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TRVG.OQ - Q4 2023 Trivago NV Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the trivago Q4 Earnings Call 2023. (Operator Instructions)

I must advise you the call is being today, Wednesday, the 7th of February 2024. We are pleased to be joined on the call today by Johannes Thomas, trivago's CEO and Managing Director; and Kevin Hu, trivago's Interim CFO. The following discussion, including responses to your questions, reflects management's views as of today, Wednesday, February 7, 2024, 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 Q4 2023 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 those 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 2022.

With that, let me turn the call over to Johannes to begin.

Johannes Thomas - *trivago N.V. - MD, CEO & Management Board Member*

Good morning, everyone, and thank you for joining us for our Q4 2023 earnings call. The fourth quarter has unfolded as anticipated. We saw a decline in revenue in line with the trends observed in previous quarters. This decline was primarily due to lower levels of monetization and headwinds in performance marketing. Additionally, we have felt the adverse effects of low brand marketing investments in the recent years. However, these declines were partially mitigated by volume growth in our Rest of the World segment.

Jasmine, Andrej and I returned to trivago about 9 months ago with Kevin providing remarkable support as the interim CFO and to Robin's arrival. As a new leadership team, we continue to believe in the potential of the business. The value proposition of trivago remains highly relevant as consumers continue to be price conscious and the trivago brand is well-recognized across the globe. This provides a strong foundation for us. We remain confident that maintaining the business at a full year breakeven adjusted EBITDA will enable us to rebuild our branded visitor baseline and achieve a double-digit growth in the medium term. We are committed to executing our strategy to revitalize our brand and enhance our products in every aspect. Let me now give you an update on our strategic priorities.

Our first strategic priority is branded growth. Within just a few months, we have assembled a highly skilled media buying team that effectively optimizes our global brand marketing investments. We have undertaken a brand refresh to enhance trivago's memorability and appeal. By the end of Q4, we launched TV campaigns in over 20 markets and introduced new AI-powered Mr. trivago spots. We are thrilled by the progress and our team's rapid execution. While it's too early to fully assess the brand campaigns impact, initial results are promising, particularly in developed Europe and the Rest of the World. The response in Americas has been mixed with North America performing better than LATAM. We are continuously optimizing our brand budget allocation as well as our TV creative. Over time, we anticipate the efforts will enhance the efficiency of our marketing investments and expect to see the compounding effects to materialize over time.

Our second strategic priority is to enhance our hotel search experience. We have travelers find the ideal hotel. Our ongoing website tests have been focused on improving the visual experience of hotels and exposing more relevant content to our users. Notable efforts include AI-generated hotel highlights which we qualified and launched for 60,000 hotels. The hotel highlights provide users with key aspects to know about the hotel, helping them in selecting the one that best fits their need. We have also introduced new static search results stages, targeting our users with low travel intent. This change has led to higher user engagement and improved quality of leads we sent to our partners.

Our third strategic priority is to offer the best deal discovery experience. We help travelers find great hotel deals and better prices. Our experiments have been aimed at refining how we display and rank deals on our search results. Furthermore, we have improved the rate accuracy on our platform by evolving our deal intelligence and rate accuracy scoring system for our partners. Continuing to improve our deal exposure and rate accuracy will be focus in the coming months as we expect these improvements to foster trust and retention among our users.

Our fourth strategic priority is our advertising partners. We empower them to realize the full potential on trivago. In Q4 2023, we began testing the second price auction in 3 key markets. This initiative aims to simplify our auction, and we anticipate that it will unlock user value by delivering more relevant search results. The initial test was successful, and we are in the process of expanding the test. As we continue to see satisfying results, we aspire to roll out the second-price auction model across all markets before summer. We don't expect this to have a material impact on our monetization in the short term, but anticipate positive long-term effects.

To sum up, we see great momentum within the organization, improvements in our products and encouraging indications from our brand investments, which sets the stage for the results in the rest of the year. We have streamlined our operations and organizational structure around our strategic priorities with the objective to drive our pace of execution and learning. As we look ahead, we are confident of showcasing our enhancements and a positive brand trajectory.

With that, I'd like to pass over to Kevin.

Kevin Hu - *trivago N.V. - Interim CFO*

Thank you, Johannes. Welcome, everyone, to our fourth quarter earnings call. I will start with a review of our fourth quarter results as well as share some early thoughts for 2024. All comparisons for 2023 are on a year-over-year basis unless otherwise stated. During the fourth quarter of 2023, we achieved revenues of EUR 91.7 million, which was a 13% decline compared to prior year fourth quarter. The year-over-year decline was at a similar rate to what was observed in the second and third quarters of this year and with a seasonality trend, which was the same as prior year. Lower levels of monetization combined with foreign exchange headwinds negatively impacted our financials in the fourth quarter. Higher levels of competition in performance marketing channels continue to impact our traffic volumes. We also continue to observe ad format tests and changes made in our performance marketing channels with the compliance date set forth for the identified gatekeepers in the European Union's Digital Markets Act, or DMA approaching.

Diving in deeper, we see different dynamics amongst our 3 reporting segments. Referral revenues declined by 20% in Americas and by 14% in our developed Europe segment, while it increased by 14% in our Rest of World segment. In discussing our year-over-year comparisons and trends, I would like to draw to your attention and remind you of the strong prior year dynamics included in our comparative financials. The declines in our Americas and Developed Europe segment were largely driven by softer bidding dynamics on our platform compared to the same period in 2022 when we had benefited from a strong auction. Higher levels of competition in certain marketing channels continue to result in performance marketing volume losses. Combined with foreign exchange headwinds from the weakening of the U.S. dollar against the euro compared to the same period in 2022, further led the decline. In our Rest of World segment, we continue to see growth driven by the recovery in markets like Japan where we see a strong increase in travel demand as many markets in our Rest of World segment recover post COVID and also respond to increased marketing investments.

Moving on to our operational expenses. We maintained stable operating expenses at EUR 87.3 million in the fourth quarter. We incurred higher selling and marketing expenses compared to prior year, which was offset by lower share-based compensation costs and by lower personnel costs primarily attributed to noncore-related products that we stopped last year. Overall, we achieved a net income of EUR 2.5 million and an adjusted EBITDA of EUR 7.3 million during the fourth quarter. For the full year, net loss was EUR 164.5 million, which was largely driven by the indefinite-lived intangible asset and goodwill impairment analysis conducted in the third quarter in conjunction with our annual impairment test. For the full year, we achieved an adjusted EBITDA of EUR 54.1 million.

During the fourth quarter, we paid out a onetime extraordinary dividend totaling EUR 184.4 million and completed a ratio change under the company's American depository share program. I'm extremely proud and would like to thank the many trivago employees that worked hard on these transactions as we successfully returned capital to our shareholders. We continue to be well capitalized for our operating needs with cash, cash equivalents and short-term investments balance at the end of the quarter in excess of EUR 125 million.

Looking ahead to 2024, the main travel trends remained solid in January, and we continue to see strong demand for the year ahead. While discussing trends observed in January 2024 compared to January 2023, it is important to note the differing dynamics observed during the first full quarter of 2023. We enjoyed elevated levels of average daily rates and higher monetization, which resulted in Referral revenue gains exceeding 30% when comparing January 2023 and January 2022. These gains, however, did not persist throughout the first quarter as we trended lower by the end of the first quarter of 2023. As a result, we do not believe a comparison of our early January 2024 results to prior year to be particularly meaningful.

As a result of our previously announced strategy shift, we kicked off our new brand marketing campaign in mid-December. While it is still too early to conclude on the financial results, we are encouraged by early signals. While investments into our brand will have a negative impact on our near-term profitability level, for the full year 2024, we continue to expect our adjusted EBITDA to be at around breakeven levels. We remain confident that our brand investments will help us increase our brand traffic over time by keeping trivago on top of travelers' minds.

Finally, I'd like to close by sharing an update on our previously announced CFO transition. We look forward to welcoming back Robin Harries who will be rejoining trivago and stepping into the leadership team and taking on the role as Chief Financial Officer on April 1. I'd like to also personally thank all our trivago team that are leaning in during this transition period.

With that, let's open the line for questions. Operator, we are now ready to take the first question, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question for today comes from [Jeremy Lu] of UBS.

Unidentified Analyst

This is Jeremy on for Stephen. I have 2 questions. So first, you called out normalizing booking values for the first time since the pandemic this quarter. Is this a matter of supply finally balancing with demand? Or are there other factors you want to call out? For instance, do you think the consumer is trading down in terms of what they're choosing. And second, maybe this is tied to your normalizing booking value comment, but you're also calling out softer bidding dynamics on your platform in the Americas, specifically, I believe, for the first time. Is there anything idiosyncratic about the U.S. market that you can talk about?

Kevin Hu - *trivago N.V. - Interim CFO*

Jeremy, so I can take on the first question about average booking values. So overall, we continue to see hotel demand to be quite robust and at similar levels to prior year. Across the 3 segments, I can maybe walk you through a little bit more detail what we're seeing there. So in our developed Europe, we are seeing actually a higher length of stay, which is bringing up the average booking values whereas in Americas, we see a slight decrease in our average daily rate, switched together kind of net out. But these average booking values have normalized to compare to prior year levels, which was at a relatively higher level overall.

Johannes Thomas - *trivago N.V. - MD, CEO & Management Board Member*

Yes. I think that's important, and thank you for asking the question. It's not coming down, so it's normalizing on a high level. And then to your question on the bidding dynamics. That is nothing we particularly call out in Americas. I think overall, the quarter and beginning of the year has been volatile as previous years have been as well where last end of Q4 was stronger into the year was a little bit softer, but they're trending towards expected levels.

Operator

Our next question comes from Naved Khan of B. Riley Securities.

Naved Ahmad Khan - *B. Riley Securities, Inc., Research Division - MD of Internet Equity Research*

So maybe just a clarification on the trends you spoke about, Kevin, about January. So you called out the difficult comps in the beginning of the quarter, and you said they should normalize at the quarter end. But just give us some thoughts about how we should be modeling about for top line, whether similar declines as Q4 or less than that? And then Johannes, maybe just on the growth. So given that the payback from branded advertising comes with some kind of a lag, should we expect top line to start showing some growth as you progress into the year? Or do we expect that to be further out maybe 2025.

Kevin Hu - *trivago N.V. - Interim CFO*

Sure. So why don't I start with the first question, which was about the average booking values. So we do see in January so far, very similar trends to what we saw in the fourth quarter already. But maybe I can also provide you a bit more guidance on the top line and how we're kind of looking at the first quarter. So on the top line, we are expecting to see the revenue decline decelerate during the first half of the year compared to the fourth quarter. For the first quarter, we're expecting mid-single-digit declines. And that would be true for our Americas segment and also for our Developed Europe segment. While we expect for the Rest of World, we would continue to expect similar levels of growth for the first quarter.

Johannes Thomas - *trivago N.V. - MD, CEO & Management Board Member*

And then maybe I can extend to the rest of the year. I think overall expectation for us that first half is negative, and the second half turns into positive when our brand investments are paying off because there are compounding effects kicking in and the early signals that we are seeing in all segments are supporting our hypothesis on this.

Naved Ahmad Khan - *B. Riley Securities, Inc., Research Division - MD of Internet Equity Research*

Got it. That's very helpful. And then maybe a quick follow-up if I may. So it seems like you continue to see more competition in the paid performance channels. Is the trend pretty much the same as you saw in the last couple of quarters? Or has it worsened or maybe improved a little bit? Can you give us some color on that? And then as the DMA rolls out in Europe, any thoughts in terms of what we can expect in terms of impact on the business?

Johannes Thomas - *trivago N.V. - MD, CEO & Management Board Member*

Yes. So there is no big change in terms of impact. We continue to have a negative impact until roughly second quarter. That is when the ad changes started when the headwind started. So until then, we expect some headwind to continue, though it's volatile. We are seeing Google to do changes as they aim to comply towards March, I think, is 8th of March. And we see bigger changes were in Europe and they are not linking to their hotel product anymore from the search results page. They instead have placed this card on the right side where they show the hotel similar to other attractions you can find on Google. And at the same time, they have increased the exposure of PPAs, at least from what we observed. And we have launched and participated in that auction across all relevant markets in order to learn and gain share if we see conversion rates improving. And that is a problem we called out in the past. We see much lower conversion rates on PPA compared to tax ads. And that is something where we are trading off where we are basically investing. And it's still unclear what changes will be present in the future. That depends on the test of Google and also what will be accepted by the commission.

Operator

Our next question comes from Doug Anmuth from JPMorgan.

Dae K. Lee - *JPMorgan Chase & Co, Research Division - Analyst*

Great. This is Dae Lee for Doug. The first one is on monetization trends for this year. And how do you think about monetization headwinds easing as we move through 2024? And then secondly, how should we think about the magnitude of your ad spend this year relative to how much you spent last year? Should we be expecting a single-digit type of growth? Or will it be more in the double-digit type of levels?

Johannes Thomas - *trivago N.V. - MD, CEO & Management Board Member*

Yes. Thank you for your question. So monetization, as we said, it's trending towards expectations it's very hard to predict where this is going throughout the year. And our conversation with our partners, they signal that they are happy with our incrementality. Our brand investments deliver additional incrementality, improved quality of the leads we are sending. We do product improvements that deliver improved quality of leads we are sending. So that is basically our general perspective on monetization that we wouldn't see big changes. In terms of spend, we certainly invest substantially more in brand marketing and less than performance marketing. And we see a shift of brand marketing, taking a bigger share of our business. And whether we will see single or double-digit growth depends on what happens in Google, how does the compounding effect kick in throughout the year. So it's a bit early to give a clear signal on that. What we are confident is that we can deliver double-digit growth in the medium term. And that is basically where we are guiding at this point.

Operator

Our next question comes from Ron Josey of Citi.

Unidentified Analyst

This is Robert on for Ron. First question is on ad spend for next year. How should we think about the allocation of these investments in terms of striking existing markets versus getting new markets? And which new markets are you guys leaning into the most? I mean -- maybe I'll pause and ask the second question after.

Johannes Thomas - *trivago N.V. - MD, CEO & Management Board Member*

So we're not commenting on individual markets. And generally, we are not dogmatic about where we invest into. It's path dependent. So we have invested in more than 20 markets by end of Q4. We might try out additional markets and it's basically the relevant markets that we are running on at the moment. And we are focusing on those where the unit economics work for us. So we are investing into brand and see the response and then understand where it's most efficient to put our dollars. And that is a gradual process that we optimize over time.

Unidentified Analyst

Okay. Got it. That's helpful. And then second question on the adjusted EBITDA guidance, relatively unchanged from last quarter. Can you guys maybe just walk through where you see the most opportunity for outperformance here?

Kevin Hu - *trivago N.V. - Interim CFO*

Sure. So for the adjusted EBITDA, with these additional investments into our brand, we will expect to have a negative impact on the near-term profitability level. So in the first half of the year, we would expect that adjusted EBITDA to be negative, but we would stay disciplined. So this would be a low single-digit number, that's negative. And then that would trend more positively towards the second half of the year, where when Johannes mentioned about the payoff, the dividends of the brand investments that we're making to get us to the full year breakeven. In terms of OpEx spend, I would imagine that we would keep that at a very stable level, consistent with prior year. And this is OpEx adjusted for advertising spend and share-based compensation costs.

Operator

Our next question comes from Stan Velikov of Wells Fargo.

Stanislav Nikolaev Velikov - *Wells Fargo Securities, LLC, Research Division - Associate Equity Analyst*

I'm curious how you are looking at the progression of brand spend through the year. What cadence should we expect to see in 2024. And do you I guess -- your prepared remarks kind of implied the brand spend would be gradually increasing.

Johannes Thomas - *trivago N.V. - MD, CEO & Management Board Member*

So we are not commenting on where exactly we spend. What we do in general is we spend more consistently. And the seasonality to last year's will not substantially change from our brand spend. This is maybe how we can think about it.

Operator

(Operator Instructions) Our next question comes from Kevin Kopelman from TD Cowen.

Kevin Campbell Kopelman - *TD Cowen, Research Division - MD & Senior Research Analyst*

Could you touch on Google's deprecation of or planned application of cookies in Chrome? How important or how big of a change will that be for trivago and any impact that you might see.

Johannes Thomas - *trivago N.V. - MD, CEO & Management Board Member*

That is on our radar, and we are working on our broader display campaigns and so on, on finding ways to do that. It will not have a material impact on our business. Also here because brand is very strong, performance marketing is strong, and there is no big impact on those channels.

Operator

At this time, we currently have no further questions. So I'll hand back to Johannes for any further remarks.

Johannes Thomas - *trivago N.V. - MD, CEO & Management Board Member*

Thank you for joining us today. Our mission is clear. We want to be the obvious choice for price-savvy travelers searching for a hotel. We are energized and fully committed to the journey ahead. And thank you again for your trust, and we look forward to sharing our continued progress with you.

Operator

Thank you for joining today's call. You may now disconnect your lines.
