

**trivagoNV**

**February 13, 2018  
07:00 PM EST**

- Heath Terry: Axel Hefer from trivago. Axel, I know it's an incredibly busy time for the company, so really appreciate that you could make the trip to be over here with us.
- Axel Hefer: Thanks for having us.
- Heath Terry: Thank you. So every investor in the room, I'm sure, knows trivago, if from nothing else, from your advertising and from your service. But what's the right way for them to think about sort of what trivago is as a company and what you're trying to build there?
- Axel Hefer: I guess there are multiple ways to answer that, but when you look at the industry, we are hotel search. And so for everybody who has not decided up front when he's starting his search where he wants to book, we are an entry point to helping to navigate to all the different operations, all the different providers. And find out in a way where you want to stay for that specific trip and where you will find availability for that specific accommodation and what the different price levels across the different booking sites.
- And that's really what we are doing and that's what we are focusing on. And that's where we see a lot of potential going forward, in particular in helping users to navigate to the increasingly complex different kinds of accommodations. So what you see is that (inaudible) people are pre decided not only on the provider, but also on the kind of accommodation, so but you are looking more for a specific experience.
- Okay, whatever, a romantic weekend trip. So that can lead to private accommodation to a nice location. It also can lead to a niche boutique hotel. Business trip, same thing, so you can get a super efficient business trip experience in all kinds of accommodation. And that adds complexity that obviously increases the value add that you can provide as a search provider.
- Heath Terry: So 2017 was really your first full year as a public company and there's a lot that went on over the course of the year, to put it mildly. How would you sort of, for investors that didn't follow you guys day-to-day, how would you sort of summarize what 2017 was? What was important about it to the business? And then maybe how you think 2018 might be different.

Axel Hefer:

It was quite a rollercoaster ride, absolutely. Quite an experience. I think if you look at 2017, you need to start a bit earlier because as balloons once you are public, all that matters is the year-on-year quarter comparison. And so when you look at 2015, we had one of our largest advertisers at around 30% share in the marketplace. In 2016 they increased very significantly. And you can see that in the numbers because our growth accelerated. So we saw benefit in the commercialization out of that. Reinvested that benefit, invested that into growth and as a consequence, Q4 2016 was a terrific quarter, 70% growth.

And then going into 2017, there was an additional boost that we benefited from where we knew from the beginning that it was temporary, but still obviously it had a very positive impact on Q1 and Q2, which was the introduction of the relevant assessment, which is basically a concept where we opened up to the advertisers and give them the freedom to design the landing page and the booking final the way they want it, rather than having more rigid rules before. So then depending on the design, we're basically modifying their bids, or in other words, favoring certain designs over others.

So certain advertisers decided to go with an, from our perspective, unfavorable design, and accepted a higher payment, which obviously then for us was beneficial and allowed us to invest aggressively into growth and again, Q1 and Q2 were very strong growth quarters, almost as good as Q4 2016.

And then I guess there was on the rollercoaster and I'm thinking about is the year slowly up, and then in terms of upping the growth rate, obviously we peaked and then came down. And so the advertisers basically moved to designs that were more favorable from our perspective and so that didn't come with a strong bid modifier and as a consequence, our commercialization dropped. So we didn't get the additional benefit anymore. The timing of that was very difficult to predict, or impossible to predict. We said from the beginning, it would happen at some point in time, but you never know when exactly.

And so Q3 was really suffering from that drop. And I guess what we realized there is that if -- pretty dramatic shifts, both on our marketplace, but also on our activities on the performance marketing side were leading to inefficiency because all the algorithms, our bidding algorithms, all our advertiser algorithms obviously to a certain extent backward looking. And so that once the radical changes are out, that's the less efficient things are.

And then we saw in addition to that in the fourth quarter significant testing activities of our advertisers. And they have to get by the relevance assessment, the first half perhaps not, difficult to say, that added more volatility. On the positive side, I would say these more dramatic tests that were happening gave us a lot of insights and a lot of nature and understanding of situations that we had not tested ourselves or we couldn't even test ourselves before, which is something that we will benefit from going forward.

And so now Q4 came out pretty much where we thought it would come out, but it's now year-on-year obviously comparing against a very strong 2016. And we guided for this year, so negative revenue growth in the first half comparing against this exceptional period in 2017 and positive growth in the second half, with more normal growth rate. So in a way if you look at the year-on-year, it will basically be Q3 to Q4 where you'll have

again a fair comparison of the like-for-like comparable commercialization points on the marketplace. All the other quarters are still significantly distressed.

Heath Terry: Stop me if I'm not characterizing this the right way, but at one level what we saw there was during that period was sort of the classic conflict. You guys were basically saying if somebody comes to trivago, searches for a hotel, finds a hotel that they're looking for at the price that they're looking for and they click through on that, they should get the opportunity to book that hotel, not land on some landing pages with a bunch of other hotels that the OTA feels like converts at a higher level. So it's that sort of classic conflict between doing what's best for the customer versus what the advertiser or whoever's trying to monetize. How will you going forward, and how do you now sort of deal with that conflict between customer retention and customer satisfaction and monetization?

Axel Hefer: There's not that much of a conflict, to be honest, because I mean it's clear that when we do user research, it's very clear that, and I guess probably for most everybody in the room, after you decided to book a certain hotel, what you're expecting is the selection of a different group price. That's the logical next step. And if you don't see that, obviously that is a bit annoying. Yes?

Heath Terry: Yes.

Axel Hefer: So what is the benefit and why is it actually interesting, despite the fact that users might not like it? The financial benefit of an advertiser is obviously that you can reduce the number of clicks that you need to take off. So that is the non-user centric use. You get a benefit in the auction. And so it does actually hurt the auction because it is not a level playing field anymore and so certain advertisers can get an advantage by deviating from our group.

And the reason why we have always said we want to have that page is you have to because the user expects that as a meta user experience, but also it is only that page design we ever clear a level playing field. If you allow like on the regional page, as you said, then the players for the largest inventory have an even bigger advantage in your auction. And so that is obviously strategically against our interest. Our interest is to have it as even as possible. It's really both at the same time.

Heath Terry: One of the things that you discussed on the call last week was the growing influence of HotelDirect and the impact of the elimination of a lot of the pricing parity requirements in the market and how you're seeing hotels using that. We're clearly really early stage in this, but how do you see that playing out? What impact is it having on the marketplace?

Axel Hefer: I mean the first half is that it's for hotels to realize that they actually can compete in two dimensions. And so they can compete not only with marketing dollars, but they can also compete with price. And in a way, if you have a preset budget, you can spend it one way or the other. And that is something that obviously is an advantage because both are dimensions that are relevant to get traffic and to attract users and if you use both rather than just one, you get a benefit out of that. So that's definitely incrementally helpful to their market position and their competitiveness in the marketplace.

The second and more important level is obviously the conversion of the site because if

you've got a significant disadvantage in the conversion of the site, then other advantages don't really matter that much. And so I think for the hotels to get their fair share of the overall auction, they need to work on all dimensions at the same time, one after the other. But basically, yes, look at all of them.

Heath Terry: And are you seeing this initiative towards HotelDirect? I mean we're certainly seeing it from brands, right? They're offering lower direct booking prices to their loyalty members. The independent hotels are approaching it slightly differently, but are you seeing this initiative around HotelDirect having an impact on the share that OTAs have in the marketplace?

Axel Hefer: I think it is more a gradual development that you should expect going forward and it's nothing that will happen overnight. But there is for sure a lot of potential that is currently untapped from their perspective. How quickly that will happen and how quickly they will recapture their potential, it's a bit difficult to foresee from our perspective.

Heath Terry: You and the team built a very sophisticated engine around, or technologies and processes around the television advertising that you've done. What are you seeing in the effectiveness of that television ad spend now and how are you thinking about the mix between brand and performance over time?

Axel Hefer: In general, we have a roughly 50/50 share of branded traffic and unbranded traffic. And so brands we define as traffic where somebody consciously wants to search on trivago and non brand is where that isn't the case. And we think that is pretty much a healthy mix. So and that has been more or less the same mix the last couple of years and we still believe that that is the right approach.

TV is definitely by far the most important (inaudible) advertisement channel for us and will continue to stay the most important for some time. Having said that, TV obviously has certain challenges and certain demographics already and that is something that I think will become more prominent in the future. And so other brands' advertisement channels, both obviously online will become more important in the mix and we are running various tests in various channels to make sure that we can scale them up to accommodate for that.

Heath Terry: Um-hmm. And so when you went about making decision to move into performance based advertising, obviously performance based advertising for travel is an incredibly efficient channel. PhDs and economists and mathematicians from Priceline and Expedia and all working to sort of maximize down to the tenth of a cent. How does trivago optimize in a channel that's as competitive in that and what kind of success have you seen since starting to emphasize that channel a little bit more?

Axel Hefer: Performance marketing, I guess, is of course center for any Internet business and I don't think that we do things very differently than the other players there. I mean we participate in hundreds of millions of auctions. We optimize really for the booking value for the value we are getting out of it. And I guess it is more -- it's not so much how do you optimize. I think that's pretty much the same for most of the players. It can be a bit more sophisticated, bit less sophisticated. But it is more what's your profitability target and what is your conversion?

And I guess the value add that we are delivering in our performance marketing channels is that we take somebody, a user, predominantly a Google user, who has an unspecified intent, okay, hotel San Francisco, and helping to find out which hotel he really wants on which day and from which provider for which price. So basically the point of time where we hand him over to one of our customers who at the beginning of the journey was one of our competitors for the same user, we see somebody who's much more likely to book. And so that improved qualification is basically what we are leveraging in the form of marketing options.

And the reason to do that is obviously to take a user from our chief competitor, which is Google, and show him our product, help him to use it and hopefully convince him to come next time directly to us and to go straight to, from our perspective, better products.

Heath Terry: You've got over 200,000 alternative accommodation properties on the site already. How do you view the opportunity in that category for online travel as a whole and then specifically for trivago?

Axel Hefer: Overall as I briefly mentioned in the beginning, I think it is a huge opportunity and it's a huge opportunity from a user perspective, perhaps a bit lesser from a revenue perspective, yes? So because -- and I can see it for myself as well when I'm trying to book something, four kids. So we might want to stay in a hotel, but then we can't find room there and so then we go for vacation rental or vice versa, you want to go into vacation rental, but then you find a hotel that has this fantastic family room, whatever.

And so I guess you just then need to have all the options available and the full breadth of the offering at some point in time in the future with that behavior becoming more and more prominent and more and more users becoming more and more hybrid between the different kinds of accommodation of less loyal to anyone individually.

So that's why the market's not so much an if, but more a when. And there our approach is I would say quite disciplined. I mean we started to test with some of the inventory that we had available anyway. And when I'm saying testing it is in a way alternative recommendation.

It's nothing different than very long (inaudible). (Inaudible) you have a bed and breakfast with three rooms on a Greek island, that is from a search perspective pretty much the same than a large vacation rental house in Florida. And so that's not that different. In terms of content quality, the way it is managed data points you get, et cetera, so that's pretty much the same. So it is more the long sale and the more you push the overall inventories through long sales, the marketplace work the way you display the individual properties that you're marketing work well.

And so that's why we are taking the approach that we gradually increase and some things that we test as the remainder of the business and the ecosystem to make sure that we don't have any negative impact or that we harm any other part of the business. And we've come away, we've got a nice partner that allows us to scale upwards significantly and test various different kinds of inventory and at the right point in time we will basically try to onboard everybody, but we won't rush it.

- Heath Terry: And so do you see the opportunity there? Where do you see the opportunity there sitting between the aggregator platforms, like HomeAway or like Airbnb, like Booking.com versus working directly with property owners and property managers yourself to get individual properties onto the platform?
- Axel Hefer: I think for us the logical first step is like with the hotels, is obviously to go for the aggregators. That the aggregators have an alternative recommendation, significant share of unique inventory. And also the aggregation of them alone adds quite a lot of value.
- Then the next step to go to the property managers, I guess it's a bit like the HotelDirect. That's obviously a lot of work and that would then be to stem off of that.
- Heath Terry: So at your Analyst Day back in December, you talked about the online travel category seeing a heightened level of attention from regulators. What are you seeing specifically in the way that regulators are paying more attention to this category? And how do you see that playing out over time?
- Axel Hefer: I'm not a regulator, so it's a bit difficult to say --
- Heath Terry: None of us are.
- Axel Hefer: -- why it's more exciting for them now than a year ago. But I think seriously that it is a very large industry and I think that it has probably just reached a point where there's just more regulatory scrutiny. And I think that's probably the simple answer. So what the outcome of it will be, I don't know. I'm not an expert in that, but I would assume that the regulators are focusing on fair competition and consumer protection, et cetera. And like in other verticals as well.
- Heath Terry: So Express Booking has been a product offering where you've seen real traction. I think up 250% last time you talked about that tool in terms of advertiser adoption. What is it that advertisers have found particularly compelling there? And how important is that product to you longer term?
- Axel Hefer: Express Booking basically offers everybody access to a standardized checkout process. And so it is not the highest converting in the industry, but it's very -- I mean we think it's a very good checkout process. And we optimize it across everybody using it. And so the smaller you are and the bigger the gap between your own checkout processes and the Express Booking checkout, I mean the bigger your advantages.
- And so our main objective, by offering it is we don't charge anything for it and we don't get any benefit out of it, other than helping our advertisers to improve its conversion and hoping that that improved conversion will be reinvested into the platform. And so we have a lot of interest in it and obviously continue to optimize it, so we think it is a very important tool in the overall toolkit that we're offering and particularly to the smaller advertisers to become more competitive in the marketplace.
- Heath Terry: You mentioned Google before. How are you seeing hotels evolve the way that they work with Google as Google edges more and more into meta search versus the traditional link based customer acquisition tools, particularly with the development around Google's ad

commission program?

Axel Hefer:

It's a bit difficult to say from our perspective. So I think when you look at Google hotel app, so there are from our perspective two ways to look at it. One is as a competitor and Google has been our key competitor since the beginning basically and I guess the way we have gained market share and the way we've competed is by having, at least from our perspective, a better product. And by communicating the value proposition of our products to our potential users and to our users. And I don't see really a change there. They are making improvements to their product, we are making improvements to their products.

I think there is probably a change in where Google is directing their users. Are they directing their users more to Adwerx or more to Google hotel app? And that is then more coming to the second way to look at it from our perspective, which is more to Google as a marketing channel.

And as a marketing channel, as of today, that is to us more of an upside because we haven't been active in Google hotel apps in the past and that is something we're currently testing. So it is basically a marketing channel that is untapped from our perspective.

On the individual hotels, conceptually it's difficult to say because we are not really -- we haven't scaled it up yet, so we don't have very good information ourselves. But conceptually hotel based competition is for hotel obviously better because we don't have to compete with the breadth of the inventory, which for a lot of the Adwerx searches is a prerequisite. So it could be an advantage, but whether that will mean that their share is going up, I don't know.

Heath Terry:

Got you. So we do have time for questions from the audience. I think we've got a mic in the back. If you have a question, just raise your hand and we'll get the mic over to you. Got one up here in the front.

Unidentified Audience Member: Why keep the mix between branded and non branded if it (inaudible)? If you can get growth out of non branded, why not go for it?

Axel Hefer:

Yes, I mean if you -- and perhaps we aren't looking at it the right way, but the way we look at it is if you -- whatever. Let's say you would have 75% performance marketing share, then in a way you just buy revenue. So you accelerate your trade to (inaudible) volume and your conversion into owner users doesn't catch up. And so anyway, performance marketing is not creating value as such. I mean yes, it gives you revenue, but revenue as such has no value. What is value is what percentage of that, that usage is converting actually into direct users. And 75/25 to us would be a sign that that doesn't happen that much.

The other way around, if you would be at 25 versus 75, I guess would be a sign that you just under spend on the incremental user acquisition and so that's why we think 50/50 is the right thing.

So anyway, the way we look at it is in incremental through the acquisition channel. That has to be in the right balance with the core business in a way.

Unidentified Audience Member: I'm curious, you look at Priceline pulling off of -- or at least leaning out of the channel over the back half of last year. They talk a lot about lifetime value of that customer, wanting to own that customer. In some ways, you guys are a victim of how good your product is that people go back. At the same time, you talk about TV being less effective. That is an incremental channel for them. Are there other channels outside of digital marketing that you can lean on besides TV that maybe bring incremental customers to that end customer of Priceline or Expedia into the OTAs as you think about it?

Axel Hefer: Yes, I mean just to start with your first comment, everybody wants to own the customer. So I think that's clear. And we want to own the customer or the user. Our advertisers want to own them, so I think that will always be the case and that's the permanent struggle.

In terms of marketing channels, there are a lot of channels that we don't use. And I guess we are trying to diversify our mix through testing as much as we can. And that has always been our philosophy, so when we roughly 10 years ago started with TV, I mean the main objective of that was to diversify away from Google traffic. And TV is -- and just don't get me wrong, is a very important and a very large channel that will not go away overnight, but in certain audiences obviously it is increasingly difficult to get reach. Particularly in the younger generation, it depends a bit on geography, but so over time obviously you need to complement TV to have the full reach and with a branded message. And then obvious long term would be online video and that's very clear.

You've got still in a more old school brand advertisement, like (inaudible) like radio that reached your potential users at a different time of the day and just different situations, which is accretive. And I guess there have been challenges more how to measure and how to calibrate you spend well. But that has in the beginning being the challenge for TV as well. So I guess every channel that you can play in is accretive, because it messages at a different point in time to your potential users.

Unidentified Audience Member: So on the topic of commercialization, are you -- I know you talked about this in the past, but are you able to see the ROIs for an individual advertiser? On like an average basis what does that spectrum look like? And then of course how do you increase commercialization over time. And would you try something like the Google hotel ads product where you can actually book a room on site to kind of alleviate this issue of landing pages and user experience?

Axel Hefer: So on commercialization we've got attracting coverage of approximately 50% and so we use that to extrapolate to have an idea what overall is happening on the platform in terms of bookings and in terms of then obviously our share of the overall bookings. So there is a bit of uncertainty in that number, but we think it's a pretty decent estimate.

In terms of BookNow, I mean so we are philosophically against making part in the transaction and favoring one offer over the other. So if you have -- when we do the express bookings, as I said before, the main objective is to bring up the conversion. If our advertisers ask for it, could we integrate a payment functionality in there, yes, perhaps. But we don't want to have a benefit of one advertiser winning versus the other.

So we want to stay neutral, because if we are neutral, you can have the user to find what he really wants and if you have a stake in it, you are not the neutral and so you (inaudible) position towards the user. So that's what we don't want, but if it helps the overall conversion from an advertiser perspective, yes, perhaps. But we don't want to be a party of the award booking process.

Unidentified Audience Member: And the other part was kind of what is the spectrum of ROIs across your advertisers? And what do you think the larger OTAs are getting on the platform on an average basis?

Axel Hefer: That's obviously a big secret. There is obviously -- there are some differences and so because the, I guess, what we can see is our revenue versus the booking value. And then what we can't see is obviously what the customer lifetime value assumptions are. That is more (inaudible). And so obviously there are different attribution models and different assumptions on conversion, et cetera. So that explains some differences. So I don't know. That's all I can say.

Heath Terry: Actually you guys on the call talked about the development of automated billing -- or bidding, within the marketplace. Can you unpack for us a little bit how the mechanics of that will look and ultimately what you're hoping to get out of it in terms of the business?

Axel Hefer: It's basically, together with the express booking, the other tool to increase overall competition and to help to make the smaller advertisers to be more competitive. So you have the two disadvantages if you are very small. One is that you have a lot less data. So whatever happens, you see it later and you react later and so you're overall less efficient, no matter how smart and how good you are.

And the other one is obviously you have less data so you can't optimize your bookings funnel as well and again you've got a disadvantage. And those I think are two key tools to mitigate that. And by bidding on behalf of the advertiser, we can obviously use our understanding of the market making our data, which completely takes that disadvantage away.

So the key objective of both is the same, to enable smaller advertisers to compete head-to-head with larger advertisers.

Heath Terry: And so when you look at the broader suite of tools that you and the team have developed for hotels, for them to manage their business, what kind of traction are you getting?

Axel Hefer: So the Hotel Manager free tool has a lot of traction, but that in a way is the first step. The start of building a relationship. Hotel Manager Pro has I would say significant traction and obviously the most difficult step and then the third step of the funnel, the direct bidding. And I guess it is the most difficult step because it has additional requirements. You need to have certain technical requirements on the hotel side to really participate. And it requires significantly higher budgets.

And so I think we have (inaudible) fast where we are in our three step funnel and the important thing is to be there and to be in an active dialog with the hotel at the point in time where he decides to move from one step to the next.

Heath Terry: That's great. Axel, thanks for taking the time to join us. We really appreciate it.

Axel Hefer: Thanks for having me.