

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TRVG.OQ - Q3 2019 Trivago NV Earnings Call

EVENT DATE/TIME: NOVEMBER 05, 2019 / 1:00PM GMT



NOVEMBER 05, 2019 / 1:00PM, TRVG.OQ - Q3 2019 Trivago NV Earnings Call

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Brian Thomas Nowak *Morgan Stanley, Research Division - Research Analyst*

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

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

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

Lloyd Wharton Walmsley *Deutsche Bank AG, Research Division - Research Analyst*

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

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

PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the trivago's Q3 Earnings Call 2019. I must advise you the call is being recorded today, Tuesday, the 5th of November 2019. We are pleased to be joined on the call today by Rolf Schrömgens, trivago's CEO and Managing Director; and Axel Hefer, trivago's CFO and Managing Director.

The following discussion, including responses to your questions, reflects management's views as of today, November 5, 2019, 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 today's press release and the company's 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 in today's trivago's earnings release, 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 more important content, including today's earnings release. Finally, unless otherwise stated, all comparisons on this call will be against results for the comparable period of 2018.

With that, let me turn the call over to Rolf. Please go ahead, sir.

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

Good morning, and welcome, everybody. Many thanks for joining our third quarter 2019 earnings call.

Overall, this quarter brought mixed results, but some developments make us hopeful for the long-term future. Q3 was the first quarter since we started our marketing optimization, in which we have reinvested again into growth. At the same time, it marks the fifth consecutive quarter with nice profitability.

We were able to improve our revenue growth compared to the second quarter, but less than we expected. On the one hand, one can clearly see that in the Americas, the segment where we raised our advertising spend, our investment paid out. We were able to reach profitability growth close to 20%, which we believe is fairly above market growth. This gives us confidence that we are able to grow our market share in a relatively stable environment.



NOVEMBER 05, 2019 / 1:00PM, TRVG.OQ - Q3 2019 Trivago NV Earnings Call

On the other hand, the softness in the business in Developed Europe and Rest of the World generally, and the volatility in our marketplace specifically had a direct negative impact, and we did not foresee the magnitude of this.

We continue to invest into learning and progress. The removal of the relevance assessment and the introduction of bid modifiers lead to an adaption process that increased the volatility in our marketplace. For some of our advertisers, it takes longer to adapt to the new environment. And as they adapt, this can have a negative impact on competition. Nevertheless, we are confident that our investment into increased flexibility is the right step and will benefit our advertisers and trivago in the long-term.

Besides the rollout of bid modifiers, which are live in all markets now, we have invested this quarter into several long-term projects and see promising first results. We have made significant progress on integrating alternative accommodations into our search, and are running large-scale tests with key players in the market.

We ran several successful product tests and have a full road map of features helping our customers to better understand the meta aspect of our product. The goal is to focus on our key user value proposition, to provide more transparency by making prices more comparable. We included mobile rates for our largest advertisers, and added additional reward rates. We focused a lot on creative development and qualification this quarter. While our Mr. trivago concept has helped us to create a well-known brand, we want to develop further and create new creative themes that are more efficient, give us more flexibility and further opportunity to optimize.

We see now for the first time spots that beat the Mr. trivago concept. In the fourth quarter, we plan to decrease our marketing spend along with the seasonality as usual, but we are very excited about the opportunity to roll out new concepts next year globally.

Now let's look at our third quarter financial performance on page 5 of our presentation. As said, in the third quarter, we continued to focus on profitability, while we selectively invested into segments and channels where we saw opportunities like in the Americas.

Our total revenue was coming down slightly from EUR 253.7 million in Q3 2018 to EUR 250.3 million this quarter. With about 1% decrease year-over-year, we improved to Q1 where we decreased 20% and Q2 where we decreased 5%. This brings the overall year-to-date number to minus 9%.

Our adjusted EBITDA was EUR 10.9 million, which brings the year-to-date number to EUR 50.3 million, while our net income is at EUR 14 million. Due to the increase in investment, mainly in the Americas market, our advertising spend grew by 9% in Q3 year-over-year. This led to a decrease in return on advertising spend of 13 percentage points, while the total number of the year so far is still up 12 percentage points.

Looking at Page 6, we see that our advertiser mix over the last 3 years stayed relatively stable. Expedia Group and Booking Holdings did not gain additional share. And in contrary, the share increase of small advertisers that we have seen in the third quarter 2018 is confirmed again this year. That might suggest that advertiser concentration is lessening, but it could also be a side effect of the increased volatility in the marketplace that we have seen last quarter due to the rollout of bid modifiers.

While there were inefficiencies in the adjustment phase, going forward, we believe that the increased flexibility will help our advertisers to optimize for conversion and improve the overall user experience.

Looking at the next page of our presentation. We continued to make progress on integrating alternative accommodations into our platform. As of September 30, we have more than 2.3 million units on our platform, compared to 1 million a year ago and 250,000 2 years ago. Not included in these numbers are large-scale multi-market tests that we are concurrently running with the key players in the market. Besides the integration of more inventory, we are continuously improving the amount of content of alternative accommodations that we offer in our search.

Additionally, we continue to invest into better algorithms to feature alternative accommodations whenever they can substitute a hotel for our user. We also worked hard on how we display alternative accommodations and provide a true comparison to hotels.

It is a gradual process, and there's a lot more work to be done. But we are very happy with the progress that we have made over the last 1.5 years.



NOVEMBER 05, 2019 / 1:00PM, TRVG.OQ - Q3 2019 Trivago NV Earnings Call

Now let's move over to Axel to have a look at the detailed financials.

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

Thank you, Rolf. Our global revenues declined by 1% from EUR 250.4 million to EUR 247 million. As we grew our advertising expense by 9% year-over-year, our return on advertisement spend came down by 13 percentage points from 136% to 123%.

Qualified referrals were down by 14%, from EUR 189.1 million in Q3 2018 to EUR 162 million in Q3 2019, while revenue per qualified referral was up by 16%, from EUR 1.32 in Q3 2018 to EUR 1.53 in Q3 2019. This mix change continued to be driven by an increase in traffic quality, both through marketing and product optimizations.

In Europe, we experienced a softness in our business. Both the increased volatility through our marketplace changes and the softness in CPC bids in the summer peak contributed to this development. As a result, revenue came down from EUR 114.4 million in Q3 2018 to EUR 104.2 million in Q3 2019.

In Qualified Referrals and revenue per Qualified Referrals, we observed the same trend as globally, with Qualified Referrals down 14% and revenue per Qualified Referrals up 6%.

In Americas, we have increased our investments substantially by EUR 18 million year-over-year, leading to a revenue increase of EUR 16 million year-over-year or 19%. This has been driven by high observed elasticity of our marketing investment, both in brand and performance marketing channels.

Through the higher base, our relative return on advertisement spend came down to 124%. Despite the negative mix effect driven by marketing and product optimizations, Qualified Referrals stayed almost flat at EUR 43 million, while revenue per Qualified Referrals grew substantially by 22% from EUR 1.83 to EUR 2.24.

The business in Rest of the World has been softer in Q3. Difficult comps and the substantial reduction in advertising spend of 30% year-to-date has contributed to this development. Referral revenue reached EUR 46.7 million in Q3 2019, down from EUR 55.3 million. Qualified Referrals came down from EUR 69.1 million to EUR 54 million in Q3, while revenue per Qualified Referrals improved by 7% from EUR 0.80 to EUR 0.86.

Looking at the Q3 and the operational highlights. There are the following points to point out: First, we managed to scale our Americas business substantially at very attractive marginal investment returns, yielding a 19% year-over-year growth rate. We completed the rollout of our new bid modifiers and removed the relevance assessment from the platform completely, laying the foundation for future collaborative value creation with our advertisers. We have improved the value and deal messaging on our website and have a full roadmap of features that will further support our positioning and value creation as a metasearch platform.

We have continued to onboard reward and mobile rates to our platform to offer even better deals to our users. We have more than doubled our alternative accommodation offering in the last year, and are working on large-scale multi-market test to further improve the offering. We have completed our transition from a single character-focused-creative strategy to a fully diversified global approach. That brings us to our guidance for 2019.

We keep our full year financial guidance for the adjusted EBITDA unchanged and continue to expect that adjusted EBITDA will be in the range of EUR 60 million to EUR 80 million. Reflecting our financial performance in the third quarter 2019, we now believe that we'll end up in the lower half of the range. For Q4, we do expect our revenue to be lower than the same period 2018.

NOVEMBER 05, 2019 / 1:00PM, TRVG.OQ - Q3 2019 Trivago NV Earnings Call

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

Thanks, Axel. On a personal note, I think it's every Founder's goal to be able to create a company and team that you are confident in passing along to the next generations.

Over the last 4 years, my co-Founders and I have been continuously working on our succession plan. In 2015, we started building out the trivago leadership team with the integration of Johannes Thomas and Andrej Lehnert into our Founders Group.

In further steps, we promoted Axel as our CFO in 2016, and are doing as our talent and organization lead in 2017 into the trivago leadership team. My 2 co-Founders, Peter and Malte, left the leadership mid of 2018. In mid of this year, we were able to convince James Carter to join us from Google to take over my additional role as hotel search lead have become our new CPTO.

trivago was always a team approach. And I think that we never had a stronger and more diverse team, combining so many unique competencies. I have worked with Axel for the last 3.5 years, and seen his obviously great capabilities. I was giving him continuously more responsibility next to his CFO role.

After leading trivago together in the last years, I think now it is the right time to nominate him as my successor as CEO, take a step back and transition into our Supervisory Board end of this year.

I'm sure that Axel will fill the CEO role with the same dedication and passion that I had over the last 15 years. Matthias Tillmann, who was heading our Corporate Finance Team will take over his role as a CFO.

I created trivago as a fast learning system, a fluid organization that is continuously challenging the status quo and looking for new opportunities to learn. In this way, it is also a mirror of my own personality. That's why it was always clear to me that I would ultimately develop myself beyond the borders of this company. This step was certain and the timing feels now very natural.

Clearly, that does not change my view on the opportunities that I see for the business and the love and admiration I feel for people. This is why I stay involved in the Supervisory Board, and stay committed as a major shareholder.

And now we are open for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question sir comes from the line of Lloyd Walmsley.

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

Two questions, if I can. First, just on Europe. Can you give us a sense of how much of the bid reductions you think is a function of partners taking back kind of marketing ROI? Or just a function of softer kind of downstream bookings that they're seeing going through to price? And then second one, on kind of the new bid modifiers that you guys rolled out, do you think the first impulse from customers on testing some of those new parameters is just winning (inaudible) and cut the bids and see what happens is that part of what happened in the quarter? And are you seeing the volatility start to come down? Anything you can kind of give us on that and kind of the outlook on commercialization would be great.



NOVEMBER 05, 2019 / 1:00PM, TRVG.OQ - Q3 2019 Trivago NV Earnings Call

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

Yes, absolutely. So the first question, the softness in CPC bids that we observed, we don't think is due to a permanent change in profitability targets. Having said that, there is always volatility in profitability targets from week-to-week, but we don't think there is a permanent change there. So it is really a softer period in our peak seasonality, which is obviously, in particular, impactful.

On the second question, on the introduction of the bid modifiers, and we said from the beginning that the introduction of bid modifiers makes the auction more complex. More efficient as well, but also more complex. And that in the adjustment period, we do expect more volatility in the market, and that's what we are seeing. From our perspective and what we are seeing with the rate of implementation and adaptation with the different advertisers, it is something that will take time, but will ultimately lead to the desired outcome, which is a more efficient auction and ultimately a higher revenue to us and more efficiency to our advertisers.

Operator

And your next question comes from the line of Kevin Kopelman.

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

So first, Rolf, congrats on the transition. We'll certainly miss working with you each quarter. And Axel and Matthias congratulations on the new roles as well.

So just a couple of follow-ups from your comments. First, could you give us a little more color on the vacation rental search progress? And you talked about new large-scale tests that you're doing, is that with an existing advertiser? Or would that be a new advertiser that you're testing with?

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

So I think different dimensions where we see currently improvements. So first of all, we added a lot of more inventory. So as you can see in the numbers, we more than doubled our inventory from last year. But as we said, like last quarter, it's not only about inventory, it's also about how we add more content to the inventory, and that is something which is continuously ongoing where we improved for every single property, the amount of content.

Then it's a question of display. So how do we display that content? And how do we make hotels and alternative accommodations comparable? And this is also quite a tough task. And I don't say that we are there, we are just at the beginning, but we're investing a lot into that to make this very smooth. Because we believe that at the end, only a coherent search, where you have like side-by-side can compare hotels alternative accommodation is something that the users will accept in the future.

Then it is about algorithms. So like how often do we display alternative accommodations within the search to which users are we displaying alternative accommodations. That's also a work stream that we progressed on. And then of course, we don't want to only increase the amount of inventory, but we also want to have key players in the market participating. And we are definitely running tests with a new large player in the market.

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

Got it. And then just on another topic, you mentioned loyalty rates, which is a really interesting development. How far long is trivago in terms of integrating loyalty rates from hotel partners? And also loyalty rates related to the online travel agents?



NOVEMBER 05, 2019 / 1:00PM, TRVG.OQ - Q3 2019 Trivago NV Earnings Call

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

This is an ongoing process. So we aim for integrating more and more rates. A big step that we did in the last quarter was integration of mobile rates from large advertisers. So I think that's a big step forward. And we're progressing on the loyalty rate as well. Reward rates where we implemented NH Hotels in the last quarter, as one of the large chains for example. So we're also progressing on that front.

Operator

And your next question comes from the line of Naved Khan.

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

Just a quick clarification on the guidance. For Q4, you're talking about maybe revenue being down year-on-year. Is it fair to assume that reflects maybe continuing softness in Europe? Or how should we be thinking about just that Q4 guidance? And as we look out in 2020, are you still hopeful of returning to top line growth next year? Or give us some kind of framework in terms of just thinking about that broadly?

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

Yes, absolutely. So the regional trends that we have seen in Q3. We don't expect to change significantly in Q4. So we do expect Americas to come out stronger than the 2 other regions. For 2020, we are currently working on our 2020 plan. So we can't say that much. But clearly, it is our ambition to outgrow the market within 2020, but we will give more detailed guidance on our next earnings call once we have finished our planning for next year.

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

Got it. And then maybe a quick follow-up. So on the bid modifiers that were introduced over the course of summer, I guess. Is it that maybe some geographies, some markets like Americas are further ahead in terms of implementation and adoption versus Europe? Or is it that it's just taking longer than what you had previously thought? What are your comments there?

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

Absolutely. So the way to think about it is more that you have a more complex bidding methodology that allows you to optimize more. But you also require more data and you need to train your algorithms with a new methodology. So some advertisers optimize faster and get to efficient bidding faster, and for some it takes longer. And that is not really driven by geography, but it's really driven by the setup of the respective advertisers, but also the scale and the data density that they have per property. So as I said before, it is more a learning process that we're obviously supporting, but it is not influenced by the geography.

Operator

We now take our next question, and it comes from the line of Tom White.

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

Just a follow-up on the last one. And I guess it relates to the advertiser mix slide and the comments there about general stability between your 2 largest advertisers and kind of the rest of your advertisers. I'm trying to kind of reconcile that stability with some of the comments around the impact from bid modifiers. Is it fair to say that the smaller advertiser group is slower to adjust to these bid modifiers, that's being maybe offset by

NOVEMBER 05, 2019 / 1:00PM, TRVG.OQ - Q3 2019 Trivago NV Earnings Call

lower CPC bids from your biggest advertisers and that kind of results in sort of a stable advertiser mix? And then just a follow-up on the rebound in the Americas. How do you guys replicate that kind of recovery in your other regions?

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

So on the first question, it is a combination of 2 factors: one, how quickly you adapt your bidding algorithm, and that is, I would say, irrespective of scale, that is more how quickly you can implement a new logic. And the second one is how quickly you can train them. And that is heavily influenced by your scale in a given market. So it doesn't necessarily mean that just the the biggest groups globally, have an advantage in both dimensions and 100% of their business. It's a bit more granular and complicated than that. So I think what you are inferring from the data points is not necessarily correct.

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

On your second question. So we think that what we have seen in the U.S. there is a possibility to replicate also in other markets, so what we've seen in the Americas. And that's based on one hand that for us, the Americas was a test market, it was a test market where we said, okay, for this market, for this segment, we want to raise our investment again across the board and see how the market reacts. So we don't think that there was something generally special about the U.S. market.

For this test case, we invested not only in terms of like money investment or investment in performance centers, but we have also adapted our creative. And we think that we have some indication that we that we are on a quite good road to have the new global theme that we can also roll out to other countries.

Operator

And our next question comes from the line of Brian Fitzgerald.

Unidentified Analyst

Rolf and Axel, we also want to say congratulations. Earlier in the quarter, you had talked about some weakness in Europe during the summer peak. Do you think the European consumer was a bit weaker than last year? Was it a case maybe of healthier demand versus last year when some of your partners were maybe searching for consumer demand, given some of the hotter weather, World Cup headwinds, et cetera, you saw in the quarter in 2018?

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

So in Europe, we see in Q3 overall softer business for us. And we do think that the volatility in the marketplace and also the softness in CPC bids have contributed to that. But it seems from our perspective that there is also some softness in the market, which is for us very difficult to quantify, though.

Operator

And your next question comes from the line of Doug Anmuth.



NOVEMBER 05, 2019 / 1:00PM, TRVG.OQ - Q3 2019 Trivago NV Earnings Call

Unidentified Analyst

This is David on for Doug. My first question is on the bid modifier rollout. Are you completely rolled out for the bid modifiers across the world? And I assume you have other bid modifiers in pipeline? Just curious to hear how you're thinking about the rollout or introduction of new bid modifiers given advertiser reception thus far to the ones that you have out in the market already? And then just curious to hear your views on your investment plan in the Rest of the World? And it is like the faster-growing region, but it's been underperforming versus your other regions. So just wanted to hear your latest thoughts going into 2020?

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

Yes. On the bid modifiers, we are fully rolled out with the bid modifiers that we've introduced. And we are looking into adding more bid modifiers. And as I said on the last call, by setting up the system in a way that we can have modifiers, every additional modifier is much easier to launch. But on the other hand, you also need to give time to the advertisers to optimize in the existing system and to train the algorithm. So there is a right pace of making the auction from where we are today, more granular going forward. But there are clearly modifiers that we are looking into and that we are discussing with our big advertisers.

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

And on your second question regarding our strategy for Rest of the World markets. So Rest of the World markets have been the markets which we read up very lately in marketing spend. So when we stepped on the brakes, of course, also those were the countries which are affected the most. And there might be some indication that like the way we stepped on the brakes was maybe a bit too hard. And I think that is something that we will address in the future.

That said, Rest of the World is also very diverse group of countries. So they're very, very different cases. So what I just said might not be true for all geographies within our Rest of the World segment.

Operator

And our next question comes from the line of Shyam Patil.

Unidentified Analyst

It's Ryan on for Shyam. So first, how should we think about the magnitude of the revenue decline in the fourth quarter? And also, how you're thinking about profitability for 2020? And then secondly, do you have any thoughts on any impact you might be seeing from Google and their continued moves in both hotels and flights?

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

On the Q4 revenue, we don't give specific revenue guidance. But as I said, we expect it to come in lower than in the fourth quarter 2018.

For 2020. We have not done our business plan yet. But our ambition is clearly to increase our adjusted EBITDA year-over-year. But we will only be able to give some more specific guidance on our next call once we've done the exercise and really finalized our plan.

NOVEMBER 05, 2019 / 1:00PM, TRVG.OQ - Q3 2019 Trivago NV Earnings Call

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

Okay. The second question on impact of Google. So we don't see the impact. That doesn't mean it's not there. We cannot really quantify the impact. Is there an impact of Google going strong into hotels, super hard to quantify. When we're looking at long-term trends, looks quite stable, but it's still super hard to quantify.

Operator

And your next question comes from the line of James Lee.

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

Two here. To follow-up on Google, anything new that you learn from Google Hotel Ads specifically? And just wondering how that's working now for you? Because everything we heard by Google Hotel Ads, CPCs are higher than text adds? And how do you manage this on a ROI perspective? And any philosophical potential conflicts as you're both metasearch engines here? And also, secondly, on landing page assessment, I'm not sure, I didn't hear that incorrectly. Did you guys say you're removing that? If that's the case, just can you help us understand and give us more color as to why you're doing so?

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

Yes. I think we continuously learn. I think that's what you do when you are in the same market as you look at each other and you learn a lot from each other. That's true from -- on a product basis. I mean, we hired one of the key people of Google Hotel Ads for our team lately. So of course, we are also looking at what Google is doing.

Though we don't see something which is for us not reachable or that is concerning us. So I think we have a very strong product road map looking forward. And I think, especially when it comes to the integration of alternative accommodation, how we bring it into one coherent search. I think that is also differentiated.

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

On your second question on the relevance assessment, your understanding is correct. So we fully removed the relevance assessment in our algorithms. And the reason why we've done that, we've done a test some quarters ago with our large advertisers that gave us a lot of visibility into really the end-to-end impact and conversion. And we believe that our current approach is much more value creating, where the approach is that jointly with our advertisers, we optimize the conversion and end-to-end rather than managing a rigid handover point.

And yes, we believe that there will be a substantial benefit going forward by working on that approach over the next quarters and years.

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

Let me just also answer the second part of your first question. So on CPCs, yes, I think, it's quite clear that CPCs in Google Hotel Ads a higher than on SEM because the traffic, of course, is prequalified. So yes, just one step further down the funnel. So of course, the traffic quality should be higher. And of course, the CPC should be higher. It does not ultimately tell something about the ROI,. So I think that is on a totally different pace. But the CPC is generally higher, further down the funnel, that is pretty clear.

I think another question was how is our understanding, like of our participation in Google hotel ads? So we believe that we have a very strong product. And we want to win over people from SEM to our product, but we also want to win people over from GHA to our product. And we see that both is possible. So we win people over from SEM, we win people over from GHA, and that's why we think it's important for us to be present.

NOVEMBER 05, 2019 / 1:00PM, TRVG.OQ - Q3 2019 Trivago NV Earnings Call

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

Okay. May I ask a follow-up question on landing page assessment. Because historically, as you guys talk about, the benefit of implementing the new relevance assessment is that the conversion rate will be a lot higher. And given the fact that you're removing and this algorithm at this point. Should we think about maybe the offsetting factor, you're sacrificing conversion rate a little bit in the benefit of removing some of the friction with you advertisers? How should we think about the conversion aspect of the metric when we think about this change?

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

So when we introduced the relevance assessment. We basically made, in end of '16, our rules more flexible. I mean, historically, we only allowed for a landing page where the user would after he selected an hotel, on trivago, would go directly to a page where he would see the details of the hotel and then could ultimately book that hotel room. And there were certain advertisers that didn't want to deviate from that landing page approach, and we allowed for that flexibility. However, we disincentivized the different approach because we continue to believe that it is for the user better and also for the conversion overall better to not duplicate a step by choosing an hotel and then going to another list and choosing the same hotel again. So that approach was, from today's perspective, more rigid than what we have today. What we have now put in place and what we are now working on is to mutually optimize the handover from trivago to our advertiser's landing page. And by sharing context with the advertiser to optimize for the individual user, the landing experience and optimize conversion end-to-end.

So to answer your question, we've run a large-scale test with a lot of visibility end-to-end. And we do believe that our current approach is optimizing end-to-end conversion better than our previous approach.

Operator

And your next question comes from the line of Heath Terry.

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

Just wondering if you can give us a sense on the --

(technical difficulty)

Operator

Hello, Heath your line is on mute. Can -- looks like we have lost that line. So would you like me to move on to the next question?

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

Yes, please.

Operator

The next question comes from the line of Brian Nowak.



NOVEMBER 05, 2019 / 1:00PM, TRVG.OQ - Q3 2019 Trivago NV Earnings Call

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

I have two. Just the first one, could you sort of talk us through some of the steps that you're taking as you're sort of working with your large advertisers to make the adoption of bid modifiers more seamless. What steps have you started to take? And how do you think about steps you need to take to sort of remove friction from adoption going forward? And then the second one, just sort of a bigger picture question. So as we look into fourth quarter 2020 and beyond. Talk us through the 1 or 2 most important points that you think you need to address for your advertisers to really bring the business back to a sustained growth?

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

So on the bid modifiers, we obviously launched not all the markets at the same time, but we went through a staged approach, where we initially we splitted the market into A and B test markets, to gradually train the algorithms and reducing the impact for the advertiser. And the second step, when we were going to 100%, we were providing all our advertisers with bid modifier suggestions that from our perspective are optimal. That's a starting point. And then from there, obviously, everybody's training their own algorithm. And we are supporting the learning through advice. But in the end, there is a limit to how much we can do because the algorithm, obviously, is proprietary for each of our advertisers, and they will only allow us to gather and give them advice and not really to optimize directly. So it's really a long process that is taking time, and then we are giving all the support that we can.

On 2020, what are the most important points for our advertisers? So I think the approach that we really started, as Rolf mentioned a couple of times now on the earnings calls, beginning of the year by entering into a more strategic dialogue and has so far worked well, and we will obviously continue to do that. And doing our annual summits with our larger advertisers. And one clear topic to improve the efficiency of the marketplace is obviously the launch of further bid modifiers. So we are in discussions there. But there are also many other ideas that are coming up from individual or also many advertisers at the same time, and we are assessing them and then jointly deciding which ones we want to implement.

I'm afraid there is not that much more color I can give you there for competitive reasons. But there is a clear road map of ideas that we feel are accretive to the marketplace dynamics and that are on our road map.

Operator

And we do have a last question which comes from the line of Lloyd Walmsley.

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

Just wondering if you can give us an update on just new auction participants? Are you seeing Ctrip at all move into new geographies, for example, you see Airbnb, Hotel Tonight come into auctions more. Any update on what you're seeing? Or what you expect for the next kind of year or 2 in terms of new participants coming into different auctions?

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

Yes. So both Ctrip and Hotel tonight have been advertisers for quite some time. And Airbnb is doing tests in certain markets with us.

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

And are you seeing Ctrip, for example, expand in the terms of geographies where they're bidding? Or is it still isolated in their core markets?

NOVEMBER 05, 2019 / 1:00PM, TRVG.OQ - Q3 2019 Trivago NV Earnings Call

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

We don't really comment on individual advertisers. But overall, regional advertisers have the ambition to grow beyond their core region, and that is what we see across multiple regional advertisers.

Having said that, there's a process that does take time, because you obviously need to build up your inventory in markets that are outside of your home market and core territory. So it is really a development that we are supporting where we can, but there are no significant changes from 1 day to the other to be expected.

Operator

There are no further questions. So I'll hand the call back to Rolf.

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

Yes. Thanks a lot for joining our third quarter earnings call. As I said, we saw this quarter mixed results. We wanted to get back to growth globally, and we slightly missed that goal. On the other hand, our investment in the Americas gives us the confidence that we are able to outgrow the market. I highlighted how we progress on several operational topics, and we believe that our investment into learning and progress will play out. So this time, I cannot look forward to talk to you again next quarter. But I can thank you for your support and your collaboration over the last years. And I will definitely miss that challenge. Thanks a lot.

Operator

Thank you, sir. Ladies and gentlemen, that does conclude our conference for today. Thank you all for participating. You may now disconnect. Speakers, please stand by.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.

