome to Citi's Global Technology Conference. My name is Kevin Toomey, I'm Citi's Internet Sector specialist. And I'd like to welcome trivago's CFO, Axel Hefer, to this year's conference.

I'll start off with some Q&A and will pause every now and then to see if there are any questions from the audience. Axel, thanks for joining us.

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**Axel Hefer** - *trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board*

Thanks for having me.

## QUESTIONS AND ANSWERS

**Kevin J. Toomey** - *Citigroup Inc, Research Division - Senior Associate*

So why don't we kick things off with a big-picture question. What have been your strategic and operational priorities for the company in 2019 and how are you progressing towards those goals?

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**Axel Hefer** - *trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board*

Yes. So in the first half of the year, clearly we were still focused on rebalancing the business and optimizing marketing that we have started last year already. And for the second half, it is using that higher profitability and then accelerating growth again.

In terms of more product related or product strategy and priorities, we continue to be focused on our core value proposition, which is providing price transparency clearly, and the other big pillar is clearly the integration of apartments. So we're increasing gradually the visibility there, work on our blending algorithms, work also on the product how exactly to integrate things and make it more convenient for the user to compare across accommodation categories. And we do believe that those are the right differentiators for the foreseeable future.

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**Kevin J. Toomey** - *Citigroup Inc, Research Division - Senior Associate*

Okay. So you've made some changes in your marketplace, one is the introduction of bidding modifiers to increase the flexibility for your advertisers. Can you share some initial results?

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**Axel Hefer** - *trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board*

So, yes, we started to roll out 2 bid modifiers in summer, which is length of stay and time to travel. And so far, everything is going to plan. And the reason why we're very excited about the project is that we have since inception basically build a system that only allowed for 1 bid per hotel per



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day, and we really needed to go through the whole back-end infrastructure and enable it to have more multidimensional bids, which are basically bid modifiers, and so by taking the first set live, that was also a test for the change in the infrastructure, so that was a very big step. So we're continuing to roll it out step by step and giving the advertisers time to adjust market by market, and obviously, in parallel looking at future modifications to the bid granularity and whether there are more modifiers that would make sense going forward.

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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Okay. So there is the potential for you to introduce additional modifiers in the near future?

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**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

Absolutely. So we've got quite a few candidates that we are assessing, and I think it's pretty likely that we will find some that do make sense, which doesn't mean that we will introduce everything that our dear competitors have introduced. Some are a bit more challenging there and some strategically a bit more difficult, but there is definitely room for more than just 2 dimensions.

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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

What about mobile as a bidding dimension?

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**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

Mobile is actually one of the most interesting questions because there is a significant difference in conversion between mobile and desktop. And there is also a difference in competitiveness between the different players. On the other hand, the data that you do measure is very dangerous because you don't have a good cross-device attribution. And so if you think about the average user, he is very likely to use multiple devices across his journey. And if you just look at the last touch point, you run the risk of really optimizing for something wrong because it is really the user and it doesn't really matter where exactly he does the ultimate booking. And so that is a very difficult one as long as the cross-device attribution is not really solved because it gives the players that have a higher lock-in share a significant advantage because they have better visibility on the exact value of each touch point compared to everybody else.

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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Okay. You talked about a large scale multi-market test where you essentially replace the relevance assessment. Can you remind us of when you introduced the relevance assessment and why?

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**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

Yes. So we did introduce the relevance assessment end of 2016 and the reason why we did it was that certain advertisers started to deviate from some of the basic principles of our marketplace, which was a standardized basic landing page. And by deviating from that, they could get a benefit in the auction and this also had, from our perspective, a less optimal user experience. And so to mitigate for that benefit and also set an incentive to go for a better user experience, we introduced relevance assessment, which basically gives you the flexibility to land the user on whatever page you want, but give something similar to a quality score to the landing page experience and would basically just give you then a weaker score if we believe that, that landing page is not optimal.

And so what happened since was that -- in particularly this year, we had strategic reviews with our large advertisers and that point came up quite often as something that we should look into. So what we did is we launched this test, which was really a test that was coordinated with some of our big partners where we got very good visibility on the overall impact of our measures and we concluded the test and decided that we would



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get rid of the relevance assessment. So it's now off-line in the majority of the markets, and we will, like with the bid modifiers, gradually, basically turn it off in the other markets as well, and rather focus on an approach where we are, jointly with our large partners, optimizing the experience across the different platforms.

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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Okay. On the large scale multimarket test, can you give us some more color on exactly what you're testing and maybe share some initial results?

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**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

So that's basically the relevance assessment test. So we tested whether we could come up with an alternative to the existing regime, and we knew it is a bit more complex than I am now saying it, but basically the idea is that by sharing parameters with our partners, we manage to get to a better result and allows optimizing throughout the whole journey versus having rigid rules that basically force advertisers to go for one setting or the other. And what we've seen so far is that we believe that overall it will be positive going forward for the business in the short term. In the adjustment period, there is obviously some increased volatility in the marketplace when you move from one regime to the other. But as I said, the majority of the business has already been migrated and the markets that are still missing would be migrated in the next couple of months or even quarters.

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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Okay. Just shifting gears a little bit. For the last few quarters, you've called out stable auction dynamics. Are there any changes just given the marketplace adjustments?

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**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

So the adjustment period, no matter what you change, being it bid modifiers or change in relevance assessment, when you do make a change, there is also some time of inefficiency because advertisers need to adapt to the new marketplace logic. That is normal and that has always been the case. So that is something that will, in the transition period, continue to stay. We have seen in Europe in the summer peak also some softness in the bids for a couple of weeks, but generally speaking, the auction dynamics are stable and healthy.

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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Great. So historically trivago has reinvested every dollar into marketing to drive growth. More recently, growth had a bump in the road, but you've begun to better optimize for profitability. Going forward, where do you see this going over the next few years?

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**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

Yes, so overall, we do believe that we will be able to increase our growth trajectory and that we will be able to grow with the market or beyond. Having said that, coming out of a time where we have significantly reduced marketing spend, there is also some lag effect of the marketing spend. So it will take some time to reach that trajectory. We now look at the Q3 specifically. We saw different developments. So we saw a very strong development in Americas with a strong growth and very successful increase in the growth trajectory with the increase in marketing spend. Europe has been a bit more difficult. So there we have seen, particularly in Europe, more volatility coming out of the marketplace changes. And as I mentioned earlier, particularly in Europe, some softness in the peak month in the summer. And then at the margin, there are probably also some effects that are hurting Europe in terms of the micro-environment, in terms of comps coming out of the World Cup last year and also the hot weather periods. So Europe has been softer, and that's clearly the case.

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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Okay, great. So your first quarter revenue was down 20%, that decelerated to down 5% in the second quarter. At the same time, you called out a positive trend in the second quarter with a return to revenue growth in June. But can you walk us through the comps in the third quarter? What else is driving that improvement?

**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

So yes, in the third quarter, if you look at revenue and EBITDA, in particular in Europe, as I mentioned earlier, the revenue growth is softer than we anticipated. So we said that we expect an accelerated revenue growth and that is true, but the absolute level is softer than we originally planned for. On the EBITDA side, as a result of that, the adjusted EBITDA in Q3, we expect to be significantly lower year-over-year. And for the remainder of the year that the adjusted EBITDA will be concentrated in Q4.

For Q4, we do expect positive growth. And as I said before for next year, we expect to get closer to fundamental growth rate.

**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Okay. So as you start ramping up your ad spend again, how should we think about the marketing channel mix? Are there any changes there going forward?

**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

So there are structural changes in the mix and there is the ramping up and ramping down impact. So ramping up and ramping down, we do by basically chaining the targets. And then depending on the elasticity, there are some small changes in the mix, but there is no strategic change in our thinking how we want to run performance marketing versus brand marketing. So we do believe that a healthy balance is actually good, because on the brand marketing side, you do communicate your value proposition, whereas on performance marketing, you do show your value proposition to your user, and if you do both, then from our experience it is very good and very positive. What you do have within those buckets, you have got to mix. On the branded side, clearly linear TV is losing because linear TV is losing more and more younger viewers. And to compensate for that, you need to invest in online video and also social advertisement, and we do invest into those channels.

Having said that, they are much younger and there, there is a lot of investment, not only in terms of dollars, but also in knowledge, measurement systems, et cetera, necessary on the side of the providers of the advertisement, but also on our side, and we do continue to focus a lot of energy on those newer and growing channels.

On the performance marketing side, for us, the Google Hotel Ads channel is still a younger channel and a channel that is underpenetrated. So we do expect the share of Google Hotel Ads to grow in performance marketing, but that is a bit more because of our history. I mean, we have historically not been present there. So we're still ramping it up and naturally the share should increase.

**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Other players in the industry talk about the connected trip and some have invested into additional verticals like attractions and activities. Trivago has always been very focused on hotels. How is that changing and how do you see your product evolving in the future?

**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

So we've always been a big believer in focus and focusing on a few things has a bigger benefit. I mean, a) in terms of running a business, so it is much easier to delegate a lot of authority and become faster at calibrating your business. If you have a very clear focus, that is easy to communicate

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and you don't have too many trade-offs in your business. It is very beneficial in terms of product development because you tend to be able to build a better converting product if it is focusing on one thing. And lastly, brand advertisement is much easier if you've got a very focused value proposition that is easy to communicate.

So historically, we do believe that we have significantly benefited from this very strong focus.

Having said that, by adding apartments to our focus area, we've slightly expanded it, but it is still pretty close to home. And we do see huge opportunity in integrating apartments well into our core product. And so at this point in time, we would probably stretch ourselves too wide if we would add something that is a lot further away from home than what we do right now. At the right point in time, I mean, it's always worth considering alternatives, but right now we do believe with the current focus that we're having that there is a significant opportunity, and that's why believe in the value of focus.

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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Okay. Do you have any update on your efforts in alternative accommodations?

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**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

Yes. So we continue to focus on it, and there are many things. We're increasing the number of apartments that are live on the platform clearly, but both on the data science side and also on the product side, we continue to invest into better algorithms and better display. But it is more a gradual process, and there is a lot more work to be done, but we're very happy with the progress that we've made in the last 1.5 years, but there would be more investment necessary to really have a product that makes it very easy to compare even the tiniest apartments with large hotels.

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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

I want to make sure the audience has an opportunity to ask any questions if they'd like. So we can open it up to the audience if anyone has a question right now or wants to ask throughout the presentation. Do you have any questions right now?

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**Unidentified Analyst**

Can you just talk about the guy in your commercials. He sort of become like a personality who's become part of your brand. So talk about him and how it's evolved over time.

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**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

I'm not sure honestly what exactly you are after, so how he became....

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**Unidentified Analyst**

How did he become who he is and what do you see as the role going forward in terms of your overall marketing strategy?

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**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

So we started the Mr. trivago concept quite a few years ago and what we saw was that obviously the brand recognition was very positive by having always the same character in certain markets, and we've got different Mr. trivagos in different markets or even Mrs. trivagos in other markets. So there was a big benefit and the concept was very much explaining the value proposition. So what we've seen is that in a way we relied too much



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on that concept because the disadvantage of that concept is that it is very expensive to shoot. You need to re-shoot in every market, you've got a different person in every language, every market. And in particular, in smaller markets, you just can't afford to have a fresh creative frequently. So you have a tendency to have all creatives with very high pressure.

So we, I could probably say a year ago or 1.5 years ago, started to diversify our creative strategy more to have multiple concepts running globally at the same time, to also reduce the overall risk of being overly dependent on a certain kind of advertisement. And I do think that we're currently in a much, much better position. And being able to move from one creative concept to the next, we always have like a backup ready that is tested in certain parts of the world. So to answer your question, compared to 2 or 3 years ago, in the overall mix, we do less Mr. trivago globally and how exactly the mix will change will really depend on the performance data that we're seeing of the different creatives, but we have now a toolkit where we can more gradually change the visibility of the different creative concepts. And that is something that we weren't able to do some time ago.

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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Any other questions?

So it looks like your advertising spend in the Rest of World was kind of an outsize decrease in the last quarter. Was there any particular driver there? Or is there anything going on from the advertiser demand perspective?

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**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

So Rest of the World is obviously our segment that was growing more strongly in the past. Not only the revenue, but also the advertising expense. And so if you come out of a period where you double and double and double your spend, it is clearly less efficient than in more stable or more mature regions. And so that's why the reduction that you could see there was more prominent than in other parts of the business, so the optimization potential was greater. So that's the main driver why the numbers look very different there in terms of reduction of spend. It was just coming out of a much, much steeper increase period, and so the optimization is just greater.

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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Are you seeing any change in in travel demand over the past several months just from the macro environment? And how should we think about that in the second half from a consumer demand standpoint?

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**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

Yes. As I said, we believe that macro and also some weather in the year-over-year might have contributed to the softness in Europe. For us, it is difficult to see to be honest to what extent because there are a lot of things changing year-over-year in our business. We changed our marketing spend, our strategy. We made changes now to the marketplace. So a lot of moving parts. So it is very difficult to say, "Okay, X% is coming from here and Y% is coming from this driver." But generally speaking, uncertainty is obviously not that helpful and particularly in Europe, I think it's fair to say that the political stability has calmed down in a lot of the large markets. And that at the margin, might hurt overall travel, but we can't quantify the effect.

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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Just sticking with international beyond Europe, what does that look like? Is the concentration there a little bit less compared to the core U.S. and European markets? Who are the bigger players when you say that that's a market where there is further opportunities to scale up?



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**Axel Hefer** - *trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board*

Yes. So there is definitely a lot of opportunity in our Rest of the World segment in particular, but also in Latin America. And if you compare the market structure of Rest of the World with Europe and also the U.S., you do have very strong regional players or local players in those markets whereas in Northern America and in Western Europe, you tend to have very strong position over the large global groups and chains. So the dynamic is a bit different and there are some markets that are very interesting in terms of market structure. I mean, India, for example, has a lot of very strong local players. So it is a bit different, but every market is slightly different in terms of competitive dynamics, inventory that is available, travel destinations, et cetera, also margins of the OTAs. So that's what we need to deal with if we run a global business.

**Kevin J. Toomey** - *Citigroup Inc, Research Division - Senior Associate*

So just thinking about the platform. What kind of inventory currently do you have predominantly and how should we think about the progress of that inventory on the platform?

**Axel Hefer** - *trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board*

So we do have, right now, a good mix of hotels and apartments, but in terms of just property count, apartments will grow much more strongly than hotels. In terms of share of the business, I would also expect apartments to grow faster than the overall business, reason being that I do think that there is an opportunity for apartments that are in terms of experience very similar to a hotel. So where you do know that exactly what experience you will get, you've got higher reliability, low variance in terms of experiences. You have, perhaps, even a concierge where you can check-in, et cetera. That is part of the market where there seem to be a lot of demand, and a lot of players move in that direction. And that is a part of the business that I do expect will grow. And that should lead further to a situation where the apartment share of the business is increasing.

**Kevin J. Toomey** - *Citigroup Inc, Research Division - Senior Associate*

I have a few questions left. I want to give the audience another opportunity to ask any questions if they have some.

Okay. So just on Google Travel, are there any updates on progress with scaling investment and advertising there?

**Axel Hefer** - *trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board*

It continues to be an area of relative growth clearly. We're not at scale there yet, and we're working on increasing our penetration in that channel. But that will be a continuous process. And I'm expecting us to increase that share over time.

**Kevin J. Toomey** - *Citigroup Inc, Research Division - Senior Associate*

Do you have any thoughts on some of Google's recently announced tweaks to their travel product?

**Axel Hefer** - *trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board*

I mean, they invest into their product and improve their product, as do we, as do all the other players. I think that's part of life and part of business. And I don't see strategic shifts there. But continuous product improvement is what you would expect from any professional player and they clearly are a professional player in the travel industry.



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**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

And then just on Google Hotels, you started participating in that last year and the product obviously has a different funnel that brings in from a traveler's standpoint. Is that something that you expect to scale further? Or is that still in the early stages? And can you maybe talk about what you're seeing there?

**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

Yes. For us, it is still a channel where we do have opportunity to increase our participation, that is clearly the case. And yes, we continue to work on it to do so. So it is a channel that will gain share in our performance marketing bucket.

**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Okay. Do we have any questions from the audience? I guess maybe I will give you the opportunity to sum things up and tell us what makes you most excited about trivago over the next 12 to 24 months?

**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

Yes. So to me, what continues to be very exciting is our core value proposition by giving users a very simple tool to just spend less on the same trip and by aggregating all the different ways that are out there and making sure that the user has full transparency there. There are more opportunities in the core value proposition and there is huge demand for that kind of service and tool. The other one we talked about quite a bit is really integrating apartments better and making it easier to compare for a specific trip the hotel experience with the apartment experience, being it for a trip with many kids or for a business trip, et cetera, and making sure that only the relevant part of both inventory types are considered. There is a lot more work to be done, but I do think that the opportunity is equally big and might, going forward, even be bigger.

**Kevin J. Toomey** - Citigroup Inc, Research Division - Senior Associate

Okay. Great. Thank you very much.

**Axel Hefer** - trivago N.V. - CFO, MD of Finance, Legal, International, Marketing & Marketplace and Member of Management Board

Thank you very much.

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