THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TRVG.OQ - Trivago NV Analyst Meeting - NY

EVENT DATE/TIME: DECEMBER 07, 2017 / 9:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Kevin Campbell Kopelman *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Nathaniel Holmes Schindler *BofA Merrill Lynch, Research Division - Director*

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

PRESENTATION

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

So welcome, everybody. I think we should just start. A couple of people might still arrive, but let's just go ahead. So when we were coming to the building, we were thinking okay, 1 year ago, we are on the road and actually, a lot of things have happened in the last year. And given that we are approaching Christmas, we thought it might be a good point in time to look back on 2017, what has actually happened, and to recap and give a first outlook for next year.

Don't worry, I won't read the disclaimer to you. So just overview on trivago, I guess. Most of you know us very well, but for those who don't, last 12-month numbers, slightly north of EUR 1 billion in revenue, EUR 700 million qualified referrals, more than 2 billion visits in the last 12 months. On the supply side, we exceed now 1.8 million hotels and 400 different booking sites on our platform. And we are active with 55 platforms, which cover even more countries.

So how do we fit into the overall travel universe? The way we are thinking about it is 3 different layers. First layer, search layer, is basically where users that have not decided before they are actually looking for the hotel to stay in, where to stay and where to book. So undecided, and they need support in the overall search. So there you've got general list search, which is, obviously, Google and specialized players like us. Underneath, the majority of our advertisers are the booking layer where you actually book, and there you've got players like Booking, obviously, Expedia, hotels.com but also Airbnb and the hotel chains. And then you've got the ultimate accommodation where you want to stay, the individual properties that give you then the hotel experience. So what is really changing in this industry and what is really going on? I guess one thing that is very clear and that the whole sector has benefited from is the offline to online migration. So latest Phocuswright numbers, I think are at approximately 1/3 online penetration. And that has obviously gone up in the last couple of years, and we expect that to continue to go up, which helps the overall sector.

The second trend that you have from our perspective is that the user behavior is becoming more and more heterogeneous. So what do I mean by that? What that means is that you are undecided not only where to stay but also what kind of property you want to stay in, and you have more a clear idea what kind of experience you are looking for. So is it a business trip where it is all about the right location? Is it a weekend trip with your significant other, where it should be romantic, nice restaurants around, et cetera? And in your search and research process, you then decide whether you want to go for a hotel experience or a boutique hotel experience or for an alternative accommodation. So the impact this change has on the overall industry is, from our perspective, that it is getting more and more difficult to navigate through these different options, because you are open to more options at the beginning of the search process. And as a consequence, the value that you can create by providing search tools is going up.

Yes, so now coming to 2017, that was just a more general intro. So what has actually happened in 2017? To answer that, I think you need to look back a bit more. So starting in 2015, what we've done here is we basically, we have plotted the share of our, for some time, largest advertiser and used that as a proxy for the commercialization of our platform. So when you look at '14 and '15, pretty stable around the current share on the platform. And then in 2016, you actually can see a change happening. So that advertiser decided to increase, very significantly, the activity on us as a platform, and you can see that the share as a consequence has gone up a lot. In 2017, what you can't see on here, but it obviously has an additional impact, that advertiser had a low relevance-assessment score, which made them pay even more, which if you would have had a good score, you would've resulted in even higher share. So as a proxy for commercialization, you would need to make that mental adjustment. And then in Q3 and then also in Q4, you see basically a return to the old levels.

So why does that really matter? And why is it very important to understand this year, but also last year's performance? So we increased our growth in the third quarter 2016 very substantially. So we were at around 40-ish percent in the first half of '16, and then used the additional commercialization that you can clearly see on this slide to reinvest into the business, and then went up to a 70% growth in the fourth quarter. So in a way, that growth was partially fueled by the additional profit that we were making by, looking back from today, an extra high level of competition on the platform.

In Q1 and in Q2, we did the same. And so again, we had very, very high growth rates, fueled by additional profitability coming through this additional pressure on the marketplace, which then in Q3 and in Q4 reverted, and obviously, made the growth slowing down. So in a way, the Q3 '16 to Q2 '17 were particularly good. And when you compare against them, then it is not a like-for-like comparison if you are now again where you were before. Obviously, Q3 '16 and Q4 '16 had the same benefit going back 1 year, where again, they had particularly strong commercialization, which was not a like-for-like comparable. So I think this is really, really important to understand the numbers and the dynamics in the business, that the yearly comps that we obviously show are not really comparable. And sorry, just to add to that, and going forward, we plan with the structure as it is today, obviously. I don't think that you can hope for a return to the elevated levels that we've seen here in '16 and '17. We believe that we need to run the business on the more sustainable structure that we've seen in '14 and '15 as well.

So -- this is really not -- so I would like now to go through the various areas of the business and just point out a couple of things that we believe were very important that happened in 2017. So on the marketplace side, we are rolling out and continuing to roll out, the tools that help our small, and particularly smaller advertisers to become more competitive on the marketplace.

So on the Automated Bidding side, number of advertisers that are using that tool has gone up by more than 100%. And it is really an onboarding advertiser-by-advertiser process, so very time consuming.

On the Express Booking side, we've been even more successful and increased the number by 250% -- more than 250%.

On the marketplace, as such, we started to make significant changes end of '16, and the direction of these changes are, really, to allow more access of advertisers and making access more flexible. SO more advertisers, more rates on the platform, and trying to come up with rules, how to deal with this enlarged access.

On the product side, it is a bit more difficult to look back at '17, because the key focus in '17 was really on the back-end. It happens to a lot of technology companies, I guess to a lot of companies overall, that from time to time, you really need to invest into your core technology and allow them to -- or make sure that they are scalable for the next couple of years of growth. And that was really the focus for us in '17. Redesigning the back-end, making sure that it can actually support a lot more growth -- for the growth for the years to come. And from the outside, obviously, that is nothing that you can really see, but we believe it was very important and we are now in a much better position than we were at the beginning of the year. Having said that, there have obviously been smaller improvements to the UX. Just to point a few out, the user interface is continuously developing. We introduced tabs for the slide-out. We have an improved rating scale there, with more sub-ratings in the product and boundless maps we use for television advertisements as well. I think it's a very big improvement, and technology not that straightforward, so that you basically reload the map automatically when you're scrolling. For users using maps, it's a big improvement in the overall product.

So on the branding side. More than 800 TV spots were tested through our internal tool. Not all of them, obviously, aired and produced, that's the idea behind that. On the SEM side, we are now at more than 745 million bids per day, so continued to roll that out as well. And on the brand awareness, the biggest change is, if you remember the last time we disclosed these numbers, which was around the IPO, is obviously the U.S. So a very significant improvement in the U.S., 10 percentage points in brand awareness. So that gives us comfort that our marketing activities actually pay off. In Europe, obviously, we are very high already and so there you don't see big changes anymore.

One of the key topics on the marketing side has obviously been the new attribution model. So we talked about it quite a lot already. Just to recap, so what does the new attribution model do? The new attribution model focuses our performance marketing activities on booking value and also on value that we deliver to our customers and not on our own revenue, which would be click-optimized. So with this model, we can fully optimize for customer value in our own marketing activities. And we've rolled it out, relatively speaking, quickly in DA in the last weeks of July, where we see a drop -- or we saw in the rollout, we saw a drop in qualified referrals and a significant improvement in booking conversion. So a much higher quality, lower volume. And so in a way, exactly what we anticipated.

On the SEM side, it has been more challenging than we originally anticipated. We originally were planning for a quick rollout, but then realized that the technical implementation in our bidding tools is taking more time than we thought. So what we are looking at there is a soft launch in this quarter, so in the next couple of weeks, and then a full rollout in the first quarter. Having said that, looking back at this year, we've learned that high volatility is obviously not good for our business, and so we will, on the SEM side, be more gradual in the rollout versus what we've done on the DA side, where we rolled it out very quickly.

So on the advertiser relations side, we obviously continue to add more inventory and more advertisers, as I said on the first slide. So in the last year, we managed to increase the overall inventory by more than 70%. We are now at slightly north of 1.8 million properties on our platform and continue to grow that, which is a lot of hard work, because obviously, the incremental additions are becoming smaller and smaller, unless you enter a new category. And so that is, obviously, one of the bigger changes and big achievements, I would say, of this year.

Alternative accommodation. So what is our approach to alternative accommodation? The first thing is, we think it should be part of the same search. As I said before, if you haven't decided yet where you actually want to stay, then you need one tool that gives you all the options and allows you to make a decision. So do I want to stay in the family suite in an hotel for whatever, $500? Or am I going for an apartment for $200? Or if the hotel is only at $200, perhaps I may decide differently. So that's the value that you need or the transparency you need to give to the user, and that's why it has to be in one product. And so if you take that as a starting assumption, it has to be in one product, the difference of alternative accommodation is actually not that big to small hotels. Now if you've got a small bed-and-breakfast somewhere on a Greek island with 3 bedrooms, that is not so different to a large villa that is rented out in Mallorca the whole year or so. So the challenge is that you have less data available, that you have -- tend to have less content, less description and just less frequency on the property. So the approach that we took here was we initially tested with approximately 100,000 items on our platform that we had access to anyway through the existing advertisers and started to put some alternative offering and mix it into the hotel offerings and really look at the sites, how does it convert? Do we need to make any adjustments to the way we present it, the way we integrate it in the search results, the marketplace dynamic, our marketing activities, to what impact does it have as a first small mix? The second step that we took was to integrate HomeAway, which we've done now a bit more than a month ago, which gives us, obviously, a lot more inventory and the opportunity to gradually increase the number of alternative properties on the platform and continue to run these tests. So what impact does it have if you have 200,000, 300,000, 400,000, 500,000 properties, alternative accommodation properties, on the platform? Does the website still work? What changes do you need to make? What happens to the marketplace, et cetera, et cetera? And when we are done with that test, ultimately, we will basically try to, like we did on hotels, we'll try to integrate every provider of alternative accommodation to the platform.

So the fourth quarter is almost over, and so for 2017, we continue to believe what we said on the last earnings call. So we confirm our guidance for '17, growth 36% to 39% and positive adjusted EBITDA. So there is no change. I guess, the more interesting part is now how to look at 2018. So there has been a lot of volatility in '17 and partially in '16. The comps are very difficult.

And so how should you think about 2018? And what are the key drivers and what are the trends behind them? So we'll not give official guidance for 2018, we'll do that on the Q4 earnings call, but we thought it is very helpful for you to have some discussion around the key drivers and how we think about the first half and the second half for next year.

So on the outlook, first half 2018 will be very tough. So on the revenue side, we said before, flat to negative, and so that continues to be true. It will be very challenging to reach the same revenue number at a lower commercialization. On return on advertisement spend, in particular, the first quarter but also second quarter, were very profitable, fueled by the additional commercialization that we had beginning of the year. There, you will see a negative trend. So we don't think that we will hit the same ROAS numbers in the first half of the year.

On the OpEx side, we have significantly increased our overall cost base, and that's predominantly, obviously, people this year. And so the starting point is obviously much higher than beginning of the year, so no surprise. The OpEx will go up overall.

On the revenue per qualified referral, we don't have the benefit of the relevance, as I said. We don't know yet, but we don't expect the benefit to be there in the first half of the year compared to the first half in 2017. And we now have a more balanced marketplace dynamic so we have a lower commercialization. In addition to that, as a consequence, revenue per qualified referral, we expect to be negative comparing first half '18 versus first half '17. Overall, we expect the first half of 2018 to yield a negative adjusted EBITDA, with negative revenue development, negative ROAS development, increase in fixed costs. I mean, that's -- those are basically the drivers for that. Second half, we are more optimistic. So on the revenue side, we expect in the second half to return to our fundamental growth rates in the various regions, so positive growth there.

On the return on advertisement spend, we expect a positive development in the second half as well. So there we've got a pretty fair comparison that is pretty much like-for-like, and so as a consequence, we expect the upward trending ROAS development to continue that we see in the last couple of years.

On the OpEx development, there will be an increase, second half '17 versus second half '18. And on the revenue per qualified referrals, we expect as we in general do a flat development by region, which is likely to lead to a negative overall development, because rest of the world, obviously, is growing faster than Americas and Europe and has a lower RPQR. On the adjusted EBITDA, second half, we expect second half to be positive and show like-for-like comparable results.

So what does that mean for the overall year? Overall, we think we will grow, and we think that the consensus is more or less in the right range. On the profitability, we -- I mean, we will focus next year on growth, as we've done in the past. And so what does that really mean? I mean, in a way, what this year has shown us is that to grow faster and quicker, if anything, is strategically pretty important. So if we have to decide are we investigating into more growth opportunities that we're seeing, and as a consequence, we'll not be profitable anymore, that is something that we would consider for next year, which, I guess, is some change to our philosophy before, but that doesn't mean that, that has to happen.

Okay, so we're almost through and open for Q&A. There are possible challenges for 2018. Testing of bidding strategies on the advertiser side, that has started to happen in Q3. These tests could, obviously, lead to a change in bidding strategies or change in profitability targets. Then the reaction to our continuous optimization of the marketplace on the advertiser and the user side could potentially be a challenge. The effectiveness of our advertising could be a challenge. The overall use of metasearch. Obviously, regulatory attention to the sector has increased and could pose a challenge to the sector overall and to us. The focus on the lifetime value and on the booking value could actually not be successful. And then finally, the cost to comply with Sarbanes–Oxley. Given that we now exceed the revenue threshold, we need to be SOX-compliant. That obviously comes at an expense and at some implementation risk, and that could be a challenge for next year as well.

Good. So now we are open for questions.

QUESTIONS AND ANSWERS

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

A couple of questions. Just quickly on that last point you just made about the SOX compliance, obviously, this is something that everyone has to do, and I'm sure you've been planning for this. But is there any stair-step in the G&A that you believe has to occur because of compliance? Is there consulting fees or accounting fees that you didn't have last year -- or this year, I mean?

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

Yes, absolutely. I mean, this year -- I mean, we started to work on SOX compliance end of last year, beginning of this year. And so in our OpEx, in the first 3 quarters, you have significant costs in there already. So if you look at the year-on-year comparison, '17 versus '16, obviously, the -- but the whole public -- being public costs are in the OpEx. So increased lawyer fees, consultants. Obviously, we ramped up our team significantly, both to address the material weakness on the voluntary reporting side but also to prepare for SOX compliance and the internal audit team.

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

Okay. And going back to your earlier thing on the -- well -- well, first, can you just give a round number of what you expect just for the stair-step from SOX compliance will be in G&A, incremental dollars?

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

From now to the future, I don't think there are additional costs.

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

There's no inherent new -- okay, that's fine, then.

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

It's in there already, that's what I tried to say. So we invested this year, obviously. So if you compare '17 to '16, you have a difference. But '17 to '18, I don't know, perhaps 1 more team member. But I mean, we are working on being compliant end of December, so we should be fully ramped up.

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

Okay, then too much time on it, virtually irrelevant for us. Going back to the earlier thing about the growth rates and what happened to your key partner or largest customer and what happened to the revenue share. One, did you see this, in Q4 of '16, and you were going public, did you see this as overearning? Did you see this as something that this was occurring that you thought couldn't -- wouldn't be sustainable?

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

Obviously, not.

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

Okay, good. Secondly, as you see this -- as you go forward in -- and what you're bringing up here, is this is very specific to your platform on how they have changed their behavior. But from one of your competitors, it's clear, they've changed their behavior on all meta platforms. So is this not a return to a new -- when you're saying it's a return to a new level, that it's a return to the original level, the '15 level. Is this just -- and this was a period of them overspending. Is this a -- more of a strategic change on their part, then this is implying in this number could actually go lower?

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

I mean, of course, the number can go lower, so that's clear. I guess, the -- so if you look back, I mean, so the increase from the current level to the elevated levels, and when -- at that point in time, we thought, okay, it is the largest player in the industry, and in a way, the share that they had before didn't feel right. I mean, it was a bit too low. So we thought it was more, okay, an adjustment to the natural share going up. I think the reason why it went down now, and you should ask them directly, but what we think has happened in terms of learning between the different data points is that when the relevance-assessment score of this advertiser improved at such a high share of the business, the impact on us overall was pretty significant, and as a consequence, we adjusted our own performance marketing activity. So in a way, that's a very rare situation, where you can see a change in one channel and you see a reaction on another channel. So in a way, what is the cross-channel spill of your activity? And that is something that you normally can't see. And so we think it's highly likely that through that data point, certain advertisers reconsidered what the right bidding level is, because there's, obviously, if we take an extreme example, it would be 100%, to get 100% on the platform, you would have to bid, I'm making it up, let's say, $10 per click. At that level, we could basically dominate all other performance marketing channels because we would have so much money. That obviously wouldn't make sense. And so if you go from this extreme example down, obviously, there is a point where that does -- is not the case anymore. And I guess the insight of certain advertisers was that if you're around 50%, you see some of this dynamic that I just exaggerated, so that you have a negative impact on your large performance marketing channels from an increased spend on the smaller channels. And so in a way, there is something like a right level of spend, so that you don't miss out on market opportunity and that you, where you don't fund your own competition on other channels. And from our perspective, at the current level, that is the right number and in the right range. Could it be 5% higher or lower? Difficult to say without having full transparency on the overall profitability. But yes, I think you could argue that 50% wasn't the right level anyway.

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

Okay. And final question, and then I'll pass it on, sorry, guys. So during your IPO, one of your main thesis that you pushed was that you guys have figured out that, although you were performance marketing, that playing the SEM game was a losing battle. That you couldn't win just buying Google search. And you expressed how your extreme diligence and kind of mathematical marketing in brand, and how you drove your business through TV. Come around, 2Q, 3Q -- 2Q, really, you're overearning because of what's going on at that time. Growth is enormous. You piled a lot of that money back into SEM. Why not put that money into brand, like you had done, proposed as the long-term winning strategy?

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

We did. I mean, so we increased our brand spend as well. But the brand spend is not as responsive. So in most markets, depends, it differs by market, but in most markets, it takes some time before you can economically buy and so you need a couple of months lead time. So if you decide to ramp up your spend performance marketing is obviously most responsive, you can do that tomorrow. The TV spend takes a bit longer, but we've done that as well.

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

So basically, you were so overearning as your expectations that you had the excess money so quickly, you couldn't put it back into brands fast enough to reinvest fast enough so you -- that's why you increased your percentage of SEM?

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

That's correct. And so it takes longer time to move in and it takes longer time to move out. That's correct.

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

Thank you. Oh, and for the recording, it's Nat Schindler, Bank of America, Merrill Lynch.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

It's Kevin Kopelman from Cowen. So just had a couple, just kind of focus near term first. On your Q3 call, you gave some specifics about advertiser market share in October. As we look at this slide that shows the share in the fourth quarter, is it similar? How did -- was November similar to October in terms of the way the major advertisers played out on the platform?

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

You mean the Slide 5 of the earnings release, where we gave the October-to-date, basically, quarter-to-date. This is obviously updated. And so I'm trying to read the fine print, okay, when exactly that was. So that's in the last couple of days. The number hasn't moved that significantly between October and November.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Okay. And then one other short-term question. So as you reiterated the full year 2017 guidance on revenue growth. There is a big range in terms of what that implies for the fourth quarter. It's all the way, anywhere from down a little bit to high teens, I guess. Can you give us any more color about where that's falling out so far?

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

No, good try.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Okay, fair enough, fair enough. And then just a couple of questions on the guidance. Have you gotten any more clarity on how big the relevance assessment surcharge impact was in the first half of '17? Or is it even possible to quantify?

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

It is very difficult to quantify, because it is one dimension -- one additional dimension for all advertisers. And that then has an impact on billions of individual auctions. But what we said before is that we think that it is at least double-digit.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Double-digit as a percentage of -- or double-digit contribution to growth?

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

Comp growth, yes.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Okay. And then as we're moving through next year, it seems like fourth quarter is really when it becomes a fully normal comp. How are you thinking about the third quarter of 2018? Is that a fair comp versus the third quarter of 2017, given the spend level from the largest advertiser was so elevated?

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

Yes, that's a very good point. So when you look at the third quarter, it is basically, the first 2 months are more like the second quarter and then the third month is then heading down. So there is still some unfair comparison effect in the third quarter. So the true like-for-like comparison will be in the fourth quarter. But third quarter, obviously, will already be much better than first and second quarter because you have partially the normalization in there, plus you have a fair relevance assessment in comparison, so yes.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

And I'll just ask one more and pass it on. But can you talk about your relationships with the large hotel chains and how active they've been on the platform and what you're working on to get them kind of even participating more fully on trivago?

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

Yes, so and we've got good relationships with all significant chains, or pretty much all the relevant chains. And in a way, they've got a lot of potential on the platform. We discussed that in the past. And what is really in our control, what is under our control is that we can give hotels preferred visibility. So if there is a live connection, there's more visibility on the hotel rates, so that's positive for conversion. That's on the product side. On the tools side, it is really what I mentioned before, it is Automated Bidding and Express Booking, which aim to optimize the bidding strategy and to improve the booking conversion. At that is really what we can work on to roll that out to more and more hotels, hotel chains. The -- but that's only our part of the equation. To what extent the hotel chains are really pushing us as a channel, become more aggressive, improve their own booking conversions, et cetera, that is something that we cannot control directly.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Do you see the bigger hurdle as being the hotel chains improving their conversion rates from the platform or the hotel chains' decisions in terms of how much they're willing to spend for a lead or ultimately, for a conversion on your platform?

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

The conversion is the bigger challenge, because if you -- I mean, that is something where you really need to optimize and that takes time and effort and resources, obviously. Whereas the decision to change your profitability target, you can implement immediately. I mean, you take a decision and then it's changed tomorrow. If you decide you want to significantly invest into your booking technology, that takes a long time to implement it. And when you look at the competitive landscape for them on the booking technology, they're obviously competing with companies that do only that, they only do online hotel bookings. So there it is, it's obviously tough to compete and to narrow the gap; or the profitability targets is everybody's own decisions.

Unidentified Participant

Can you comment on the profitability of Germany, specifically? And then more importantly, any kind of commentary you can provide us on what the growth of that market would look like if you were to significantly cut back marketing spend? Or maybe a better way of asking is, what would growth look like, or how much would you need to spend to have 0% growth in that market? Just trying to understand how strong the brand is in Germany. So any kind of comments you can provide on that.

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

Yes, so we can't comment on individual countries. Yes, so that's not possible. Yes, it's difficult to test, yes? So I guess, moving away from Germany, to more in general terms, in the past, we've done it, we've done it frequently. So a couple of years back, where we basically went off-line and in a market for half a year, 3 months, whatever, and saw okay, what impact is that actually and does that actually have? And we've done something similar in one market, but only for 2 months this year, where we saw that the main impact was that the growth basically came down, obviously, to no growth. But I'm not sure that, that is really 100% fair, because obviously, if you would not do it for 2 months but for 6 months or 12 months, which is really what you're asking, it is likely that the effect will be greater. And so it is difficult to say without really investing significantly in a very large test.

Unidentified Participant

If you were to look at this model and you would put a similar margin or a similar spend ratio of what we see OTAs doing, which they're spending 30% to 40% of their dollars in the marketing channel. I'm just trying to get a feel for what the growth of this business model looks like in a more normalized marketing spend or a more steady-state model. And that's why I asked about Germany, because I know it's much more established, but I'm just trying to get a feel for what sustainable growth in this business looks like. So any kind of commentary, maybe asking 0% -- 0 spend isn't the right question. Maybe it's more what does it look like when it's more normalized, like a 30% margin spend?

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

I guess one data point that you can look at, obviously, is Developed Europe because that is the most developed market, with the slowest growth and at the relative profitability there versus the other markets. And so when we discussed it during the IPO, we were the contribution margin of 25% in Europe. And then obviously, the question is, which part of the overall overhead is triggered by Europe, which is under proportional, obviously, because we've got fixed cost by market. And so rest of the world is a lot more complex per euro in revenue or per dollar in revenue than Europe and that would at least give you, looking at the hard data, a good starting point. I think that we should outgrow the market, even in Developed Europe, and that's why we will continue to invest into that. So if you say at maturity of the market, everybody grows with whatever the overall market growth is. There's no further movement into online. There's no further movement into a vertical hotel search. Then the profitability should obviously be higher than what you see in Developed Europe today. And that's how we came up with our 25% as well in the IPO.

Unidentified Participant

As we've seen Booking.com shift from city landing pages to hotel, back to city, I'm curious, they're now absorbing the relevance assessment again. Are you seeing unit economics improve a bit from where they were when they were buying hotel specific? Or are they further reducing bids just to compensate for the relevance assessment?

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

So they moved, just before our earnings release, to that new -- the old new, whatever, to the regional layout. And so if you look at the share here, and the share that we presented there, no significant change, yes. And so that implies, obviously, that by getting a lower score, they have to bid higher for that [share] like-for-like comparable. Having said that, the impact is, obviously on the overall business, not as big if you are at 50% versus at 25%. And so -- but yes, I mean, the relevance assessment score of that advertiser has come down through that change, that is correct.

Unidentified Participant

Okay. And then, I guess as you guys have shifted from a manual algorithmic -- a manual to an algorithmic calculation of that relevance assessment, do you see any change in customers in like their ability to test their confidence in bidding with that algorithmic relevance assessment?

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

There -- we see a change there. So certain Expedia brands are testing the same layout currently. Which is, in a way, exactly why we came up with the relevance assessment in the beginning, so that we could allow for more testing activity. So I think it's probably fair to say that there's now more testing activity and more broadly spread testing activity than before. What is a bit too early to say is what really the impact of the move to the automated assessment versus the more manual before is, because we just finished the rollout and it will obviously take time for everybody to react to it. So that we can't say yet.

Unidentified Participant

Okay, and then specific to your SEM spend on Google, as they shift more traffic to HotelFinder, can you just give us a sense for your early test bidding on HotelFinder in, I think, in one country? Are you seeing any good performance from that? Are you ultimately paying more per click there versus core AdWords and then the downstream, like, bookings. How does that look on the 2 different models?

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

I think it's a bit too early to say.

Unidentified Participant

Had to try.

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

So Naved Khan, SunTrust. So your largest advertiser is also planning more on going direct on TV in many of the markets. I think they said 30 by the end of this year. What kind of impact are you baking in when you are talking about the 2018 guidance? Is that already baked in or do you see that as a potential risk?

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

I'm not sure I fully understood the question.

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

So Booking has talked about -- Booking.com, is planning on expanding the TV ad rollout. They're going to 30 markets by the end of this year, they said. So if you look at the 2018 outlook, what kind of impact are you baking into your outlook from that, if any?

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

Yes, okay, thanks. So on TV, the reality is, there is always somebody else on TV and so in any market, so it's not that we have online travel monopoly or had that in the past. I guess we are one of the players that has most focused on it and has been most consistent in the TV investment and continuously, obviously, being present for a very long time period. And so now with more players being more consistent as well or that's at least what they say, it becomes more important than before that you're very clear in what exactly you communicate to who and how you make clear how your product differentiates. And because the value proposition of the different players in online travel is different. So our value proposition is ideal for somebody who hates to miss something. So the small boutique hotel that you can find on us, but perhaps not on other platforms, that you want to consider as well. So if you feel that you miss out on this special opportunity, you're more inclined to use us than an OTA directly. Same with prices. If you want to make sure that you -- want fuller price transparency, and that you know exactly what the price structure in the market is, then you're much more likely to use us than going to an OTA directly. If that is not important to you, because you travel for business and don't have to pay yourself or are more focused on convenience, et cetera, then you might be more likely to use somebody else first. And so in a way, the market is developing and like any market that is developing, the more developed, the more segments to evolve. And in that stage, it becomes then very important to be very clear which segment you're targeting with what message. And that, I think, is much more important than for the effectiveness of the advertisement than how many players are really active.

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

Okay. And then just on the product side. As you make these changes and as they are sort of, hopefully, improve the ROI for the advertisers, how much of that is reflected in the sort of the framework you just laid out for us for 2018? Or is that a potential upside that can materialize?

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

You're referring to the -- on the product side? Or are you referring to the attribution rollout?

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

The attribution rollout and then ultimately, driving booking conversion.

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

Yes, so and we, obviously, optimize the product in the last 10 years continuously. And so in a way, that is something that naturally, you need to factor in when you do your plan. Obviously, if there are absolutely breakthrough innovations that we will launch that are beyond the normal improvements, then that could provide some upside. But as of today, the outlook that I'm presenting is basically what we are currently thinking with what we are knowing today.

Unidentified Participant

Just as a follow-up to the marketing question. Can you actually speak, just holistically speaking, about your marketing mix plan for 2018 to support the financial outlook that you laid out, relative to what you did in 2017? And I'm particularly thinking about search in particular. Google seems to be the ultimate winner of this whole thinking going on. So how does your -- how aggressive will you be on that platform, since obviously, the other guys are going to be pretty aggressive as well. And then I have a follow-up.

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

Yes, so our competitiveness on Google, obviously, depends on our own profitability target and then our ultimate conversion. So there, we are obviously working on further improving that going forward. So that should lead to an improved competitiveness. On the other hand, in particular, in the first half of the year, we expect to commercialize less well and so at the same profitability target, that would mean that we are not as competitive as in the first half of '17.

Unidentified Participant

Does that mean that you're actually spending less in aggregate on Google or you're spending more on it? It's just that the unit economics on Google are not as attractive?

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

So we don't comment specifically on spend development, but what I said was that the ROAS will go down in -- or we expect the ROAS to go down in the first half. And so if you assume that, that is across all the different channels, that would mean that for the same revenue, we would have to spend more. So and then depends a bit where we come out, but let's make it simple. If we hit exactly the same revenue and the ROAS has come down in all channels, then that would imply that we would have increased our spend.

Unidentified Participant

Okay. And then lastly, can you help us just quantify or envision the alternative accommodation opportunity for you and how long does it take you to kind of build it into something that starts moving the needle?

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

How long will it take us to build something that moves the needle? On the user side, so on the value proposition towards the user, I think it moves the needle more quickly, as does long-tail inventory on the hotel side as well. So it's not a high percentage of your searches, and not a high percentage of your revenue, but obviously, it allows you to be more complete and deliver to the user what he is expecting and the higher percentage. And so that, from a value proposition perspective, I think, should -- we should be able to deliver that, relatively speaking, shortly. For the long-tail and ultra long-tail to be a very significant part of the overall revenue, I think the user behavior would have to change very significantly. And there, I'm not sure how long that will take. But to us, it is the key thing is, do we have a complete offering and do we have, and that's another aspect that is pretty important, not from a user perspective, but on the B2B side, do we have competition in the long-tail? So more niche destinations, very busy times, trade fairs, et cetera, there obviously, it can become very relevant and that's why we think it is very important.

Unidentified Participant

Couple of questions. Have you guys seen -- I mean, just from looking at the financials and your outlook, it doesn't look as though -- in an auction market, typically, you have one advertiser pull back, the other ones kind of take their place. What -- are you seeing any advertisers act that way? And if not, why? What's the gating factor? Obviously, one of these advertisers has a far better conversion rate than the others and so maybe it's just, kind of, pricing needs to get readjusted in line with those guys' conversion rates. But what -- kind of help me think through why the auction dynamic and what's playing out?

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

So you can actually see some of that dynamic on the earnings release slide, where we have the different brands in there. And what you can see there is that one brand has reduced very significantly, and pretty much all the others have gained pretty much pro rata. And so what that means is that it is not that there is 1 or 2 advertisers that just pick up that volume, but that it is spread more evenly. And if you go on the slide, you can actually see that as well, yes? So you've got more diversity on the slide than you had 6 months ago. In certain markets, a lot more diversity, which obviously is, from a user perspective, beneficial.

Unidentified Participant

But back to kind of my conversion rate topic or issue, do you see CPCs kind of get readjusted as the makeup of the bidders changes in the auction?

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

Yes, absolutely. I mean, so if you -- let me just go back to the magic slide. So if somebody is moving up from 25 to 50, obviously, that has an impact on the winning bids because you need to outbid a lot of your competitors very consistently. If you then revert that, it obviously has an impact on the average bid as well on the negative side. So that's clearly the case. And particularly, if you have somebody who has been the marginal bidder in such a high percentage, then that player pulling back has an impact on the winning rates. But absolutely.

Unidentified Participant

As you sit today trying to provide guidance at a time when you guys haven't -- it doesn't sound like have done a ton of testing with the attribution model. How -- is that still kind of a pretty meaningful variable to play out here? It sounds like with the attribution model, we could have some near-term negative impact on referral volumes, but a long-term benefit to the CPCs. But as you're thinking about your guidance right now, are you just kind of not trying to consider the impact that, that may have or...?

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

As I said, I mean, we, in the outlook that we provided, we consider everything that we know today. And we have better knowledge on what is happening because we now have, obviously, the benefit of observing what is happening in the DA channel for almost half a year. So I think that's one point. So we understand it better than when we introduced it, to be fair. The second thing is that we are rolling it out -- we rolled it out in the SEM more steadily than we have done in DA. So whatever impact there is, that will be spread out over a longer time period, and -- but we don't expect that to have a significant additional negative impact.

Unidentified Participant

And lastly, we haven't talked about it since the IPO, but are you still moving into the new headquarters next year? And if so, are there any kind of costs we should be thinking about associated with the move?

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

I hope so. I hope that the construction is ready mid of the year. That's at least what we are planning for. And we think that -- I mean, we are excited to move in there. We will have everybody together and not spread out over 3 buildings or now even 4 in Düsseldorf. And the costs for the headquarter are obviously factored in. And so we have, clearly, in that time of the move, we obviously have rent twice, so -- and in the old buildings and the new one, that's obviously factored in.

Unidentified Participant

So next year, how different should your branded referral growth or referral growth from branded traffic sources be? And should that change much throughout the year? I know you mentioned you've reinvested some dollars into brand, but it didn't have the same impact. So how should that cadence change throughout 2018?

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

So I'm not sure I fully understood the question. So how different was the growth of the branded traffic be in the first half and the second half? Is that what you're asking?

Unidentified Participant

QR growth from branded traffic sources, so not SEM, basically. Because in the first half, obviously, SEM -- referrals driven by SEM will be down, offset by branded. So can you just help...?

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

So we had some -- I mean, we didn't only invest into SEM, so also in TV. So the overall -- how do I answer that best? So I guess, when you look at the overall trend, the branded trends looks more steady, obviously. So that's clear. But also on the branded side, you've got tough comps. I mean, if you make X percent more money than on your profitability targets on TV, obviously, that has an impact on your marginal spending as well. So that gives you more firepower to spend. And we, in a way, need to optimize against that and compensate for that drop in profitability through optimization, yes? And so that optimization will then go into the compensation rather than into the further of growth as it normally would do. So you've got a negative effect also on the branded traffic growth. But you're absolutely right. It will be more steady compared to the overall traffic.

Unidentified Participant

You talked earlier about changing to more of a focus on revenue growth as opposed to profitability, specifically for 2018, given kind of the advertiser pullback. And I guess my question is, longer term, how do you guys think about the path to profitability? Kind of when should we expect trivago to start to show profitability?

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

So yes, as I said, I think our fundamental view is that revenue growth at this stage of the company and the industry is much more value-creating than optimizing for more profitability earlier and leaving the revenue growth on the table and giving, in a way, that market share opportunity to your competition or leaving it to your competition. Looking back, and that's why I made that comment and I think we are now taking a more extreme position than we were before, I think this year has shown us that size is actually important and that our basic belief is true and we should probably even focus more on it. So we will -- and that's our current view. So that would imply that you would have to be patient for some time to see that, basically, at the point in time where we think that we've reached sufficient scale that we can decide on that trade-off differently.

Unidentified Participant

Brief question on the SEM attribution rollout. Can you just maybe provide a little more color on some of the difficulties that you run into that maybe is taking longer than expected? Just want to kind of understand what the drivers are there.

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

Yes, so the main difficulty is, I mean, we've got a proprietary bidding tool that is bidding every day roughly 750 million times, on 750 million different campaigns. And the key challenge is to basically integrate the new data into the bidding algorithm and then linking that to the different SEM platforms. So the change in the optimization, in a way, in our proprietary bidding tool was a technical implementation, that is the key challenge.

Unidentified Participant

Got it. And then just second question on RPQR. I know in the past, you've kind of guided longer term to more kind of flattish. But maybe if you can just walk us through kind of the, I think, 3 drivers that you called out in the past in terms of conversion, device mix and commerciality. Is there reason to think that maybe it could be less than flat going forward given growing mobile or country mix and such?

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

Yes, so basically, when you look at the key 3 subcomponents, you've got commercialization, you've got the booking value per booking and you've got the booking conversion. And on the commercialization, we obviously have a negative comp in the Q3 and for some time until we lap it. On the booking value per booking, that has led to slightly upward sloping, but it's not changing dramatically. And on the booking conversion, we managed to increase the booking conversion significantly in the third quarter. Is that something that you will be able to show every single quarter? Probably not. And so if you assume that the commercialization is -- if you take out the noise over the last couple of quarters, but looking forward, it's pretty much flat. The booking value per booking is pretty much flat, and there is some upside in optimizing the site and the traffic acquisition for more booking conversion, then you would come up with a slight positive. The negative that you need to factor in is obviously an increase in multi-device usage, which is deflating the RPQR and inflating the QR because the cross-device attribution is a challenge. And putting all of these factors together, we think that flat is the right assumption. But -- I mean, you're right, it could be -- it could also be slightly up, slightly down, but that's our expectation by region.

Unidentified Participant

Axel, so I think you'd said earlier that there was a double-digit impact from the relevance assessment. I just want to get a sense for what that means exactly. Are you talking about if you grew 60% in a quarter, that was at least 10% of that 60%, or was it 6% of that 60%, or was it...?

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

No, 10. It has more than 10% out of the 60%.

Unidentified Participant

Of your total growth, not just the advertiser growth?

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

Yes.

Unidentified Participant

Okay. Secondly, you've switched to algorithmic. Can you comment on which direction that's taken the relevance assessment? One would assume up, but who knows? And then also, what feeds that algorithm?

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

Yes, so what exactly feeds the algorithm, I can't comment on. That's obviously highly sensitive. On the direction of the score, I mean, that differs by advertiser. And given that we've just completed the rollout, I think there, again, it's a bit too early to say, because, obviously, advertisers will now optimize for the more automated logic. That's been part of the idea. So I think that would be a bit premature to comment on that either. But it is -- I mean, obviously, it's more efficient the way we've now set it up, and we think that it is better for testing and has high acceptance with the advertisers because it is -- yes, it's quantitative and it is not a qualitative score.

Unidentified Participant

And you said that going forward, you think that the current revenue share of your largest advertisers is about -- probably about right, and that seems to feed into your guidance for next year. I think you said maybe it could be up 5%, down 5%. What makes you -- I get that there's probably a correct equilibrium level. What makes you fairly confident that this is the right equilibrium level of share?

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

It's a bit difficult to say, because we have incomplete data. We can only see what is in our platform, and we don't have full transparency, obviously, what is happening for each of the advertisers. So you need to work with assumptions. But in a way, what is the protection on the downside? I mean, the smaller your share is, the higher your profitability is and the more profit you're actually losing by bidding further down. And where exactly that profitability level is? Obviously, we can only estimate, but conceptually, there, it is getting more and more expensive if you drop more and more and at a lower level. Whereas if you're, let's say, at 50% and you are breakeven, you don't lose any traffic by going to 49%. So that is economically the biggest protection. And on the strategic point, okay, to what extent do we actually have a negative spillover in other performance marketing channels? If you're one of many, I mean, the spillover is obviously not there. So -- because that doesn't really change our activities. If you're the marginal bidder on the majority of the traffic, then obviously, that is much more so the case. So I don't know. We don't have all the data to say this is exactly the right level. But from our perspective, it seems to be a sustainable level. And even if there is a change at that level, the impact is obviously much, much lower than what we've seen in the last couple of quarters.

Unidentified Participant

Have you noticed any difference in behavior of the second largest advertiser in all of this? And you mentioned that they maybe started experimenting with landing pages. Were you surprised they had (inaudible) more competitive or less competitive (inaudible)?

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

Have we seen changes in behavior from our other large advertisers? I wouldn't say so, yes? So increased testing activity, I mean, that was anticipated with the automated relevance assessment. I mean, that's part of the idea. Should they have stepped up more? I wouldn't say so either. I mean, so when you look at the competitive dynamic, the other players have stepped in pretty evenly, and in a way, that is a very positive thing from our perspective. If it would have only been 1 or 2 advertisers that would have picked up the volume, that would be a sign of a weaker marketplace. If it is spread out pretty evenly, that shows that a lot of players are competitive on part of the inventory. I'm not sure that, that answered your question, but...

Unidentified Participant

Do you think your largest advertiser made a mistake stepping up their spend on your (inaudible)? Part of the (inaudible) is your second largest advertiser is also your largest shareholder which suggests that maybe (inaudible).

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

I mean, the -- our relationship with our shareholder is, in a way, special because we run completely independently, and that has been very important since 2013, not only for us but also for the business. I mean, if you're not running completely independently, then that hurts your credibility towards the competitors but large customers of ours and competitors of our shareholders. So I think there, it is really, really a pretty -- there's no special treatment or anything, so the advertisers are making their decisions, whether they are under the same shareholder structure or a different one. So to us, that doesn't really make a difference. And I would assume that is the case, the same as the case on their side. The first part of your question, was it a mistake to bid up so aggressively? I don't know. It depends on what you're trying to achieve. Was it up to a level that might not have been sustainable from a profitability perspective, from a user value proposition perspective and from a healthy marketplace perspective? Perhaps, yes.

Unidentified Participant

I had a question going back to your comments about growing faster while reducing profitability. Maybe going back to that, does that mean you have other opportunities that you might not have been chasing and this is something where you might be, let's say, risking some profit to go after? Or is it -- I mean, can you kind of qualify what you mean by like chasing after growth while reducing profits?

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

So what I'm -- I was trying to say was that in the past, we said very clearly that for us, it has been very, very helpful to have a baseline, which is basically 0 profit, by self-funding the whole business. And for this year, our objective that we communicated in the IPO was, okay, the existing profitability, to use that as a new baseline. And what I'm trying to say is that in the current situation, we think that, that is worth reconsidering and that it is possible that we would deviate from that historic behavior.

Unidentified Participant

And then this will be across all your geos, like Developed Europe, Americas and the rest of the world?

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

Can you say that again?

Unidentified Participant

So will this be across all your geographic, like geos, like Developed Europe, Americas and the rest of the world?

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

It will be for the overall business, and then the growth opportunities, obviously, differ by region. So there is plenty of growth opportunity in rest of the world. Whereas in the more developed markets, obviously, there is less growth potential. But the comment is basically on the overall business, and we will continue to allocate our spend to where we think it has the highest impact.

Unidentified Participant

Okay. And then separately, going back to higher level, you said you have about 1.8 million hotels on your website. Are there still opportunities to grab more there? Like how penetrated are you in that regard?

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

It's a good question. We try to find a reliable source for the number of hotels on this planet, so when we did the IPO. We couldn't find any. So I'm sure that there is still upside on the hotel side. I mean, that number includes all properties for us. But in terms of overall numbers, obviously, the opportunity is much greater on the long tails or on alternative accommodation. But there are still hotels, that there have to be still hotels that are not on trivago, but I couldn't comment on how many exactly.

Unidentified Participant

Can you take us through the evolution of Express Booking, where we are today, where that is for you in the future? Any conversion benefit that you can detail for us? And anything that you can ease the friction from a technology perspective on the hotelier side?

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

Yes, so as I showed, I mean, we are rolling it out, but it is not a very significant part of the revenues yet. As you -- if you just use the site, you probably have seen. The benefit for the advertiser depends very much, obviously, on his own conversion on his site. I mean, the weaker his site converts, the bigger the benefit is from a de facto, outsourced booking funnel, and that is basically the key driver. So I think in the Q2 earnings release, we had some examples from specific hotel chains what the impact can be. But overall, we have high demand for the product. And so a lot of advertisers are interested in moving to it for exactly that reason, because they expect that their conversion will go up. The ease-of-use part has, today, a lower impact, because there are not that many registered users, where it will be automatically prefilled.

Unidentified Participant

And are you -- does everyone have to go through a third-party provider at this point to move into the system? I mean, do I have to have you plugged into my CRS?

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

No, I mean, so the challenge is more on the integration side is the existing interface that you are having as an advertiser with us is that you basically submit your properties and you submit daily bids. And for the Express Booking, you need to have that direction, but we also need to have an interface that is going in the other direction, where we submit, actually, the booking. So it is something that the standard interface does not have. And it's not only more data, but it's also the other direction. And that's why it is actually not that straightforward. The -- yes, that's basically the technical challenge.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Kevin Kopelman from Cowen. So I just had a few follow-up questions. The 2018 kind of commentary that you've given, can you talk about -- I have a few kind of components here, but what kind of benefits you're looking at from the SEM attribution rollout are assumed in your commentary on revenue and EBITDA? So are you assuming some benefits from -- I think you're planning a Q1 rollout of the new attribution model.

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

Yes.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Are you assuming that you get some uplift there? Or as you're doing your internal projections, is that still back (inaudible)?

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

So for '18, we assume the revenue impact to be neutral, but in the long term, obviously, we expect a positive revenue impact.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

And are you expecting any benefit from the vacation rental initiatives, in your commentary for '18?

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

Yes, that's a bit more difficult to quantify. I mean, as I said before, it is ultra long tail. So the revenue share coming from those properties, they can't be very high. I mean, it's not like when you look at the million of long-tail hotels, obviously, their revenue share is relatively small as well. And so that is very difficult to quantify. I think the main effect is we've been having a better user experience and a more complete offering, and that you can't really incorporate into a financial model. I mean, that is something that, obviously, over time, should have a positive impact, but it's not -- nothing where you can say, "Okay, that is in month 6, 3% revenue uptick." I mean, that's very difficult.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Would you expect vacation rental to make it into your TV advertising in 2018 in terms of featuring it -- featuring your vacation rental selection on television?

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

It's possible, but the question is, what is the right point in time to do that? And I would say that we are, today, still in a testing phase, but it is -- basically, it's a larger-scale test than what we've been running for the last couple of months. And I would say it's more likely to do these kind of things once you completed the testing phase. But it's also possible to do it in the testing phase. So yes, it's possible, but -- yes.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

And then one more on that. Expedia said that -- well, they're putting a lot of effort into building out their supply and closing the gap in some markets with Priceline. So are you assuming any benefit in your marketplace from increased competitiveness between Priceline and Expedia as Expedia adds properties?

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

So the more bidders they are per hotel, the better it is for us. That's absolutely correct. And so if some of our advertisers would be successful in adding a second connection to currently unique property of their competitors, that should have a positive impact on them, on us and a negative impact on whoever had that property unique before.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

And is that in your current assumptions for 2018, in what you've told us today?

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

No, so that -- we plan for what we can control. And whether that will materialize, how quickly that will materialize, when it will have an impact, that is impossible to forecast.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

And another one on 2018, on marketing mix. In the recent past, I think like 2016, 2017, you talked about, or I think suggested, that performance marketing was probably a little bit over half of the marketing budget. Do you see any major change to your marketing mix between performance and brand advertising next year?

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

I mean, there's no change in philosophy. That's for sure. There are obviously market-by-market movements, in one and the other direction. But in general, we continue to believe that the traffic mix, approximately 50-50, is the right mix, and that will guide our actions.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

And just a couple more. So on vacation rental, you said the initial 100,000 that you were testing, those were not from HomeAway, so those directly -- maybe I misheard you, too. When you were first testing vacation rental, you started with 100,000 properties. How did -- what provider were those from, or...?

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

So I mean, today, most of the OTAs have alternative accommodation in their offering as well. And so we used some of the inventory that was available to us anyhow, and that we previously didn't show, for the first testing. And then as a second step, we integrated HomeAway, which is obviously a very large provider that allows us to scale very significantly, and that is the phase we are currently in.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

And then a follow-up on a previous comment. Did you say that Expedia was also testing regional landing pages? Did I hear that correctly? Or did I mishear that?

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

That is correct.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Okay. And last one, 2018, you've got these difficult comps through the first half of the year. Which metric should we be focused on externally to kind of see progress through the first half of the year, given the difficult comps?

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

I think you can look at the KPIs, and you just need to keep in mind that you are not looking on a like-for-like comparison. So let's assume the revenue would be the same and the ROAS would be the same, that would mean that you -- that we actually fully compensated for the lower commercialization through higher efficiency. So that would be a big achievement. So I think you can look at the metrics that we are providing, but you just need to keep in mind that you, in a way, would need to normalize it. And if you normalize the -- particularly, the 4 quarters, Q3 to Q2, then you can see a normalized trend, because you then look at like-for-like comparables again. Or you can look at 2-year growth rate, where you have, as you compare with it '15, similar marketplace structure and the better like-for-like comparison.

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

Naved Khan, SunTrust. Anything worthwhile calling out in terms of the monetization gap between mobile versus desktop and how that might trend next year?

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

Yes, it is an interesting discussion, yes? So obviously, if you just look at your data, the conversion on mobile is weaker than desktop. That's for sure, as in probably every Internet vertical. I mean, our view on that is, I think, slightly different to many others. Because for us, the question is slightly different. What is a user journey? And how many different devices does he really need and does he use to ultimately book? And is the user loyal to us across all these platforms and devices? And as long as that is the case, he will ultimately book. As long as you book ultimately through trivago, it doesn't really matter whether the conversion on your mobile phone is 0 and on desktop is 100%, because it is just the way you use us as a product. And that's why we have a consistent product and a consistent auction across all the different devices. And I think until the cross-device attribution is really solved, the reality is you will not know how big the difference really is, because you can't fully understand the user journey. What we are doing to, to address that and why we are less concerned about the mobile increase, one thing is, when you look at our platform, mobile is growing very quickly, and it doesn't have a negative impact on our RPQR. So we are now above 60% revenue share coming from mobile versus 50%, I think, in June 2016. It's a 10 percentage point increase, but it didn't hurt the RPQRs, which, again, makes sense. As long as the users still use us across all devices, then it shouldn't hurt, yes? Yes, so I don't expect a significant change to that trend. And when we are testing the cross-device spill, it is very significant, yes. So you need to be a bit careful that you don't overpenalize, in a way, mobile, because it doesn't convert, because it is important in the user journey and you can, through tests, you can see that dependency, even if you can't measure it and attribute it across devices.

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

Okay, that's helpful. And then just between the mobile web versus the mobile app, are you seeing any kind of differences in either monetization or even user behavior?

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

Yes, I mean, the -- there is obviously a difference between app usage and mobile usage, because -- and obviously, it depends a bit by market. There are markets where you use predominantly apps and where -- there are markets where you use very little apps. But if you really generalize a bit, you are more likely to download the app if you're a high-frequency loyal user, than not. And so in a way, if you just compare it, it is not a like-for-like comparison. So app obviously has better usage profiles, but I think that is driven by the fact that you have an adverse selection of the users.

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

So which one is growing faster? Is it the web or is it the app?

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

Which one is growing faster?

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

Yes, in terms of usage. You said your mobile traffic is growing faster. So is it the app or is it the web?

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

So last time I looked at that, app grew faster, and that should still be the case. But then, again, you need to be a bit careful, because obviously, you've got markets where app is dominating mobile usage, so you have a country mix effect in there. And if you normalize for that, I'm not sure, yes. So -- but still, app should outgrow mobile because we are -- our app share is, relatively speaking, low. We rolled out apps, relatively speaking, late. And as a consequence, the growth potential was higher.

Unidentified Participant

In the last slide, you showed -- you talked very briefly about the regulatory attention that is being brought onto the space. Can you just elaborate on that a little bit? And where do you think the biggest risk lies?

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

Yes, so there are various public inquiries in various markets into the overall sector, and one is in the U.K. In Germany, there is one; there are other markets where there are inquiries. And so there seems to be more focus of the regulators globally on the online travel market. And that obviously is something that is very difficult to foresee. So what exactly are the regulators after? And what exactly would then be the consequence of what they are trying to achieve? That is obviously something that you can't plan for.

Unidentified Participant

Can you remind us what portion of your traffic today comes direct? And then maybe how correlated is direct traffic to brand advertising within specific regions?

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

Yes, so the last data we disclosed was for 2016, which was approximately 50-50. And for '17, the numbers have not significantly changed. There is obviously a correlation between your TV spend and your growth in branded traffic. Otherwise, you shouldn't do it. And yes, so there is obviously a correlation. I mean, so if you spend on a good creative in the right way, that obviously has an impact, and that helps your branded traffic development.

Any more questions? Everybody exhausted? Good, yes. Thank you very much for your participation and for your time. And I wish all of you a great, great winter break and see you next year.