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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to today's trivago Q4 Earnings Call 2018. (Operator Instructions) I must advise you that this conference is being recorded today, Wednesday, 6th of February, 2019.

And now I would like to hand the conference over to your first speaker today, Mr. Elie Matta, Head of Investor Relations.

Thank you. Please go ahead, sir.

Elie Matta - *trivago N.V. - Head of Corporate Development, Strategy & IR*

Thank you. Good afternoon, everybody. Welcome to trivago N.V.'s financial results conference call for the fourth quarter ended December 31, 2018. I'm pleased to be joined on the call today by Rolf Schrömgens, trivago's CEO and Managing Director; and Axel Hefer, our CFO and Managing Director.

The following discussion, including responses to your questions, reflects management's views as of today, February 6, 2019, only. We do not undertake any obligation to update or revise this information. As always, some of the statements made on today's call are forward-looking, typically preceded by words such as we expect, we believe, we anticipate or similar statements. Please refer to today's press release and the company filings with the SEC for information about factors which could cause our actual results to differ materially from these forward-looking statements. You will find reconciliations of non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release, which is posted on the company's IR website at ir.trivago.com. I encourage you to periodically visit our Investor Relations site for important content, including today's earnings release. Finally, unless otherwise stated, all comparisons on this call will be against our results for the comparable period of 2017.

With that, let me turn the call over to Rolf.

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

Thanks, Elie. Welcome everybody. Many thanks for joining our fourth quarter and full year earnings call 2018.

2018 was quite an intense year for us as a company and as a team. We had to deal with a situation in which our core advertisers had very significantly adapted their profitability targets. And as a consequence, we had to cope with a drop in commercialization of our referrals, which directly affected the efficiency of our marketing.

After accepting negative EBITDA for the first half of the year that summed up to nearly EUR 40 million, we had to conclude that this is no longer maintainable to keep our growth trajectory on the back of accumulating losses. We were very confident that trivago can be run with healthy margins, and at the same time we were seeing that it was important for the organization to get a proof of that. We thought that this proof was essential for the team to keep on focusing on the business and delivering the best possible experience to our users.

Actually, we needed a step-change, and during Q2, we decided for consistent adaption of our targets across all channels, including brand as well as performance marketing. As a consequence, this affected obviously our top-line growth. But together with keeping our overhead costs in shape, it also brought us back to profitability in the third quarter.

Now looking back at the last month, from a more balanced and confident situation, we were taking again more risk. We actively invested into long-term important iterations in the product, a direction that we will keep up pursuing in the future.

With our Q4 results, we see already first payers of these investments. We're happy to say that this quarter again exceeded our expectations in terms of revenue and profitability development.

I want to thank the whole trivago team for making this happen. We always claim speed of learning as our core value, but it's actually amazing to see it applied in this way.

Looking at our top-line results for the fourth quarter, we see the impact as a reaction of our significant reduction in our advertising spend. Total revenue went down 8% from EUR 181.5 million to EUR 166.8 million. This brings the whole year 2018 to EUR 914.8 million, down 12% from the year before. The negative revenue impact was driven by decline in qualified referrals, which reached 112.6 million in Q4 down 19% year-on-year, while revenue per qualified referrals improved markedly from EUR 1.27 to EUR 1.44, a 13% increase year-on-year.

Just to put this into perspective, as already laid out, Q4 was a quarter in which we have fully seen the effects of fast product iterations. Our aim is to raise interaction at our site rather than motivating for fast lead generation. This explains part of the losses in qualified referrals as well as the gains in revenue per qualified referral. But also please keep in mind that we experienced a very difficult market environment in the fourth quarter 2017 with a significant drop in bid levels, high volatility and also large-scale tests by our advertisers.

Looking at the revenue by segment, the share of the rest of the world markets is consistently growing throughout the last year and keeps on growing for Q4 2018. We are very happy, though, with the trends in Developed Europe where we see that due to our strong brand revenue -- sorry, due to our strong brand, revenue reacted less on the significant reduction in advertising spend that we did.

To truly understand our full year financial performance, it is important to look at 2018 as 2 parts: before and after the optimization and recalibration of our advertising spend, which we started end of Q2 2018. Effective in June, we adapted our ad spend across all segments and channels. We raised very significantly our targets and performance marketing but also reduced our brand marketing spend. This is reflected in our first half year and second half year comparison. While we have ran marketing spend on a comparable level to 2017 previous to this change, ad spend in the second half of the year was 30% lower than 1 year before. This had consequently a direct impact on our return on advertising spend. While we were below 2017 profitability in the first half of the year, ROAS improved drastically in Q3. In Q4, we reached a marketing profitability of 163% compared to 118% the year before.

With our changes in the marketing strategy, we also managed to rationalize our operating expenses. Of course, changes here have a certain time lag before effects become fully visible. So maintaining the levels of 2017 throughout the first half of this year still led to a very significant increase of 36%. With the fourth quarter, we managed for the first time to reduce our operating expenditures and go back to healthy levels even below the numbers of 2017.

The changes in our marketing strategy, as well as the optimization of our overhead cost, consequently led to the last -- in the last quarter to improved profitability. While adjusted EBITDA was minus EUR 8.7 million in the last quarter of 2017, it is EUR 28.6 million in the current quarter Q4 2018.

With EUR 15.6 million in adjusted EBITDA for the full year, we actually beat 2017's EBITDA of EUR 6.7 million, and this after making up for leeway of EUR 70 million that we accumulated the first 2 quarters.

Looking at the year-over-year adjusted EBITDA trajectory by quarters, we see that while in the first quarter of this year, we were still performing EUR 41.2 million worse than the year before, we turned this around during the year and are performing this quarter EUR 37.2 million better than 1 year ago. Besides that, we see a slowdown in referral revenue decline in Q4 versus Q3, which indicates the resilience of our revenue in the context of our marketing reductions.

We have been most resilient in Developed Europe, where we have operated the longest and where we have the highest level of brand awareness. And please also keep in mind that we have comparatively easy comps in the current quarter.

Another continuing topic we have been updating you on is our ongoing efforts to onboard alternative accommodation providers. While we are very excited about this opportunity, we are also approaching the project with a gradual increase to keep market dynamics stable and improve via learnings given the complexity of the topic. We are proud to say that we have now crossed the 1.5 million properties milestone and we will continue on our path to gradually increase alternative accommodation visibility. We believe that alternative accommodation will improve our offering significantly by making it more exhaustive and by integrating them into a single coherent search experience.

We also continue to update you on our advertiser segmentation. Q4 2018 is in-line with the same period of the previous year. With a slight decrease for Expedia Group and a slight increase of booking holdings and other advertisers in the order of about 1%.

Let me point out that we continue to invest into strong relationships with our advertisers, which again significantly improved. We believe that the more we cooperate and share learnings, the better for our users and our mutual growth.

Axel will now follow up with the more detailed financials.

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

Thanks, Rolf.

As Rolf mentioned already, in the fourth quarter, our total revenues reached EUR 166.8 million, down 8% from the fourth quarter of last year. Whereas for the full year, the revenues reached EUR 914.8 million, down 12% compared to 2017.

If you look at the adjusted EBITDA, the fourth quarter showed EUR 28.6 million as adjusted EBITDA compared to a loss of 8.7 million in the fourth quarter 2017, which represents a 17.1% adjusted EBITDA to total revenue margin compared to minus 4.8% in the fourth quarter 2017.

For the full year, our adjusted EBITDA improved from EUR 6.7 million in 2017 to EUR 15.6 million in 2018, representing a margin as percent of total revenue of 0.6% increasing to 1.7%.

Looking at net income, the net income in the fourth quarter 2018 reached EUR 11.7 million, up from EUR 9.6 million loss in the fourth quarter 2017, which represents an increase of a minus 5.3% margin as percent of total revenue to 7% total margin as percent of total revenue.

Looking at the return on advertisement spend for the fourth quarter, we've seen a very significant improvement from 118% in the fourth quarter 2017 to 163% in the fourth quarter 2018, which is an increase by 45%. And also for the full year, we improved from 115% in 2017 to 123% in 2018 or 8%.

If you look at our KPIs on a global level, the biggest driver obviously has been the optimization and recalibration of advertisement spend as Rolf mentioned earlier, which had a significant impact both on the quarter and also on the full financial year. The second effect on the ROAS level that we've seen is the change in commercialization, which had a minor effect on the fourth quarter but still a significant effect on the full year. This led to, as I mentioned before, an increase of 45 percentage points in the quarter and 8 percentage points for the full year of the global return on advertisement spend.

Compared to a particularly weak fourth quarter 2017, our revenue dropped only 8% and reached EUR 162.4 million in the fourth quarter 2018.

For the full year, the drop in referral revenue was 12 percentage points reaching EUR 899.8 million.

We now look at the subcomponents of referral revenue. There is obviously the qualified referrals, which dropped from 139.3 million in the fourth quarter 2017 to 112.6 million (technical difficulty) a 19% drop. For the full year, the number in Q4 2017 has been 727.1 million, down to 668.3 million or an 8% reduction.

Key drivers of this development have been the lower spend levels, which obviously had a negative impact on our qualified referral development, and the platform optimizations, which led to a reduction in click-outs and in qualified referrals in 2018.

Looking at the RPQR, the main drivers that we've seen on a global level were positively the more targeted spend, which had a positive impact on the RPQR through the optimization and also the resilience of our branded users, which again increased average traffic quality. The product changes that reduced the QRs and at the same booking volume improved the revenue per qualified referral. As a negative driver, negative mix and currency effect and, for the full year, also some effects through commercialization changes. All of this led to an increase of the RPQR in the fourth quarter, up from 2017 at EUR 1.27 to EUR 1.44 or an increase of 13%. And for the full year, down from EUR 1.40 to EUR 1.35 or a reduction of 4%.

Now coming to the KPIs per segment. In Developed Europe, we saw a steep increase in ROAS in the fourth quarter from 136% to 202% in the fourth quarter 2018 or up 66 percentage points. For the full year, up 13 percentage points from 131 in '17 to 144 in '18. The main driver of this development has been, as for the overall business, the optimization and recalibration of our advertising spend.

Referral revenue shrank from EUR 69.9 million in the fourth quarter 2017 to EUR 67.2 million in the fourth quarter 2018, or a 4% drop. And for the full year, EUR 425 million in '17 to EUR 378.9 million in 2018 or an 11% drop.

If we now look at the components of our referral revenue, the qualified referrals dropped significantly in the fourth quarter from 49.7 million to 37.3 million or 25%. And for the full year, from 295.5 million to 246.7 million, which is a 17% drop.

The big drivers as on the global level have been the reduction in our advertisement spend and the product optimizations, as Rolf mentioned before.

The RPQR on the other hand, increased significantly in the fourth quarter by 28% up from EUR 1.41 to EUR 1.80. And for the full year from EUR 1.44 to EUR 1.54 or 7%.

In particular, in Developed Europe, you can see that the resilience of our branded users has significantly improved our average traffic quality and improved the RPQR. And also, the product changes, like in the other regions, has reduced the number of QRs and improved the RPQRs.

Coming to Americas. In Americas, we saw an increase of the ROAS by 36% in the fourth quarter, up from 123% in 2017 to 159% in 2018; and for the full year, up 5%, up from 116% in 2017 to 121% in 2018.

Drivers of this development have been the optimization and recalibration of our advertisement spend, slightly improved levels of commercialization versus the fourth quarter in 2017 on a quarterly basis, so just on the fourth quarter.

On referral revenue, the revenue in the fourth quarter went down from EUR 65.8 million to EUR 53.9 million or down 18%. For the full year, the revenue went down from EUR 391.7 million to EUR 316 million or 19%.

For the components of the referral revenue, QRs dropped from 41.6 million in the fourth quarter 2017 to 31.3 million in the fourth quarter 2018 or 25%. For the full year, the numbers developed from 203.4 million to 182.3 million or a drop of 10%, again driven by the reduction in our advertisement spend and product optimizations.

Look at the RPQR, were positively impacted by our optimization and recalibration of our advertising spend, positively impacted by our product optimizations that reduced QRs and increased RPQRs. And in the fourth quarter, slightly improved commercialization. On the negative side, on the fourth quarter, there was a negative country mix effect with lower RPQR locales and certain Latin American currencies devalued, which also had a negative effect on the RPQR in the fourth quarter. This led to a development of EUR 1.58 in the fourth quarter 2017, increasing by 9% to EUR 1.72 in the fourth quarter 2018. And for the full year, EUR 1.93 in the full year 2017, down to EUR 1.73 for the full year 2018 or a drop of 10%.

Coming to Rest of the World, the ROAS increased by 34%, up from 93% in the fourth quarter 2017 to 127% in the fourth quarter 2018. And for the full year, up from 92% in 2017 to 100% in 2018 or up 8%. Again, main driver has been the optimization and recalibration of our advertisement spend.

Looking at referral revenue, the revenue in the fourth quarter was basically flat, EUR 41.5 million in the fourth quarter 2017 and EUR 41.3 million in the fourth quarter 2018. For the full year, there was a slight increase coming from EUR 203.6 million in 2017 to EUR 204.9 million in the full year 2018.

We now look at the subcomponents of referral revenue. Qualified referrals dropped in the fourth quarter from 48 million in the fourth quarter 2017 to 44 million in the fourth quarter 2018 or an 8% drop. For the full year, there was an increase from 228.3 million to 239.3 million in 2018 or a 5% increase.

There has been a negative impact on the QRs, in particular coming from the reduction of our advertising spend and our product optimizations like in the other regions.

RPQR went up through the optimization and recalibration of our advertisement spend in the fourth quarter, the impact of our platform optimizations and was negatively impacted by a country mix effect towards lower RPQR locales in the fourth quarter. As a result, the RPQR increased by 9% in the fourth quarter, up from EUR 0.86 in 2017 to EUR 0.94 in 2018 and for the full year, down from EUR 0.89 in 2017 to EUR 0.86 in 2018 or a 3% drop.

Summarizing our overall performance in the fourth quarter 2018, there are 4 points that are standing out. The first one is that we continued on our track of optimizing and recalibrating our advertising spend, which has resulted in a significant improvement of our profitability in the fourth quarter year-over-year.

Second point, we benefited from a stable and improved marketplace dynamic compared to the same period last year when some of our largest advertisers were conducting significant tests and we had an overall very volatile situation, which has helped us.

On the referral revenue, we've seen that the business has been pretty resilient in Developed Europe despite significant reductions in advertising spend, which reflects our very strong brand position and our long history in those markets.

And fourth point, our strategic focus on alternative accommodation continues. We believe that we are on a good trajectory and have surpassed the threshold of 1.5 million units available on the platform.

Now coming to our guidance for 2019. On adjusted EBITDA for the full year 2019, we expect EUR 50 million to EUR 75 million. On total revenue, we expect to see a decline in the first half. And due to the difficult comparable periods and significantly more in the first quarter than the second quarter. And in the second half, we expect total revenue to return to growth.

Elie Matta - *trivago N.V. - Head of Corporate Development, Strategy & IR*

So I think with that, we can open the floor up for questions. So operator, can you open the floor for Q&A?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Tom White from D.A. Davidson.

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

Two, if I may. Just on RPQR trends, looked like very strong growth in Europe in the fourth quarter kind of outpacing RPQR growth in U.S., Rest of World. I'm just trying to understand -- make sure I understand the difference, kind of the factors driving the difference there. Is there any difference in kind of the timing of when some of the more impactful kind of traffic optimization stuff was rolled out in different geographies or are there other kind of structural differences maybe driving that, maybe brand recognition? And then just on alternative accommodations, just curious if you can comment on how that's impacting your monetization? It seems like there's fewer advertisers on your site for those types of listings, that type of inventory. So just curious on how this is impacting monetization.

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

Okay, sure. So on the RPQR trend in Developed Europe versus the rest of the business, we believe that the big difference in the development is really coming from our history and the strength of our brand in Europe. And as a result, when we optimize our spend, we saw that we lost less booking volume and fundamental value compared to the other regions, which shows that our core users and our -- yes, our core users are more resilient than in markets where we don't have an as-long history and the brand has not been present for an as-long time period. And that is from our perspective there, the key driver. The optimization logic is the same globally. There are obviously different targets that we feel are appropriate market-by-market. But the logic and the activities are comparable and also the product changes are global. So the main difference is really the history and the strength of our brand and the core user base.

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

Yes, regarding our approach to alternative accommodation, I think it's important to note that our approach here, differs from other market participants. So we do not see that we substitute leads. So we don't substitute leads that we have in hotel now with leads that we have in with alternative accommodations. Actually, our approach is that we enrich the results that we had before through alternative accommodations. And we do that in a way that we improve the overall conversion. And that is happening because users now see like offers, which are -- they're more likely to book because it's an additional offer, additional offer and additional inventory usually gets you also higher conversion. So we see a positive impact on commercialization and we think that is confirming our approach

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different tabs on your website. You have really to bring it into one search result. And to really significantly improve the user experience. But let me also say that this is still -- we're still experimenting a lot around that, right, and personalization has a major impact. So the better we get in personalization, the more we will also have -- we are able to currently also convert users which are maybe mainly booking hotels into users which are also booking alternative accommodations.

Operator

Our next question comes from the line of James Lee from Mizuho Securities.

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

Maybe if you can -- you guys can help us understand your marketing plan maybe geographically, going to 2019. Do you want to maybe continue to invest to defend your developed European markets, which showed some resiliency during 2018, or the focus on your marketing maybe spent on North America, where your revenue mix actually declined for 2018.

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

So in general, we don't look at marketing spend as a kind of strategic way where we say, okay, we over-invest here to defend or to progress. So I think the way we look at marketing spend is really on a case-by-case perspective. So we're really looking at, okay, where do we see that our investments might be the most efficient. We reduced our investments where we thought they were the least efficient and when we invest more, we will also reinvest where we see the most efficient buckets. And that is true for performance marketing, as well as for brand marketing. So we don't have a local territorial approach to marketing at all.

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

Okay, and maybe can you give us an update, excuse me, on your cloud migration there specifically? And maybe help us understand how that plays in your optimization -- your cost base for 2019?

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

So we did a lot of progress actually during the last couple of months, moving core parts of our application into the cloud. But we don't see a heavy the impact on our operating expenses, yes. So I think we have been very efficient in doing that, very fast and very efficient. So we don't see an impact there.

Operator

Our next question comes from the line of Douglas Anmuth from JP Morgan.

Unidentified Analyst

This is Dae on for Doug. The question is on your guide, so appreciate the color you provided on the revenue trajectory in 2019. But could you help us better understand the magnitude of the growth that you expect for the full year or maybe the rate at which you expect to exit the year?

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

Yes. So we don't guide on the overall net effect for the full year. But yes, as we said, we expect a negative growth in the first half and a positive in the second half and the overall magnitude for the full year is unclear.

Unidentified Analyst

Got it. And then just as a follow-up, what stage are you in optimization and recalibration of your advertising spend? Do you feel like it's at a level that more closely reflects the commercialization level of your platform or should we expect more improvement ongoing?

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

I mean, you will see, of course, in the first half of the year, you will see an improvement to the previous half of the year because there is a big step-change still to happen, right? In the second half of the year, I think you will not see that. So there will not be like another calibration or recalibration of that spend. So we would rather end up where we are right now. Or we also want to go back to a growth trajectory, right? So there will be rather more investments.

Operator

Our next question comes from the line of Lloyd Walmsley from DB.

Unidentified Analyst

This is Chris on for Lloyd. Maybe if we could just kind of focus back in on the Americas section. I know you guys have called out that there's been a negative mix impact associated with more click volume coming out of lower-monetizing regions in LatAm. Could we maybe just -- is there any color that you could provide on a like-for-like basis specific to the U.S. just to get a sense for how those RPQRs are trending? And just as we're thinking out to 2019, are you guys expecting this mix to start to stabilize or is this something that we should continue to expect to be a headwind?

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

Yes, so we don't comment on individual markets. But generally speaking, the northern part of our Americas segment obviously has a higher RPQR than the Southern part. So the comment on a shift towards lower RPQR regions in the Americas mean that the North has shown a weaker QR development than the South in Americas, broadly speaking. And we believe that the reason for that is similar to the positive development of Developed Europe, that there is just a different strength and history in the market. And that effect should lap once we are through seeing the full implementation of our recalibration and optimization initiative. The second effect that you see in Americas is obviously the FX effect, which is in particularly in Latin America there are some currencies that devalued very significantly, which dragged it down further. But the key thing you see there within the segment is the same that you see between the different segments, that there is a different reaction to the optimization on the QR and the RPQR metrics.

Unidentified Analyst

Got it. And if I could just ask one follow-up here, I think you guys had called out that some of your key advertisers were seeing their average bids rise in your option. Just how should we be thinking about this impacting your propensity to invest in marketing in 2019?

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

So I think we have -- year-on-year, we have not seen a big change in commercialization in the fourth quarter. So we neither plan in an improvement nor we think that we will go down from this level.

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

Yes, I mean, the guidance implies the commercialization level that we see today as we have done in the past. We don't think that it would be prudent to assume improving or worsening commercialization levels from what we know today.

Operator

Our next question comes from the line of Shyam Patil from SIG.

Brendan McGoldrick - *Susquehanna Financial Group, LLLP, Research Division - Associate*

This is Brendan on for Shyam. Just in terms of the product changes and innovations, you guys are talking about that you started investing in December. Can you just talk a little bit more about the specific changes and then the goals of the innovation? And then more broadly kind of taking the innovations into account, just how should we kind of think about RPQRs and QRs through the quarters in 2019?

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

Yes, I made that remark already in my opening comments. So actually, we -- what we want to work on is we want to improve the interaction with our site. So we think that the amount of interaction that users do on trivago compared to maybe they do on one of our advertiser website also improves in general the retention to our site. So when we see high interaction rates, we see higher long-term retention. And this is something that we, started in Q3, end of Q3 this year to enforce. So we changed our metrics system, we changed our way we optimize. And we did that throughout the Q4. And this -- our features, which are incremental -- like incrementally always, like, trying to get more content exposure on our site, more interaction on our site and then send people over to an advertiser site and start in a later moment in time. And that's why you see in general, you see also the reduction in the qualified referrals. That's one of the reasons, next to the advertising optimization. Maybe Axel can comment on the overall effect in the quarter.

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

Yes, so if you look at the development in the third and fourth quarter, one difference between the third and the fourth quarter is that the year-over-year trajectory has a different commercialization comparison. So in Q3, we were still having a negative impact from the year-over-year commercialization difference, whereas in Q4 we are basically neutral where there's some slight positives in Americas. So -- and what you have in the fourth quarter is more significant changes coming from the product side plus the impact that is coming through the recalibration and the optimization. So the changes -- those changes will persist for 2, 3 more quarters, which you obviously need to keep in mind. And then on our general guidance that we've always given without extraordinary effect, we assume that there is basically a flat RPQR development by region. You would need to add some slight headwinds to that on the RPQR side coming from the product initiatives that Rolf was talking about. However, you need to make sure that whatever you assume as a headwind, you basically factor into the QRs as well -- sorry, headwind -- tailwind and headwinds for the QRs. So the negative development you assume for the RPQRs. You need to -- for the QRs, you need to assume as a positive for the RPQRs as well because they go hand-in-hand. We wouldn't accept optimizations that net have a negative impact clearly. It is more the composition of the revenue that is changing through these product changes.

Operator

Our next question comes from the line of Naved Khan from SunTrust.

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

It's Naved Khan from SunTrust. Just a big picture question maybe. On the -- on your sort of -- as you sort of talk about the cadence of the year and how the back half is going to see possibly a return to top-line growth, how should we be thinking about your ability to grow the top-line along with some improvement on the ad spend? So basically, is it possible to deliver the top-line just through product improvements or what's the right way to think about it?

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

I think that is how we grew our top-line also in the past very significantly. The product improvement and through marketing optimization. And I understand that it's sometimes difficult when you look at the numbers right now to get an idea like where we will be. Just to like -- and the reason for that is it's always difficult when both metrics change it's also like a little bit difficult, right? So on one hand, you have an impact on growth, on the other side, you have an impact on profitability. How should you weigh that against each other? But I mean, when you for example look like just one indication, if you're looking at the development in rest of the world, there you have some indication because basically, the year-on-year development on revenue was flat. And so you can say like-for-like that year-on-year development is flat, like what was the impact on the profitability. And there you can see there again, profitably improved from 93% ROAS to I think 127% ROAS. So you get an idea that there is a lot of improvement potential kind of like, which is manifesting for this year rather in a profitability increase than in a revenue increase. But there is this profitability like efficiency improvement in there. And I think now it's for us to see like, okay, where will this be in 1 year? We are confident that we can grow top-line. But I think it's also like we also went through this change. And I think it was quite a significant step-change. So I think we also have to be careful with saying exactly where we will end in. But we are very confident that we can move back to growth.

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

Understood, and that's very helpful. So a quick follow-up maybe on your 2 large advertisers, looks like there were some share movements for Booking. I think it was at 34 and I think they 2, 3 they were at 44 Expedia, I think gained share. Anything specific in terms of the dynamics between the 2 and 1 sort of losing share, another gaining share, to that a bit.

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

Yes, I think the best way to look at these numbers is if you do a year-on-year comparison because what you have in there is that there is on a quarter-on-quarter level, so you described basically Booking going down from 44% to 34%. But that is an effect that is due to different seasonalities. And when you compare it to last year, there's actually minor changes and I would not overinterpret those changes.

Operator

Our next question comes from the line of Mark May from Citi.

Mark Alan May - *Citigroup Inc, Research Division - Director and Senior Analyst*

Yes, Q4 I think it was the second consecutive quarter of high teens year-on-year declines in the average number of QRs that you're generating for every marketing dollar spent. Do you have any visibility as to when either you plan to stabilize your marketing budget or even start to increase it again? Or if you don't have visibility into that, when you might to start to see an improvement in the QR declines relative to the marketing spend.

Just kind of curious on that dynamic there and how you're thinking about it, especially in terms of the marketing spend. And then secondly, could you talk to us about how RPQR for alternative accommodation referrals, how they compare with the average for hotels?

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

Okay, on your first question, so the advertising expenditure per qualified referral went down because of the optimization in Q3 and Q4. And that is obviously what we would expect for the first half of the year as well to see that effect to continue. For the second half of the year, this trend, you will not see to the same extent an improvement in our marketing efficiency. So that's the first question. On the second question, on the RPQR for alternative accommodation, I mean, as Rolf said, we see it as accretive to the overall conversion because we have searches where our users would consider alternative accommodations or yes, even very, very relevant to thinking, for example, about family vacations where some hotels are interesting but also some apartments or vacation rentals could be very interesting, and we have an incomplete offering as of today. And as in the past with long-tail hotels, an increase of overall and a more complete overall offering helps the overall conversion and the overall stickiness of our product and improves the retention of our users. So overall, we see it as accretive, which doesn't obviously mean that every single apartment or every single search will be accretive. But overall, we believe that it will overall help the conversion.

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

Let me go to your -- or add some more color to your first -- for the first part of your question. So regarding like qualified referral growth in the second half of the year next year, and a comment on like the qualified referral decline on Q4. So I think as I said before, the qualified referral decline in this year is not only a reflection of like our optimized advertising spend. It's not only reflection of the amount of traffic that we bring to our site, because it's also kind of reflection of the product optimization that we do on the platform. So it's a mix effect here. Looking at next year and specifically like the second part of next year, of course, we said that before we expect that we go back to growth, meaning that the traffic volume that we bring to our site, the quality and quality times volume that we bring to our site will grow. I think when you're looking then at the qualified referral, I think there is still in the second half of next year the question like how much product optimization will we have done until then. If that is reflected in the qualified referrals or in the revenue per qualified referrals. And I think that is just hard to answer because if you're very successful in the product optimizations in the first half of the year, we will see most of the growth effect then rather in the revenue per qualified referrals we will see to the qualified referrals.

Operator

Our next question comes from the line of Brian Nowak from Morgan Stanley.

Alaxandar Wang - *Morgan Stanley, Research Division - Associate*

This is Alex Wang on for Brian. I just have a follow-up on the qualified referral. As you continue to think about improving asset quality, and Rolf, you just talked about some of the product optimization, has your view on the opportunity at the top of the funnel changed relative to a few years ago? And how should we think of kind of longer term referral growth?

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

No, I think the opportunity has not changed at all. So we truly believe in our value proposition to be an aggregator. And I think when you're looking at the development of the market, when you're looking at that alternative accommodation gets more and more also a substitute for hotels, I think that it's even more -- the market is even more asking for an aggregator. So I don't think that the position at the top of the funnel really aggregating all of the players that is getting weaker. And on the other side, I think a trend that we will see in the long-run is definitely that we will see that hotel offers will individualize way more than they do today and we see that happening with Airbnb, we see that happening with trends in the industry. And I think the more individual a hotel offer is, the more a position at the top of the funnel, a search that offers you an aggregation of all the different

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players, the more that is valuable now, because you need the market maker who brings the individual demand to individual offers. So we have not changed our view on that.

Alaxandar Wang - *Morgan Stanley, Research Division - Associate*

Understood. And just a follow-up, there is some commentary on slight improvement in commercialization in the Americas. Was there something specific to the Americas versus the other 2 regions? And more broadly, can you just provide us an update on the relatively new attribution model and what the focus is there, whether it's booking value, I think you touched on higher interaction rates. But if you could flesh that out a bit, that would be helpful.

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

Yes. So there is nothing significantly different in the Americas. It's just slightly positive versus neutral in the other regions, which all kind of effects in there, different country mix, country development, et cetera. So no significant different strategy that we would observe. On the second question, the attribution model has now been implemented for quite some time. And of course, we continue to optimize it. But on the quarter, the effect is not significant. So the comments that we had in there are basically for the full year comparisons where there is still some effect and particularly in the beginning of the year. So the way to think about is more -- it's fully operational and it obviously we continue to improve it every day.

Operator

Our next question comes from the line of Robert Coolbrith from Wells Fargo.

Robert James Coolbrith - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Your comments on the brand strength in history in Developed Europe and how that's contributed to the RPQR development, just wanted to return to that for a moment. Wondering why that wouldn't play out more in sort of QR strength relative to the change in advertising spend versus RPQR strength. And then also wanted to ask on contribution from chain and independent hoteliers. Could you maybe give us an update on Hotel Manager or Manager Pro, and your efforts to build those direct relationships and the kind of traction you're seeing.

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

Okay, so why does this not manifest more in QRs than it does in RPQRs is basically due to the fact that we did significant changes in the product. And this is why you take over these improvements from the QRs to the RPQRs. Basically, the same effect that we predict also to happen over the next year.

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

On the overall efforts on the hotel direct side, we continue to engage heavily with hotel chains and also continue to invest in our relationships with independent hotels through our direct products. But there is no fundamental change, which would have been a surprise as well. That means more a gradual improvement. And we continue on our path and believe that it is the right thing to do and that it will pay off in the future.

Operator

Our next question comes from the line of Kevin Kopelman from Cowen.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Could you talk about how you view seasonality of profits under new profit optimization strategy? Would profits typically be first-half weighted, second-half weighted or more balanced throughout the year?

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

Sure. Compared to this year, we would expect them to be more balanced, so no surprise. The -- I think they are -- I mean, we are expecting more steady profitability but there will still be some volatility between the different quarters as they are not all the same. And we wouldn't give more specific guidance on that at this point in time.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Yes, and not specifically for this year, but just kind of as a general rule is Q3 -- should Q3 be a high point?

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

Not necessarily. I mean, there -- as I said, they are different dynamics in the different regions in the different quarters. And we might also test different spending patterns in the future. So you will always have some movement in the absolute levels of profitability. But yes, we would expect it to be more steady than this year and also the year before.

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

I mean, also, historically, we have been always like strong on the second half of the year and I think that is something that we'll probably maintain the future. But I also think about it in the moment where there is maybe also more investment into growth again and we might see opportunities there. Then there might be kind of, like, a shift again between the third and the fourth quarter, maybe -- I think that's dependent on, like, going to the quarter, seeing where there are like possible good investments into marketing and that will decide it more or less between the 2 quarters at the end of the year.

Operator

And our last question comes from the line of Heath Terry from Goldman Sachs.

Heath Patrick Terry - *Goldman Sachs Group Inc., Research Division - MD*

Just a couple of things I wanted to follow-up on. With pricing parity changes and regulations continuing to change in Europe as well as some of the contractual changes that you're seeing in the U.S., are you seeing that begin to drive more variability in pricing from different sources across your platform? And if so, do you see that benefiting trivago longer term as consumers begin to notice the ability to find better prices across different platforms. Any trends that you're sort of seeing there -- I know you've talked about it a bit in the past -- would be helpful. And then on the -- to follow-up on the earlier question about hotel direct. Any progress in terms of being able to show loyalty rates or preferential rates from the hotels directly within the trivago platform?

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

I think regarding price parity, I think that's a long-term trend. We talked about it in one of the calls this year. And we said, I think, that we see like a long-term trend also reflected in what we see that rather disparity increases, than it decreases. So definitely, we see that. And we think also that's a long-term positive for trivago if this trend continues. I think it would be definitely long-term positive for us if hotels get more in control of their pricing and they can decide and -- but I would not say, like, we see now a significant increase from quarter-to-quarter. So yes, that's not the case. I think that is not significant enough. But it's a long-term trend, yes, fully agree.

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

On your second question, loyalty rates specifically, I think we discussed that on one of the previous calls. It is absolutely in our interest to show every rate that is available out there to help our users to have maximum transparency. However, some of these rates are more difficult to implement than others and we continue to be focused on it. So yes, we think that we have made progress, even though it might not be as visible to the outside as of today.

Elie Matta - *trivago N.V. - Head of Corporate Development, Strategy & IR*

Operator, with that, I want to hand it back to Rolf for some closing remarks, please.

Rolf Theo Johannes Schrömgens - *trivago N.V. - Founder, CEO, MD of Product, People & Culture and Member of Management Board*

Okay. Yes, thank you, Elie. So I think while the previous years were rather characterized by hyper-growth, the current year was rather defined by a step-change towards more healthy profitability levels. Although these changes were a challenge for the organization, the profitability gives us back the confidence to invest into our people, to invest into our products and to invest into our long-term sustainable growth.

I have to say that I learned a lot this year. I think we learned a lot as a team and also as an organization. And we are keen to keep on learning and return back to our growth trajectory in the second half of the year.

So thanks, everybody, for joining the call.

Elie Matta - *trivago N.V. - Head of Corporate Development, Strategy & IR*

I think this concludes the call. Thank you very much.

Operator

Okay. That does conclude our conference for today. Thank you for participating. You may all disconnect.
