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TRVG.OQ - Trivago NV at Morgan Stanley TMT Conference

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CORPORATE PARTICIPANTS

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

PRESENTATION

Unidentified Analyst

All right. Good afternoon, everyone. We have here, Axel Hefer, the CFO of trivago. Thank you very much for joining us at our Barcelona conference. And to begin with, I'd like to start by sort of reflecting a bit on the time since the IPO. It's been a year, but it seems like the share price has been on a bit of a roller coaster. Can you please briefly sort of run through what has changed and what has stayed the same?

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

Yes. What has changed since the IPO? Quite a long time ago, it feels like. I think the fundamental value proposition obviously has not changed and the market opportunity has not changed either. And in a way, I mean, our strategy has, as a consequence, not really changed. So we think that there is huge potential to offer the superior search service to users and help them to navigate through the increasingly complex offering that there is. And that's not only hotels, that's vacation rentals, alternative accommodation, et cetera, so searches are becoming increasingly heterogeneous. And as a consequence, search is becoming more important and tailored search for that specific need is becoming -- probably becoming more important. I think when you just look at the financials, one of the key things that has happened is that we've seen the change in the marketplace. So we've seen that some advertisers have drastically increased their share, where we benefited, obviously, from the increased competitive tension in the marketplace. And going back to where they started where we obviously suffered by having less competitive tension in the marketplace and losing that additional margin again. And so looking back, I think, we learned from that development that we need to get better in understanding what normal levels are and dealing with abnormal situations and try to smoothen the overall development better rather than amplifying it by reinvesting additional profits immediately and, in a way, making them the way up and the adjustments back to normal more -- yes, more painful, in a way, yes.

Unidentified Analyst

So do you think there's sort of this lower competitive tension that has driven the lower revenue growth? Do you think you've reached stabilization at this point and you can start to look forward towards a recovery?

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

Yes. I mean, I don't think whether -- I don't think that we are planning for a recovery because, in a way, we are, in terms of market structure, where we thought the beginning of '16. So I'm not sure that recovery would be the right term. Looking back today, I think it is more that we benefited tremendously from elevated levels, at least for 4 quarters, Q3 '16 to Q2 '17. And then looking at the structure today, it is -- it's much more balanced than it has been in the 5, 6 -- probably in 6 quarters before, 5 quarters before. And in a way, the risk that you are running if you have a much more balanced structure is obviously a lot lower than having certain advertisers with a very high share. Because that high share brings a benefit, they have to bid up to reach that share, but obviously increases your dependency on that advertiser because that benefit can go away. If you have many advertisers at the same level, then obviously the change in their strategy has a lot more limited impact on your business.

Unidentified Analyst

And you started to change your attribution model. Can you please talk a little bit about what you're doing there and what the initial feedback has been from advertisers?



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

So the change in attribution, we started in beginning of the third quarter. And the key idea there is to focus on the ultimate value creation and not so much on our short-term revenue. So when you think about our business model, we attract users to our service, our website, help them to find the accommodation they are looking for. And then when they click out to an advertiser, we generate revenue. But obviously, the value that we generate is not at the click out but is at the ultimate booking. That's what ultimately the advertisers are paying us for and how they set the bids on our platform. And so, historically, we were focused on the click outs, a, because, obviously, there you have a lot more data transparency that you can track to 100%. Whereas to track the bookings, you need the cooperation of your advertisers. But also, because before we introduced the CPC level daily bidding, you weren't really compensated for an improved conversion in the short term because the prices were negotiated, so you basically got exactly the same no matter how high the booking volume was that was actually triggered by your users. With daily bidding, the marketplace can adjust quite quickly. And so there, you are compensated for an improved traffic quality. And so we've basically gradually increased the weights of the overall value generation or, from our perspective, customer value generation on the B2B side as a customer advertiser side. And with the new attribution are able to give a lot more weight to the ultimate booking, so being more targeted in our own marketing activities and focusing on what is actually valuable to our customers. We've rolled it out in one of our marketing channels with great success. And so the booking conversion has improved in that channel, and we are about to roll it out in the other channels.

Unidentified Analyst

Do you think that's also going to drive greater traffic into trivago as it should make you -- better conversions, probably, because you're offering something that is better targeted to that individual as well? Do you think it will help drive traffic onto the website?

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

So technically, it actually reduces the traffic because you focus more on more expensive, high-converting traffic. But by being more efficient, it should increase overall revenue.

Unidentified Analyst

And you talked before about, perhaps, reducing the dependency from your larger clients. But my understanding is, in the hotel industry, one of the hurdles is the -- that a lot of the sort of many restaurants in an industry that -- restaurants, sorry, hotels. I've been interviewing the food guys before. Many in the -- the hotel industry is extremely fragmented and a lot of them just don't necessarily have the capabilities to actually sort of have the sophisticated bidding mechanisms that the large platforms have. So what is trivago doing to enable, perhaps, these hotels to sort of take part in the platform more directly?

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

So on the hotel side you've got, obviously, chains and you've got individual hotels. And so the approaches are slightly different. For hotel chains, we have pretty much every significant chain -- I mean, not every, every, but most of them we have already as an advertiser. And there, it is more helping them to become more competitive on the marketplace, which is it's a process that doesn't happen overnight because there are certain challenges for them and we are working with them together to help them to solve them. With individual hotels, the impact is obviously, relatively speaking, small for each hotel, obviously. So it's much, much harder work. And there, we are following a slightly different approach. So we're having a three-step final approach where, as a first step, we offer our free to use product, Hotel Manager, that helps the hoteliers to manage the content and the data on our site, to make sure that it's up-to-date and improve their conversion without having to directly interact with us, only getting the indirect benefit of more visibility and then more bookings through OTAs. So there, we've got more than 300,000 hotels using that product. And then having established a bit of a relationship, we then use that business relationship to, in a way, upsell to a product that's called Hotel Manager Pro, where we give a lot more data to the hotels, how do the prices develop and who are their competitors, et cetera. So try to move them more into -- to think like an online business. So just an example, if you're running a hotel somewhere in the Alps, you might think that your key competitor is your cousin on the other side of the street. And that from an off-line perspective, is probably true. From an online perspective, that



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is probably not true. So there might be a similar hotel 100 kilometers further west that, from an online perspective, is much, much more similar and is much more booked instead of yours, and so you wouldn't know. And so the thinking is slightly different. And so that's what happens in the second step. And then the third step is obviously to, then, actively participate in the auction and attract traffic directly. But that is a slow process and that is more something where we're investing now to get a benefit in 5 years from now or so.

Unidentified Analyst

Yes. It's just -- I suppose it would seem sort of reasonably straightforward that if you could sort of pay a much lower price to get that customer rather than sort of the take rates that you see on Booking.com or Expedia, you would sort of do your best to do that. And trivago seems like a sort of tool to make that happen.

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

Yes. That is true. But then you need to -- I think the first hurdle is you need to be online, yes. Then you need to have a booking functionality that has a good conversion. Then if you don't only work with one OTA but with multiple, you need a channel manager. So there are a lot of steps that you need to go through before you get there. And I guess they require an increasing understanding of the overall market and the dynamic and some technical sophistication. And so that's why it's not -- I mean, it does make a lot of sense commercially. But I would say that for a lot of the individual hotels, the pressure coming from online is probably not big enough yet so that it would just take more time.

Unidentified Analyst

One of the changes that we've seen as well in Europe in the last couple of years is that the regulator actually asked for -- started to prevent Booking.com from forcing their hotels to actually have the same price on their own website versus Booking.com. I would imagine sort of pricing differentials between hotels on different sort of OTAs is good for you because, then, it increases the relevance of price comparison. Have you actually seen an impact to your business from these changes? Or everything remains the same?

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

Yes. So there are basically 2 implications of that conceptually. One, is from a user value proposition, obviously, it reinforces the value proposition because price discrepancies are going up. So the use of a tool that helps you to navigate through all the offers is the value of that is increasing. On the other hand, you can actually differentiate as a hotel not only through your marketing spend but also through the price. And so in a way, the bigger the difference in the prices are, the less the competition on the marketplace. So in a way, I would say that balances for us commercially. Whether we have seen a significant change in behavior, I wouldn't say so. I guess, the question is not only whether you are legally allowed to do it, but whether you dare. And so probably, the second dimension has not fully -- yes, fully been implemented.

Unidentified Analyst

Fair enough. You mentioned earlier that you didn't just want to be a platform for hotels but vacation rentals, for example, were interesting for you. How do you think about the opportunity? And how do you sort of fit in within the Airbnb, local OTA spectrum?

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

Yes. So we believe that travelers are increasingly looking for experiences rather than a specific hotel brand or a specific kind of accommodation, whatever, romantic weekend, okay, efficient business trip with a sport facility. And that various accommodation types can actually give you that experience. And so the consequence that you need 1 tool that helps you to navigate through all the different accommodation types and all the different offerings to give to you what you're already looking for. And so that's basically the main idea. And so coming, obviously, from the hotel

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side, we are gradually increasing our ultra-long tail, I would say, inventory, which is vacation rental and alternative accommodation. Which is, from a search perspective, more difficult to navigate because it has less data density, it has less revenue per property, so it's managed in a different way, has less user feedback. So it comes with quite a few challenges. And so we have, as a first step, just used inventory that we had access to anyhow through our existing advertisers and run tests and, basically, saw where we needed to calibrate our systems. And now as a second step, basically, are increasing that test by integrating HomeAway, where we -- first, they had something like 150,000 locations available. But then, obviously have more potential to scale that up further. And ultimately, obviously at some point, I would say, okay, now we really calibrated the whole system and it works well with very, very long-tail inventory, and then we would scale it up further. But that is, basically, our current path there.

Unidentified Analyst

And you recently acquired a business called tripl. Can you discuss sort of the rationale behind that acquisition and what impact it could have on personalization?

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

So what we acquired in tripl is basically technology and talent in the area of personalization. Not so much that the service that they were offering is one that we want to run as a brand. And personalization obviously is, for us, important because that is a key element of search. I mean, so you don't want to be the average user. You won't be yourself and get exactly what you want. And the more signals we are using, the better we can approximate what exactly you want and whether you want it on this trip or on every trip, the better the overall search will get. So we are investing in that area and it was a good opportunity to accelerate our organic development there.

Unidentified Analyst

And can we discuss a little bit the drivers on revenue per qualified referral? That's been sort of around flat. Should we expect this to remain flat long term and growth will be driven by volume?

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

So when you look at the top components of revenue per qualified referral, you've got the booking conversion, you've got the booking value per booking and you've got the commercialization. So that's basically the overall value that is created, and then you've got our share of that value. And on the commercialization, obviously, we had some ups and downs, but going forward, we assume that, that will stay flat. The booking value per booking is obviously growing with the currently low inflation, but it's something that is not significantly changing other than mix effect in the different markets. And on the booking conversion there, obviously, positive factors influencing it like in new attribution, like product optimizations on our website, like product optimizations on our advertiser side. And then there is the negative impact coming from an increased share of mobile, where we are now at 60% of revenue. Last year, in June, we were at 50%. And the negative effect is that the more you have got people using multiple devices, the more often they count because the cross-device matching is still very challenging. So if you only had a desktop and then you buy a mobile phone, then you're all of a sudden 2 rather than 1. And obviously, mathematically, your conversion is half even though you still make one booking. And so that has an inflating effect on the qualified referral development and a deflating effect on the RPQR. And putting all of that together, we assume that flat is basically a good starting point, and then, obviously, if there are special developments, you need to adjust for that. Like currency in Americas obviously had a negative impact in Q3. It's likely to have a negative impact in Q4 as well. So these kind of things you need to adjust from that baseline.

Unidentified Analyst

I mean, when it comes to sort of looking at desktop versus mobile, the sort of rates at which people are sort of booking and buying on -- through mobile keep increasing. So do you think, at some point, wouldn't you see some inflation on a like-for-like basis on the mobile side?



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

Yes. I don't know. I mean, the danger if you look at the device and not at the user is that you draw wrong conclusions. I mean, so what really matters is whether you use trivago on all devices and whether you ultimately book through us. And whether that mathematically means that you never book through your mobile and always through your desktop or the opposite, in a way it doesn't really matter. And so that's why I think you need to -- as long as the cross-device attribution is still challenging, you need to be very careful in saying, okay, mobile conversion is much, much worse than desktop because there a lot of user journeys that go across devices and you can't really attribute the booking properly across the devices. So far, we have -- we are focused on the user and offering a consistent user experience across all devices and have significantly increased the mobile share without hurting the commercialization. So yes, I don't know. I mean, I'm a bit skeptical with all these individual metrics that you measure device by device because there is not a mobile user and a desktop user. There are users that use various devices.

Unidentified Analyst

As we move on a little bit to margins, what trends are you seeing in terms of your own customer acquisition costs?

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

So I guess -- what trends do we see? If you just look at the overall price of advertisement on TV, I think there are still huge efficiencies that we could -- where we could improve further. So there is definitely room to further improve. On the performance marketing side, it's a bit difficult to talk about trends because our input variable, our profitability, changed a lot. And so if we commercialize very well like in Q3, Q4, obviously at the same ROI, we can bid more aggressively or have a higher ROI at the same bid level. So it's a bit difficult to talk about, really, the underlying trends. But in general, the more you are building your brand and the more users are understanding what your value proposition is, the more efficient your various marketing activities obviously get.

Unidentified Analyst

And you've historically talked about a potential long-term EBITDA margin of 25%. Is that still a realistic goal?

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

Absolutely.

Unidentified Analyst

Great. Shall we open up to questions? I have one over here.

Unidentified Analyst

Can you talk a little bit about the relationship with Priceline after they announced the changes of the interaction with trivago?

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

What do you mean, what did they announce?



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Unidentified Analyst

In terms of how much they're using the system?

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

Yes. Okay. So you mean the comment on the earnings release, yes. So what they said on the earnings release is that, quite explicitly, I agree, that they feel that we are metasearch, in general, whilst competing with them too much on Google. And as a consequence, they reduced their activity, which is something that's not necessarily a surprise. So in a way, when you think about it, in a lot of Internet verticals, you have got this multilayer competition where you compete with your customers at the same time. And so in a way, if your customers pay you too well, in a way, then they fund their own competition, so that's nothing trivago-specific. And coming from a share of around 50%, I think you could argue that you might be at an unhealthy high share. If the share is too high, obviously, exactly what I just said is true. So they readjusted their bidding level on us, which I think could make perfect sense. And so why did they do that now and why didn't they do that earlier or later? I think when we had the adjustment in the relevance assessment, we had a drop in bids on our platform as a consequence of higher scores, relevant assessment scores, and we had to adjust our own marketing activities. So in a way, that was a point in time where it was, for advertisers, more visible than at other points in time what exactly this relationship would be, activity on us versus our activity on, predominantly, Google. So yes, I think that's something that, based on the data, which obviously we didn't have full visibility, could have made sense. And so in terms of relationship, I mean, it's like if you're permanent -- if you're competing with the customers, you're permanently in, I would say, yes -- how would you put it?

Unidentified Analyst

(inaudible)

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

Yes. Exactly. Yes, so that's the relationship and that's what it should be, in a way.

Unidentified Analyst

Any other questions? One over here.

Unidentified Analyst

Just maybe a quick one for you, like for your platform. In terms of traffic or monetization of your platform, which one you think is most important -- is more important?

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

Monetization or...

Unidentified Analyst

Or the traffic. So let's say, if you want to have more users on your platform, so then you have traffic and then you attract more, let's say, more and more to your base and then have more advertisers.

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

Yes.

Unidentified Analyst

Or because, as you said, you want to have -- let's say, the average revenue per user will drive the monetization, so you choose more on the high-quality users.

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

Yes. So overall, the thing that is important is the booking value because that is what is making money for advertisers. And in a way, it doesn't really matter whether you have 1,000 users that book once or 1,000 users that book 1,000 times. In a way, as long as you create this 1 booking and pay the right price for it in terms of acquisition costs. The attribution is not saying, okay, I only want to acquire very, very highly converting traffic. But it basically says, okay, let's spend the right amount on it and let's be aware how much it's actually worth and not spend on click outs and overspend, basically, on high-click, low-booking users and under spend on low-click, high-booking users. So there's more -- be aware what the ultimate value is and spend appropriately. And as a consequence, be more focused in your spend. So it's not that one conversion level is better than the other. There is a value for -- an ultimate value that we hand over to our advertiser and you need to be aware of that so that you spend appropriately to attract that traffic.

Unidentified Analyst

So we have another one over there.

Unidentified Analyst

Could you just talk a bit about your plans in AI? You obviously bought tripl, and is that, what you're planning to spend there, is that like a discreet budget or is that just that you see growing over time? Or is that something that's just part and parcel of your ongoing development budget?

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

So our M&A logic is actually quite simple. We've got a clear idea what our technology roadmap is in the foreseeable future, and we are scanning the market and seeing whether it is actually better and faster to achieve some of these developments by acquiring technology or by acquiring talent. And tripl was part of that strategy. And if we come across other companies that have technology that we would want to develop ourselves or that is on that roadmap, we would seriously consider. If there's -- I mean, just AI for the sake of it, I mean, then not necessarily. So it has to fit into the overall pipeline. But yes, absolutely, it's obviously a very important part of the future development.

Unidentified Analyst

Any other questions? Let's discuss a little bit the competitive environment then. Google has been sort of increasing their efforts into travel over the last 5 years or even longer, and the offer has improved. I think, they sort of they do -- it is better than it was some time ago. Has it been having an impact on your business? How do you see Google, themselves, as a competitor?

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

Google is, from our perspective, the key competitor. So the way we look at the overall market is that we are a specialized search and Google is obviously the incumbent generalist search. And we think travel is sufficiently complicated that you will have an edge, obviously, if you work hard

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as a specialist over a generalist. And our marketing spend is targeting people that use Google as a default and show them -- and explain to them our value proposition and then show them, through performance marketing activities, how that experience can be better than the generalist search that you have on Google. And so in a way, it's for sure that Google is our competitor. And again, we are their customer, so a similar situation, then, than with our advertisers. On the overall competitive situation, you don't have a monopoly on any idea there. And so I think we have -- the key thing is that you need to continuously innovate and come up with new features, new ideas how to communicate and not stand still because everything that you do can be copied, obviously, in a certain time period. And yes, so I would say that's business as usual now. So if you do something well, somebody else will copy it and you need to come up with something that's even better. I mean, that's...

Unidentified Analyst

So how would you summarize sort of the key features that you think make trivago the sort of winning customer proposition for a consumer right now relative to a Google?

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

So we -- the way we structured this is that the key value proposition, basically, is threefold: one is choice, one is availability and the third one is price. Starting point is that, as far as we know, we've got a broader offer -- a broad offering, and we've got more advertisers connected than anybody else. And so as a consequence, we have not only a broader pool to choose from but also obviously broader availability, and we've got the maximum transparency in terms of price comparison there. In terms of choice, I think there is a lot more potential for a vertically specific search because the search, so far, doesn't consider sufficient different elements and dimensions. So for example, if you look for a hotel you can obviously say, I want to have 5-star hotel and I want to have gym and I want to have whatever, but the search is still pretty binary. So it doesn't say, okay, actually, a good gym is actually better than a bad gym. So that is more relevant. So that is something that you're much more likely to book or that is 4 star, but still is very, very high end, so you might still consider it. So it is too much black and white, in a way, in the selection process. And they're, obviously, focusing on one vertical and generating and modifying the location-specific content directly has a huge advantage in really matching the searched items with the search interest.

Unidentified Analyst

I mean, and you historically, at least, when I used to look at the travel sector back in the day, we used to sort of see that people actually sort of looked at different OTAs, different hotels' individual sites before they actually made the booking. Now why would you sort of try to switch into a model where you actually have to book through the partner in order to monetize? It seems -- I mean, realistically, somebody might go to trivago, end up at the hotel, then come back a few days later and book directly on the hotel?

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

Yes. I mean, that's in a way -- that would be okay because the advertiser could measure that. And if his attribution is done well, he would attribute that value to us. I think if somebody wouldn't even click, then it is obviously more problematic. But I think that's okay.

Unidentified Analyst

Great. Anybody have any final questions? I'll just do sort of a couple more then. Japan has been mentioned as a sort of key opportunity for you in the past.

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

Absolutely, yes.

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Unidentified Analyst

Can you give us an update on how you see that market developing?

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

It's a huge economy with a very interesting market structure. And we started to scale there in 2016 and would continue to do so for quite some time, I would hope. So it's -- yes, it's a very big opportunity, very big economy, very high booking value per booking as a consequence, obviously, and very interesting.

Unidentified Analyst

And finally, if you were to lay out the priorities for 2018, what would they be?

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

What would the priorities be? I don't know. I'm not sure that I will tell you.

Unidentified Analyst

You don't need to. I'm not looking for sort of specific guidance or targets. Just what your areas of focus will be?

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

I think, I mean, generically, it is what I said before, I mean, we continue to -- need to continue to opt to innovate in the various parts of the business. So obviously, in the product, because that is what is driving the value to the user, and then in the communication of the value proposition. On the marketplace side and on the advertiser side, obviously, to work closely together with the hotel chains will continue to be in focus. And alternative accommodation types, our focus on it will continue to be a big focus. And so -- and then, obviously, the international expansion will also continue to be in focus.

Unidentified Analyst

Great. Thank you very much.

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

Thank you.

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