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TRVG.OQ - Q3 2020 Trivago NV Earnings Call

EVENT DATE/TIME: NOVEMBER 03, 2020 / 1:15PM GMT





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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, thank you for standing by and welcome to the trivago Q3 Earnings Call 2020. (Operator Instructions) I must advise you the call is being recorded today, Tuesday, the 3rd of November 2020. 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, Tuesday, November 3, 2020, 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 Q3 2020 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 of non-GAAP measures to the most comparable GAAP measures discussed today in trivago's operating and financial review, which is posted on the company's IR website at ir.trivago.com.

You are encouraged to periodically visit trivago's Investor Relations site for important content. Finally, unless otherwise stated, all comparisons on this call will be against results for the comparable period of 2019.

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

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**Axel Hefer** - *trivago N.V. - CEO, MD of Finance, Legal, International, Marketing, Product, People and Culture & Mgmt Board Member*

Good morning. Thank you for joining our earnings call. In Q3, we wanted to achieve 2 things: First, to continue to progress on our recovery plan, adjusting our products, value proposition and marketing; and second, to preserve our cash position.

Looking back at the third quarter, we are very happy with the results. Most notably, we managed to achieve a positive adjusted EBITDA and almost broke even on a cash flow basis. We released a number of new features in our core product and accepted the app version of our new local travel product.

We launched our new CPA model in our marketplace and continued to scale our alternative revenue streams. And we improved our bidding and performance marketing and tested a new creative concept successfully. With the number of infections rising quickly in many of our core markets and partial or full lockdowns being implemented, the short-term business outlook appears challenging. However, we believe that a sustainable recovery in travel is coming closer as progress in testing, vaccination and treatments are likely to show effects in 2021. We continue to focus on this point in time and are disciplined in progressing on our plans, irrespective of the short-term travel outlook.

And with that, I will turn it over to Matthias to cover our financial development in more detail.

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**Matthias Tillmann** - *trivago N.V. - MD & CFO*

Thank you, Axel, and good morning, everyone. We have seen a significant improvement in travel activity in the third quarter compared to the second quarter. The recovery was mainly driven by easing of lockdown measures in most countries due to lower number of COVID-19 cases and a general uptick in demand as we entered the peak summer holiday season in the Northern Hemisphere.

In particular, in our segment, Developed Europe, the subsequential increase in qualified referrals and revenue per qualified referral was very strong. This allowed us to selectively invest in TV advertisement in certain European markets, and we were very pleased with the results.

We tested a new campaign, and the positive response makes us confident that we can build up on the learnings to tailor our messaging for a sustainable recovery.

Overall, we continue to focus on preserving our cash and, therefore, limited the brand marketing test to certain European countries. We were also mindful with our investments in performance marketing channels and focused on buying high-quality traffic. We finalized our restructuring, closed the sale of our Spanish entity and consolidated our operations in our headquarter in Düsseldorf.

In addition, we reduced other selling and marketing expenses and other nondiscretionary items. As a result, our operating expenses, including stock-based compensation, decreased by $15 million or 32% in the third quarter compared to the same period in 2019.

The combination of higher travel activity and our cost-saving initiatives led to a net loss of EUR 2.3 million and a positive adjusted EBITDA of EUR 6.1 million. We are very happy with our financial results in the third quarter and the progress we made in setting up the company for what we expect will still be a challenging and unpredictable foreseeable future.

Overall, our markets continue to be volatile, but there are a few trends emerging since the beginning of October. In Developed Europe, the rapid increase in new COVID cases, since the second week of October, had a negative impact on our qualified referral development. While the year-over-year growth rate had stabilized end of September, it began to drop again since mid-October, as most countries are going into partial or full lockdowns again.

Looking at our segment, Rest of World, while there are regional differences, overall, both qualified referral and revenue per qualified referral year-over-year growth rates have been stable over the last couple of weeks. And hence, our referral revenue continues to be around 20% of 2019 levels.

In Americas, we continue to observe a steady increase in our qualified referral year-over-year growth rate, which is mainly driven by a significant improvement in Latin America, while the year-over-year growth rate in the U.S. has been stable since August. Qualified Referrals were around 50% of 2019 levels in October, improving from 35% of 2019 levels in the third quarter.

Due to the country mix effect, the revenue per qualified referral year-over-year growth rate has started to decline slightly in October.

As we have now entered our low season quarter and are faced with a second wave of COVID-19 cases, in particular, in Europe, we expect a negative EBITDA in the fourth quarter. However, we are confident that we have set up the company for this challenging environment and continue to focus on preserving our cash until travel rebounds.

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

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And your first question comes from the line of Tom White from D.A. Davidson.

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

Great. Just first on the cost per acquisition product that you guys have talked about, I guess my presumption would be that the net version of the CPA product, the one that factors in cancellations, would be more appealing to advertisers in the current environment. Is that accurate? And are you getting any real traction there? And I guess I'm curious, like, are you inclined to really push a net version of the CPA product? Or do you not really want that kind of maybe becoming the new normal that advertisers expect maybe once things get back to normal? And then I just have a quick follow-up.

**Axel Hefer** - *trivago N.V. - CEO, MD of Finance, Legal, International, Marketing, Product, People and Culture & Mgmt Board Member*

Of course. So the -- just to be clear -- I mean the CPA product that we have taken live in October and we are now rolling out is a gross CPA product. So we are taking over the risk of the booking happening, the booking conversion risk. We are not taking over the cancellation risk. And we think that it is a very, very good first step to help our advertisers, in particular, to deal with the uncertainty and data sparcity in the current market environment. Whether we will eventually move to a net CPA model or not is something that we will see in the next couple of weeks and months. But given that the time to travel has come down a lot, and there are very, very short travel windows, we think that the gross CPA is actually helping our advertisers very significantly, and it's a very, very good foundation for entering next year.

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

Okay. That's helpful. Just a quick follow-up. Do you guys have any sense as to what percentage of your business or your referrals you think might come from corporate travel? And I guess I mean there are kind of unmanaged corporate travels. So it's the worker that's booking his own hotel rooms and then getting reimbursed as opposed to kind of corporate travel spend that maybe goes through the large travel management companies.

**Matthias Tillmann** - *trivago N.V. - MD & CFO*

Yes. Sure. So on corporate travel, we don't know the exact mix of our business there, so we don't have perfect visibility on that. However, what we've said in the past is that, obviously, through interaction on our website, through certain behaviors, et cetera, we estimate what kind of travel you're coming from. But in general, business travel is not the largest part of our business mix. A large part is rather city trips. And there, we have seen obviously a negative development relative to the rest of the market in the third quarter, and now that continues in the fourth quarter.

Yes. Does that answer your question?

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

Yes. Appreciate it.

**Operator**

And the next question comes from the line of Brian Fitzgerald from Wells Fargo.

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**Brian Nicholas Fitzgerald** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Two questions, if I could. Axel, I just want to follow-up on your exposure to city travel, city vacations. Can you remind us how that has trended? Has it varied any over time, maybe specifically with 2020, in particular? And then the second question is around the rollout of sponsored listings and display ads. How would you assess the rollout? How far into the rollout are we? How is it being implemented? Is it broadly? Is it regional? Is it with respect to certain types of inventory? Is the onboarding process around those sponsored listings and display ads accelerating? We're trying to get a better understanding of the adoption rates and the runway there.

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**Matthias Tillmann** - *trivago N.V. - MD & CFO*

Thanks, Brian. This is Matthias, I will take the first part of your question and then pass it on to Axel. So in general, what we have seen is a clear shift in the third quarter to nature destination and nearby destinations, whereas usually, a big part of our traffic mix, at least, is city destinations. And to give you an idea, so city trips, in Germany -- we used that example before, yes. So there, we saw a decline of more than 50% of city destinations, large city trips, whereas we saw that trips to nature destinations were even up year-over-year in Germany.

So if you look at those categories, like what we said in the pastin our last update is that, we believe that nature and close destinations will come back first. That's exactly what we have seen, then city travel and lastly, international travel, and that is exactly what we are seeing right now.

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**Axel Hefer** - *trivago N.V. - CEO, MD of Finance, Legal, International, Marketing, Product, People and Culture & Mgmt Board Member*

On your second question regarding the status of the rollout of sponsored listings and display, I mean, first of all, I would like to say that there has been huge, and there is huge interest by our advertisers in these alternative products because they serve slightly different use cases. And by having a broader product offering towards our B2B advertisers, we can serve their needs much better. The adoption and the interest has been very broad. So I wouldn't say that there has just been a specific segment of the market being interested in these products. And some advertisers have started their tests and also permanent campaigns sooner. Others have taken a bit more time, and obviously, the environment is still very difficult for a lot of our partners.

The surge in new infections in Europe is a bit of a temporary setback, I would have to say, because, obviously, there are markets where currently, none of the products is really generating significant volumes. But we remain very confident that with these products, we are very well prepared for a more sustainable recovery next year, and the interest remains very, very strong despite the difficult environment we are currently in.

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**Operator**

The next question comes from the line of Naved Khan from Truist Securities.

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**Robert Zeller**

This is Robert Zeller on for Naved. So two, if I can. With COVID resurfacing in Europe and parts of North America, how would you compare the demand you see today versus the demand you guys saw during the lows of April and March? And then secondly, so you guys had mentioned that travelers have been traveling to more local nature destinations that they can drive to.

And you called out in the letter, I think, this new feature, the local travel discover product that you guys plan on launching in 2021. So do you expect that this trend is going to continue into 2021? I guess when do you see a return to travel to bigger cities or more densely populated destinations?

**Matthias Tillmann** - *trivago N.V. - MD & CFO*

This is Matthias. I'll take the first part of your question. So yes, how does the current situation compares to March? So first of all, October is in the books, and October has been a mixed bag with different developments in our 3 segments. I broadly covered that in my prepared remarks, but let me give you a few more data points here.

In Europe, we obviously clearly see the increase of new COVID cases and a negative development in our qualified referrals. But having said that, the first week was still very similar to the last weeks of September. And then only mid of October, it started to decline. So it's still early, and I think it's also too early to compare that to the situation in March and April, given that, yes, we are now less than 3 weeks into that development in Europe. But overall, qualified referrals are declining and clearly impacted. How exactly that will compare to April, I think, again, is a bit early and we can probably give you a better update on that in a couple of weeks.

On the other hand, in Americas, we clearly see a positive trend, in particular in LatAm, as I said before, and most notably in Brazil. So in the last week of October, qualified referrals were almost at last year's level in that country, and it confirms the trend that we have seen during the summer season in Europe.

When summer comes, people want to travel. There might be a shifts in travel demand. For example, what we have seen in Europe, and are now seeing in Brazil as well is that people choose domestic over international destinations. But overall, there is a pickup in demand, and this makes us confident that travel will recover in the second half of next year as well.

**Axel Hefer** - *trivago N.V. - CEO, MD of Finance, Legal, International, Marketing, Product, People and Culture & Mgmt Board Member*

So on your question regarding our discover product and the outlook for next year, so you're absolutely right. We do think that local travel will also be very, very important for next year in all of our core markets. And there, in particular, the summer there, we expect to show sustainable recovery. We do think that local travel will be much greater than what we've seen in 2019, so a similar trend to what we've seen this year.

The return of city trips that are, as Matthias said earlier, are very important for us, for our core product, we expect in the second half of the year. And there is some opportunity that there might also be some recovery in the first half, but that is more uncertain.

The discover product, more specifically, is not focused on nature or city, but it's more focused on local. So more driving-distance destinations and is giving you inspiration to where you could go. And we do think that this is 100% spot on in terms of customer need for next year. It is accepted in the app, and we are working on launching it on the other platforms and have a full pipeline of features that we are planning to deploy in the product over the next couple of months so that it is ready with full features when the volume will increase again next year.

**Operator**

Next question comes from the line of James Lee from Mizuho Securities.

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

Great. I was hoping to get maybe a little bit more specific on the geographic trends here. You guys talk about referral revenues down about 80% year-over-year for Europe. Did you have a sense what the trend is like for qualified referrals? And for the U.S. specifically, you commented that qualified referral down 50% year-on-year in October, what is the referral revenue trend look like?

**Matthias Tillmann** - *trivago N.V. - MD & CFO*

Sure. Thanks, James. So I mean I gave some data points. On the U.S., I think there's nothing specific to add here. As I said in my prepared remarks, the qualified referral year-over-year growth rate in the U.S. has been stable since August. And overall, the broader trends, they have not changed, yes? So we still see a shift towards domestic travel and fewer city trips. So that's on the U.S.

If we look at Rest of World, there are regional differences in Central Eastern Europe, for example, the development is very similar to our Developed Europe segment. Qualified referrals are declining fast with the increase in new COVID cases. In Southeast Asia, qualified referral year-over-year growth rates are also declining, but not as fast.

And then on the other hand, in our biggest markets in that segment, namely Australia, Japan and in particular, India, we see a greater recovery offsetting the effects in the other regions in that segment. So overall, the year-over-year revenue growth rate is stable compared to what we've seen in Q3. Yes, that is all I can say, more specifically to the regions.

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

And Matthias, if I can have a follow-up question here.

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**Matthias Tillmann** - *trivago N.V. - MD & CFO*

Sure.

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

When you talk about recovery normalization in first half of '21, are you referring to revenues? Or are you referring to growth of referrals?

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**Matthias Tillmann** - *trivago N.V. - MD & CFO*

Growth of referrals. So basically, when we talk about normalization and travel, we mean the underlying demand, and that would translate into our qualified referrals. And then if you look at our revenue, obviously, you have on top the monetization component you have to look at that separately.

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**Operator**

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

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

It's Ryan on for Shyam. Just 2 quick ones. First, can you just talk about what's giving you confidence that travel demand should recover sustainably in the second half of next year? Is that kind of contingent on a vaccine?

And then secondly, Google is under some DOJ scrutiny, so do you think that could maybe help you if they decide to kind of ease off on funneling traffic into their own travel product?

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**Axel Hefer** - *trivago N.V. - CEO, MD of Finance, Legal, International, Marketing, Product, People and Culture & Mgmt Board Member*

Sure. So on the beginning of sustainable recovery next year and what makes us confident there. I think the first thing that is giving us confidence that is what we've seen already in summer in the Northern Hemisphere in summer, and now in the Southern Hemisphere, that there is a fundamental need of traveling and that our travelers do want to travel. So that need, we see to persist, and also see the same trend or expect the same trend for next summer. So it's strong nature demand in the peak season.

For the second half of the year and the segment that is very important to us, the city travel, we do think that a combination of faster and cheaper testing, where you see a lot of development happening right now; the availability of a vaccine, at least to high-risk areas; and improvements, in terms of treatment, will give overall a better perception of control, which doesn't mean that the pandemic will be over. But we believe that there will be a positive impact on the autumn season next year, and that, that will lead to some recovery of city trips.

And why is that for us, overall positive? I mean city trips obviously are very important to us, and we are agnostic to the destination. So as long as travelers are feeling comfortable to travel somewhere, we do have the right product to offer, and we don't need anybody to on board a plane, neither domestically nor continentally nor intercontinentally. And so that's why we do think that, in terms of recovery, we should benefit slightly sooner than other travel companies.

On your second question regarding the investigation into Google's practices, I mean it's not only happening in the U.S., it's happening in quite a few countries that there is an increasing skepticism that some of the mega platforms, and they are most notably Google, are ensuring fair competition overall in the segments that they are participating in.

With any kind of regulatory action, I mean, the one thing that they have in common is that they take some time. But our read of the overall situation is that there is now broad consensus that something is not right and that ultimately, at some point in time, will have an effect on the competitive environment.

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**Operator**

The next question comes from the line of Lloyd Walmsley from Deutsche Bank.

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

I have 2 questions. First, when KAYAK went public, they reported 2 segments, search and advertising, and their advertising was over half of total revenue. So can you maybe talk through the puts and takes of how your sponsored listing and display ads compare and contrast to what they've done? And give us a sense for where you think this can scale to as a percent of maybe 2019 revenue?

And then second one, a little more out there, but have you looked at price comparison in other segments beyond travel? I mean we just saw GoodRx go public in the U.S. doing prescription drug price comparison, and they're doing $500 million in revenue, 30% growth, 35% EBITDA margins. Curious if you've ever explored leveraging your strong user base and brand to move into other categories that may be kind of less competitive and have more attractive attributes?

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**Axel Hefer** - *trivago N.V. - CEO, MD of Finance, Legal, International, Marketing, Product, People and Culture & Mgmt Board Member*

Yes. Sure. Thanks for the questions, Lloyd. The first question on the business opportunity for our sponsored listing and our display products, so I think you're spot on. I mean there is significant opportunity to increase revenues there. And of course, we also looked at competitors and realized that we were pretty much the only player that was just depending on CPC revenue and the core product. Whether we can reach the levels that KAYAK has reached at the time of their IPO, I'm not 100% sure, given that their business mix is much more skewed towards flights versus us, obviously, in accommodation. And as far as I understand, the search revenues are stronger on the accommodation side.

So I would expect our share to lack what you've seen at KAYAK, but we do believe that there is significant opportunity. I'm not sure that right now is the right time to try to quantify the exact share, given that there is so much volatility in the market. But at some point in time next year, I would hope that we have a better view on what the overall perspective is and potential is. But yes, we are very bullish on the additional products, and that's also what we've heard as a feedback from our advertisers.

**Matthias Tillmann** - *trivago N.V. - MD & CFO*

Yes, and -- Lloyd, this is Matthias. On your second question, I mean, that's a very interesting thought. I mean obviously, we have built our brand equity around travel for many, many years and have invested a lot into that. And as a result of that, we do believe that we have a strong global travel brand. So if you were to go into completely different fields that would be a bigger shift, for sure, and I'm not sure the timing right now is perfect for that.

Overall, we have a very lean setup. We have focused teams, and we are very excited about our opportunity in travel. And with all that, we have a full product pipeline, and the team knows exactly where to work on and what to do, and that has been one of our key strengths in the past. And how we made it that far, that we were always very focused and everyone coming here to work every day knows exactly where we are and where we want to be, and I think that's also key asset.

So never say never. And again, I think it's a very interesting thought. But right now, I believe we should continue on exploring our opportunities that we do have with our strong product teams and with our strong global travel brand.

**Operator**

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

**Douglas Till Anmuth** - *JPMorgan Chase & Co, Research Division - MD*

Great. Axel, I was just hoping you could give us some more thoughts on the brand campaign that you did in some European markets. And just curious how you're messaging and then mix of marketing could potentially change as things hopefully recover more next year.

And then also, can you just give us an update on your progress with alternative accommodations and how you're thinking about the path there going forward?

**Matthias Tillmann** - *trivago N.V. - MD & CFO*

Doug, thank you. I would take the first question on the brand campaign, and then Axel will talk a bit about your second question.

So given the production lead time that you usually have, we had to decide in April already what kind of creative we would want to add during the peak summer season this year. And if you remember how the situation was back then, our revenue was close to 0 in April. There was a global lockdown and nobody knew how Q3 would turn out. And with that in mind, we decided to produce a much softer TV campaign in terms of messaging, and that turned out to be a very good decision. We got very positive results and got some valuable learnings, all of that, that we can now apply for our new campaigns. I won't be more specific than that, but the key takeaway is that we have, by now, tested a few different concepts and not only in Q3 this year, but we already started end of last year to test different formats and different campaigns to diversify away from our Mr. trivago campaign, and there we also got interesting learnings. And this has been now a next step into another direction and was very valuable what we have, and I think by now, we have a pretty good understanding of what is working for us. And that will give us the flexibility to tailor that towards a new campaign and next year to whatever the market environment will be.

**Axel Hefer** - *trivago N.V. - CEO, MD of Finance, Legal, International, Marketing, Product, People and Culture & Mgmt Board Member*

On your second question, alternative accommodation, I think you're absolutely right. We are very happy that we started to really focus and invest significantly in it on the alternative accommodation end of '17. So for this summer business, our apartment coverage was very important and it was very important to really have all the inventory available given that a lot of the top nature destinations were, frankly speaking, just fully booked out. And you needed to have all the inventory that was available to show availabilities to your users and customers.

And for next summer, we expect a similar dynamic. With the market overall recovering, we think that the significant increase in share that is going to apartments will normalize to a certain extent. But we continue to believe that even with a recovering market, apartments will be a key part of our overall value proposition and a key differentiator for us.

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**Operator**

And we have one more question on the line. (Operator Instructions) And the next question comes from the line of Kevin Kopelman from Cowen.

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**Kevin Campbell Kopelman** - *Cowen and Company, LLC, Research Division - Former VP*

On marketing trends, so in the third quarter, you were able to reduce your marketing spend year-over-year significantly more than your revenue declined. Can you give us an update on those dynamics headed into Q4, any change there with what's going on in Europe?

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**Matthias Tillmann** - *trivago N.V. - MD & CFO*

Sure. Thank you, Kevin. Yes, I think that's a very good observation. So if you look at Q3, as a percentage of revenue, our advertising spend was around 50%. So compared to what we've done historically, that is a very low number. And that was predominantly the case because we only tested in Europe or invested in TV in our segment, Developed Europe, as we didn't see the same opportunities in other segments, and we're more cautious. And again, as I mentioned before, our key focus during the third quarter was to preserve our cash. And on the other hand, in Europe, we did see a decent pickup. So also wanted to invest into that. That's on the brand's marketing side.

On the performance marketing side, when we saw a pickup in demand, we also went back in and invested more, but also more cautious than what we have done previously. And I mean we talked about it before already. Pre-COVID, we started a test in our performance channels where we increased our return on advertising spend targets to really see what the incrementality of that channel is for us. And now when we went back in, we kind of had a similar approach, and we're running higher ROI targets than what we had before. And then obviously, we benefited also from the fact that overall competition in those auctions still is lower than compared to pre-COVID.

So if you look at the fourth quarter and what it means for our investments in the fourth quarter, historically, it's been a low quarter for us in terms of brand spend anyways. As we approach holiday season, TV advertisement becomes more expensive. At the same time, demand for our product drops. So we usually cut back.

If you look at the situation in Europe right now and if you look at the data points that I gave, you see that on a global level, in Q4, it's fair to assume that we don't expect to have a higher ratio of revenue in the fourth quarter as a share of 2019 levels than what we had in the third quarter. So if you take that as a starting point and then look at the 50% we had in the third quarter in terms of advertising spend of revenue, you can assume that this will be not higher in the fourth quarter. That gives you a good idea of how we're approaching our marketing activities in the fourth quarter. Does that make sense?

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**Kevin Campbell Kopelman** - *Cowen and Company, LLC, Research Division - Former VP*

Yes. Matthias, it's very helpful.

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**Operator**

There are no further questions at this time. Please continue. Thank you.

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**Axel Hefer** - *trivago N.V. - CEO, MD of Finance, Legal, International, Marketing, Product, People and Culture & Mgmt Board Member*

Yes. Many thanks for taking the time to participate in our Q3 earnings call. Irrespective of the very challenging situation we are facing in many markets, we continue to see the crisis as an opportunity. An opportunity to face our travelers and advertisers with better products, an opportunity to become more relevant and grow our market share. This is what is driving us forward, no matter how long the winter will last.

Many thanks for your time. Stay safe and see you next quarter.

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**Operator**

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

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