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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the trivago Q2 Earnings Call 2022. (Operator Instructions) I must advise you, the call is being recorded today, Wednesday, the 10th of August 2022.

We are pleased to be joined on the call today by Axel Hefer, trivago's CEO and Managing Director; and Matthias Tillmann, trivago's CFO and Managing Director.

The following discussion, including responses to your questions, reflects management's views as of today, Wednesday, 10th of August 2022 only.

trivago does 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 the Q2 2022 operating and financial review and the company's other filings with the SEC for information about factors which could cause trivago's 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 trivago's operating and financial review, which is posted on the company's IR website at ir.trivago.com. You are encouraged to periodically visit trivago's Investor Relations site for important content. Finally, unless otherwise stated, all comparisons on this call will be against results for the comparable period of 2021.

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

Axel Hefer - *trivago N.V. - MD of Legal, Marketplace, People & Culture and Technology, CEO and Management Board Member*

Thank you, everyone, for joining us for our Q2 '22 earnings call today. As COVID-19 measures have been lifted all over the world, we have seen travelers regaining confidence, leading to significant pent-up demand during the summer so far.

We have successfully launched our summer TV campaign and ramped up performance marketing in a disciplined way, leading to the highest quarterly adjusted EBITDA in our history. However, the macroeconomic outlook has become less certain, with rising interest rates and increased inflation putting pressure on consumers' discretionary spending.

As a result of the changing macroeconomic environment, we have performed a goodwill and indefinite-lived intangible asset impairment test, which resulted in our recording of an impairment charge, driving our net loss of EUR 59.8 million for the quarter.

Amidst rising prices, we believe that our core value proposition, price comparison, will be even more relevant to travelers as they will become more price sensitive. We have already taken steps to better meet travelers' increasing needs to compare prices.

First, we plan to fully focus our teams on our core offering of accommodation price comparison as saving money is already on top of travelers' minds. This does not only mean that we focus on enhancing our price comparison offering, but also that the messaging in our advertising will focus on showing the value we can bring in a world with lower disposable incomes and price inflation.

We see already that our branded traffic is outgrowing our performance marketing traffic and believe that this is a sign for an improved market sentiment around our value proposition. To reflect this focus, we have discontinued some of our side products and offerings such as weekend.com and display advertisement.

Second, we have started to reduce our cost to counter cost inflation and the potential weakening of the market environment and plan to have full flexibility to invest in a market where our value proposition is more needed than ever. Through our cost-saving measures, we plan for our overhead costs to be lower in '23 versus 2022.

With that, let me hand over to Matthias.

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Thank you, Axel, and good morning, everyone. We are very happy with our operational and financial performance in our underlying core business in the second quarter.

As Axel mentioned, our adjusted EBITDA of EUR 30.3 million was not only an increase of more than 60% compared to the same period in 2019, but it also marks the highest quarterly adjusted EBITDA in the history of the company.

Our qualified referrals and referral revenue continued to increase throughout the quarter. And in the last week of July, we achieved the highest daily revenue since the start of the pandemic, a sign of the continued recovery that we are seeing in travel generally and in our business.

Let me give you a bit more color on our qualified referral and revenue per qualified referral development in the second quarter. During the quarter, we have seen a steady normalization of travel activity across many of our core markets, as almost all COVID restrictions have been phased out.

Consequently, similar to last year, we saw strong pent-up demand going into the summer season, in particular in Europe, leading to an increase in our qualified referrals of 15% year-over-year. Our auction remained very strong with improved bidding dynamics, leading to an increase in revenue per qualified referral of 31% year-over-year.

The combination of higher volumes and better monetization led to an increase in referral revenue of 51% year-over-year. Qualified referrals increased strongest in our segment, Developed Europe, at 20%. Easier comps at the beginning of the quarter and strong summer travel trends across our markets were the key drivers.

Branded qualified referrals grew faster than performance marketing qualified referrals for us, as we started to ramp up our brand campaigns at the end of May and continue to be disciplined with our profitability targets in paid search. Revenue per qualified referral increased by 28% year-on-year due to the combination of higher monetization, higher booking conversion and positive country mix effects.

In Americas, qualified referrals increased 9% year-over-year. Brand was the fastest-growing channel as we ramped up our brand spend as planned and saw good results from our summer TV creative.

In performance marketing channels, we observed higher competition leading to higher CPCs, similar to the development in our own auction. As already mentioned, we remain disciplined and invested at our target ROAS levels, which were unchanged compared to prior quarters in performance channels. Revenue per qualified referral increased by 36% year-on-year, more than in Developed Europe, despite country mix effects, which had a negative impact of close to 10%. Those negative country mix effects were more than offset by positive FX effects, mainly due to the strong U.S. dollar relative to the euro.

The biggest driver for the increase in revenue per qualified referral was an increase in our monetization due to the strong auction dynamics. In addition, our average booking value increased around 15%, while conversion rates increased only slightly year-on-year. The performance in our smallest segment, Rest of World, was mixed. Eastern Europe continues to be impacted by the war in Ukraine, and the recovery in APAC is still lagging. However, there were also green shoots, like for example, an increase in travel activity in Australia and Japan.

Overall, qualified referrals increased 14% year-on-year and remain at relatively low levels compared to pre-pandemic. Our auction developed nicely though, similar to the other regions with a significant improvement in monetization, leading to an increase in revenue per qualified referral of 37% year-on-year.

Moving on to advertising expenses. With the increase in travel demand in most of our core markets, we ramped up our marketing expenses by 32% in the second quarter year-on-year and still reaching or exceeding our target growth levels across all channels. Overall, our ROAS improved to 166% or by 21 percentage points compared to the same period last year.

While we have not seen any significant drop-off in lodging trends in Q2 or in July, the macroeconomic outlook has worsened and near-term visibility remains relatively low. Rising interest rates, high inflation and a contracting economy in the U.S. and Europe are weighing on consumer sentiment. As a consequence, we took a cautious approach with our brand marketing investments and did not increase our target budget despite higher-than-expected returns.

Our overall advertising expenses were roughly half of 2019 spend levels as we continue to focus on high-quality traffic with high long-term returns. Excluding advertising expenses, our operational expenses increased EUR 1.4 million in the second quarter or by 4% compared to the same period in 2021. The increase was mostly driven by the impairment of capitalized software assets belonging to discontinued projects and products, expenses incurred to acquire traffic in connection with our B2B solutions that we did not incur in the same period in 2021, and higher people and office-related costs as we introduce a hybrid working model and moved back to our campus.

As we prepare for continued high uncertainty in travel demand, we plan to keep our operational expenses, excluding advertising spend, stable in the second half despite inflationary pressures. We expect to be able to further reduce our operating expenses in 2023 versus 2022 by focusing on our core product and deprioritizing noncore projects.

Cash and cash equivalents decreased by EUR 64 million in the second quarter compared to the beginning of the period, mainly driven by a shift of EUR 50 million from cash to term deposits and the payment of the penalty imposed by the Australian Federal Court in the first quarter of approximately EUR 30 million, which we paid out in June.

We remain well capitalized with a cash position and fixed-term deposits of over EUR 250 million and continue to be debt-free. Our net loss in the second quarter was EUR 59.8 million. Due to the deteriorating macroeconomic conditions, including rising interest rates and increased inflation, we performed the goodwill and intangible assets impairment test during the second quarter of 2022.

As a result, we recorded an impairment charge of EUR 84.2 million. Our intangible assets were impaired by EUR 27.2 million, and our goodwill balance was impaired by EUR 57 million, which outweighed the strong operational performance in our core business. As already mentioned, our adjusted EBITDA was EUR 30.3 million and EUR 51.4 million in the second quarter and the first half of 2022, respectively, compared to EUR 18.8 million and EUR 40.2 million in the same periods in 2019, an increase of 61% and 28%, respectively.

During the last 12 months, our adjusted EBITDA was EUR 86.5 million at a margin of 18%, close to our long-term margin goal of 20%. We now expect our full year 2022 adjusted EBITDA to exceed our pre-pandemic full year 2019 adjusted EBITDA, which was EUR 69.9 million.

Looking at recent trends. In July, qualified referrals as a percentage of 2019 were above 60%, slightly lower compared to June, while our referral revenue slightly improved versus June as our revenue per qualified referral continued to improve due to strong auction dynamics.

Our brand qualified referrals continue to grow nicely year-on-year at brand spending levels comparable to those of last year in July. In Europe, qualified referrals decreased from around 80% of 2019 levels in June to around 75% in July, while referral revenue was stable at around 75%.

Let me also add here that the second half of July was slightly stronger than the first half. In Americas, qualified referrals were around 60% of 2019 levels in July, slightly down from June, while referral revenue improved further from 70% to around 75%.

We continue to see a very competitive auction in Americas, in particular, in the U.S., driving higher revenue per qualified referral. In our segment, Rest of World, qualified referrals and referral revenue were roughly flat in July versus June at around 50% and 45% of 2019 levels, respectively.

We do not expect a significant change for the rest of the quarter. We will continue to be disciplined with our marketing spend while keep investing into brand to rebuild our brand baseline traffic. As we mentioned in prior quarters, this will take time, and we plan to do it in a sustainable way by focusing on long-term returns.

With that, let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Naved Khan from Truist.

Naved Ahmad Khan - *Truist Securities, Inc., Research Division - Analyst*

A couple of questions from me. So I understand the caution around the macro and because of the inflationary pressures. But it looks like July trends are holding up. Just how to think about the back half of this year for you for the business and the clearance seasonality. Shouldn't Q3 be slightly bigger versus Q2 if I layer that in? And then obviously, it depends on your marketing activity as well. So just kind of maybe give us some more color on how we should think about that. And then I have a follow-up question.

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Sure, Naved. Let me take that question. So I do agree. Q3 should be bigger in terms of revenue versus the second quarter. So there, that is our normal seasonality, and we don't expect that to change.

Maybe let me give you a bit more color on what we saw in July. So as I said, we saw a continuous improvement week-on-week in our referral revenue as a percentage of 2019 levels. In Europe, for example, we were around 70% of 2019 referral revenue at the beginning of July, but above 80% in the last week of July.

In Americas, the trend was very similar, starting the month below 70% of 2019 revenue and improving to around 80% at the end of July. And that is, for the month, an improvement versus the second quarter.

I think other companies have reported similar trends. And I assume it's more macro driven than anything we did specifically. We have seen it in core European markets, like for example, Italy or the U.K., the first 2 weeks of July were, in particular, very hot, which tends to have an impact on travel demand. So yes, so that might have affected demand temporarily.

And we all have heard stories around chaos at airports with flights being canceled, et cetera, as well. However, just looking at the bidding behavior in our auction, we cannot call out an increase in cancellation rates for accommodations. As I said, the auction continues to be very strong in Americas in particular, but also in Europe. And so we do expect a further improvement in Q3 with Q2 for referral revenue as a percentage of 2019.

Naved Ahmad Khan - *Truist Securities, Inc., Research Division - Analyst*

That's helpful. And then the follow-up I had is just around your commentary around maybe increased competition. I think you referred to the U.S. performance channels. Can you maybe give us a better flavor of what you're seeing? Are the CPCs higher because people are bidding more aggressively? Or are there more players in these performance channels because of which you might be seeing more competition?

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Yes. So first of all, yes, my comment referred to the auction overall. But then specifically, we see that in Americas and in the U.S. And there, it's probably a combination if you compare it to last year, so more players being active.

But then obviously, the auction is mostly driven, if you look at Google, by large players. And there we see an increase in CPC bids. So it's very similar to what we see in our own auction. So I wouldn't say that the competition increased more in other performance channels than in our own auction, but it's similar, so consistent with what we are seeing.

And for us, obviously, the decision is then do we want to bid up against that? Or where do we fit in the auction? And what does it mean for our own bidding levels? And there, we decided to keep our profitability targets and maybe sacrifice a little bit of volume, but focusing on traffic that is either directly profitable for us or where we do expect long-term positive returns. But we didn't bid for traffic where we have low conviction that it would give us a nice return over a certain period. And yes, that was my commentary there.

Operator

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

Lloyd Wharton Walmsley - *UBS Investment Bank, Research Division - Analyst*

I have 2, if I can. First, maybe you can give us a sense of what is changing in the auctions at Google. They've changed around their travel, how they do free versus paid in metasearch. Wondering if you can just comment on like how that's changing, whether it's pricing or volume or both? Just what you're seeing there.

And then secondly, it looks like Expedia share on the platform came down a little bit. Sequentially, it's down a little bit versus '19. It sounds like they're talking about focusing more on brand ads and app install, things like that. So curious how that may or may not impact your auction and then may or may not cause some deflation in your own customer acquisition channels if they step back a bit. It sounds like that's not the dynamic overall in performance channels. But wondering if you have a view on how that may change as they kind of change their priorities.

Axel Hefer - *trivago N.V. - MD of Legal, Marketplace, People & Culture and Technology, CEO and Management Board Member*

Sure. So on the introduction of free links in Google Hotel Ads. So that is, from our perspective, is something that is actually interesting so because there's a certain percentage of the traffic going to the lowest price, which is coming from the hotels directly or from OTAs.

But given that we have or we believe that we have the broadest coverage of online travel players, we, in a lot of cases, actually benefit from that free traffic. So for us, it is net positive from our perspective. But it obviously is a big change.

And depending on the volume that Google is sending on the main paid auction versus the free listing, that could actually change over time. The second question on the interpretation of the advertiser mix, there, you have to be a bit cautious because it is global, the global mix. And there are obviously big mix effects in there that are driven by different developments in different markets. So you can't just infer from that one-to-one change in bidding behavior.

We don't really comment on individual advertisers. But what we can say, and I think Matthias mentioned it before, the auction is very healthy. And that, in our case, means that our big partners are very keen on growing their business and attracting a lot of travelers to their websites, but also that strong regional players are very active. So there is nothing that we see today that would concern us in the current dynamic.

Operator

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

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

Two here. I was looking at your U.S. QR growth versus '19. It recovered about 3 points maybe on the performing compared to other regions. Maybe can you explain why a little bit there. And you also talk about your concerns on consumers potentially lower their discretionary spending. I'm just curious, are you seeing any consumers trading down or more focused on pricing, for example, looking at lower ASP hotels, shorter stays, so on and so forth?

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Thanks, James. I mean, you said U.S. QRs. I assume you mean Americas QRs, right? I mean if you compare that to Europe, there are a couple of effects there. So if you look at the overall referral revenue recovery with 2019, both regions are actually quite similar, both in Q2 and what we are seeing right now.

But there are, if you look at the price and volume components, there are differences, that's true. In Americas, as I said, we see a bit stronger auction, so a bit better pricing, but that is also reflected in other channels. And then it depends on what we do with our marketing expenses and how aggressively we drive QRs to our website. And as I said, we focus on high-quality traffic. And we don't specifically look at growing our QR base, but we look at the long-term return.

And there you can see again in the second quarter that the absolute contribution for both regions is actually quite similar. For Europe, you see when you look at the year-over-year, that there is a comp effect in there. So April last year was a bit weaker still. So that is reflected now in a slightly stronger QR growth. And then as well in Europe, we do have a stronger brand in some of the markets. So given our current brand spend level, the recovery in QR is not as dependent on that as it might be in other markets in Americas.

Axel Hefer - *trivago N.V. - MD of Legal, Marketplace, People & Culture and Technology, CEO and Management Board Member*

Yes. On your second question, so just to be clear, I mean, the summer is so far very strong, and that's also what we've expected because the summer is benefiting from a couple of things. Obviously, there is a lot of pent-up demand. People have not been able to travel for quite some time freely. So a lot of trips have been pushed back to see friends and family, to see cities that you want to go to, to see Disneyland, et cetera. So that is clearly what you can see.

There's also and we've done on some research around that, there were clearly savings coming out of the pandemic, where people were not spending as they usually do on going out, on traveling, et cetera. So there's quite some money that was available to be invested into the summer travel season.

On the other hand, what Matthias has mentioned before, you can clearly see that the staffing issues that you see in many, many sectors is most severe in the hospitality and travel industry because obviously, in the pandemic, people have reduced their staffing levels and are now struggling to rehire.

So the experience, in many cases, has been poor. So that's what you see in the summer, and that the business is very strong, but our outlook for the next 12 months is actually more negative in terms of volume.

And why is that? Because the costs in travel have to go up. I mean to increase staffing levels, you need to increase salaries to attract more people to the sector. The disposable income is coming under pressure to different extents in different regions, obviously, and at different points in time. But the inflation is hurting the disposable income.

And so that's why we think the travel volume overall is likely to come down. On the other hand, for us specifically in the travel industry, that is not necessarily a bad thing because we bring more benefits to the travelers. We help to save money. So the more you are concerned about saving money, the better our value proposition is and the better the fit of our product and service is with the current market sentiment.

And we've seen some of that change in sentiment through, as I mentioned, through the development of our branded traffic development, which has outgrown performance traffic even in this summer.

Operator

Our next question comes from the line of Brian Fitzgerald from Wells Fargo.

Michael Ruch

This is Michael Ruch on for Brian Fitzgerald. It seems like airlines are still stretched to capacity. I was hoping you could just put a finer point on the impact in the quarter from flight disruptions. And do you have a sense for the extent to which those are hampering cross-border travel? And then lastly, I guess, are you seeing easing constraints as capacity and staff get added?

Axel Hefer - *trivago N.V. - MD of Legal, Marketplace, People & Culture and Technology, CEO and Management Board Member*

I mean you see some effect. I mean for us, I think what's important to point out, I mean, for our overall business, it's about accommodation. So if there is a shift from transportation means, that is something that is not really affecting us.

But I mean just to give you some anecdotal evidence. I mean in the U.K., for example, there is a significant increase in stays around the airports in this summer, which is clearly coming from the fact that it's less predictable. What are the waiting times? People are just or quite a few people are just staying if they have to fly out in the morning, which I think is quite interesting and what you would expect.

Others (inaudible) have quite a few markets where the share of international travel is not back to where it used to be in 2019, to some extent driven by Asia and still the complication of some of the attractive destinations there, but also because air travel, the complication of some of the attractive destinations there but also because air travel is actually not back to where it used to in terms of convenient staffing levels, pricing as well, et cetera. So yes, we do see some of that effect, but we don't see a negative impact on our business, which you wouldn't necessarily expect.

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Yes. And just to add to that. So I mean, we have seen overall that, for example, city trips recovering quite nicely, and international city trips recovered significantly faster than domestic city trips year-over-year, at least on our platform, what we see in our click-out data.

So taking the U.K. as an example, click-outs for our top 10 international cities in June were more than 4x higher compared to June last year. And if you look at our U.S. platform, we saw an increased interest in international destinations with Mexico, Turkey, Italy, Dominican Republic and the U.K. on top of the list.

And for the U.S., the click-out share in international destinations, with domestic was higher than in 2019 June. So overall, I think we do see a decent recovery of international travel. And it's nothing, I could confirm from just looking at our click-out data.

Operator

Our next question comes from the line of Ron Josey from Citi.

Jeff Seiner

This is Jeff Seiner on for Ron Josey. If I could just follow up on that last one on urban travel growing faster year-over-year recently kind of as it lagged previously. Does that impact at all the pricing that you're getting? Was that a factor in why you were able to drive revenue per qualified referral, the growth was so high this quarter?

And then also just kind of clarifying on the marketing spend in the back half. Should we expect, one, your comments around kind of cost controls. Would that mean that you're spending incrementally less on your brand advertising campaign? And how should we think about kind of the seasonality of that spend in the second half or to be just kind of the normal cadence in Q3 and Q4?

Matthias Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Yes, sure. So on your first question, I mean, we talked about it in the past. City trips has been very important for us historically and represented a high share of our overall click-out revenue.

And last year, we said that we believe with the recovery, city trips will recover as well and they will catch up as we saw, first, a shift to more rural nature destinations. And we said when that happens, that should benefit our auction.

So obviously, it's very difficult to pinpoint exactly the effect and you don't have a perfect correlation. But what we do see is that the share of city trips is increasing and we do see that our auction is improving, and that is the biggest driver in the improvement in revenue per qualified referrals.

On your marketing question, so first of all, we will continue to invest into our brand. As we said before, in Q2, we were at 50% of our overall 2019 marketing expenses, so performance and brand for the same period in 2019. And I mean, we do not provide the split of performance and brand spend. But given we started to ramp up our brand campaigns end of May, you can guess that we were closer to 2019 spend levels with performance channels compared to brand. In Q3 now, this could be or should be a bit more balanced.

And as a percentage of 2019 marketing spend, we expect to be above the 50% that we saw for the second quarter. But as I said many times before, we won't go back immediately to 2019 brand spend levels. It will take time to rebuild our brand baseline after very limited branding activities in the past 2 years.

Now the impact will be that as we ramp up our brand marketing spend, our ROAS will come down compared to the first 2 quarters. But we do expect to remain above 2019 levels as we expect to benefit from continued leverage on the marketing side in both performance and brand channels in Q3.

And then in Q4, as we have always done, we tend to decrease our brand marketing activities given it's a low season quarter, given the pricing on TV becomes more expensive. And that's why historically, in Q4, we had higher ROAS, and I wouldn't expect a change in seasonality there for us for Q4 this year.

Operator

There are no further questions at this time, so I'll hand the conference back to you.

Axel Hefer - *trivago N.V. - MD of Legal, Marketplace, People & Culture and Technology, CEO and Management Board Member*

Yes. Thanks for taking the time to participate in today's earnings call. We appreciate your continued interest.

Looking back at the past quarter, we are satisfied with our results. As we head into Q3, we are confident that our core value proposition is more relevant than ever before. We are confident that we are in a favorable position to empower travelers to find great deals despite rising prices and inflation. Our teams have worked intensively on developing our core product and relevant price features, and we'll continue to do so with even more focus as we head into autumn. Many thanks, and see you next quarter.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.
