

Company Name: trivago N.V. (TRVG)

Event: SunTrust Robinson Humphrey 2019 Internet & Digital Media Conference

Date: May 21, 2019

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Okay, good morning everybody. Let's get started here. I'm Naved Khan, I'm Internet Equity Research Analyst at Suntrust Robinson Humphrey. And I'm pleased to have with me here, Axel Hefer, the CFO of trivago.

trivago is one of the biggest meta-search companies in online travel. Other players include obviously Google meta-search and TripAdvisor. So Axel, welcome.

<<Axel Hefer, Chief Financial Officer>>

Thanks for having me.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Great. So maybe, we can kick it off here by maybe just, I mean for our audience here and maybe everybody who is listening, where do you think the business is today in terms of the turn around efforts? What are the strategic objectives that you're trying to achieve this year?

<<Axel Hefer, Chief Financial Officer>>

Sure. So, we are now in the fourth quarter after our shift in advertising strategy. We've reported the third quarter, so we started to shift gears end of May, beginning of June last year when we saw that the losses were actually piling up through the changes in the marketplace and the overall industry dynamic and that we need to react to that.

So, we are getting closer to lapping that effect in the year-over-year comparisons. And we are happy with the progress that we've made. We managed to significantly improve our profitability and optimize our marketing spend and believe they will continue to run on that level. Looking at the plan for this year, as I said, we will continue to do so. But then in terms of growth drivers there is, in the second half, clearly the effect that we will be able to increase our spend again lapping the overall adjustment and optimization.

The second big growth driver that is more a growth driver not only for this year but for the years to come is our effort in alternative accommodation. There we believe that our approach of producing an integrated product that allows you to compare, side-by-side, apartments that are relevant for your next trip and hotels is highly relevant and highly beneficial to the user and the product that is not in the market with the same customer value proposition.

And there we are making good progress. We are not 100% there yet. That's why I'm saying it is, it is really a lever for this year and the next couple of years. But we are very excited about the opportunity and in particular the extra activity of that product to certain customer segments, namely the younger customers and family travelers.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

And then maybe, so maybe just talk a little bit about the medium term and the longer term objective that you're trying to solve for, I guess before you started the turn around efforts, sale through marketing, especially advertising was sort of a big expense area. How should investors be thinking about that over the medium term and longer term maybe?

<<Axel Hefer, Chief Financial Officer>>

Yes. I mean, if you are on a meta search sales and marketing obviously will always be an important part of your P&L structure and even after the optimizations that we've now implemented it's by far the biggest expense item. And I would expect it to, to stay like that and stay as the biggest expense item.

Overall we set a long-term profitability target of 25 plus percent adjusted EBITDA margin and we believe that that's absolutely achievable. So, we do see some more cost regression going forward both on the advertising and on the other OpEx side. But, yes, I mean that will obviously come not overnight, but over the next couple of years.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Sure. So maybe, touch upon loyalty and repeat customer booking behavior. How are you able to influence that? How do you even measure retention and how do you sort of get there?

<<Axel Hefer, Chief Financial Officer>>

Yes, probably I'm old fashioned there, but to me the biggest lever you have for retention is having a good and a better product than your competition. And having people using it, enjoying it and then coming back. We measure it directly and indirectly. If you use our product, you don't have to log in, unlike with OTA, OTAs who at least have the email confirmation, when you book.

So, we've got more challenges to identify an individual user. So what we do there is we look at combination of the logged in users, which is actually going up, has gone up quite a bit, recently through our efforts to push that more. We look at the App users where we see retention and we look at the direct on page traffic pattern and putting those different pieces together we get a pretty good view on our retention.

What is interesting, what you could see from the outside, was that in developed Europe, the revenue drop triggered by the advertising spend optimization was significantly lower than the volume drop. So, that shows that there is a significantly stronger brand loyalty and loyal customer base than in the other regions because in Europe we have been active for much, much longer and our users have been able to make more repeat usage of the platform.

And particularly in low frequency product like travel that is very important. So, overall we are happy with our retention, but more is always better clearly.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Sure. So, and maybe, so you mentioned logged in users are increasing, isn't that a friction point getting people to log in with their username and password or how are you sort of avoiding that friction point?

<<Axel Hefer, Chief Financial Officer>>

Can you say that again.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

You mentioned logged in users are increasing right? So, usually logging in is a friction point. So how do you get past that?

<<Axel Hefer, Chief Financial Officer>>

So, that's absolutely right, that's exactly the challenge as a search business. How do you minimize the friction that is created by a login and how do you create sufficient benefits to the user to justify that friction? And if you think back, years back on Google, how did they get to a significant login ratio that wasn't necessarily through the search, but it was more through Gmail and Gdrive and a lot of the other services, which then gave a very clear value proposition, why you should login that then is also useful in terms of adding visibility to the search.

So we've worked on both levers, we tried to reduce the friction to log in and also adding more and more benefits, and doing various tests there. But there is still work to be done and it is more difficult if you are in search than if you are on the booking side clearly.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Okay. One thing you mentioned was that in Europe you have greater brand loyalty. Do you have different profitability targets by region, internally or at least for us investors looking from the outside and how should we understand your profitability targets by regions?

<<Axel Hefer, Chief Financial Officer>>

Yes, I mean, absolutely we do have different profitability targets by marketing channel and by country and then obviously by region and then the regions are the results of the aggregation of all the countries. And conceptually in the profitability target, you want to consider the customer lifetime value. So, if you're in a market that is rapidly growing, where you believe that the customer that you can win today, will come back many, many, many times and you're getting him at a point where he's not that sophisticated yet in online travel and gets used to your product very early on, that is obviously very valuable versus somebody who has booked online for 20 years already, knows all the products inside out and you can get them at the margin a bit more leaning into your direction. That is a very different situation.

So simplistically, the higher the growth of the market is and the bigger the opportunity and the catch-up for us as a brand we believe is, the lower the profitability target can be justified by a bigger a CLV.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Okay maybe, maybe talk a little bit about OTA participation. So, Expedia has been pretty aggressive in adding inventory across some of its focused markets, mostly in Europe. Are you sort of a net beneficiary as a result of that just because you have more of OTA participation and more, more options?

<<Axel Hefer, Chief Financial Officer>>

Absolutely. So, the more inventory our advertisers have, the better it is for us, the more they add, the bigger the overlap is, the more active more and more auctions are. So it's definitely a plus for us. Having said that there are two effects. One is that you get more competitive as you actually compete in more and more auctions. The second effect is that your value proposition overall is getting better because your offering is getting more complete. And that takes a bit more time for our users to realize that, you're all of a sudden much broader in your offering all of a sudden through hard work obviously, a much broader in your offering.

And that should have a positive impact on retention and brand loyalty that then overall increases competitiveness. That is something that's obviously very difficult to, to see from our side but the direct effect we see very clearly.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Got it. And then you had another feature called express booking, which was I think allowing travelers to book directly using Trivago. Do you still have it? How has it grown and talk about that a little bit.

<<Axel Hefer, Chief Financial Officer>>

Yes. So, it is different to some of the other instant book features in the market. The problem is technical implementation but also from an objectives perspective. So, the key objective of our express book is to improve the overall booking funnel and to provide but not to control ourselves but to provide the tool to our advertisers. And they are predominantly not the big global OTAs but hotel chains and some of the more regional OTAs with the booking funnel that we optimize across the advertisers using it.

And that has a standardized conversion and we don't process the booking ourselves. It is basically a website that is hosted by us on behalf of our partner. It's more a service, a B2B service rather than a B2C service. And, that is very important so we are not trying to step in between the customer and the OTA and capture the customer and shield him from the OTA.

We are trying to help the smaller OTAs and the hotel chains to be more successful, in our marketplace by offering a tool that has an optimized conversion. So, it's a small difference, but it is very, very different in what we are trying to achieve with it. And we are very happy with the rollout and the number of partners that are using it. And yes, we think it is a success.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Let's talk about maybe TripAdvisor for a second. So, you have a pretty strong position in Europe, that's your core market and in Asia I think you're growing at a reasonable clip, a decent clip. Trip is obviously strong in the U.S., is some sort of a partnership or maybe even a business combination that, does it make sense?

<<Axel Hefer, Chief Financial Officer>>

Yes, I mean, let me, talk about M&A in general rather than about a specific situation. I think a lot of things on paper do make sense. On M&A, it's easy to find synergies either through overlap, then you have cost synergies, or you've got revenue synergies because there is no overlap. The challenge is always in really making it happen and implementing these things. And that's why overall we are pretty skeptical on M&A because we see big challenges, on implementing some of these things.

So, we've done very, very few acquisitions ourselves and some of the more meaningful acquisitions that we looked at, we actually turned down because we felt that it would be too much distraction and would require too many of our key employees to really get distracted and not focusing on alternative accommodation and improvement of the product retention, et cetera and some of the other things that we talked about, so, the bar for anything there is very high from our perspective and we are overall probably a bit more skeptical than average in principle on these things because – making it happen is very different than, than putting it in an excel spreadsheet.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Okay. In rest of the world usually gets kind of clipped together into one market. Can you sort of give us some more color on what markets you might be doing better in versus some of those where we might be seeing some challenges?

<<Axel Hefer, Chief Financial Officer>>

I think overall, we are doing, and performance has been stronger in Europe I would say in the last couple of quarters as I just mentioned. In Americas and the rest of the world I think, taking into account that we have more recently entered those markets, the performance is not that different, now you just need to adjust for that.

In rest of the world obviously we've got, by far the widest spread of markets, you've got very established markets like Hong Kong, Singapore, Australia. You've got high growth markets where, we really started to invest pretty recently, like for example, India, Japan a big growth driver. So, it is much more difficult to read anything into the average. You've got very high GDP markets, very low GDP markets, very mature economies, high growth economies. So, there it is actually difficult to read into something there, not that straightforward.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Okay. And then just on Asia, it seems like Ctrip and maybe some of the regional players are pretty active there. Can you talk about maybe the auction dynamics in Asia and how it compares with maybe some of the other markets?

<<Axel Hefer, Chief Financial Officer>>

Yes. So, in Asia in particular you've got quite a few very strong local OTAs, so that is I'd say what is differentiating some of the Asian markets from the more western, more developed markets, which leads to, from our perspective, to an interesting dynamic where you have the Global OTAs and the global chains participating but then also very, very strong local players and India in particular, but also in Japan you've got very strong players. You've got, you mentioned Ctrip being very active, in northern Asia but also southeast Asia, so there is more competition with a different positioning of the brand, which for us is a very positive dynamic, that is different to the more established and more consolidated market.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

I guess in a positive way because the more players you have in the auction, this sort of affects the auction dynamics.

<<Axel Hefer, Chief Financial Officer>>

Absolutely, for us the ideal structure is a fragmented market where everybody has exactly the same market share and identical inventory. That will be perfect.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Are there any obvious markets where you, you think you should be in but you're not currently I guess ex-China?

<<Axel Hefer, Chief Financial Officer>>

Yes, I mean China is obviously, I mean we are in China but China is a very difficult market, given the very, very strong local conglomerates, is that the right term? So I think there the dynamics are very special. Other than that what are markets that we are currently not active in – I mean there are some bigger economies in Africa where we don't have a dedicated platform and we are constantly assessing it.

But you need a certain amount of locally active advertisers for our product to make sense. If there are only two players in the market, one and a half, then you don't need a search product comparing the one and a half players in the market. So there you also need to keep that in mind. So, I mean, there are very few places that are left and those are not that straightforward to enter, otherwise we would've done it.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Okay. Maybe switch gears, talk a little bit about alternative accommodations. Recently you broke out like 1.8 million properties that you have for alternative accommodations. At what point do travelers start to see more of alternative accommodation in their search results? And talk a little bit about the economics of maybe someone clicking on an alternative accommodation versus a hotel.

<<Axel Hefer, Chief Financial Officer>>

Yeah. So we said that the share is meaningful so we have made progress there. And it depends a bit on the search, depending on where you're going, you'll see quite a bit of apartments in your search results. Still, 1.8 million is obviously not the end of the development that we're working on. There are many, many more apartments that are still missing, so there's more work to be done. So visibility should go up going forward.

But if you just search for yourself where – for searches where you would actually consider an apartment, you should also see apartments in those search results already today. On the economics, that is, it's a more difficult question. I mean, if you compare the average apartment with the average hotel, clearly the economics are different.

I'm not convinced that that is the right way to look at it because the average hotel is not comparable with the average apartment. So if you want to compare – and the apartment and hotel categories kind of overlap, if you have a small bed and breakfast with two or

three bedrooms, somewhere in the middle of nowhere, that is pretty comparable to a serviced apartment that is in Downtown New York and is rented out every single night of the year in terms of revenue per property, how important it is to manage it, there are pictures that are in the reviews, et cetera. So if you compare like-for-like, it is not as different as you might expect but obviously if you don't do the like-for-like but just look at the average it is very different. But the way we think you have to look at it is, it is not about the individual property but it's about the user and does the user find what he's looking for.

So it is more of the overall conversion of the website, which is success criteria, did you find what you're looking for. And if a user is looking for an apartment or is considering an apartment and is booking an apartment and you don't have apartments, then it doesn't help you that deal type conversion is an average higher, you still lost that user and you couldn't serve him well. So yeah, you need to look at it from multiple perspectives to get the true value-add.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Okay. Maybe talk a little bit about advertising. So historically, you've said that the mix between brand advertising versus performance is roughly 50/50, even on the last call you said that has not drastically changed. But within brand advertising obviously, there's TV and there are some newer channels like online video and so on. Talk a little bit about the efficiency of maybe television versus some of these newer channels and is there something that you can benefit from?

<<Axel Hefer, Chief Financial Officer>>

So just to clarify, the traffic mix was roughly 50/50 in 2016 and we said that this hasn't fundamentally changed. On the advertising expense side, we are always running at higher profitability on the branded side, so more than half of the expenses in performance marketing or has been in performance marketing in the past and continues to be there.

If you now look at the two different buckets: performance marketing and brand advertisement. On performance marketing, there is one significant change in the structure that we have seen and we expect to continue to see which is shift towards Google Hotel Ads where up till 2017 we did not participate at all, needed to build up the technical infrastructure, scale up the channels. And now we are at, pretty much live everywhere and now we need to scale up our participation rate.

So that is as a result, is a channel that is structurally growing versus the rest of performance marketing because we are catching up. On the branded side, linear TV is clearly facing some challenges and the main challenge is that there are certain age groups that are very difficult to be reached through that channel. So other age groups, you can still reach very well and very efficiently, other age groups you just can't reach.

And that makes it very important to invest into new branded advertising channels, there, clearly online video is very important but also non-linear TV is very important. To be fair, all of those formats are not as mature as TV. So which creatives exactly work, how exactly to measure, how to run campaigns is still currently developed. I think we are making very good progress there and we are one of the more sophisticated players in those channels, but still there is a lot of work to be done, in particular on the measurement side also from the publisher side.

But there you can expect the shift from linear TV to those channels very clearly over the next couple of years. And I think that's all, that's pretty much there and the only question is how quickly shares will shift and that will depend very much on how fast the publishers and the advertisers jointly develop those channels and make progress on the various dimensions that I mentioned.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Got it. And you recently started testing new forms of creatives. Talk a little bit about how that might be working for you. What are the early results you can share?

<<Axel Hefer, Chief Financial Officer>>

Yeah. So there are two different things that I think are worth talking about. One is that we are today running multiple different campaigns globally in parallel, obviously with different weights, whereas in the past, say like three years ago, we were only running – pretty much only running Mr. trivago. So there we are running various campaigns because we want to derisk the overall business and have always alternatives available and also with slightly different focus for the target markets.

Mr. trivago still works very, very well but has one disadvantage which is that you have, you need to reshoot the spot for every single market because you have somebody speaking with the audience, a local actor. And if you want to broadcast the same spot that you have in the U.S. in Malaysia, you need obviously the Malaysian spokesperson and you need to reshoot the whole spot which is either more expensive or takes out frequency and how many new spots you can shoot per year.

Some of the other concepts that we are currently running in parallel don't have a spokesperson concept, so are very easy to be translated from one market to the other. And particularly for the smaller markets, very interesting because you can have a lot more fresh advertising creatives per year compared to the other concept. But I think that the main change there is really to always have spots and new concepts in experimental stage, to have a constant flow of new ideas and be much more flexible in what to broadcast where rather than relying too much on one very successful concept. But every concept at some point in time will not be successful for a reason in one market or the other. So it is good to have alternatives and to have a routine of continuously challenging what works well already.

So that's more in terms of approach and overall creative strategy. In terms of messaging, we have – actually beginning of April, we have started to test another message which is more focused on the breadth of the offering across all accommodation categories. And those creatives have so far worked very well, which is promising from our perspective because it is the first time that we actually tried this message out and you don't have a guarantee that – even it's a slightly different message – that message resonates well with the audience and with your users.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Okay. I can keep going, but maybe as a reminder, we have mics here we can circulate. If anyone in the audience has a question, please raise your hand and we get a mic for you. So why don't we wait for that. Maybe last – my next question here, talk a little bit about participation on Google Hotel Ads, maybe so on the last call I think you said, you're going to ramp it up in a meaningful way.

I guess in some of these auctions you're also going to – you're also going to see OTAs bidding maybe for the same keywords. How do you resolve that in terms of maybe potential competition or them seeing trivago as a competition as well on Google?

<<Axel Hefer, Chief Financial Officer>>

Yeah, I think that's a good point, but that has been a reality for a very long time, now we've competed with our customers on AdWords for many, many, many years. And I think there are very few Internet verticals where you don't have structurally the same situation where on Google you compete with your suppliers, with your business partners. And I think that's pretty much accepted reality today. Clearly, you shouldn't, I mean, it is something that you need to consider and keep in mind, but I don't see a fundamental difference in Google Hotel Ads versus AdWords and there we've been doing it for a very long time.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Okay. Google recently made a change in its filter, I think they introduced a new filter for alternative accommodations. How does it affect you guys? And what should we expect from trivago, is there a possibility of users maybe seeing similar features as well on trivago?

<<Axel Hefer, Chief Financial Officer>>

Yeah. We believe in one search and why do we believe in one search, if you think about it from your own search behavior, I mean, you are, let's say you go with friends on a summer vacation, party of eight, you might want to go to a small hotel that is super nice and where you have plenty of availability. And you get breakfast and everything is super easy. Or if that doesn't work, then you might prefer a Finca in Mallorca or whatever, where you can have barbecue together, et cetera. But you're undecided, so you're trading off one against the other.

That is very difficult, if you have a separated tab because there you look for the best hotel that you could consider and the best apartment that you could consider, but you don't compare them side by side. And that's why we believe in an integrated results list where you can compare the hotels that meet your criteria and the apartments that meet your criteria, I think that's ultimately the trade off that you're taking.

That's why as of today, I would say it's unlikely that we'd go down that route. It is easier because you don't need to decide the tradeoff of how many hotels do you show where and how many apartments you show where, because you can just optimize hotels as such and they're a bit more comparable obviously and you optimize all the apartments that are much more comparable. And then you have the user just clicking back and forth. But it is less convenient from a user perspective.

So we believe it's worth the effort and investing into cracking the nut of of integrating it in a meaningful way. And ultimately that will be the better product and adding more value to the users.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

Okay. Any questions from the audience?

Q&A

<Q – Ellen Corrigan>: Hi there. I'm Ellen Corrigan from 3Q Digital. Question about automation in AI, is that something, because of the scale of your campaigns, which I imagine is tremendous. Is that something that you're leaning into? And if so, what tech platforms are you banking on?

<A – Axel Hefer>: First, performance marketing basically all the data are automated, so that we run performance marketing on more than 50 platforms, actually probably more, those are our platforms, so there could even be more platforms on our partners and hundreds of millions of keyword combinations et cetera. There's no way that you could do that without an automated process. And you have your teams that just work on optimizing the algorithm of placing those bids. So that is absolutely critical. And the same is true on the bids coming, coming on trivago. I mean, there are so many different options. I mean, you just can't control that without good machine learning and automation.

<Q – Ellen Corrigan>: Yeah. But are you using any technologies like DMPs or advanced technologies for targeting in audience layering?

<A – Axel Hefer>: We are experimenting with many, many technologies. For the bidding as such, I think DMPs are not that relevant. I mean, DMPs are interesting for us for user tracking and then using that tracking in the campaigns. But overall, I mean it's a huge

lever. So any technology that that is promising and helps you to improve the efficiency or particularly the effectiveness are interesting and are looked into.

<Q – Naved Khan>: Thank you. Axel, you spoke to earlier, you reiterated your long-term profitability target of 25% plus margins. Just wondering if you could give us a sense of how far away we are from those types of margins and gating factors to getting there?

<A – Axel Hefer>: That's a good question. I do think that in a market that is still fundamentally healthy and growing, it does make sense to invest into the growth of your own business. So we are constantly assessing where we could invest into growth and where we could invest into improving our overall market position, as it is again, clearly like many, many internet businesses. And so the honest answer to that question is, if we see it sooner than we will not see growth opportunities that are worth investing into. And I would hope that we see it later and that we have plenty of growth opportunities in the years to come that will be worthwhile investing into and pushing out the mature target profitability a couple of more years. So no direct answer, but the more opportunity there is the later you would hit the profitability and still create obviously more value for the shareholders in doing so.

<<Naved Khan, Analyst, SunTrust Robinson Humphrey Inc>>

So with that, I think we're out of time. So let's stop there. Axel, thank you so much.

<<Axel Hefer, Chief Financial Officer>>

Thank you.