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Spencer Walsh: Hello and welcome to CEO Cafe. I'm your host Spencer Walsh, and today we sit down with Matthias Tillmann, the CFO of Trivago. Trivago is one of the leading hotel meta search platforms, helping consumers around the globe find the best rates on hotels. In 2022, Trivago generated over 500 million euros in revenue and over 60 million euros in free cashflow. Mathias joined Trivago in 2016 and has served as the company's CFO since early 2020. I hope you enjoy the discussion.

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Spencer Walsh: Well, Mathias, it's great to see you again. Thanks for taking time to come on and do this interview.

Matthias Tillmann: Thanks for having me.

Spencer Walsh: So, as I've gotten to know you over the past six months, I thought you'd be an interesting person to interview, given Trivago is one of the cheapest stocks I've come across, particularly within the technology sector. I think as of market closed on Friday, your shares were trading for less than two times cashflow. So, I think that's a good place to start. Investors are clearly voting that this is a dying business, but I suspect you have a varying view. So, is Trivago a rapidly melting ice cube or do you believe the revenue and free cash flow of this business is durable going forward?

Matthias Tillmann: Yeah. I think to be honest it's puzzling to see such low multiples we are trading at, at the moment. A: we did not benefit from one off effects last year, which would explain our profits. It's also not the case that we were profitable for a short period of time and now expect a revision to the mean. I believe what we are seeing is rather the outcome of continuous improvements that we started in

2019 already, so pre-COVID, and the pandemic just made it more difficult to see that. We delivered positive adjusted EBITDA numbers, every single quarter for the past eight quarters despite volatile markets and the aftermath of the pandemic. We have a solid direct traffic baseline, which is driving most of the contribution and we continue to invest into brand marketing to grow that baseline.

So what I currently see is not a melting ice cube, but consistent growth of that baseline. In addition, we invest into performance marketing channels to drive more traffic to the platform, thereby generating data that help us fuel our marketplace algorithm and improve our product. However, performance traffic is not a big contributor to our profits. There is some volatility in the amount of traffic we buy as it depends on our own auction and competitive dynamics in performance marketing channels. And I think some people from the outside confuse the resulting volatility in our revenue with gaining or losing market share. And I can't blame them as we are not disclosing our exact channel mix, but I would direct them to the consistent profits and free cash flows that we are generating. And whenever we invest more into brand marketing to grow the baseline, we comment on it. So in summary, we do believe that the free cashflow is durable and our ambition is to grow it over time.

Spencer Walsh: So to your point there that from the outside, when investors look at just simply your financial statements versus some peers, it's easy to understand why they think this business is in, maybe call it terminal decline. Today, call it the business is roughly 35% lower from a revenue perspective than it was in 2019 pre-COVID. And that is in comparison to some of your peers. Take TripAdvisor for example. Some of your peers have fully recovered from a meta search revenue perspective. So, why is that the case? Why are you guys called at 35% lower versus some of your peers who have fully recovered from a meta search perspective and what do you attribute that to?

Matthias Tillmann: Yeah, I think this largely the result of our own marketing optimizations over the last three years. When I joined the management team in 2019, we shifted our focus from a pure growth mindset at any cost to a more balanced approach. And the idea was to optimize our fixed and variable costs to sustainably grow our direct traffic baseline. Then COVID happened and we had to restructure the business and in 2020 were busy with preserving our cash, but we never lost our focus and continue to optimize our marketing investments. In hindsight, the pandemic even helped us to generate valuable insights. And yes, as a result we have cut unprofitable spend and consequently we have not reached pre-COVID revenue levels, but I think that we have rebased the business and 2019 levels are not that relevant anymore. We want to grow our direct traffic from current levels which are much more profitable than what we saw pre-COVID.

Spencer Walsh: So, that's clearly an area of misunderstanding by investors or at least disbelief by investors. Which is, they take a look at your revenue and say, "Hey, this business is a third smaller, this is in terminal decline." You're saying, "We made a conscious decision back in 2018 to focus on profitability.", although you were already profitable back then just kind of marginally. And so you said, "Hey, let's increase our margins for the business, that means we're going to have to pull back on advertising, pull back on paid traffic." Can you just talk a little bit more about exactly when that transition started, kind of where you are in that transition today and kind of what maybe the future looks like?

Matthias Tillmann: Yeah, sure. I think that's a good question. So, historically we have managed the business at EBITDA breakeven and invested everything into growth, mostly through marketing. That was, when I joined the company in 2016, that was basically the blueprint. But then already in 2017, we saw that the marginal effect of that extra spend was coming down. We also saw that the industry was consolidating and that our large partners were slowly shifting away from a pure growth mindset to improving their own ROIs.

And in 2018, that led to a situation where we were forced to adjust our marketing investments to the changing dynamics in our own auction. And that was really the turning point, when we said, "We need to find our own way and balance our own investments." And we started with that in 2019. And then obviously, the pandemic added a lot of noise to our numbers, so it's difficult to see what was going on from the outside, but I believe you can clearly see the success now in our 2022 numbers. In a nutshell, as I said before, we cut unprofitable traffic and as a result we are a smaller business measured in revenue, but more profitable. So, there's a different balance in the growth margin profile compared to, let's say five years ago. But I do think we are done with the transition now, and from current levels, our ambition is to grow sustainably. And what I mean by that is, not ramp up investments again and sacrifice on current margins, but rather incrementally invest and grow with the market.

Spencer Walsh: Ok, maybe another way to look at it would be, and I know this is hypothetical, so it's challenging. But let's say pandemic never happened and you did this focus on profitability strategy independently. What's your best guess as to where you think the business would be relative to where it is today having actually gone through the pandemic and this steep recovery coming out of it?

Matthias Tillmann: Yeah, I think that's a tricky question, because I do think it's path dependent and the pandemic changed the industry, changed travel behavior, and what also changed is, we invested a lot of money in brand marketing in '17, '18, '19. And then normally, the biggest impact of that spend is in the next three years and we lost that in 2020, 2021 and to some degree also in 2022. So I think the shape of our growth margin profile would've looked different, but the direction would've been the same. So directionally, I think we would have seen a decrease in revenue, an increase in EBITDA. And again, that was exactly the goal in 2019 pre-pandemic, and we had that in mind for the next three years. So, I can't tell you where we would have been now without the pandemic, but directionally I think we would've seen the same thing.

Spencer Walsh: Okay, that makes sense. I like the way you phrased it, in terms of saying you've, in some ways rebased the business over the last five years. And so, if you looked at the business today, roughly what percent of bookings, revenue or profits would you say come from call it paid versus unpaid traffic? So, you pulled back on advertising, in theory more of bookings, revenue, profits should come from, call it repeat traffic, organic search, unpaid traffic. What percent of bookings today come from kind of paid versus unpaid? How do you think that compares to call it five years ago?

Matthias Tillmann: So, we do not disclose the channel mix, so I cannot give you precise numbers. But what I would mention is that, in 2018, we were spending a lot in brand marketing which contributed to direct traffic, or as you call it, unpaid traffic. But that's just because you can't directly attribute that to brand marketing spend. And in reality, there was a high share of brand spend driven traffic. Again, you just cannot measure it in the same way you can measure performance marketing spend, for example. So today, having cut some of this spend, which we believe in hindsight was not long-term profitable, the share of truly unpaid traffic, so what we call the brand baseline in the direct mix is greater than let's say five years ago. And that's why from my perspective, it's more sustainable what we see right now in our direct traffic.

Spencer Walsh: And short and sweet, that's the explanation for why you believe Trivago is a more profitable business today, is that fair?

Matthias Tillmann: That is fair.

Spencer Walsh: Okay, got you. So going forward here, what is your philosophy as CFO in managing the business? Are there certain margin targets that you're... The business is kind of ranged in a 15 to 20% adjusted EBITDA margin range for the last, let's call it five, six quarters here? Are there certain margin targets or margin levels that you're committed to delivering going forward?

Matthias Tillmann: Yeah. As I mentioned, I believe that we've found a sustainable baseline post-COVID and we should be able to grow that baseline at margins that are significantly higher than pre-COVID. And you mentioned the 15 to 20%. From my perspective, I think that's a healthy adjusted EBITDA margin range for us. We came out at the higher end of that range last year. However, I do believe that in hindsight, we could have invested a bit more into brand marketing. We also benefited from a strong auction last year. So, those factors were contributing to a strong margin last year. This year we are seeing some normalization. Our auction, we started to ramp up brand investments as well, and both are putting some pressure on our margins. However, I do believe that we should be able to stay in that range. And again, that is what I consider healthy and sustainable for the business going forward.

Spencer Walsh: Okay, makes sense. And if you look at some of your publicly traded metasearch peers, take TripAdvisor for example, their core business, so ex some of their other assets, but their core business today has, call it roughly 35% adjusted

EBITDA margins, versus as we just discussed, maybe say 15 to 20% for Trivago over time. In your view, is there room to close that gap or is there a structural reason why that gap exists between TripAdvisor's meta search business and Trivago's meta search business?

Matthias Tillmann: Yeah, I don't think it makes sense to compare Trip's margins with ours. And why is that? Yes, the core metasearch hotel business is very similar to our business. However, TripAdvisor built this product on the back of free traffic from Google, what we call SEO, whereas we have to invest to drive direct traffic. And as a result, Trip's margins are closer to what you see in typical search businesses. On the other hand, the model is highly dependent on Google and should Google continue to shift free into paid traffic, that could be a major headwind for that business model. So again, I believe that the 15 to 20% range is very healthy for our business given our traffic mix, and we should focus on increasing the direct traffic baseline. And if we are successful there, then that's not only a tailwind to the margin development, but it also diversifies you from Google and makes you more independent as a business.

Spencer Walsh: Okay. So that provides a good segue to move over to the competition side of things, which I think we can break into two buckets. One is Google, who's kind of the behemoth in the space and I think is what most investors are so scared about. Second being, your other meta search players with TripAdvisor, Kayak et cetera. But focusing on Google, if you had to take a guess, what percent of, with Google hotel ads, what percent of the meta search market you think Google already has today, and how do you think that compares to five years ago? As in, just how much has Google meta search or Google hotel ads captured market share over the last five years?

Matthias Tillmann: Yeah. It's hard to say as I do not have perfect data on this. Google started to aggressively shift traffic into their own meta search product in 2017, so five to six years ago. Before that, their market share was insignificant. It is interesting that even today it is Google's choice whether the user goes through their own meta search or a specialist like Trivago. So they are gaining market share at the expense of their own AdWords. What we do to estimate market share, we look at the performance marketing spend of large online travel agencies like Booking.com or Expedia, and then look at our share of that bucket, and that gives us a good indication for our own market share. It's not perfect, but it's a good indication. And if you do that, then you can compare where do we stand today versus five years ago. It's harder to do that for Google, given I don't have the exact split between AdWords and hotel ads.

Spencer Walsh: I've tried to dive into this subject, and once again, it's opaque because you don't get great data from Google on the topic. But I've read some estimates out there that claim that Google might have call it 60 to 80% market share in meta search. And I understand you can define that differently in terms of traffic or revenue, which obviously we don't know in this case. Does that strike you as way too high, too low, or about right?

Matthias Tillmann: I think the way we look at it, if you again take the large global OTAs and look at their performance marketing spend, then I think combining AdWords and Google hotel ads, that could be at around 70 to 80%. I think that sounds reasonable to me. That makes sense. And then you have other metas at maybe 10 to 15% and then 5% everything else. But yeah, that sounds about right to me.

Spencer Walsh: Okay, got you. And I guess the key question then is, for a lot of investors who believe that meta search is in terminal decline, not just for Trivago but also TripAdvisor and other players, the key question then becomes, is the Google headwind going forward stronger or weaker than it was historically? As in, to your point, Google started moving aggressively into meta search in 2017, has captured a significant amount of share, TBD how much, but clearly a significant amount of share over that timeframe.

Going forward here, are they going to continue to capture share in this industry and continue to squeeze out all the other players? Or do you think at this point they've captured enough share where they've reached a little bit of a balance? And there's a little context of, obviously Expedia and Booking.com are some of the largest advertisers on Google, period. And then, even the meta search players, you guys plus TripAdvisor plus Kayak probably spent 500 million to a billion annually advertising on Google, so they don't really have a huge incentive to completely make you guys go away. So I'm curious, do you think the Google headwind going forward is the same as it was the past five years or different?

Matthias Tillmann: Yeah, I think five years ago it was relatively straightforward for Google. They could shift certain traffic segments into their own meta search product at literally zero cost. Then it became a trade-off, as they had to assess where they monetize better. AdWords is highly profitable for them, so I believe every additional percentage point of traffic shifted to their meta search product is very expensive and that's why they need to balance that basically. It's hard to say what that means for us. We continue to invest into brand and ideally capture the user before they even go to Google, that's the best strategy, in my view anyways. But I do think that the low hanging fruits are basically gone, and Google has a very different share of AdWords versus hotel ads compared to a couple of years ago. And again, shifting more from one bucket to the other has to be carefully considered if the optimization is for revenue and contribution on their side.

Spencer Walsh: So there has been some regulation that's come up, globally, obviously related to Google, but specifically in Europe, the Digital Markets Act is hitting on Google kind of preferencing its own products over other competitors. And they've got a whole section in that act about meta search and the impact there. Obviously, TBD how all this shakes out. But A: Do you think this could kind of shake out in Trivago's favor? And B: Is this a near medium term kind of needle mover for Trivago? Or no, is the impact here still quite a ways out in the future and unpredictable?

Matthias Tillmann: Yeah, I think the Digital Markets Act could be really an interesting one. So, we have observed that Google has been less aggressive in Europe relative to the US in pushing their own meta search product. And obviously, it's hard to tell from the outside, but the DMA or Digital Markets Act could be a key driver here. Google has been identified as a gatekeeper and as such will have to present a solution to stop self-preferencing their own product. But what this might mean for us and other Metas is still unclear, but I guess we will find out soon. So, timeline is that, from what I know as of today, is that they have to present a solution soon and then it's up to the commission to assess whether that complies with the new regulation or not. But yeah, I don't think we need to wait a lot longer to find out.

Spencer Walsh: So, moving away from Google and focusing on the rest of your meta search peers, some of the big guys, TripAdvisor and Kayak. Compared to them, obviously on a revenue basis it seems like you've lost share against those players over the last, call it five years, but what complicates that, or at least what complicates analyzing that data is the fact that you guys have made the shift towards profitability, pulled back on a lot of advertising spend. So versus some of your other meta search peers, do you think you're gaining or losing market share, call it, all else equal or however you view it?

Matthias Tillmann: Yeah, I think that's similar to an earlier question you had. I know it's a bit harder to read from the outside due to the volatility in paid traffic in particular. And as you mentioned, in addition, we have shifted from a growth mindset to a more balanced approach. I also think it is different by region. We are very strong in Europe and in Southern America. We are weaker relative to TripAdvisor, for example, in the US and than to others in Asia. But post-pandemic, we focused our brand investments on certain markets and regions and I believe this is paying off, meaning we are gaining market share in those countries. And that's basically how I look at it.

Spencer Walsh: Okay. So you view it as, you think Trivago holds its own going forward here, past five years aside due to it's kind of complicated to analyze, but looking forward you feel like Trivago holds its own versus the other meta search peers?

Matthias Tillmann: Yes.

Spencer Walsh: And I think that the pushback an investor might have on that would be, look, TripAdvisor has reviews to differentiate its platform. They've got proprietary reviews, that gets them a lot, as you alluded to earlier, free traffic, which kind of ends up in results in them having higher margins. What would you describe as Trivago's core competitive advantage today in just like, what would be the argument for what's the competitive advantage and why it would defend market share going forward?

Matthias Tillmann: From my perspective, we are currently delivering the simplest search experience. And what I mean by that is, our product is very clean, no distraction, no display ads, focused on accommodation, and it's very fast. So, if you use the mobile version for example, it's very easy and you very quickly get to what you're looking for. In addition, we have the broadest coverage in certain markets and our brand equity is in hotels. Hotel Trivago is a very strong brand cue. So, we have a very unique data set for certain segments and use cases, and we are using that to drive superior search results. Kayak is different when you compare with that, their brand equity is mostly in flights. It's also a US-centric business. So for example, when I look at Europe and at their accommodation business, that is much smaller than our own accommodation business in Europe.

Spencer Walsh: So in short, Trivago brand – I was kind of running this math and trying to figure out, cumulatively over the years how much you guys have spent on advertising and do some rough estimates of what's the split between brand and performance. And clearly you guys over the years have spent billions of dollars in advertising – pick your split between brand and performance. But clearly the Trivago brand carries a lot of value in certain markets and a lot of people do start their travel search by just going to Trivago. And even here in the US, I'm always amazed by how many people I talk to say they start their search by going to kayak.com. And as someone who frequently uses Google to do a lot of this, that actually strikes me as a little bit odd, but clearly it's a strong brand and clearly that brand resonates with people. And once people start using a product, they typically don't turn off it quickly unless there's a really good reason to. Does that kind of sum it up?

Matthias Tillmann: Yeah. That's a very good summary from my perspective.

Spencer Walsh: So, maybe touching on a growth avenue here for Trivago that you guys have been focused on recently, which is the direct hotel booking initiative via your partnership with UBIO technology. Talk a little bit about how this is different than just sending traffic from Trivago directly to hotels, which I understand is they're actually making the booking through your website. So maybe talk a little bit about why this is innovative, how you're getting that data. And then maybe talk a little bit about the monetization plan and timeline here.

Matthias Tillmann: Yeah, sure. So first of all, why are we connecting with independent hotels, given we have all relevant booking sites, including the major OTAs on our platform? Our core value proposition is to have all relevant rates, ensure our users the broadest set of options possible. And the direct offer is very relevant in that context. Even if the hotel rate might be the same as on other major booking sites, some people prefer to book direct, that's what we can see from our user research. Other travelers at least like to have it as a reference point. So, we have seen in the past positive conversion effects even if the rate was not bookable.

However, the challenge in the past was to build out all these connections for the longtail inventory. With UBIO, we now found a way to scale that process without a huge sales force. And in the first phase, we have no commercial relationship with the hotel, but just expose their rates and maybe send them traffic for free. And in this phase, our focus is on learning how this benefits our users. So again, look at conversions, look at engagement on the platform, look at short term repeat rates, and there we do see positive effects. In the second phase, we would then look at how to integrate this product into our B2B product, upgrading our offering. This won't happen this year though, we are focusing on increasing coverage first and for us it's a second step and then the way we might monetize it going forward is through our B2B offering that we have in place already today.

Spencer Walsh: So, is that a revenue headwind as you send traffic for free or bookings for free to independent hotels when the alternative would've been a customer would've maybe clicked and gone to that independent hotel through Expedia or Booking.com and you would've collected kind of referral revenue there? Is this a revenue headwind as it's rolled out before you actually end up collecting revenue via whatever method from the independent hotel base?

Matthias Tillmann: Not necessarily. How I think about it is, there might be some testing costs in the beginning. But as I said, we see positive effects even if you don't send the user to the direct hotel. So, you have positive effects that might offset some of the users you send to a hotel for free. But what is also happening is, some users, I mean they don't click out and book direct, they do research, they compare, they look at different sites. And what we have seen is when we send users to independent hotel websites, they're more likely to come back and to continue the search our page, which makes sense because there's no alternative, they are just on the hotel landing page and they have one hotel, one rate.

When we send them to an OTA for example, they would show them alternative hotels, they show them other options and they have a good way of keeping the user in their system and they're less likely to return to Trivago. So, by sending that first click maybe to the hotel, we don't lose that customer. But again, there's a higher chance of that customer coming back. And when they do, they have a more informed view, they know what the direct offer is, they have seen something and then continue their search. And by going through that experience, we increase the booking conversion and then ultimately might monetize that with other partners and more efficiently because the booking intention is higher.

So, there's a lot going on and we can direct that. We can limit the traffic to a certain share of our customers, we can make it clickable, non-clickable, and we might shift how and to whom we show it. And all of those are levers for us to impact the revenue effect. So, I look at it more in a way like, yes, there might be some testing costs, but they won't be material enough to show up on our overall results, so you wouldn't recognize that. And then in longer term, we believe there's a good way to monetize that and not only have the positive effect from an increase in conversion rates and repeat rates, but also through B2B subscription revenues.

Spencer Walsh: Okay. And in your view, how is your guys' direct hotel booking initiative different than TripAdvisor instant bookings, which I guess if you went back five years or maybe even longer, it was a big initiative on their end, I think they pulled back a little bit from that. When you compare the contrast of the two, how are they different, what are kind of the lessons learned from TripAdvisors venture under direct bookings that you feel like you guys can do differently or at least have a different outcome here?

Matthias Tillmann: Yeah, I think it's a different product because instant book was TripAdvisor branded, so as a user you kind of had the impression you're booking with TripAdvisor, so that that's your merchant of record. We don't show up as a brand, it's not Trivago book, but it's a direct hotel offer. So, we don't give the impression that you book with Trivago, we don't provide customer service, we don't process payment, that's done by the hotel directly. So it's really just another rate and your access to the hotel website.

Spencer Walsh: And the technology kind of allows you in a form to fill out information on a page that's kind of run by Trivago, or in this case UBIO, yet that data then is being filled into a form on the hotel's actual website and allows the booking to go through. Is that how the backend technology works?

Matthias Tillmann: Exactly. That's a way to simplify it, but that's exactly what's happening. So what we are doing, providing a seamless checkout funnel so that we increase conversion and not having the user go through messy different landing pages every time, but have one unified checkout funnel. But in the end, we pass on the data to the hotel and they collect the user data.

Spencer Walsh: So even though this is going to be on a page which is being run by Trivago, it's going to be actually, as you alluded to, branded the hotel?

Matthias Tillmann: Yes.

Spencer Walsh: Okay, got you. And that's obviously differentiated versus what Trip was doing, where Trip you were booking on a page that pretty much said, TripAdvisor instant book for this hotel. This is going to be a page that almost appears like it's the hotel's own website, but the goal being, it's run by you guys with your partnership with UBIO and therefore you think you get better conversions on it to the independent hotels?

Matthias Tillmann: Correct.

Spencer Walsh: Okay. Okay, interesting. And as you do move into the instant book, which I understand might not be a needle mover this year, but could be in the years ahead, what's the risk there of call it competing with your largest customers today? That's always been the trade-off on the direct booking initiative. In Expedia and Booking, I think today represent about two thirds of Trivago revenue. And Expedia is obviously a large shareholder in Trivago today. So, is there a risk as you move into that that you kind of risk upsetting your core customer base, they kind of pull back on ads on your platform or do you view it as it could be more symbiotic?

Matthias Tillmann: Yeah, I think that's a very good question. I think it's also, there's a misunderstanding. I've read articles where people said we are disintermediating OTAs. I don't think that's the case. The idea is not to go in direct competition with our largest partners. I think the opposite is true. I believe that as I explained before, it could help us to qualify our users more and thereby increase the conversion, making the traffic more valuable for our partners. So ideally, it will help to be a more efficient channel for our partners. And again, the idea is not to go into direct competition and move traffic away from the OTAs to the independent hotels directly. It's more providing the full transparency to the user, showing the different rates, showing the different booking options and having them making an informed and confident view to exercise their booking.

Spencer Walsh: Okay. So, if someone was using the direct booking route, is there still a way where Expedia or Booking captures revenue there or are you sending direct bookings directly to them? Or no, do the direct bookings pretty much always circumvent the other OTA players?

Matthias Tillmann: No, I think in the end what's happening, we run a marketplace, we run millions of auctions every day. And the share that you mentioned, two thirds of revenue coming from two partners is the outcome of that auction. And when I joined the company in 2016, it was already at two thirds. And back then we were growing 50% plus and the share didn't change. Then as we discussed before, we shifted our focus on profitability and the share didn't change. And even in the pandemic, it didn't really change. And we don't actively manage that and I firmly believe we should not do that. We run a marketplace and it's the outcome of that. And we have to make sure that every partner, that's a level playing field and that every partner can participate and then the outcome of the share is not in our control.

Spencer Walsh: So this interview wouldn't be complete if we didn't touch on some of the new management team that was just brought in. You're obviously staying as CFO, but whole new suite of executives were brought in including new CEO, Johannes and Rolf, one of the original co-founders of Trivago plans to come back and join the board. So from your view, what do you think the catalyst was for the change here and kind of what should investors expect in terms of more the same or is a new radical, new strategy going to be kind of, or a new playbook going to be rolled out here at Trivago?

Matthias Tillmann: Yeah. I think the catalyst was that our former CEO, Axel Hefer decided to not stand up for reelection for another term. His contract was running out, and after seven years, or almost seven years with the company, he decided it was time for a new challenge. I personally have learned a lot from Axel over the past seven years and I'm grateful that I could work together with him. But now it's time for a new chapter and it's great to see that Rolf is back as well in his capacity of a board member. I enjoyed working with him when he was still active. He is a visionary founder who has built a great company culture and I'm sure he can support the new team by participating in our board discussions.

The team came in with the intention to listen and understand what has changed during the pandemic, that is consistent with what I'm seeing right now. It's a bit early to tell what this means for the strategic direction going forward, but I do think we have a plan for 2023 and we continue to execute against that. And from a financial perspective, our guidance has also not changed. So, I think in the short term I wouldn't expect big changes but more focus on the execution ahead of the summer season.

Spencer Walsh: Okay. So I understand lot's in the air, but do you think from a profitability perspective, do you think the new team will maintain Trivago's focus on a healthy balance between growth and profitability and defending some of those healthy margins you guys have put up in the last couple years?

Matthias Tillmann: Yeah, exactly.

Spencer Walsh: Okay. Okay. So moving over to the stock price a little bit. Trivago's in a pretty unique position today, in terms of the company's market cap is approaching its net cash balance. And I've certainly seen this, there are hosts of new issuances from 2020 to 2022, a lot of which have performed quite poorly in the technology space and seen a lot of unprofitable stocks seen their market caps approach cash or in some cases trade below it. Trivago is a little unique in the fact that you guys have very healthy profit margins today yet your market cap is still approached cash. And so, that leaves the business today trading less than two times cash flow from a enterprise value standpoint or market CapEx cash.

So, with the stock price this low and the implied enterprise value so low, it seems clear to me that the large net cash balance is clearly an overhang on the stock. I think a lot of investors look at Trivago and they say, "Maybe I think it shouldn't trade for two times cash flow, maybe the enterprise value should double.", but if the enterprise value doubles, the market cap only goes up by 20 30% and therefore that's not particularly compelling from an investment case. Albeit you do have good downside protection with that cash balance. But key question is, given the incredibly low valuation today and that the fact that the cash is a little bit of an investment overhang on the stock, should Trivago be returning more capital to shareholders today?

Matthias Tillmann: Yeah, I think everything you just said is correct and it is something we are actively looking at. We know that for new potential investors, the capital structure is not ideal. In the past we have opportunistically done some buybacks, end of last year we repurchased 5% of shares back from one of the co-founders. I cannot rule out that we do more of that if there is the option to do so. Simplifying, from my perspective, essentially you have two options. One is buying back shares and the other one is you can also distribute cash via a special dividend or a continuous dividend. Super high level, from my perspective, it makes more sense to buy back shares when you believe that your stock is undervalued. However, you also want to make sure there's enough liquidity in the stock, that has been an issue in the past for us and buying back shares might make the liquidity even worse. But overall, I believe that our stock is currently undervalued, so buying back shares is a viable option and yeah, it's something we are looking at.

Spencer Walsh: Okay, makes sense. And I guess last question here, and this is a longer term one. But looking out three to five years from now, what's your best guess as to how Trivago is different from today? Is it a bigger or smaller business, more or less profitable, new revenue lines you guys have developed, longer term view here, how's Trivago different?

Matthias Tillmann: Yeah, that's a difficult question. For that I need my crystal ball, obviously. But since I joined the company in summer 2016, a lot has changed. The industry, online penetration levels, travel behavior, even we as a company, how we run the company, company culture has slightly changed. We've grown up as a company through our IPO. Today, everybody talks about new ways to engage users through generative AI. So, I think three to five years is a long time, a lot can and will certainly happen. But I'm confident, I'm very confident in our unique value proposition and that we can continue to grow our direct traffic baseline sustainably. That means that we should be a bigger and more profitable business in the future.

And right now, we are focusing on our core product. However, we are also always looking at new ways to change or even transform our business model. So, I cannot rule out that we will see new revenue lines in the future though there's nothing I currently see in the near term. So again, focus near term is more on the core business. But I think one big benefit we have is that we are a relatively small company, we can adapt fast and we should innovate when we see the opportunity. And by doing so, be faster than large companies that cannot move as quickly. And that's what we are trying to focus on.

Spencer Walsh: Okay, sounds good. Well Matthias, those were most of my questions here. Any closing comments from your side?

Matthias Tillmann: No, thank you very much. That was great fun and I think great questions you asked. I'm sure travel, online travel will continue to be very exciting in the next, not only couple of months but quarters and years ahead and we're excited about the opportunity and I'm happy to play a role in that at Trivago in the next couple of years.

Spencer Walsh: Absolutely. No, I greatly enjoyed getting to know you, Matthias. I find you're kind of a breath of fresh air in terms of your honesty and direct answers and wish you the best of luck building Trivago here over the next couple years. So thank you very much for taking time this morning.