Trivago

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Doug: All right. We will kick it off. I think we're on the last session of the day, I believe. Happy to have Axel Hefer, CFO of Trivago, here with us today.

Trivago is a global hotel search platform with the mission to be the travelers' first and independent source of information for finding the ideal hotel at the best rate. Trivago has more than two million hotels across 190 countries, with participation for more than 400 booking sites.

Axel joined Trivago as the CFO in 2016. Prior to that, he was CFO and Chief Operating Officer of Home24, an online home furniture and dÃ©cor company, and managing director of One Equity Partners.

Welcome, Axel.

Axel Hefer: Thank you very much.

Doug: Let's start. You've been public now for about a year and a half. Your second appearance here at our conference obviously had a pretty busy year.

Let's talk about some of the recent changes that you've seen at Trivago. How are you feeling that the company is positioned now from both an advertiser perspective, and also the value proposition for consumers?

Axel: When you look at the value proposition, the value proposition is basically twofold. One is to help users to navigate through all the different options that are out there in terms of accommodation. That is historically, obviously, has focused very much on hotels, but is increasingly looking at other options as well, vacation rental, alternative accommodation.

The other part of the value proposition is to give transparency to the user what options he has to book the accommodation that he has chosen, and to basically book for the right price.

Looking at those two different value propositions, the first value proposition is structurally increasing. Why is that? Because what we believe is that there is more and more heterogeneous pattern in usage.

More and more people are not decided which kind of accommodation they want to stay in before they actually make the booking, and are open to all kind of different accommodations, are more looking for a specific experience.

Romantic weekend getaway, efficient business trip in midtown New York, sunny beach, which can then be fulfilled by various different kinds of accommodations. The more complex, obviously, the search is, the greater the value add of a tool that is helping you to perform that search.

On the price comparison, the value proposition is not changed. You have a significant part of the users that do care how much they pay for their accommodation, and that want to have transparency, and want to see whether they are overpaying or not overpaying, and trying to find bargains.

That's still the case today, as it has been in the past. That will continue to be the case in the future. To sum it up, if anything, our value proposition is increasing through the change in usage by our users.

Doug: The platform has been fueled through brand advertising historically, and TV, in particular. How are you thinking about advertising spend, the different channels that you're using? Is TV still the right approach for the bulk of your spend at this point?

Axel: Historically, that has been a big differentiator. We, approximately 10 years ago, were defining our mission statement and said, "OK, we want to be the first. We want to be the first touch point of our users." To get that, we started to invest heavily into TV, into building a brand, into making us known, and into educating the users about our value proposition.

TV is still the medium that has very broad reach, and that allows you to communicate complex messages. Are there other advertisement forms growing and becoming more and more relevant to serve the same purpose? Absolutely.

Online video is obviously on the rise, and particularly for the younger generation, and will become more and more important over time. Brand advertisement will continue to be very important for us.

On the performance marketing side, that's slightly different. What we believe is that you need to have a combination of communicating what the value proposition is, and then having users experience that value proposition.

This experience is obviously coming more through the performance marketing channels. It's all about having the right balance between the different channels. Particularly when you have high volatility in the business, it's not always that easy to keep that balance, because one channel scales faster than the other. Generally speaking, a balance is very important there.

Doug: You made some changes last year. I want to hit on relevance assessment and performance attribution. First, relevance assessment.

Could you just talk a little bit in more detail on exactly what that is, and then how that's progressed since you've rolled it out, and how you're thinking about the landing page process now for advertisers?

Axel: On our platform, from the beginning, basically, we wanted to have a good user experience. A good user experience is obviously to help the user to find what he really wants, and where you ultimately will book it as fast as possible with as little distraction as possible.

When you think about our product, we've got all the different accommodation types, the different prices there. Once you've decided that you want to stay in the Western, then if you click on the offer that you've selected, you're expecting as a next step the different room types, and then ultimately the booking.

That has been our expectation from our advertisers in the past. At the end of 2016, we eased that prerequisite to give more flexibility to the advertisers, because certain advertisers were pushing very hard for that.

We set a disincentive to do that for two reasons. One, we think it's not really in the interests of the user. If you duplicate steps, that is not efficient, and just distracting.

On the other hand, there are certain website designs that can give you an advantage in the auction in the marketplace, and give a disadvantage in particular to hotels, that are very important for the overall value proposition because users like to book direct with hotels.

You obviously want to have a fair marketplace, and not one where you disproportionately favor certain advertiser groups. That's the philosophy behind it.

The financial impact of that was that we benefited in the short term financially from the introduction. Because of this disincentive, we just commercialized better for a certain time period in the first half of 2017.

When that normalized, relatively speaking, obviously, the second half commercialized worse than the first half of '17. If you look at the year-over-year comparisons, obviously, there is an impact also in 2018.

Doug: Just in general now, how would you characterize where major advertisers are in terms of adapting to relevance assessment, or in some cases paying penalties perhaps when their landing pages aren't necessarily the way you would like them to be?

Axel: It's mixed. You've got different philosophies by different advertisers. That's fair. That's why we made the overall system more flexible.

We don't want to dictate certain philosophies there. We just want to make sure that it is still fair.

With the current system that we have in place, we can ensure that it's fair. We can at the same time give the flexibility to every advertiser to implement his own philosophy.

Doug: Let's shift to performance attribution. This rolled out more in the back half of last year, an effort to move from clicks to actual bookings and conversion in terms of how you're acquiring traffic. How has that played out as you've gone into '18? How do you think about the success around that effort?

Axel: It has been very successful. When you look at our recent quarters on a constant currency basis, or currency adjusted, our RPQRs are basically flat despite a significant negative year-over-year trend in commercialization, which means that the quality of our traffic has improved significantly and been compensated for that both in Q1 and in Q4.

That is, to significant extent, influenced by the new attribution and also, obviously, by continuous product optimizations, but without that, we would have not seen the positive effect on conversion, and we would have seen a significant drop in our RPQRs. I would say, so far, a success.

Doug: Let's talk about advertisers. You do, obviously, have exposure to two big groups on the OTA side. If you could just talk about how you think about those relationships at this point. You obviously seen a lot of change over the last year or so, certainly in terms of some of the spending levels.

In particular, what's driven what you talked about on the most recent earnings call in terms of the second wave of tightening up on efficiency targets for marketers?

Axel: When you look at the online travel industry, you've got a few very large players and that's nothing that is special to our business. That's the reality in the overall industry. The decisions and the strategic shifts of these players have an impact on the overall industry because they are quite sizable.

It's not up to us to judge whether strategic shifts are good or bad. You just need to, like in any other industry, live with it and deal with it what the strategies of other players in the industries are.

Our read of the current of situation is that some players are focusing more on profitability than on volume growth as in the past. That has certain impact on us. If they change their strategy and focus on volume, then that has also an impact on us.

That's like you just need to adjust to changes in the industry, and that's something that's normal.

Doug: There are things that you can do, too, as you think about trying to capture more of their spend basically. It felt like last year, there was perhaps some response around relevance assessment maybe, or perhaps the degree to which you spend on advertising, and maybe compete with the OTAs directly.

Are there things now or steps that you can take to recapture more of that spend, or is this just purely like a strategic decision on their part to focus on profit versus volume, and harder for you to win back?

Axel: If one of our advertisers decides that he wants to be more profitable, what that means is that they are adjusting their profitability targets across the performance marketing channels, and potentially even across the marketing channels. That, in a way, has an impact on the overall industry.

What can you do, unless you convince them to change that strategy, which, I guess, we wouldn't dare, you need to gain market share from the other channels. How do you do that? You compete by being better in your own marketing, being better at communicating your value proposition, and by improving your value proposition. That's really what increases your overall share.

The other thing that you have the can-do is you can foster more competition on your own marketplace so that the players that focus more on volume growth are picking up more share, but there are not really activities in there. They wouldn't be good anyway.

It's always good to improve your product and improve your value proposition. It's always good to improve your marketing efficiency and your communication. It is a lot of work to diversify your advertiser base and we have been focusing on that for quite some time.

The long story short, in the short term, there are not that many things that you can do to counter this kind of strategic shifts. In the midterm, there are a lot of things that we are doing to improve the business step by step.

In the short term, what you can do is you can decide on the right balance between revenue and profitability development. That is something that you continuously need to challenge. Do you have the right balance for the current situation?

Doug: Was this most recent, the second wave of adjustment around profitability targets, was this more of a surprise to you, given what you saw in the back part of last year? Could profitability targets be adjustment even further going forward? How do you know where you are from some of those large advertisers?

Axel: Could they be adjusted further? Yes, both up and down. That's the reality. In terms of down, the drop in volume will hurt whoever is bidding down and, obviously, the greater the degree, the greater the drop in volume is and the greater the absolute contribution profit that is lost. Both are absolutely possible.

That's why we said on the earnings call, we are, in our guidance, assuming the current level, but you can't really know. It can be higher, it can be lower. Again, in the short term, you can't really control it. What you can control is the trade-off between revenue and profitability.

Doug: Let's shift a little bit. Just as you're operating under that environment, you talked a little bit about trying to diversify the advertiser base. Can you talk about your efforts there? In particular, what does it take to get the hotels direct to spend more money with you?

Axel: In terms of diversification of the advertiser base, there are many things that we've been doing for quite some time, and we're just really a step-by-step process. It is signing up more advertisers, and that's both on the smaller OTAs hotel chains level, but also on the individual hotel level.

If more importantly, it's offering the right tools to the advertisers, and their express booking is a conversion tool, and automated bidding is a bidding tool that mitigates disadvantages in terms of data availability and bidding technology.

It's really advertiser by advertiser that you move to these products. You have an incremental positive effect. The other lever that we are working on -- and that's why we talked about it end of last year quite a bit -- is, obviously, alternative accommodation.

As I said earlier, there is a clear need and value that is created for the users by offering a more diverse accommodation universe. We are there, gradually increasing visibility and making sure that we can deal with that change in entry composition.

That, as such, is obviously increasing competitiveness of the marketplace, A, because you have got more inventory to display, which adds to competition, and because you've got more advertisers competing for specific cities and searches.

Doug: Just on alternative accommodations, what's the early learnings around the integration of HomeAway inventory?

Axel: Overall, we are happy with the overall project. There are a couple of things that you need to consider. Alternative accommodation as a term is very broad. Like with hotels, where you've got small, mom-and-pop five-bedroom and this place here, in a way, they're both called "hotel," but they have nothing to do with each other, completely different.

Alternative accommodation, obviously, is similar. If you have an apartment that is rented out in a huge resort, where you've got full facilities, etc., that is very different in terms of economics than my own apartment that I'm renting out for two weeks over summer.

It is quite a spread. You need to be more granular, looking at it and managing the different soap buckets there. The second thing that is important is to understand what is really relevant. In a way, not different to a normal hotel search, "Which hotel is relevant for you specifically for this specific search?"

You've got more data on hotels than you have on, in particular, the long tail on alternative accommodation. It's just more difficult to assess whether a specific accommodation is relevant for you.

That's the key thing that we are working on to make sure that we display something that is relevant and don't just expand the results list exponentially, because that doesn't really add that much value.

Doug: Just in terms of numbers, you talked about 2Q being difficult with RPQR headwinds, tougher comps. As we look to the back part of the year, you obviously start to lap some of that initial impact, post-relevance assessment, and advertiser efficiency changes. How should we think about growth as you go through the rest of the year?

Axel: The guidance, we provided end of April, and set an adjusted EBITDA loss of $25 to $50 million at stable revenues for the full year, which implies that there is a positive revenue development the second half of the year.

If you look at that trade-off, where is that coming from? If you look at quarter-over-quarter development or year-over-two-year, there is a significant easing of comps. With same underlying trend, you will automatically basically have a significantly better growth rate in the third quarter.

The second thing is that some of the initiatives that we've been working on for quite some time should have an effect at some point in time in the second half of the year. As a result, we are expecting at that level of loss a stable revenue development for the year.

Doug: 2Q you would say should be the bottom from a growth...?

Axel: Unless we change our trade-off between profitability and revenue, which is always possible. In that case, that is not necessarily true. Obviously, that would come in return for improved profitability targets.

Doug: Those initiatives, just so I'm clear, the top three things that you think about that can start to impact more in the back part of the year? Diversifying advertiser base, Express Bookings, what else?

Axel: The initiatives where we should have more visibility this year are...alternative accommodation is one. The diversification of our advertising channels is another one.

The improvements coming from the investments, in particular, last year but also this year, in terms of revamping the back end of the product that Rolf was talking about in the earnings call, should have an impact this year as well. There are obviously many more. Just picking three, those would be the three ones that I would pick.

Doug: I've got some more questions. If there's any out in the audience, happy to take some. Just go up here.

Audience Member: What does it take at the EBITDA break-even in terms of revenue, volume growth? What's the liquidity position to fund that?

Axel: Your question is, "How much revenue would we lose if we want to break even immediately, basically?"

Audience Member: On the cost of revenue side, there are a couple of ways that you can grow revenue and gross margin and cut costs. If you didn't have any cash in the balance sheet, what will you need to do to get break-even?

Axel: OK. Thanks for clarifying that. That's what we had before we went public. We were running the business on a break-even basis. What basically happens then, if you have a change in commercialization, up or down, it's almost like moving your growth trajectory in parallel.

If you then reinvest everything, if it's going up, you accelerate your growth rate because you can afford at the margin to spend more, obviously, on marketing and on customer acquisition. If it's going the other direction, obviously, your marginal spend is becoming more unprofitable. You need to reduce that to come again to a break-even level.

Mathematically, if you would always want to run break-even, if you look at Q1 there, obviously, we're not at break-even. That implies that you need to reduce marketing spend to then hit break-even.

Audience Member: You guys have, literally, hundreds of marketplaces, the way you have advertisers competing in them. Ideally, you have aggressive advertisers in each one of those markets. Obviously, you have two clients that are aggressive in most of those markets already.

Can you talk about the places geographically where you feel like you do have a robust marketplace, where there's other players that are very aggressive in those markets? Places where that still needs to develop? Thirdly, the places where you are seeing an improvement in the diversification, where there's local players that are getting more aggressive?

Axel: Yeah. For that, I would need a long answer. Let me try to summarize it a bit. In general, if you look at Europe, you've got one very strong player. You've got a lot of regional OTAs in most of the European markets. There is a lot of competition. You've got the global players, obviously, with very strong positions there.

If you look at North America, that's very similar. If you look at Asia, you have got, in general, stronger positions and market-leading positions of local players a lot more. You have that in the developed world. Slightly different market dynamics there.

In particularly smaller markets and very small markets in the rest of the world, where there are just not that many players that are investing into the local currency, into the local payment integration, etc., where there are just very, very few advertisers, dynamics are indeed very different.

Broadly speaking, if you weight it by revenue, you have got a decent local competition. That is why on the overall platform, you have, not exactly but approximately, one-third, one-third, one-third. Overall, the industry globally is heavily concentrated.

Doug: Just a follow-up to that question, India is a big market. It's a fragmented market. It's pretty wide open. What's the potential opportunity for you there? What are you doing there?

Axel: It's a very interesting market. We are very active in India. I'm not sure how much to say about it. It's a market we are excited about, where you have a lot of local players and where there's huge growth potential.

Just as a nice side story, one of our employees is now our local spokesperson, which was really a coincidence. We were just testing something to advertise in a local dialect. It was so successful that he's now on air regularly and is becoming pretty famous. Yeah, it's definitely a market that we focus on and that we think is very exciting.

Doug: Just a couple of quick follow-ups also, the enterprise software product for hotels booking, tried that. It wasn't really profitable. They dropped it. I'm assuming that's not really going to be happening for you. I just wanted your comments on that.

Is there a possibility for you to do a line extension and to experience it? It's really hard to navigate and find a lot of different experiences when you're looking. It's a fragmented market. It might be hard to line up people. What are your thoughts on that?

Axel: You're referring to our property management system, Base7? It's small, but we think it's an important part of our overall offering towards individual hotels. There are no plans to discontinue it, but on the contrary, to grow it further. It's not a significant part of our revenue.

In terms of experiences, I agree with you. It's an interesting sector. On the other hand, we believe very much in focus. Particularly, when a lot of things are changing, it is very dangerous to lose focus. We are currently very focused on what we are doing. We have got a good pipeline of projects that we are working on.

I don't think that it would be wise to defocus us in the current situation, to look into other things. What you are mentioning would be one, potential opportunity, but for now we believe that focus is much more important than additional opportunity. There are still so much opportunity in what we do today.

Doug: What's the right way to think about your level of visibility into the business? We've seen these changes and fluctuations over the last few quarters. How far out can you actually see, and as a result of conversations and discussions with some of those large advertisers, can you get any level of comfort around that?

Axel: Yeah. It's not like in the automotive supplier world where you design into the new golf and then you know what your revenue is, basically, for the next seven years. I would say, in general, it's OK unless there are these parallel shifts in profitability targets. Unless somebody tells you about that ahead of time, you don't have visibility on that.

As a consequence, you can't factor in the potential effect that that may have on revenue or profitability or both. Under certain assumption, the visibility is OK, but then, factoring everything in, more limited on that regard.

Doug: Can you just update us on the headquarters process, where you are, their timing and everything?

Axel: Yeah. With real estate, you always have to be careful until everything is really done, but we're getting very close. If I may, more correctly, we will move still in June. There's a relocation plan already and heavy discussion about what exactly is happening when. I'm very confident that in summer, or for sure after summer, that will be in the median half.

Doug: Just going back to your comment, you're talking about 2Q, you think, would be the bottom unless there's a shift to a more profitable focus, in which case you'd be willing to sacrifice some growth, I guess, spend less on advertising as you suggested and focus more on profit.

Historically, as you said, you've always wanted to run around a break-even level, but I'd say prioritizing the top line...What is the likelihood that that philosophy is changing for you going forward?

Axel: When you look at Q1, we said, "OK, the key objective for Q1 is to stabilize the business," because we've seen in Q3 and Q4 how damaging high volatility can be to the business. We achieved that, but we achieved that at a price. The negative adjusted EBITDA was quite significant.

There is a price for that stabilization, which is strategic flexibility. The greater the losses are that you're running, the less you can react to things that might happen in the future. That is what you need to balance and it's not that easy to balance that.

As a private company, it was easier because that option didn't exist. You had to balance it in a way that you could just spend the money that you have and not more. One million more loss is definitely more painful than one million less profit. That's for sure.

Doug: Anything else in the audience? One more.

Audience Member: You alluded to the addition of alternative accommodations is becoming a search challenge for the product. I'm curious just for our sake, what specifically is driving the difference?

Is it that you have fewer variables on the long tail of alternative accommodations as different variables? To what extent can you solve it by building a better search algorithm? To what extent do you need to go collecting more data from property owners or to what extent is it always going to be a disadvantage?

Axel: In a way, alternative accommodation versus hotels is a bit artificial from a search perspective because you have got certain alternative accommodations that are, again, in resorts, etc., that are booked a lot. You've got a lot of them that are very comparable, so you know a lot about them.

Whereas if you got some hotels that are so tiny, bed and breakfast in the middle of nowhere where you've got hardly any information, there's very little revenue for that specific property, and as a consequence, it's not managed that well online, etc. The long tail will always have a disadvantage and the long tail, as a consequence, can...

There you need to be sure that it is relevant, and that is just more difficult. There are scenarios where it's quite easy. If you have got a trade fair, everything that is relevant that has a bed and where you can stay, but is a certain type of alternative accommodation relevant in New York when you've got 400 hotels available, that is more difficult.

There are two dimensions as you rightly say. The better you understand and can set parameters for the individual property, the better you can assess the relevance of that specific property because you can understand it better automatically. The second dimension is, the better you understand the specific search request by the user, the better you can match it.

There is a lot of work to be done on both dimensions and it will not happen overnight. That's why, as we said, clearly, it is more a step by step-by-step integration. It doesn't really make sense to flood the platform with millions and dozens of millions of properties if you don't do that work in parallel.

Doug: Great. We're going to leave it there. Thank you Axel.

Axel: Thank you very much.
