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TRVG.OQ - Trivago NV at Deutsche Bank Technology Conference

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SEPTEMBER 11, 2019 / 4:20PM, TRVG.OQ - Trivago NV at Deutsche Bank Technology Conference

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PRESENTATION

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

All right. Good morning. Thanks for everyone for being here on Day 2 of the Deutsche Bank Tech Conference. On behalf of DB, welcome. We're excited to have Axel Hefer here, the Chief Financial Officer from trivago, back in Vegas for the tech conference, again. Thanks for coming here.

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

Thanks for having me.

QUESTIONS AND ANSWERS

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

All right. Well, look, I want to start with a bunch of questions and then feel free to kind of raise your hand in the audience, if you guys want to hop in. But picking up kind of where the conversation was left off last week and some of your comments. Wanted to jump in, you talked about Europe perhaps being a bit weak, particularly, in the peak month of the summer, but clearly, some nuance to your comments. So wondering if you can just give us a sense at a high level of what you think are the big drivers of some of that weakness? And how company-specific might some of that be?

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

Yes. Absolutely. So what we did see in the peak season and particularly in Europe was general softness in the bids. So in our terminology, softness in commercialization. And that has had an impact on our performance, in particular, in Developed Europe, and as a result, we do expect the quarter on the profitability side to be weaker year-over-year, that is one effect that we can clearly identify, obviously. There are other effects that might have also contributed like different comp patterns through heat and World Cup or general macroeconomic environment in Europe. But those are effects that are very difficult to quantify and that's why we right now believe that they might have contributed. But the effect that we can identify and isolate is clearly the softness in bids that we saw in the peak season.

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

And I guess, other online travel companies have been pointing out EU-related weakness for couple quarters now. So wondering, if some of this might be a function of trivago comping through the marketing changes, and now you have better visibility into what may be macro, but maybe it's not as new a trend. Does that factor in at all?



SEPTEMBER 11, 2019 / 4:20PM, TRVG.OQ - Trivago NV at Deutsche Bank Technology Conference

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

That could absolutely be true. It is true that in the last couple of quarters, obviously, we had very, very incomparable previous year quarters given that we significantly changed our marketing intensity and optimized our marketing spend. So a macro trend that would have started earlier for us would have been very difficult to spot and would have been dominated by the marketing optimizations that we've implemented. So a long story short. I think it's absolutely possible what you are mentioning that we see some effect of a trend that has been going on for a longer time period.

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

Okay. And then just to clarify something you had mentioned earlier, I think, last week, our interpretation was it sounded more like a function of this consumer search query activity, but it sounds like some of it is also reflected in auctions and bid pricing. Can you kind of talk about the different dynamics there?

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

So yes. I mean the direct effect that you have on revenue and on profitability is, obviously, coming from the bid levels. And as I said before, there we do have seen weakness in commercialization in the peak season. The general volume trajectory has been a bit softer as well, which can be attributed potentially to macro trends, but also could be influenced as a secondary fact from the softness in the bids.

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

Okay. Okay. And then as you look kind of at certain geographies or types of travel kind of longer travel, shorter travel any other kind of nuances you'd point out that might help get flavor for some of the weakness?

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

Not really, to be honest. We've seen different trends in Americas where the performance has been very strong. So we do think it is more geographic phenomenon.

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

Yes. Okay. Okay. And then you've mentioned EBITDA weakness, you've talked about top line growth being positive in the second half. Could this be enough to cause revenue growth in the third quarter to be negative year-over-year?

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

It could be, yes.

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

Got it. Okay. So shifting gears a little bit. If we take a step back and look at the online travel industry, a year or two ago, it was very much in marketing optimization mode. It seems as though, we're starting to get back closer towards growth putting some of the macro stuff aside. Where do you see kind of the industry today? How would you characterize the state of online travel?



SEPTEMBER 11, 2019 / 4:20PM, TRVG.OQ - Trivago NV at Deutsche Bank Technology Conference

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

I think online travel continues to be a growth industry. The way we look at the industry growth is really we look at the development of the large players in the industry. And their public disclosure, and we do think that is a good proxy for the overall industry development. So we estimate industry growth high-single digit, low-double digit, which is a sound growth rate. However, if you compare the state of the industry with a couple of years ago, the growth rate has come down, and we do believe that, that is coming from reduced tailwinds from the off-line to online migration. Clearly, the migration continues to go up, and the percentage tailwind that is coming out of that migration is obviously getting smaller and smaller over time.

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

Yes. Okay. And then metasearch, in particular, has been pretty tumultuous on top of kind of the marketing optimization. You've got Google doing more and more in metasearch. And then, I guess, the OTAs focused a lot on the whole trip to try to kind of drive loyalty. How do you see the category evolving specific to metasearch for the next few years?

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

Yes. So let me start with the whole trip versus focused approach. There we do continue to believe that a more focused approach is the better approach to build a better product for the user. And we do think that particularly, the broader accommodation space is very, very complex and does require full focus and dedication to solve really the user problem. So we are a bit more skeptical about the integrated approach and continue to focus really on our core.

In terms of meta versus the overall industry there, historically, meta has had one very clear value proposition, which is to simplify to save money by getting the same. So have transparency, compare prices across all the different advertisers and finding the best deal wherever it is. And we do believe that, that value proposition can be complemented by comparing different kinds of accommodation in the same search and that's what we've been focusing on in the last two years. So by adding the value proposition, we do think that the overall value proposition of meta can be increased. And as a result, that the relative market share of meta could be increased in the overall industry.

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

Speaking of focus, I think you guys said on the last earnings call, specific to non-hotel accommodations, that you were more focused on improving the experience on content then expanding supply necessarily. Can you explain that a bit more?

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

Yes. Absolutely. So it is not that straightforward to compare an hotel with an apartment. And to simplify, it is overall complex, but to simplify the challenge that is like if you have a hotel with 400 rooms, you need 400 apartments with one room to get the same volume of stays. But the hotel with 400 rooms on average is available. I mean sometimes, it's booked out, but on average, it is available and it gives you 300 depending on what the utilization is, data points consistently, so you have got a lot of data density behind the hotel.

Whereas the 400 apartments that you do have, they are on average not available and you have got very little data behind each individual apartment. So if you combine these two very, very different properties in one list, it is not that straightforward. And that's why we said from the beginning that we want to gradually increase the visibility. And basically doing at the same pace as we improve our own systems and algorithms to do this kind of blending. If you would have rushed it, and said, okay, the main objective is to have five million apartments within one year. That would have been possible, but the risk would have been to have a significant drop in conversion because you just add something into the list that is not necessarily relevant.

SEPTEMBER 11, 2019 / 4:20PM, TRVG.OQ - Trivago NV at Deutsche Bank Technology Conference

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

That's, yes, really interesting dynamic. And so I guess, in terms of focusing on the content, is that kind of functionality to just make it easier for the user on a smaller set of properties to like, is it availability that you get focusing on larger properties or picture quality or comparability across different booking platforms?

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

So there are a couple of dimensions. One is true for hotels and for apartments, the better the description, the better the different amenities are set, the better the pictures are, the better the conversion. I mean that is work that has to be done in the overall industry by our partners predominantly, but supported by us, and that's true across all the different properties. The other thing is, you need to understand what kind of apartments are actually similar. So if you have two apartments that are in the same building and in the extreme case are absolutely identical, it doesn't make sense to show both of them because they're identical. And you can actually aggregate availability and also the data that you have behind those apartments.

But if you have even in the same building two apartments, one is ultramodern, designed by a 25-year old, and one hasn't been renovated in 40 years, you do not want to aggregate the data. And these kind of things, I mean, that's a bit going in the content direction, but it's more on the data side, how to actually deal with that, when can you combine and aggregate or group, when can't you, and what is sufficiently similar from a user's perspective and what is very dissimilar in terms of experience, that is a very big challenge. And that's really what is, I'd say, holding back the overall increase in number of apartments.

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

Okay. So it sounds like it is a pretty tricky challenge to integrate the vacational inventory into the search results. Where would you kind of put yourself either on -- kind of rating yourself or maybe in an inning analogy like where are you guys at kind of getting your product where you want it to be?

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

I would say if you look at the different meta-players, we are the only one who is going for an integrated product, and we absolutely, do believe in the benefit of having an integrated product. So I would say, we have the best product among the meta-players in the market, but still it is an okay product, and it will take quite a bit more work over the next one to two years to build really amazing product.

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

Yes. Okay. Wanted to talk about some of the traffic quality changes. In June, I think you launched two new bid modifiers, it seems like the general plan is to create more flexibility going forward. So I guess, first question would just be, how does the change in these bid modifiers interact or not with the decision to drop the landing page score?

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

Yes. So those are influenced by one strategic decision, but they're very separate. So a strategic decision of ours end of the last year was to focus more on the top advertisers, and with top advertisers, I'm not talking about the largest two groups, but really the top 30 to 50 advertisers that we have on the platform. And that was a change in direction. And so that had an impact on the decision to go for bid modifiers. The bid modifiers are positive for advertisers that do have an edge in certain segments of the overall business, that are very competitive in one segment, but less competitive in the other, and by allowing them to bid more on the part of the business where they're very competitive, the overall user experience is improving because you have more relevant offers for the users and the overall conversion should increase.

SEPTEMBER 11, 2019 / 4:20PM, TRVG.OQ - Trivago NV at Deutsche Bank Technology Conference

On the other hand, the more you fragment the auction, the more difficult it is for very small advertisers to be competitive because it's getting more and more complex and the data per individual auction is coming down more and more. And that is in a way what made us in the past, what has held us back in the past from that step, but with this slight change in strategic focus, we decided that we now want to go down that route and go after that improvement in conversion and in user experience.

On the relevance assessment, the decision is slightly different. I mean it has been heavily contested by some of our large advertisers for quite some time. And as we said on our Q1 earnings call, we have, coming out of this strategic review end of last year, gone into big strategic reviews with our large partners. And jointly, we then developed a test setup where the logic is a bit different. We tested a different logic to the one that we had live before. The old logic, to simplify a bit, is basically giving rules, how a user should land on the advertisers website, so that from our perspective, it is optimal for the user but also for the auction dynamics.

The approach that we tested as an alternative is a lot more collaborative, where we said why don't we try to optimize the experience end to end, together, rather than us optimizing one part and giving rules for the part that the advertisers should optimize for. And so the basic idea is that we help advertisers by sharing parameters with them to optimize on their side without giving them very clear specific instructions, but empowering them to be more focused on the individual search context or user segments. And we tested that in quite a few markets together with our large advertisers and came to the conclusion that, that approach is more promising and that we would discontinue the existing approach and focus on the more collaborative approach.

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

So you've said dropping your relevance assessment has been a short-term positive for the business. Wanted to just delve into that a little bit and get a little bit more color there. And then is there risk that better conversion with the use of a city landing page result in higher short-term revenue, but lower repeat rates on trivago as users go straight perhaps to the OTA after they have that deeper engagement in different hotel selection?

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

Yes. So just to clarify what you just said. I mean any change in the marketplace is leading to less optimal bids in the short-term and more volatility. So the base expectation should be that in the adjustment period that you actually have a less efficient marketplace, so in the short-term it should be slightly negative. But we do expect both changes to be positive in the mid to long term.

On the bid modifier side, the big change has been that we basically adapted our back-end infrastructure to be able to cope with multiple CPCs per property per day, per platform. So we now have a platform that is more flexible and to launch more modifiers is now significantly less work than launching the first two. So overall, we are much more flexible there. And we're also assessing additional modifiers that we will launch in the next 12 months.

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

Yes. Okay. And so I think trip length and booking window were the first two. Obviously, the one that jumps to our mind is mobile versus desktop. Given you're already well into a majority of your queries and paid clicks coming in mobile, I would think that there's actually potential for accretion to separate those? But what are some of the other ones? And how do you think about the mobile desktop?

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

Yes. with the mobile desktop, it is obviously an obvious dimension. The reason why we think you have to be very careful with that dimension is that you can measure conversion by mobile and desktop separately, but it is very difficult to measure the cross device bill. So how many users do actually start their journey on mobile and only do the booking on desktop vice versa, but less relevant, and that is very important to really bid efficiently. So as long as that cannot be measured by everybody very well, there is the risk of shifting -- moving your competitive advantage towards



SEPTEMBER 11, 2019 / 4:20PM, TRVG.OQ - Trivago NV at Deutsche Bank Technology Conference

those players that have significantly better data on cross device bill compared to everybody else. So it is probably amongst all the modifiers the most controversial one. But it is one that is obviously possible, but it is not as straightforward as it might see.

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

Yes. Okay. You talked a little bit about just rearchitecting the kind of back end to support this. But I guess more broadly, can you talk about a bit of the history of the tech replatforming? What exactly was the scope of the investment kind of either time, money, resources, and beyond the bid modifiers, what anything else it allows you to do with your product or the marketplace?

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

Yes. So we've got different back-end investments that we've gone through in the last two years. On the bid modifier side, it is really focus on how we handle the bids, the CPCs throughout the system, so from the import coming from the advertiser to the ultimate invoicing. And that is what we started really to work on with significant effort end of last year, and then launched mid of the year.

The other back-end investment that we've gone through is basically more on the main product. That has gone on for a much longer time period and was necessary because some of the back-end systems were very old and very inflexible. So I don't know, I mean, like very, very tangible example, would have been, we had issues in our data architecture about the number of geographic layers that we could have. So country, state, city. And in New York, for example, Manhattan and then Greenwich village has then layer four and five were very, very difficult to design and to implement in the product, just by having a different architecture coming from ten years ago, that is now in the new system much more flexible.

So generally speaking, we've got pretty much all the flexibility that we want to have how we structure properties by different dimensions and don't have any limitations there anymore. That's a very tangible impact. But generally speaking, we have much more opportunity to develop the front end by having a more flexible back end.

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

And is the bulk of that work kind of done at this point? Or is this still an ongoing process?

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

Yes. I mean I think, I'm not the CTO, but on technology, it's never done.

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

Right.

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

But the bulk of the work seems to be done, and there is continues improvement, obviously, going on. But the system is now much more flexible than it has been.

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

Yes. Okay. Talking about kind of the shift back to growing ad spend, on the 2Q call, you said that you're increasing the ad investments where you think you can create value and generate a positive lifetime return. And so one of the things we wonder is when you look at the advertising revenue

SEPTEMBER 11, 2019 / 4:20PM, TRVG.OQ - Trivago NV at Deutsche Bank Technology Conference

-- as you pull back advertising in the last, call it, two quarters, you didn't lose that much revenue. So as you kind of step back in, do you feel like it will come in at a better return than what you were decrementally seeing in the last two quarters and like how do we think about that? How do you think about that?

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

So I think, that's absolutely, correct. When we reduced the spend, we did two things. Obviously, we increased the internal outlook, but we also increased the focus on efficiency. And coming out of the period where we basically increased our spend for years and years, probably ten years in a row. The focus has been on finding new marketing channels, finding new advertising opportunities and the period of consolidation was very helpful because the focus obviously moved to, okay, how can I get more out of the reduced spend, and how can I maximize the effect. So our expectation would be that when we now ramp it up that we see some of the benefits of the optimization on the way up. And as a result, at the same spend levels that we had in the past would get more revenue out of the same spend.

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

Okay. And I guess over the medium and longer term, how do you think about your ability to grow EBITDA while growing your top line? And how do you balance the trade-offs?

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

Yes. So it is really -- that is the trade-off that the marketing team is going through every day. Is there an interesting opportunity to invest into and does it justify the investment. But generally speaking, we want to increase the absolute adjusted EBITDA that we deliver year-over-year, and at the same time, focus predominantly on growing the top line because we do believe that there is a strategic benefit of scale in the industry. We are one of the smaller players in the industry. And we think that it is the better focus right now versus focusing primarily on increasing the profitability as fast as possible. But still we want to increase the profit, absolute profit year-over-year.

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

Yes. Okay. Being in marketing, it seems that Google Hotel Ads are something -- becoming increasingly relevant in your customer acquisition mix. You described the rollout last quarter as gradual. Can you just help us -- like if the ROAS is better in these channels, why is it gradual? Why not just light it all up quickly?

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

So there are different aspects there. One is that there are technical challenges that we are working on in parallel, and I think, we talked about it in the past. It is a channel that is different to the other marketing channels that we used historically, given that you bid on an individual property level. And that has certain requirements in terms of technological infrastructure that we have built, but we continue to improve and optimize, so that's one dimension. The other dimension is that there are also strategic considerations, obviously, to what extent you want to push a product that is, from a user perspective, at least partially competing with you directly.

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

Yes. And I guess, rolling up there, now that you've been in that channel for a while, do you see decent organic repeat rates for those users coming from that channel? Or is kind of meta to meta kind of a low LTV and more transactional?



SEPTEMBER 11, 2019 / 4:20PM, TRVG.OQ - Trivago NV at Deutsche Bank Technology Conference

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

I wouldn't say that we see a significant difference in the users coming out of AdWords versus Google Hotel Ads. Generally speaking, Google Hotel Ads leads are more qualified, so they have a more refined intent. And that is the main difference that we do see.

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

Yes. Okay. And then on a related topic, you guys hired James Carter from Google to lead your hotel search. Wondering, if you could just talk a little bit about what that means for the business and operationally? And then kind of any new things you guys have learned having him on board with the deep base of knowledge from Google?

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

So we were very happy that James decided to join us and to move over to Düsseldorf. He is, I think, moving with family soon, so it's still a transition period. But he has, obviously, a lot of relevant experience in the sector and in the industry. And we are very confident that he will steer the hotel search team well in the future. What does that mean in terms of the leadership? I mean Rolf will be able to dedicate more time on the big strategic projects that we are pursuing and push them harder through the organization, which we also do see as a big benefit. And last but not least, it's also the leadership team is becoming more diverse in terms of background and experience, which is always something positive.

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

Yes. Okay. Anyone out there have any questions, we're running well on time. I want to make sure there are any burning questions out there you get them in. Okay. You talked about seeing a benefit in Americas from new creatives you're running. Wondering as you start to expand those out, do you continue to see good results in other markets using kind of a similar approach?

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

So that's a bit too early to say--. Yes, we are currently working on that. We don't have results on that yet.

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

Yes. Okay. Okay. On kind of revenue diversification, you've talked about the nonhotel and we talked about it a little bit already and then the potential of getting more Asian OTAs, maybe even Hotel Tonight or Airbnb bidding in auctions. Can you give us an update on where you are in terms of just bringing new participants into the auctions?

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

It's a slow, but steady process, and we're continuously on-boarding new advertise and working with high-potential advertisers to increase their overall participation. But it is only to a certain extent under our control. If you want to expand, if you're a local OTA and want to expand geographically, then obviously, you also need to make sure that you do have the supply and that you do have attractive rates. And that needs to go hand-in-hand. That's why all of these initiatives that we are working on always require, obviously, the partnership focus on it as well, and they tend to make slow progress, but we are confident that we can improve our overall customer concentration over the next couple of years.

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

Okay. And then on hotel loyalty pricing. Where are you now in terms of maybe the number of chains syndicating loyalty pricing at trivago? How are you kind of executing this? And what do you think it does to customer engagement as you scale that over time?

SEPTEMBER 11, 2019 / 4:20PM, TRVG.OQ - Trivago NV at Deutsche Bank Technology Conference

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

Yes. So we do have quite a few programs live or in the working, but there it's also the same than what I said before, it is not as straightforward. So it's also work that is required to figure out, okay, what exactly do we want, where exactly do we want these rates to be displayed, to whom should they be accessible. So it's really a case-by-case decision and joint optimization together with the partner. But having said that, we are happy with the progress that we've made, in particular, in the last couple of quarters, and we are confident that we can improve the value proposition towards our users even further.

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

All right. Well, we're out of time. Axel, thanks for being here.

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

Thank you.

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

All right.

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