Mark: …this session of Citi's Global Tech Conference. Thanks for getting up early, if you had a late night watching some of the US tennis. It was a pretty late night last night.

So I'm Mark May, the Internet Analyst at Citi. I think I recognize quite a few of you out in the audience. Thanks for coming. My associate Ken Dorell is here in the front row. And we encourage you also to take advantage of our specialty sales. Kevin Toomey, who does a lot of great work in this space providing market color on the internet and TMT stocks, as well.

But it's my pleasure to welcome Trivago to the conference this year, and thanks Axel for being here. Appreciate it.

Axel: Thanks, Mark.

Mark: Welcome to the US. So if you hadn't seen yet, Trivago filed a 6-K this morning, and so we're going to start off having Axel provide an overview of the update they provided this morning. I'll ask a few questions related to that and then we'll move onto some higher level topics and questions I have. And I think just given the announcement this morning we'll leave a little more time than normal for Q&A at the end, so be prepared for that.

So with that, maybe you want to give a little bit of an overview of the announcement.

Axel: Sure.

Mark: Okay.

Axel: Thanks, Mark. As Mark already said, we filed a 6-K this morning, so we changed our guidance for this year to around 40% annual growth rate and to a lower adjusted EBTIDA than last year, but to remain positive.

Reasons for the change in guidance are a few. Most of them we talked about already on our last earnings release, but let me just walk you through them. So the main impact that we have seen was the unwinding of the relevance assessment of the impact on the revenue per qualified referral of the relevance assessment. Just to remind you what has happened there, we basically added a second dimension to our marketplace end of 2016, which was factoring in the experience of users on the advertisers sites after we refer them to their websites. And by getting a low score there, by offering an experience that we don't see as a good experience, advertisers had to bid more to get the same amount of traffic. That had a positive impact on the first two quarters of revenue per qualified referral and we reinvested that additional profitability into growth and particular in performance marketing channels.

So end of June, as we mentioned in our earnings release beginning of August, weighted by revenue, the vast majority of our advertisers implemented our guidelines, so improved their score and reduced, as a consequence, their required bid for a certain traffic amount. And we obviously anticipated that that would have a negative impact in particular on our performance marketing activities. Having said that, now looking at two month of performance afterwards, it had a bigger impact than we anticipated on the growth trajectory, both in our performance marketing traffic and in our branded traffic.

The second point, which is more relating to the profitability part where we adjusted the guidance as well, in particular, the branded marketing channels have a certain time lag, so it takes some time to increase spend and it takes some time to decrease spend. And given the significant slowdown of revenue growth that we've seen over the last couple of months, we were not able to adjust our spending in an optimal manner and as a result have – are facing a spend that is not in line with the revenue development, which has a negative impact on profitability.

Two other points that are worth mentioning are the seasonality of 2016, or the development of 2016, which we are obviously comparing against in our year-on-year growth trajectory. And what we've seen there is that the – there was, how to put it, there was basically in the third quarter like a bump in growth in 2016 that we planned for this year as well. And it became clear that that seasonality pattern actually wouldn't hold this year, but that the seasonality would be more similar to the year before where we didn't see that bump, which is another factor that mathematically and de facto has an impact on the year-on-year growth rate.

And then the last point is the strong movement in US dollar/Euro exchange rate, but also some other currencies, particularly Great British pound, where we've seen some movement that has continued into one direction. And we now, for our guidance and our planning purposes, consider that move to be permanent, which then has a translation effect on the US denominated countries. So and particularly on the American segment, to a lesser extent, developed Europe with the Great British pound in there, and to some extent in Asia as well. But that is something that is then adding to the overall picture.

The other points that we've mentioned already in beginning of August, I guess the new attribution. There is no change to our view there, but obviously that had an impact on the slowdown as well.

Mark: This is probably a bit of a rehash on what you just said, but maybe is there anything more specifically you can talk about what changed in August, relative to what you were seeing at the end of July when you last kind of…

Axel: So let me start with the currency. I mean if there is some currency movement obviously you don't always replan everything. And so there, we just saw now that it seemed to be permanent, so.

Mark: And that could potentially have even bigger headwind in Q4.

Axel: So if you just assume the current exchange rate, the negative impact on the year-on-year comparison will be bigger in Q4, that's absolutely right. And so there, the change is really – we now took the currency, the movement, the exchange rate, and said, this is now permanent, whereas before it was more a temporary development.

In terms of the seasonality, I guess it's now clear that -- or very unlikely that the pattern of last year will repeat itself, even at a later point in time. For that we have now seen too long deviation from that pattern, which wasn't that clear beginning of August where we were anticipating a slight delay in that pattern. But now that – I mean that's – it's very clear.

And then on the relevance assessment, it is just the degree of the change. So the degree of the negative impact on our performance and marketing traffic and then also the secondary effect on the other channels. And so, I guess it's not fundamentally different drivers, but it's just more the dimension of the drivers is predominantly different than what we saw a bit more than a month ago.

Mark: Can you provide a little more color, explain the decel in the growth rate and the volume of qualified referrals? Explain how that dynamic is occurring, even though the company continues to spend pretty meaningfully on marketing. What's the predominant driver of that? And you talked a little bit about reinvesting and the follow-on effects that that has on not only performance, but some of the branded channels.

Axel: So by introducing the relevance assessment and by having advertisers accepting temporary, for a certain period, to pay more for the same traffic, you obviously have, everything else being equal, greater profitability. And that profitability we did reinvest and particularly into performance marketing channels, which then means that for each campaign, each keyword, we can actually afford to pay more and get more traffic without really a fundamental change in the underlying business. That has a positive effect, obviously, when you start to do that, which we saw in Q1 and Q2. And then when you unwind that, obviously again, without a change in the underlying business, you are becoming less competitive in performance marketing channels because you don't have that additional profitability that you can reinvest, so you need to reduce your bids to adjust it again to your profitability targets.

And this negative adjustment then has an impact on your performance marketing traffic and a secondary impact on your branded traffic, because the performance marketing activities that we are conducting are not only a boost for revenue, but also marketing. So a way to attract users from, in particular, Google to show them the Trivago experience and then convince them through repeat usage to come to our site directly. And so if your marketing activities come down, that obviously has a secondary impact, which was greater than what we anticipated as well.

Mark: Got it. So the effectiveness of your brand marketing has also been impacted temporarily as well by that.

Axel: So yeah. So you're raising another point, which is when you look at the profitability, we spent more than in a way. So the spend is out of sync with the revenue. So in a way that has two dimensions. One is that there's just a time lag with your commitments. The second is obviously, what is the elasticity of the spend and shouldn't the spend then drive the traffic as such as well. And there in summer we've seen that -- summer are the high spend month -- that we've seen a reduced elasticity or lower elasticity than we anticipated in conjunction with quite a few tests that we are running, which obviously have less effect than normal spend. But that is absolutely true, yeah.

Mark: What are some of tactics that the company might employ to reaccelerate top line growth? Kind of what I guess gives you confidence that this might be a bit of a temporary factor in all...

Axel: So I guess what from the outside is not that visible, but what for us is an important metric, is obviously development of the branded traffic. And so what we saw was that in the first two quarters, the overall growth was higher than the growth of the branded traffic. And for third quarter, so far, it seems that the overall growth is lower than the branded traffic. So in a way it is like an overshooting in two directions as seems today. And so I think that is important. But then obviously, there are various ways to increase the overall growth trajectory. There are various initiatives in marketing that we're working on, varies in product. I mean I would say that's more business as usual. We continuously challenge ourself and optimize further. And there are initiatives in the pipeline where we are hopeful that they have a positive impact on the growth trajectory.

Mark: Maybe some model-related questions. How should we think about the distribution and revenue growth and EBITDA, when we think about kind of the second half, if we think of how it starts out? Maybe even comment a little bit about – because you also have some tough comps now in the first half of the next quarter.

Axel: Yes. So when we look at the outstanding two quarters, last year we had a split of 60/40 of the second half, between the first – the third and the fourth quarter. We think it will be slightly more weighted towards the fourth quarter this year, but not significantly different. In terms of profitability, we expect a lower profitability for both quarters in absolute terms. But then still, I mean the fourth quarter is structurally a more profitable one, and so we expect that to be positive.

Mark: And for this year you're now guiding for EBITDA margins to be down year-on-year. Assume you still feel like, from a long-term perspective, your outlook is still pretty consistent with what it was. And if so, kind of what gives you confidence of that, if it's looking at some of your more developed markets or whatever it may be? How do you think about the long-term?

Axel: I mean it's really – when you look at the trends that I've been talking about, it's not a fundamental change to the business. It's not a fundamental change to the business trajectory. It is more volatility between different quarters that is probably more extreme than what we've anticipated or what we've experienced before. But it doesn't really change the overall market dynamics from our perspective. It doesn't really change the overall market opportunity and our positioning in the overall landscape.

Mark: What about from a geographic standpoint? You guys obviously operate in a number of markets, developed Europe, Americas, and A-Pac. In terms of the growth rates and maybe even short-term perspective, the impact that the relevance assessments have on the business, any variation by region or country that you're seeing there?

Axel: Yeah, I mean the higher the fundamental underlying growth is the – and relative to – so I guess the less strong the volatility is, yeah, so there is some difference. But then I guess the opposite was true for the positive impact on the first and second quarter as well.

Mark: In terms of – obviously, you have two marketers, at least at the holding company level, that are material spenders on Trivago. And then you've got kind of the long-tail. Any interesting dynamics that you're seeing with some of the larger brands on the platform as it relates to how they've adjusted to the relevance assessment changes, relative to long-tail?

Axel: So and we don't comment on individual advertisers, but then just look…

Mark: That's why I try to word the question…

Axel: But just looking at the dimension of the relevance assessment impact, it's quite clear that at least one of the larger groups has been impacted by it. And so, as I said, I mean so the impact of the adjustment has been greater than what we anticipated. And for us it's not that easy to see whether that is because we underestimated the impact, it's the marketplace or – and what we are seeing is the result of billions of individual auctions, or whether there has been on top of that an adjustment in profitability. So we don't have full visibility on that.

Mark: There's also another player in the market that's come out. Your marketing and a lot of things about your business have been very effective. There's been some copycats in the market recently. Do you think that that's had any impact at all on some of the dynamics that we're talking about?

Axel: So, yeah, if you look at the year-on-year comparison, I think it's undeniable that the product has improved of some of our competitors and that they're becoming more active in high-reach marketing activities. How much impact that has on us is very difficult to see, but I wouldn't rule it out.

Mark: Okay. And another – you talked a little bit about the search funnel a bit. Google is making dozens, if not hundreds, of changes constantly to their sort orders and algorithms. Had there been any interesting changes there in the last few months, quarters that have impacted either Trivago or just the broader travel sector that you would call out?

Axel: I mean nothing compared to the change to four positions that we had – was really the significant change. So nothing that has really made a big difference.

Mark: In terms of ways that Trivago can look to further optimize the marketplace, if you will, are there other variables and vectors that the company can continue to look to, to further improve the user experience and the marketers' ROI that we should be thinking about, I guess?

Axel: Yeah. I think to improve the marketplace further, I mean the key driver of that is number of participants and competitiveness of the different participants. And so, there we are – there I think we had the special topic in our last earnings release -- there we are constantly signing up new advertisers and are constantly signing up new advertisers to the tools that we are providing to both improve the bidding efficiency, but also the conversion on our advertisers site. So those are really the – that is the big levers in terms of making the marketplace more competitive.

In terms of improving the profitability for our advertisers overall, there conceptually you can look at a more granular bidding and more bidding dimensions and we constantly are looking at that and testing various things there.

However, there is always a balance of reducing inefficiencies by having very different competitiveness of different advertisers among that bidding dimension and increasing the number of auctions. And then by doing that, obviously reducing the competitiveness in the marketplace, plus still offering a consistent user experience to the user and not having a fragmented user experience by device or by various other dimensions. And so we are constantly looking at these three dimensions to see whether there is room for improvement.

Mark: Maybe I'll just pause there and see if there are any questions in the audience. One right out there.

Q: Thank you. Could I ask you to just explain what you mean about the change in seasonality from last year versus this year? I would have thought that the seasonality should be pretty much similar year-on-year or is just demand weakness.

Axel: So what I mean by that is the seasonality is broadly the same. So you have in certain countries you've got very, very strong peak in summer, in others it's more the end of the year, so that obviously is the same. But when you look at the -- or when we look at the monthly development, you can see that there is – I don't know whether – bump is not the right term, but you basically have a upward sloping trend and then you have like it's almost like a special bump in the 2016 numbers, which you did not have in the '15 numbers. So same seasonality, but to a great extent in a way. And this year we now look at a pattern that is more similar to 2015. So in a way this additional volume has not materialized, which in the year-on-year comparison obviously has mathematically a very negative impact. And so I guess to get a better sense for that to look at the year-over-two year comparison, you will basically see that once we release the numbers.

Mark: One here.

Q: Sorry. I walked in late so you may have already covered this. But in the press release this morning you discussed the slowdown in traffic directly related to your pullback in marketing spend. Guess in your experience, if you just ratcheted that marked spend back up, how quickly does that traffic come back? Thanks.

Axel: So there are two different effects. The big effect in the slowdown of the traffic is really coming from performance marketing, so that obviously is very responsive in both directions. With branded marketing spends and then the traffic development area, there's obviously some time lag. But there, I guess the comment is more focused on the profitability drop. So if you invest on certain assumptions on what the overall business is doing and the revenue is dropping quickly or the development is changing quickly, then you can't scale that back and adjust to the right dimension in a way that does make sense, because it's a bit more long-term investment. And the second point is that the elasticity of the brand investment in the summer, which is the peak season, has been lower than anticipated, so it's basically combination of both.

Mark: Any other questions? Back over there.

Q: So on the call you guys mentioned that you were going to focus more on the lifetime value of the customers acquired. Just wondering, over the past couple quarters has there been no specific channels where you've been acquiring customers of an LTV that doesn't know – suit your liking, whether the LTV media has changed in recent quarters? And also, if you could give some color on how you think about the LTV of customers. Thank you.

Axel: So when we talked about the lifetime value on the Q2 earnings release, that was more focused on the general philosophy, how we look at the business and not so much on that metric as such. And so we really, really see ourself being responsible for the end-to-end experience of our users, conceptually, even up to the stay and the experience in the individual hotel. And so when we talked about coming, basically, from a world where we could only look at the click-outs, which was up to 2015, and now focusing more on the path of the inner journey between the click-out from our site and then the ultimate booking, then if we would have that data available, obviously would love to take over responsibility for the last step as well. So that was more like a general strategic comment.

On user lifetime value, we don't have – we can't calculate that metric. We have users, but not customers. And our users are for us predominantly cookies that obviously don't have a very long lifetime. And so the way to look at the customer lifetime value, overall development of the business is more the development of the direct brand of traffic and that is a proxy obviously for returning customers – oh, sorry, for returning users, and that need to trend in the right direction. And so, to answer your questions, the direction that we are taking is more end-to-end focusing more on the booking experience overall on our platform and on others' platforms. That's why we are introducing the – I've introduced the new attribution model. That's why we went for the relevance assessment, so that's driving a lot of our activity, but it's not customer lifetime value overall, because we don't have visibility on that.

Q: Could you talk about the impact Airbnb is having on the hotel industry in Europe and on the OTAs and on Trivago if you're seeing any?

Axel: I mean let me start with Trivago. I mean that's what I know best. In general, alternative accommodation we think will be highly accretive to our business model. And why am I saying that? What we see is that more and more people, and age cohorts, if you want to say, are becoming more and more fragmented in their travel behavior. So thinking about the trip, you're not decided before you actually start to look for something, whether you want to say in hotel or in a private apartment or even rent a house for a couple of days. And so, it's the more undecided and the more fragmented your behavior is ,the greater the value that a search can provide that helps you navigate through all the different options and all the different providers. And so that's why we think that over the next couple of years the increasing share of alternatives and the higher fragmentation of different offers, will be positive for us overall. Impact on the hotel industry and OTAs, to be honest, I couldn't make a good comment on that. It's better to ask them directly.

Mark: Are vacation rental listings on Trivago something that you would expect to start to scale in the next year or will that maybe take a little bit longer?

Axel: I mean we have some inventory on our site already. We could have more. The reason why we don't have more is more, when you think about it is, from our perspective, not something fundamentally different. So these categories are more coming from the booking layer where you've got OTAs and then you've got an Airbnb and some other players. For us is a search. We basically have properties that have a lot of data and are professionally managed large hotels like this hotel, and we've got small bed and breakfast, I don't know, on a Greek Island with three bedrooms. That is very, very similar to a vacation rental. Much more similar than it is to a hotel in New York.

So in a way that is more the dimension that is relevant to us because it basically – it determines how good the content quality is, how good the parameters to make it searchable are set, and how much customer feedback there is to actually describe better the experience you can expect from that individual property. And so the more long-tail or ultra-long-tail you go, the better your technology needs to be and the better you're – on the search and on the content side needs to be. And I think that is on our side our homework where we are working on to make it better and better. But that's what we need to do on the hotel side anyhow, so it's not something different.

On the providers, on the – and the booking layer in a way sites, I think they're the obviously things that need to happen to make more inventory accessible to us, which is like instant bookability, availability, better pictures, descriptions, etcetera. But that's what everybody's working on anyway. So I think it will gradually come more and more inventory onto our platform and in a couple of years from now we will navigate everything.

Mark: Question.

Q: Could you just clarify the cadence comment of the year that Mark asked about? If I'm interpreting it correctly and I split the implied back half revenue 50/50 between Q3 and Q4, it implies a pretty steep acceleration in Q4. So was there anything that's one-time-ish in nature that gives you reason to believe that Q4 accelerates back so significantly?

Axel: So 50/50, that's too strong. So had 60/40 and I said slightly more weighted towards the fourth quarter. Fifty/fifty I would is dramatically more weighted to the fourth quarter. I mean the fourth quarter is a weaker quarter when you look at the previous years. I think it is more that we in the third quarter are still – have experienced significant volatility and volatility is never good. And so if you're more in stable waters, that is, it is actually easier to manage the business efficiently. And I think that's what you need to factor in when you look at the two different quarters.

Mark: Have you, in terms of the market participants' reaction to the changes to the marketplace, has there been some stabilization in terms of pricing and the follow-on effects? Or is it still – would you say it's still kind of a relatively volatile work in progress, as we've said today?

Axel: So there was a lot of volatility in July and I would definitely say that there is some stabilization.

Mark: Okay. Any other questions? One of, more of a modeling question, but you guys had sort of spoke to or guided to, from a revenue per qualified referral standpoint, to assume sort of flat-ish year-on-year revenue per qualified referral on a region-by-region basis, with obviously the blended number being impacted by mix. Is that – how should we be thinking about that now and both in the short-term and kind of at what point from a timing perspective would you expect that to start to refer, I guess?

Axel: So I guess the – in general, that is our base assumption. I guess there is now more adjustments that need to be made. I mean the obvious one is obviously FX. So that, if you model in Euros, you need to factor in and we've done that, which has a negative impact on the Americas, in particular. When looking at the unwinding of the relevance assessment, I think that there is no change to when we last spoke, beginning of August. So that has pretty much – that positive booster effect has pretty much gone away. So there you would need to adjust for that and the positive impact it had on the first and second quarter. And then there is the new attribution where we said in August in that we expect that to be rolled out in the third quarter and have the negative impact in the third quarter. And then the positive volume price adjustment impact on the fourth quarter. I think that conceptually is still the case, but the rollout takes a bit longer than anticipated.

Mark: Where are we in that kind of rollout process?

Axel: So DA, that's performance marketing channel is fully rolled out and the SEM, as the larger channel, is the process of being rolled out, but it takes longer than anticipated. So that means basically that the negative impact will not only be in the third quarter, but also in the fourth quarter and that the positive impact will not fully be there in the fourth quarter in terms of revenue per qualified referral.

Mark: Yep. Any other questions?

Q: So you talked about your copycat competitors potentially having an impact on the business, kind of hard to say. But to the extent you do see that materialize or if it gets worse from here, what's the appropriate competitive response?

Axel: So what's the appropriate competitive response? I think the only sustainable competitive advantage that you can have is to continue to be ahead of your competition. And so, the competitive response is to continue to innovate in marketing and in product and make sure that there is always a gap between yourself and competitors that are copying what has worked very well for you. I think that sounds generic, but I think that's the only thing you can do.

Mark: Any other questions? Thanks, Axel. Appreciate it.

Axel: Thanks, Mark. Thanks.

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