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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by, and welcome to the trivago Q1 Earnings Call 2022. (Operator Instructions) I must advise you that the call is being recorded today, Wednesday, the 4th of May 2022. We are pleased to be joined on the call today by Axel Hefer, trivago's CEO and Managing Director; and Matthias Tillmann, trivago's CFO and Managing Director.

The following discussion, including responses to your questions, reflects management's views as of today, Wednesday, May the 4th, 2022 only.

Trivago does not undertake any obligation to update or revise this information. As always, some of the statements made on today's call are forward-looking typically preceded by words such as we expect, we believe, we anticipate or similar statements. Please refer to the Q1 2022 operating and financial review and the company's other filings with the SEC for information about factors which could cause trivago's actual results to differ materially from these forward-looking statements.

You will find reconciliations for non-GAAP measures to the most comparable GAAP measures discussed today in trivago's operation and financial review, which is posted on the company's IR website at ir.trivago.com. You are encouraged to periodically visit trivago's Investor Relations site for important content. Finally, unless otherwise stated, all comparisons on this call will be against results for the comparable period of 2021.

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

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

Thank you, everyone, for joining us for our Q1 2022 earnings call today. We're living in turbulent times and the escalation of the conflict in Ukraine and sufferings of millions of people in the past few months have shocked all of us. Our teams have supported refugees whenever possible, and we are all hoping for the conflict to end soon.

As a business, we experienced a temporary drop in travel activity across many European countries at the end of February. But since then, we have seen a continuation of the strong improvement in travel sentiment and activity. We continue to expect a very strong summer and believe that autumn and winter will see significantly higher travel activity than the last 2 years.

Two years of pandemic and lockdowns have led to significant staffing shortages in the industry, contributing to rising hotel prices. We believe that the effect of this increase, combined with inflation, more generally, will increase the value of price comparison that we can bring to our users in the months and potentially years to come.

We are, therefore, continuing to focus both our messaging and product development on price comparison as we believe that our core value proposition is more relevant than ever. Our teams have worked intensively on developing our core product and relevant price features that will be tested and implemented as we head into the summer season.

As we have historically relied very heavily on brand marketing, we believe that the market will be ready this year to ramp up our brand marketing spending again across many markets. After very limited branding activities in the last 2 years, we are confident that we will be able to rebuild our branded baseline over the years to come. We believe that our investment into our brand will be supported by an increasing relevance of metasearch in the future.

Another potential tailwind that we are anticipating over the next few years is the increasing regulation of mega platforms and the resulting improvement in free and innovation-based competition. The Digital Markets Act in the European Union is setting new standards and clearly states that self-preferencing of own products will be restricted, particularly for accommodation metasearches, we believe that this will make it much more difficult for search engines to steer traffic into their own metasearch products.

To summarize, we believe that we are in a strong position to meet travelers' increasing need to compare prices and find great deals this summer and beyond. And that competitive dynamics will be in favor of pure-play meta players.

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

Thank you, Axel, and good morning, everyone. Before I discuss our numbers in detail and talk about trends, I would like to highlight that we are very happy with our financial performance in our underlying business. In the first quarter, we achieved an adjusted EBITDA of EUR 21.1 million, which is the highest since the start of the pandemic and only slightly below the EUR 21.4 million in the comparable period in 2019.

On April 22, the Australian Federal Court issued a judgment in the proceeding brought by the Australian Competition and Consumer Commission against us ordering us to pay a penalty of AUD 44.7 million. We had recorded a provision of AUD 15 million, which we had estimated for the probable and estimable loss.

The additional accrual in excess of previously established provisions had a negative impact of EUR 21.1 million on our operating expenses, leading to a net loss of EUR 10.7 million in the first quarter. While we are disappointed with the outcome of the judgment, we are very encouraged by the current trends in our underlying business, even though you cannot see that in our net income in the first quarter for the reasons just mentioned.

With that out of the way, let me give you a bit more color on some of the trends in the different regions. Macro trends continue to have a significant impact on the travel recovery in the first quarter. In particular, in Europe, the spread of Omicron and the war in Ukraine impacted traffic volumes on our platforms. However, as many countries started to lift travel related and other restrictions during the quarter, our qualified referrals relative to 2019 levels reached 53% on a global level.

In our segment Developed Europe, we saw steady improvement every week since the beginning of the year when qualified referrals were at approximately 50% of 2019 levels until the invasion of Ukraine by Russia, which led to a temporary decrease in traffic volumes in our core European markets in the weeks following the invasion. Since then, we have seen a gradual recovery from post-invasion levels. And as of beginning of April, traffic volumes fully recovered to pre-conflict levels.

In the last week of March, qualified referrals were around 65% of 2019 levels in Developed Europe. Revenue per qualified referral also steadily improved during the quarter, and we did not observe a notable change since the start of the conflict in Ukraine. In the first quarter, our revenue per qualified referral in Developed Europe was approximately 20% lower compared to the same period in 2019.

In Americas, traffic volumes during the first quarter were relatively stable with qualified referrals at 60% of 2019 levels. Revenue per qualified referral reached pre-COVID levels, mainly driven by an improvement in our monetization year-over-year in the largest market in that segment, the U.S. There was still no notable improvement in our segment Rest of World. Qualified referrals remain significantly below 2019 levels at 39%.

We have seen new COVID-related lockdowns in some Asian countries during the first quarter, and the war in Ukraine had a significant negative impact on our Eastern European platforms, which are part of our Rest of World segment. This was partly offset by signs of recovery in countries like Australia or Japan.

As qualified referrals recovered from Omicron and auction dynamics continue to be healthy across many of our core markets, our global referral revenue increased significantly year-over-year and was at around 50% of 2019 levels in the first quarter of 2022. Other revenue increased to EUR 3.2 million or by 52% year-on-year, mainly driven by revenues from new B2B offerings.

We have onboarded a few more partners since the beginning of the year and we are happy with the progress so far as we continue scaling up their offering.

Moving on to advertising expenses. With the increase in travel demand in most of our core markets, we ramped up our marketing expenses by 187% in the first quarter year-over-year. As we have improved our marketing efficiency and performance marketing channels, and were still cautious with brand marketing campaigns in the first quarter, advertising expenses were still significantly below pre-pandemic levels at around 35% of 2019 levels for the same period.

Consequently, our return on advertising spend increased by 47 percentage points to 184% compared to the same period in 2019. In the following discussion of our operational expenses, excluding advertising expenses, I will exclude also the penalty imposed by the Australian Federal Court, which led to an increase of EUR 21.1 million in our G&A category as we consider this charge to have a distorting effect on the understanding of our underlying cost structure.

Excluding advertising expenses and the penalty, our operational expenses increased EUR 3.4 million or by 11.8% compared to the first quarter in 2021. The increase was mostly driven by items that scale with the traffic on our platforms like cloud-related costs or digital sales taxes, expenses incurred to acquire traffic in connection with our B2B solutions that we did not incur in the same period in 2021 and the nonrecurrence of a gain realized in the first quarter of 2021 on the modification of the lease for our Dusseldorf campus.

Our operating expenses, excluding advertising spend and the penalty imposed by the Australian Federal Court, remain significantly below pre-pandemic levels. We expect to continue to benefit from most of the cost savings resulting from our restructuring that we conducted in the second quarter of 2020. We further improved our cash position, remain well capitalized with a cash position of EUR 269 million and continue to be debt free.

Our net loss increased from EUR 6.7 million in the first quarter of 2021 to EUR 10.7 million in the first quarter of 2022 due to the negative impact of the penalty. The penalty is excluded in our adjusted EBITDA due to its size and unusual nature, and hence, we achieved an adjusted EBITDA margin of 20.8%.

Looking at recent trends, in April, qualified referrals continue to improve and were around 60% of 2019 levels. Referral revenue was also around 60% of 2019 levels as our revenue per qualified referrals approach 2019 levels again. We are seeing the strongest recovery in Europe, where qualified referrals were above 70% of 2019 levels in April, closely followed by Americas at around 65%, while rest of the world recovered to around 45%.

Europe continues to improve nicely and we are excited to launch first TV campaigns in May in some of our core markets. We also plan to air campaigns in the U.S. and Canada soon. While the recovery is still muted in most of the countries in rest of world, we started to see a nice recovery in Japan mid of April, ahead of the Golden Week. We ran a regional TV campaign, the first time since the start of the pandemic in that country with very encouraging results.

Historically, we have invested significantly into our brand and benefited from high-quality brand traffic in subsequent periods. Since the start of pandemic, we cut our brand marketing spend significantly and only invested selectively in a few markets at reduced levels. Consequently, we will not benefit from prior year's marketing investments in 2022 to the same extent as in pre-pandemic years.

As mentioned before, we are confident that we can rebuild our brand baseline. However, it will take time and requires us to invest. We plan to ramp up our brand marketing investments in the following months in markets where we expect the travel recovery to continue going into the peak summer season.

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

QUESTIONS AND ANSWERS

Operator

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

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

Yes. A couple of questions. So maybe just on the outlook for this year. I know you're not guiding for a specific number, but should we expect EBITDA to be positive for the year given that you're going to be spending more into brand spending, which you have not done in the last few years or you're not going to be spending at the same level, you're going to be spending at a higher level.

The other question I had is just on the performance ad efficiency that you called out in your shareholder letter and versus 2019, I think you said you saw more efficiencies. What's the driver of that?

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

Yes. Sure, Naved. So on the outlook of EBITDA, yes, we do not give specific guidance. I mean you have seen the strong EBITDA in Q1, which was similar to Q4. When you think about 2022, I would say our historical seasonality is a good starting point. And there, you have seen that normally EBITDA went down in the second and third quarter as we in the second quarter start to invest prior to the summer season. And then during Q3, the biggest quarter for us and everybody in the industry, we continue to push, in particular, on the brand marketing side and then cut back in Q4. So that will not change. So our approach to that will not change. and what I mentioned is in Q1, if you just look at the EBITDA, it looks better than what you have seen historically relative to other quarters because we did not invest significantly into brand given at the start of the year, we had the impact from Omicron in most European countries. Then mid-quarter, we had the impact of the war in Europe. So that's why we did not push our marketing activities to levels that we had anticipated before.

So now everything that I said on trends in April and what we expect for the summer, we've seen an improvement in Europe, we are back to pre-conflict levels, and we saw a continuous improvement in April. And now with the summer in front of us, we plan to change that. In May, we will start with the first TV campaign in selective markets and then plan to ramp up our investment significantly. So that will push down ROAS and EBITDA compared to Q1 in Q2 and Q3 and you won't see the positive effect of that brand campaign immediately given the long-term nature of it. But obviously, we do that because we do expect a positive long-term return from that. So I hope that gives you a bit of an idea how we think about the cadence for the rest of the year.

And then on your second question, what was driving the efficiency in marketing. So there I would distinguish between performance and brand marketing. So if I start with performance marketing, it always depends what you compare it to, right? If you look at 2019 that was a year where we were pushing more aggressively, pushing more for top line growth and we're not as much focused on margins. And what we have done now already last year in performance channels, actually great teamwork from the performance marketing team over the past 2 years since the start of the pandemic, is looking for pockets changing our way how we look at different segments and markets finding high traffic quality and focus on that, and that is paying off.

So when I say efficiency is higher, then if I look at the return on advertising spend numbers, that is up compared to 2019. And I think that is in performance marketing because of the work that the team is putting in there. On the brand marketing side we have some data points from summer last year when we ran first campaigns. I mean in Q1, as I said, we didn't spend as much but the past 2 years, again, were very insightful for us in terms of learning given that we had to cut back then started in some countries to invest again. And that gave us valuable learnings in how we spend, what we spend and where we spend and those learnings, we will now take for the next couple of months and optimize our brand marketing campaigns. And from that, we expect higher efficiency, obviously, at a lower absolute level of spend compared to 2019, but at higher ROAS efficiency than what we have seen before.

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

Got it. And a quick clarification, if I may. So I think you said you reached pre-pandemic levels subsequently in Europe after we saw the dip. So the improvement you're seeing is without the new ad campaigns and without the benefit of the campaign. So is it fair to assume that your traffic would actually be exceeding those levels when you have your campaigns out for the peak summer season?

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

So what I said is in Developed Europe that beginning of April, we reached pre-conflict levels again. So we saw an improvement at the beginning of the year as countries in Europe were lifting restrictions. So week by week, relative to 2019 levels, our qualified referrals were improving. And then we saw the dip from the impact of the war. And then it took a couple of weeks until we saw an improvement again. And yes, at the beginning of the second quarter, we basically recovered from that dip. And then I gave you a data point in April. So for the full month, we were at 70% of 2019 levels. So that was not driven by brand marketing spend. That is correct. So now that we are ramping up, I would expect that this will further drive volumes to our platforms, how much to be seen, to be honest. But yes, we expect obviously a further improvement from our marketing activities.

Operator

Next question comes from the line of Shyam Patil from Susquehanna.

Ryan Michael Lister - *Susquehanna Financial Group, LLLP, Research Division - Associate*

It's Ryan on for Shyam. So you guys talked about inflation and rising hotel prices and driving more customers to Meta for price comparison. So just generally, do you view that as a tailwind for your business because of that dynamic? Or could it be a bit of a headwind as well because it might reduce demand at prices become too expensive?

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

Yes, sure. So it is a very good question. And the way we are looking at, it, and we've also done quite a bit of market research there. So our view is that general inflation, even outside of travel is leading to more cost consciousness overall. So because you can feel that prices are going up pretty much in your daily life. And cost consciousness is something that is very, very positive for us. And we've also seen it in previous recessions, where people are more price conscious and then obviously, the value that we contribute to the search process is going up. So that we see as a big opportunity. And that, as I said, that's also the focus of our brand communication and also for our product development.

On the volume side, I think you had in principal right, if there is high inflation, if the budgets are getting tighter, then obviously, people cannot spend as much as they've done before. Having said that, we are right now coming out of pandemic and there is still a big backlog in a way of experiences and spending time with friends and spending time with families and really doing the trip that you wanted to do now for a few years. So we don't think that it would have an impact on the volumes for this year. For the years to come and the trajectory, I guess that's a bit too early to tell, but we think that overall, it is in our favor and it will be in our favor for quite a while.

Operator

The next question comes from the line of Doug Anmuth from JPMorgan.

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

This is Dae Lee on for Doug. I have 2. So a number of large OTAs have talked about increasing spend into the recovery. I was curious if you're seeing this increased activity on your platform and how the bidding intensity looks like relative to pre-pandemic levels right now?

And then secondly, could you elaborate on what kind of or what level of marketing efficiency you're targeting in 2Q or 2022 as you significantly (inaudible) marketing investments if there's a kind of ROI level that you guys are targeting?

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

Yes. Sure. So on your first question, so it's something we talked about last quarter as well. We have seen that the competition in our auction increased as large advertisers, but other advertisers as well became more active and increased their bids. So auction dynamics from our perspective are very healthy. If we compare to 2019, we are roughly on similar levels. And that was very different at the beginning of the pandemic. We talked about that. You could see that in our revenue per qualified referral they dropped quite significantly because many advertisers were cutting back and then were slow to recover or to come back to the auction. And that has changed and in Q1, when I look at RPQR, I mentioned or you can see that it's close to 2019 levels again. Looking at April, we approached 2019 levels again as well. And part of that is because our monetization levels, which is a result of the auction is back to those levels.

So on your second question in terms of targeting, we do have certain targets for our performance channels. We executed against that in a disciplined way for the last couple of quarters. It's not a fix target though, we obviously always look at the elasticity, we look at the traffic quality. And based on that, we change and make decisions. But obviously, we want to invest at profitable levels. With regards to brand marketing, it's slightly different. So there, obviously, the first dollar you invest is at sub-100 ROAS. So it's paying back over time. And we have our models where we estimate the payback period, how long that is. It's different by market. And based on that, we determine the short-term ROAS. So let's say, in campaign for the period we are on the campaign, what we like to see in terms of returns so that we think it's long-term profitable for us.

So there, we have targets and then on a global level, we don't have a specific target, but we want to rebuild our brand baseline, as I said. And as long as we see opportunities, we are happy to invest and we'll push forward.

Operator

Thank you. There are no more questions at this time. I would like to hand back over to the speakers.

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

Yes. Thank you for taking the time to participate in today's earnings call. We believe that in the months to come, we will see strong demand for accommodation and an increasing need to compare prices, to save money and to find good alternatives. We're excited about this outlook and are very much looking forward to the summer. Take care, and see you next quarter.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.

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