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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the trivago Q2 Earnings Call 2020. (Operator Instructions) I must advise you this call is being recorded today, Wednesday, the 29th of July 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.

We are pleased -- the following discussion, including response to your questions, reflects management's view of today, Wednesday, July 29, 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 Q2 2020 operating and financial review and the company 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 reconciliation of non-GAAP measures of 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 of the comparable period of 2019.

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

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 us today. Only 2 months have passed since our last earnings call, and it feels like a long time ago. Since then, we have seen some return of travel activity globally, but more importantly, COVID-19 has been a catalyst to accelerate our strategic repositioning in the changing industry. And despite the difficult situation, our teams have moved mountains.



Starting in May, we have seen a return of travel: first in Germany, the U.S. and New Zealand; later in other markets. Almost everywhere, leisure nature destinations have been the first to pick up, predominantly in driving distance and with an increasing demand for alternative accommodation, exceeding 20% of our referrals for the first time. Germany, as one of the most stable markets right now, has seen leisure nature demand to pick up approximately up to 100% of last year's volumes, while city trips and international travel were around 50% of last year's volumes.

But recovery is not a one-way street. In the U.S., we have seen how closely travel demand is tracking the health situation. And starting mid of June, the recovery and year-over-year growth rates in the U.S. has reverted. During this difficult time, our teams have done remarkable work. Our tech teams have significantly increased their innovation pace, not only improving the core product, but also launching the first better version of our new local travel feature.

The marketing teams have fully ramped down our marketing activities and are now ramping up in line with the market with tailored messaging and campaigns for the current situation. Our sales and marketplace teams have worked as true partners with our advertisers, supporting them when the crisis hit them and jointly working on significant recovery initiatives. Most notably, the sponsored listings and display advertisement products have been commercially launched and various end-to-end conversion optimization tests are in the works.

Despite the operational and the strategic progress that we've been making, we are not unaffected by the crisis that has hit the industry. Matthias will cover our financial development in more detail.

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

Yes. Thank you, Axel, and good morning, everyone. Let me start with saying that Q2 has been a very special quarter. Given the low revenue base of just EUR 60 million, some of our ratios and KPIs are not as meaningful as during normal quarters. Our net loss in the second quarter was EUR 20.2 million. Despite the loss, we were able to strengthen our cash balance without taking up external funding. This is largely due to the fact that we were able to collect a significant amount of outstanding receivables, but also because we reacted fast to the changing environment by focusing on preserving our cash.

Our sales and finance teams have done an amazing job here. And as a result, our overall cash position increased by EUR 19.8 million to over EUR 213 million at the end of the second quarter. This will give us the financial flexibility to meet future challenges.

In order to keep that flexibility, we changed our structure in the second quarter. Our HR team has done an outstanding job dealing with many challenges in a very short time period. I'm, in particular, happy that we have found a new home for our around 60 employees in Palma. Adjusting for those restructuring costs of EUR 5 million, we reduced our operating expenses by EUR 10.2 million in the second quarter compared to the same period in 2019.

Moving on to trends in July. We see a high correlation between demand for local leisure trips with the health situation in the respective region. Hence, the demand in various markets continues to be volatile and remains largely unpredictable. In July, the recovery has been strongest in Developed Europe so far as we see core markets like Germany and Italy recovering fast, and most other markets experiencing a gradual improvement in traffic volumes.

More specifically, as of July 24, month-to-date, our qualified referrals decreased year-over-year less than 50% in Developed Europe and were down around 50% in Rest of World. While in Americas, our qualified referrals were down around 70% year-over-year month-to-date, as the tick up in demand flattened out in the U.S. in the second half of June, and we have not seen a recovery in Latin America yet.

Overall, our advertisers remain cautious, so bidding levels are still down significantly compared to 2019. Our revenue per qualified referral, which reflects the current bidding levels, is down more than 50% globally year-over-year, month-to-date as of July 24. Nonetheless, we expect revenue in July to exceed our revenue that we reported for the whole second quarter.

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

QUESTIONS AND ANSWERS

Operator

The first question is coming from the line of Tom White from D.A. Davidson.

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

Thanks for the color around what's happening in July, what's happened so far in July. I was hoping you could give a bit more color just on the kind of the early iterations of the local travel product. What's kind of the vision there? How quickly can you kind of roll that out and evolve it? And then also just maybe an update on the cost per acquisition offering. Any kind of early stats you can give us on advertiser interest uptake, that sort of thing?

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

Thanks. So on the local travel product, as I said, it is in a better testing phase right now, which means that we have a first usable product life that we do test with a small subset of users. That is a very important milestone, and I'm very, very happy with how quickly the team managed to get to that point. Realistically, it needs a few iterations because -- before the product is ready for further rollout. But in the third quarter, we expect to make significant progress.

On CPA, we do have a net CPA product currently live with the first advertisers, and we are working on rolling that out further. There is significant interest from many, many advertisers to move fully or partially to that product. And I would expect the rollout to see significant interest and traction, again, in the next couple of months.

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

Okay. And just a quick follow-up on CPA. How does that handle cancellations? I mean is that somehow factored in or something that you guys can monitor? Or is it, basically is the acquisition just defined as the kind of the initial booked room night, not necessarily a stayed room night?

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

There are different models. We do offer a gross CPA. So that is basically for every booking and does not factor in cancellations, and we also do offer net CPA where there is a credit for cancellations that are coming in.

Operator

Next question is coming from the line of Brian Fitzgerald from Wells Fargo.

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

A couple of questions. Thanks for some of the referral data on what you're seeing in Germany. I think Booking.com has mentioned, generally, when you see customers travel closer to home, you see them having shorter durations of stay, staying in less expensive accommodations versus when they travel further. We wanted to hypothesize and ask being that you're seeing some of those trends this year, and maybe they're replacing -- local travels replacing some of the bigger international travel, are you seeing customers, consumers trading up versus what they would normally spend in local vacations in terms of duration, property class? Anything you could tell us about the propensity of the spend in local?

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

It's a bit difficult to generalize. But if we just take Germany as a market, the duration of the trips has actually gone slightly up. And so we don't see that the direction has come down. There is obviously a mix effect in there because currently, there is a lot more leisure nature travel versus city trips that tend to be a bit shorter. But if you look at the overall data, the trips are getting a bit longer.

In terms of price levels overall, there, again, there is a different trend. The city prices tend to have dropped this year compared to last year, which is clear because there's a lot less demand, whereas the beach in particular, but all the nature destinations tend to hold up or even go up slightly. But the development is different really market by market. But yes, just taking Germany as the market that currently has recovered most globally for us, those are the trends that we are observing there.

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

And then maybe we had one quick follow-up that's related, and it's just a broader question. Revenues are down. Unclear how long, unclear of what the linear path or how linear the path is to recovery. Are there any opportunities or any other problems in the travel market that are being unearthed right now by COVID that you could address? Maybe longer-term rentals for remote or potential nomadic workforces where we've been hearing about locations open up for monthly rentals, where people want to travel and work from a remote location.

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

I mean there are, for sure, many opportunities that we are looking at and that are opening up right now or that we expect to open up in the month and even years to come. Domestic local travel is clearly a part of the overall travel universe that is benefiting as our apartments. And as you rightly say, one of the drivers of that is to use apartments and longer-time rentals as an alternative to working from home. So yes, we do see those opportunities, and we as an institution are very focused on those opportunities. The challenges are clear, and the opportunities will outweigh the challenges in the midterm from our perspective.

Operator

Next question is coming from the line of Naved Khan from SunTrust.

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

Yes. Just a question on the local leisure opportunity. Curious to know if you think there is enough lodging supply that's even available to meet the demand that you're seeing there? And just in terms of your offering, how do you plan to promote that to the end consumer? Are you also trying to bring in more advertisers, new advertisers into the fold? And then I had a follow-up.

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

So your focus question is, is there enough local supply? That depends obviously by market. You have some countries in Europe that have net exporters of tourists, the U.K., Germany, et cetera. And what you see in Germany, for example, that there is also international traveling, but still, the majority is or the vast majority is in driving distance. So Netherlands is very popular. Austria is very popular. Poland is getting more popular, Croatia. So all distances there are all -- all destinations in driving distance, all that, that you could, by driving a bit further can reach. And even more importantly, if something would happen, you could drive back, which seems to be very important in the overall consideration.



So in terms of advertisers, we have a very, very broad coverage, and we think actually that we have the broadest coverage of all platforms by having all major providers of apartments and hotels on our platform. So right now, that is from a customer value proposition, a clear benefit of having still something available when other platforms will have run out already.

So we don't think that we need to catch up in that direction, but that we are, on the contrary, ahead of our competitors in that regard.

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

Understood. And then maybe a quick clarification on the state assistance you've gotten in Germany. Can you quantify what the impact was for the second quarter? And how should we think about that continuing for the remainder of the year?

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

Yes. So we used that scheme in April and for some teams in May. And then as of June, everybody was back. But in April, we used it for less than 30% of our employees overall. And most of those people still work 50%, so this gives you a rough idea. I mean we didn't call out the exact number, but the impact was not very significant.

Operator

Next question is coming 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 first, in the letter, you mentioned that the full rollout of sponsored listings and display ads are coming in the second half. So could you talk more about that rollout? And does the low activity on the platform made that rollout any easier or more difficult? And then secondly, I know it's still early, but what are your thoughts on the travel environment during the holiday season as of right now?

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

On the display ads and sponsored listing product, we have technically qualified the product already last quarter and are now commercially rolling it out, which means that we have quite a few advertisers live already on the product and have a very strong pipeline of advertisers that want to launch the product and the campaign. So there is a lot of interest in the product.

What is holding it back? There is obviously some limitation in onboarding new campaigns and new advertisers, because there are some technical implementation required on both sides. So that is one, which is just work in a way, and then we are working on that.

The second one is that there are still advertisers that don't have their full marketing teams back and still have a significant part of their team in furlough programs. And that is also a limitation because they are sometimes just not all the right partners available and employees are the partners available to really move this forward. But we are very happy with the pipeline that we are having right now and expect a significant increase in participation rate in the third quarter.

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

On your second question, so trends we are seeing what is happening or how is the summer traveling playing out. I mean we saw an uptick in demand since beginning of May, in particular, in the U.S. and in Europe. And while the uptick in demand since May in the U.S. has plateaued in the second half of June, the positive trend largely continues in Europe. And generally, we believe that travel is coming back in 3 phases. First, leisure



and vacation trips to local destinations, then city trips and lastly, international trips. And it's a general theme we are seeing right now across most countries.

And we put one slide in the investor presentation where we gave Germany as an example. And there, the year-over-year recovery rate of local leisure trips increased 75 percentage points in the first 2 weeks of July compared to the first 2 weeks in April, while the recovery rate for city trips for the same period increased only 58 percentage points and for international trips, 45 percentage points.

Overall, there's still a lot of uncertainty, though, with governments changing restrictions based on new infection rates. And given the uncertainty, many travelers opt for local destinations, which they can reach by car, for example. So what Axel mentioned before, hence, we see the shift to local travel.

And then the other trend, clearly, and we've discussed it as well before that we see is the continuous shift towards apartment, which from our point of view, is great to see, as we started to invest into that segment a couple of years ago, and the work of the last few years is paying off right now.

Operator

Next question is coming 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. And I appreciate the color on the recovery that what you see in Europe and U.S. so far in terms of qualified referral. Can you talk about maybe the auction density a little bit here in terms of revenue per qualified referral here, trends into July? You sort of mentioned that advertisers are a little bit cautious at this point in time. Just want to see how that trend is comparing versus what you see in June.

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

Sure. Thanks, James. So yes, the marketplace remains volatile and levels can vary significantly by market. So it is difficult to make a general statement. But what I can say is that as of July 24, revenue per qualified referral, which is a good proxy for bidding levels, is still down more than 50% globally year-over-year, month-to-date.

So we do see some recovery if you compare that to the Q2 number, but it is slower than, for example, the recovery in qualified referrals. But as more and more advertisers are coming back, we expect bidding levels to normalize. But again, it's hard to make an exact prediction here, and we will see how that will take out in the remainder of the quarter.

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

Okay. Great. If I can ask a follow-up question regarding alternative accommodation here. Obviously, you talked about skewing towards local travel and also alternative accommodations here. Do you feel you have enough supply currently? If you do, what are you doing specifically to optimize your sort of results and conversions here?

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

We do think that we have sufficient supply. As I said before, we do have the, from our perspective, broadest offering overall, with the highest number of hotel and apartment providers on the platform. What we are doing to optimize, there are quite a few tests that we are running on the product side to optimize the flow further for apartments as the platform has historically been built for hotels. And we only started a bit more than 2.5 years ago to really integrate apartments. So I would say it's fair to say that we are not done there.

Like one specific example that we've launched a new guest selector product that basically allows you in a more intuitive way to search for larger groups, which before was not as optimal as it is right now, but there are many other tests that we are running to integrate apartments better and also the specific searches that are more skewed towards apartments like larger groups, family vacations, vacation homes, et cetera, into the core product.

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

Okay. Great. If I can squeeze in one more question regarding alternative accommodation here. Since you talked about Germany, it's the first country that you're seeing recovery, can you give me a sense of percentage of room nights you're seeing for alternative accommodation in Germany?

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

I mean, we shared that as globally, our share of the referrals exceeded 20% in the second quarter. I mean we don't disclose that number on a market level. And yes, that's all we can say.

Operator

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

Christopher Louis Kuntarich - Deutsche Bank AG, Research Division - Research Analyst

You got Chris on for Lloyd. Maybe a few on you guys on marketing spend. Can you just talk a little bit about the adoption of the CPA product and how that will potentially impact you guys on marketing spend? I know you guys made the distinction between having a net and a gross CPA product.

And then looking out to 3Q, how should we be thinking about, you guys also mentioned that TV ads are starting back up, how could TV ads really be driving sequential spend growth for you guys versus spending your own performance dollars?

And just thinking about those TV ads that you guys have been experimenting with so far. Just any color that you can provide on the KPIs versus how TV ads KPIs have looked to run in a pre-COVID environment.

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

Sure. On the net and gross CPA models that we are offering, we had started with some launch partners right now and are working on rolling the product out further. As there is significant interest and particularly on the net CPA, there is a lot of concern from and particularly smaller advertisers that they cannot predict well cancellation rates, and they do see value in us actually aggregating the data from multiple advertisers and predicting the cancellation rates on their behalf. And that is the value creation opportunity on top of, obviously, taking our bidding algorithm, which is again aggregating, obviously, all the data that we have access to versus just the individual advertisers' data. So those are the 2 levers to improve auction dynamics.

And we would expect that the rollout of these tools will help the auction dynamics and support the overall recovery of the auction that Matthias mentioned earlier.



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

And then on your second question, so first of all, let me say that, as you can see from the numbers we disclosed that in the second quarter, we put our marketing activities largely on hold. Beginning of June, we have reengaged in some performance marketing activities and have launched first TV campaigns in some of our core markets. In July, we have then increased our brand marketing spend and started to launch our new campaign. And depending on the first result, and it's a bit too early at this point and the general travel demand, we will adjust our spend for the remainder of the third quarter.

However, given the unstable health situation, we remain cautious, as we said in our shareholder letter, overall in our marketing activities. And we believe that flexibility is key, and our TV partners have predominantly supported us here. So our fixed commitments for TV advertisement for 2020 have been mostly reduced or pushed to 2021.

So to your question on how we approach TV and what KPIs we look at, I think that is not really different. The one thing that is different is that we try to be more flexible and react to more what we see. Does that answer your question?

Christopher Louis Kuntarich - *Deutsche Bank AG, Research Division - Research Analyst*

Yes.

Operator

Next question is coming from the line of Kevin Kopelman from Cowen.

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

I had a couple of questions on pricing dynamics in the market now for accommodations. Have you seen any change in the variability of pricing for an accommodation from one OTA to the next? Or from the OTAs versus the supplier direct sites?

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

Thanks, Kevin. I wouldn't be in a position to call anything out. I mean obviously, there is more volatility than usual. And in particular, for our marketplace, what we have seen in the second quarter that some advertisers even deactivated their campaigns, so they dropped off of our marketplace. Now they are coming gradually back. So overall, there is a lot of volatility. And then all that shift and changes we called out, obviously, adds to the noise there. But there's not one theme that I would call out or that I could mention here.

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

Yes. And then when you look at ADRs coming down, do you have a sense of how much of that ADR declines from the suppliers are from mix shift in terms of where the travelers are going versus the suppliers actually cutting the prices of their accommodations?

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

Yes. So looking at that, and again, you need to look at individual markets. So in the German market, the prices have not really come down for leisure nature destinations because there is a lot of demand, whereas the prices have come down in city destinations. So the average is heavily influenced by that mix, clearly, but you cannot say that overall prices have fallen. It depends very much which segment and which destination, and we see similar things in other markets. But obviously, the mix is very different market by market.



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

Yes, absolutely.

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

Just to add to that. I mean you know ADRs are part of our revenue per qualified referral. And if you take my previous comments, I mean, the biggest driver there is clearly the bidding levels we are currently seeing in our marketplace. So for us, the volatility there plays a much bigger role than changes in ADRs.

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

Yes. And then just a follow-up on some of the market-by-market data. Can you give us a sense of how strong the recovery in Germany and Italy has been? What kind of levels you're at there relative to where you were?

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

Yes. We don't give specific numbers for individual countries. You know we report in segments, and I gave you more color what we see in July in terms of qualified referrals in Developed Europe. But having said that, I mean, Germany is a very strong market. And so far, the recovery has been stronger than in other markets. And I think a good starting point for you is to look at general market data you can find, and what we see on our platform shouldn't deviate too much from that.

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

Got it. And then one other one there. So Americas month-to-date, QRs are down 70%. Can you talk about what that looks like compared to the previous month? What kind of levels are you at in June there for Americas?

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

Yes. So I mean, if you look at qualified referrals in the second quarter, we reported that number. And you can imagine that in April, that number was down much more. And then in May, we have seen some recovery, but that was very slow. So if you look at the absolute number of qualified referrals in Q2, the majority, the vast majority of that was in June.

So I think if you take that as a starting point and compare that, then that gives you quite a good idea of where we were in June, and then you can compare that to the 70% I called out.

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

Great. That's helpful. And then if I could just ask one last question, a follow-up on your previous questions. So I was wondering on TV advertising costs, when you're going out and buying or making new placements, can you talk about how much pricing has come down on TV to reach the same number of people? Or however it is that you look at it when you're going out and buying TV spots?



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

Yes. Thanks for the question. I have to say that has been something that a development that was very positive. We have seen a hugely collaborative approach from almost all of our TV partners, trying to help us out in a difficult situation and really valuing the relationship that we've built up over the last couple of years. So we experienced a full range of getting even free advertisement in the time of the lockdown from certain partners to getting discounts on the relaunch. But on the exact discount levels, I cannot comment. But generally speaking, we've been very, very happy by the support that we have been given by our partners.

Operator

Next question is coming from the line of Brian Nowak from Morgan Stanley.

Alaxandar Wang - *Morgan Stanley, Research Division - Associate*

This is Alex Wang on for Brian. A couple of questions from us. One, just maybe a bigger picture, following up on the advertising question. Given you guys have the opportunity now to maybe rebuild the advertising spend from a lower base given the travel environment, have you sort of given any thought around longer term, bigger picture? Any fundamental shifts in sort of the travel marketing mix and how you guys are approaching sort of that marketing spend going forward?

The second one around sort of the advertiser mix. Obviously, helpful to see the chart that you provided on the slide. But any color you could provide on, obviously, the change in mix you saw this quarter, how that progressed and sort of your expectations going forward? And then I had one more follow up.

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

Sure. Let me start with the advertiser mix question. I mean as you know, in general, we do not comment on the channel mix, but what I would say is that for TV advertisement to be successful the way we run it, you need a certain threshold in terms of travel interest. So in the early phase, you most likely won't see us as much on TV in most markets, whereas selectively investing into performance marketing channels might make sense.

In June, we have done just that. We reengaged in performance marketing, but did not advertise meaningfully on TV. Now with a positive trend continuing in July, especially in Europe, we increased our TV investment again. And as for our performance marketing channels, our strategy has not changed. We mentioned the large-scale performance marketing test that we started pre COVID-19. And they showed that generally, our bids were too high. Right now, bidding levels are obviously much lower, and we continue to opportunistically invest into those channels. Making a statement on how this will look like next year, I think that is too early. And then on the second question?

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

Yes. On the advertiser mix, I think in general, the dynamic has been the following. I mean in March and beginning of April, we've seen pretty much all advertisers significantly reducing their bids with the lockdowns coming in and the wave of cancellations hitting them. And some advertisers even completely deactivating their campaigns, going completely offline. The same thing that I think is worth looking at is that Booking Holdings and their sub-brands have kept all of their campaigns live throughout the quarter and have been actually one of the first to adjust the bids upwards when they felt that cancellations rates were under more control and volumes were picking up.

And that has, for sure, helped them to increase the overall share that we've reported. And we now see more and more advertisers coming back online and leaning in a bit more, getting more comfortable with the prediction of the cancellation rates.

As I said earlier, we think that the CPA and the net CPA bidding models will also support advertising getting more comfortable, and we are expecting the structure to normalize over time, and we've seen some trends in that direction already.



Alexandar Wang - *Morgan Stanley, Research Division - Associate*

Got it. That's helpful. Just one last question. It sounds like Europe is seeing a pretty steady recovery. But given some of the recent sort of announcement, I think, made by the U.K. to reimpose a quarantine on Spain and potentially other markets as well. Just curious to get your view sort of on, is it sort of a more regional sort of improvement you're seeing or more broad-based? And is there a potential for maybe some flattening out like you saw in the U.S. in late June for Europe?

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

I mean there's always the risk of a deterioration of the health situation that will then also lead in other regions to a drop in travel demand. But as of today, we see in most of the markets a significant improvement in the situation. In the U.K., specifically, we've seen clearly a drop in demand for Spanish destinations, as you would expect, after the government announcement. But not a drop overall, but more a shift towards domestic destinations. And I think that's almost to the way to think about it.

As long as there are safe travel destinations that you can travel to safely, we expect the demand to continue to increase and to recover. But if the general health situation domestically and in the destinations is deteriorating, similar to what we've seen in parts of Americas, then we expect the overall travel demand to drop again.

Operator

Next question is coming from the line of Doug Anmuth from JPMorgan.

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

This is Dae on for Doug. First one for Axel, just a follow-up on your local travel product. Just curious to hear how this product is different versus your core search product and if marketplace or if advertiser participation is different versus your core search product? And then a follow-up for Matthias. Could you talk about how your cost, just talk about how you feel about your cost base right now? What is your current cost run rate? And if you plan on bringing this down further? Or are you comfortable at current levels?

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

So let me start with the local travel product. The opportunity that we do see in local travel is to be a bit more inspirational in where to travel, because the challenge that you're facing is that the top destinations that you have in mind might not be within driving distance or there might be a few that, that will be very, very crowded. And so it is important for you as a traveler to get some inspiration, what would be your alternatives that might be a bit less well known, but also very attractive and close by. And that is the main difference that the product is starting a bit earlier in the funnel.

The commercialization is identical, but it is a bit more inspirational whereas our core product requires you to know already where you want to travel. That is not necessary in our local travel product the way it is currently designed.

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

Yes. On your cost run rate question, Dae, let me start with saying, we have made significant progress implementing the restructuring that we announced earlier this year. By now, we have closed our Leipzig office. We have signed an agreement for the sale of our Spanish development center, and we are in the process of closing our Amsterdam office. So we will be a much more focused organization, having consolidated all of our business operations in our headquarter in Düsseldorf.

So overall, we reduced our operating expenses, adjusted for share-based compensation and restructuring costs by EUR 9.4 million in the second quarter compared to the same period in 2019. So you would need to adjust that for the reduction in other selling and marketing, which is mostly coming from lower TV production costs that we do not consider to be permanent.

And if you do that, this gives you a good idea about our cost structure at year-end and going forward. In Q3, that number will be a bit higher as we don't get all the benefits from the restructuring that we expect to have then at year-end. And again, as we mentioned before, the biggest portion of the cost reduction going forward is coming from personnel and related costs. So we continue to expect to reduce that for 2021 by approximately EUR 20 million.

Operator

There are no further questions. Please continue.

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

Okay. Thanks, everyone, for joining us today. Before we close, let me reiterate, the crisis is a big challenge, but it's also a huge opportunity. We see the crisis as a catalyst, a catalyst to focus even more on our customers' needs, to differentiate our product, improve our competitiveness and positioning in the industry. No matter how challenging the times ahead might be, we are taking a positive perspective and hope you do so too.

Many thanks for taking the time. See you next quarter, and stay healthy.

Operator

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

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