

Company Name: Trivago NV (TRVG)  
Event: KeyBanc Capital Markets 20th Annual Technology Leadership Forum  
Date: August 14, 2018

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

All right. We'll go ahead and get started. I'm Brad Erickson. I cover the Internet marketplaces here at KeyBanc Capital Markets and I still have all you here. Very pleased to have the CFO of Trivago with us today, Axel Hefer. Axel, thanks for making the trip.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Thanks for having me.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

These guys are amazing. They got up the plane last night and had a quick drink with us and some investors and then proceeded to go to the gym. Amazing, amazing. I can't – I don't think all of the investors at the conferences did that, so anyway.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Jet lag strategy.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Yeah, good. So why don't we just a quick update, you guys obviously print a results a few weeks ago. It's been maybe a little bit tough start to the year obviously some of your major customers have kind of pulled back from the action a little bit pretty, pretty publicly and all of this very well known. What would you say at this stage of the game what our – maybe not so much what investors are missing, but what's message for in terms of the market outlook for this year. You guys have sort of muted the cash burns. You talked about rebalancing, which is basically pulling back from marketing spending. What is for go forward? What are you leaving investors with most importantly for your business right now?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

So what is important for us right now is obviously – is really that the rebalancing of the change that we're currently implementing. So any – when you look back the business has other than the initial funding of €1.4 million, always self fund itself. And we were very, very focused on reinvesting basically everything that we are making. So there was a very, very strong focus on revenue growth. And that is what really drove the company from small German business really to global operations.

And I guess what we saw over the last couple of quarters that would significant changes in the marketplace and also in the overall industry, where everybody seems to be much more focused on this profitability rather than the revenue growth. That is something that we can't ignore and we need to adjust. And this adjustment faces is obviously from an outside perspective, financial perspective important to rebalance really the revenue base and the profitability that is coming out of it. But also from an organizational perspective, it's obviously a change, because you just need to change a focus that you've had for a very long period.

And for us it is now important to basically implement that the change and we're on a very good track. And so far what we are seeing, we are very happy and commence that we are heading in the right direction. And basically after the recalibration than – focusing than on the revenue development again and growing from a small balance base in the future. From an investor perspective, that is obviously not without challenges because if you look at the year-over-year trend. It does the rebalancing takes some time obviously takes a year if you would implement that within one second.

And so we'll be – which I have a very clear view on the underlying business, will take a bit of time. And so we're going to require that a bit more work peeling the onion and some assumptions from the outside to look through the noise that is coming out of the yearly comps.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Okay. And then just as you talk about that's kind of hopefully return to growth at some point, does that maybe help us understand what you're seeing today that allows you to have confidence in that. And I mean is it going to more come from you guys being able to reenter the performance marketing channels and acquire new customers? Or is it more a function of your customers – your advertising customers and users on the performance marketing channel? Or is it your advertising customers just reentering the auction getting more active there, which of those dynamics is kind of most important.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

So I think the first of all there is still fundamental growth in the industry. So there are more and more people still using online products and the market is differentiating. So that the different value propositions of the different products is getting clearer and clearer. Not only on the product side, but also on the user side, user understanding the different value propositions better. So for which is Trivago better for me than booking on Expedia, et cetera. I mean that is what people find out the more they actually use the products and the more sophisticated they become in online travel.

And so that's – that definitely a tailwind for growth for everybody. And then the question is really how do you develop your own value proposition. And do you expand your relevant market segment and do you improve the value proposition for the relevant market. And they are really one of the big posts that we saw that last year where we are making good progresses to widening the each of the product into alternative accommodation. I mean we are now at more than 800,000 properties that are life on the platform. And as we said we are very disciplined and gradually

increasing the visibility to make sure that still the overall product does work that all algorithms in the product do work and can digest a different mix. But the value proposition is changing as well, because it can't more appealing to certain segments of the market being at large families being at very young millennial travelers.

And so there is definitely an extension of all value proposition. And we think it's a value proposition that is ideal for a metal player, because if you haven't decided before your trip whether you want to stay in a private apartment or vacation rental or a resort for an hotel, you have to use a product that compares all of the different offers in one. And particular year I mean you might trade off one against the other, because experiences actually almost identical.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Yeah.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

And so that's another I'll say trend that is fundamentally helping us. What is an overlaying that and that's what I mentioned earlier is obviously if you have a significant change in your marketing activities then that is then obviously having an impact in the short-term clearly. So you can't see the underlying trends that easily. And that's what my understand is obviously challenging from the outside currently.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Yeah. Got it, okay. And then talk about the alternative accommodations you mentioned, are you working with all of the major players or most of them. And or is it just Expedia as kind of your main partner. And then secondarily, talk about the spending trend there, because obviously hotels pretty big pull back from the OTAs, but talk about alternative if you had them pack that piece of it.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

So no, we don't – we worked with various different players, but we haven't gone out and just signed up everything that also wanting to be signed up. Because in a way what we think is if we sign up a partner, the partner obviously expecting if you can traffic. And we are still in the phase where we are gradually increasing the traffic. And as a consequence that is not really the focus. The focus right now is really the gradual increase and the testing through of the various different components. And at the right point of time, we will – as we've done on the hotel side as well. Contract basis everybody and then sign up everybody that is relevant in the industry.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Yeah.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

So I would say we're in an advance testing side. I want to say so, but we're making very good progress.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Got it.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

And in terms of auction dynamics are slightly different when you look at alternative accommodation, because you have a lot more unique accommodation at this point in time. So when you look at the auction, the vertical element is much stronger. So that you decide between your inline department basically versus the different players that are bidding off for the same hotel. It's slightly different dynamic and I would say it's too early to say, is there any fundamentally different trend than was the OTAs. If anything is more positive, because we provide to the alternative accommodation provided as well is a user base that is considering very different auctions, where if they attract directly obviously a larger share of users that just consider their accommodation type is an option.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Yeah, yeah, got it. I want to talk about the I guess what we call the regional landing page controversy a little bit, one of your larger – largest customers obviously had a little different view than some of your other customers to how they – how traffic would arrive and how they would then shop after you had referred them the user. Talk about I guess two things on that, one, what have you kind of learn from those discussions into – what are you saying other large OTAs outside of your largest customer do with respect to the landing pages and how you advise them on that?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Yeah. And that it's a complex topic, but one of the – from an advertise perspective, one of the key differences is that the size of your offering is relevant. If you have a regional page versus if you have the hotel landing page. If everybody is on hotel landing page, you as an individual hotel owner as basically exactly the same experience than a small OTA, a large OTA, a small change, a large change. So the size of the inventory is not really giving on that, whereas if you have a landing page that as a regional alternatives, you're having that, if you have got more choice and your comparison is high, give more choice.

And so that is something that I mean not invented by us, that's the natural initially coming with that design, which explains also why certain players are more in favor of regional pages than others, clearly if you've got an advantage in inventory in certain regions than you've got an advantage if everybody would use that design. And there's obviously a natural conflict of interest there, because we want to offer the widest choice and in the industry and allow everybody to be competitive and have a fair shot at the auction. And that's why we implemented

the relevance assessment and that reason walk through two years ago and its still true, is there some embedded conflict of interest, yes.

I think that's normal in a lot of supplier customer relationships. There are certain aspects that are not – where you don't have the same interest and there are a lot of other aspect where you've got a common interest and that's what you need to focus on. And the auction has been pretty stable for quite some time.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Yeah. So I guess just curious why certain customers prefer the alternative to the regional landing page ultimately though, maybe just if you could...

<<Axel Hefer, Managing Director & Chief Financial Officer>>

From an user perspective.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

No, no, no. Sorry, for your advertisers.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

So if you have an invention disadvantage then you don't have any interest of anybody being on the regional landing page.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Okay, okay.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

You would want everybody on the same landing page they've got.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Got it.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

So that you don't have a disadvantage.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Yeah, yeah, sorry.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Exactly the trip side of it.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Okay, okay. I'm happy to take any questions if anyone has any of that exhausted with obviously.

Q&A

<Q – Brad Erickson>: Talk about the data that you're getting particularly like any downstream quick data, what you're learning from that and how you're able to sort of use that in your process.

<A – Axel Hefer>: So we've had for quite some time visibility off slightly more than 50% on our traffic of a full visibility down to the booking. And what we do with that is, we extrapolate that to really manage the business. So when we introduce the any attribution model in the end of last year that was one of the key changes there where we moved from the focus of our short-term revenue, which is basically the click out to really the fundamental value that we are generating for our advertisers, which is the ultimate booking. And that's I mean very important data for us, because that's what we really optimize all business for. So yeah, it is a very important part of the business.

<Q – Brad Erickson>: I guess how do you think about it driving pricing in the auction or does it – at all does it have any effect there. And clearly your advertisers are evaluating ROI at all times and updating spend, but how do are you guys able to use that at all.

<A – Axel Hefer>: The fact is slightly different. I mean it is used for product optimization. So that you optimize the product really for the end-to-end experience of the user, which creates more value I guess for everybody. So that's obviously very important. The other one is really in our marketing activities. We want to focus on spending marketing dollars on user that ultimately create value for our customers as well. And there – its just be more important, obviously.

<Q – Brad Erickson>: Got it, okay. And remind us, what is the sort of composition of your traffic today between direct pro forma branded search...

<A – Axel Hefer>: Yeah. We haven't disclose it for quite some time, but the data that we disclosed in the past, so it approximately 50% branded and 50% non-branded. And our definition of branded is that user wants to do the search on us. So that's ad traffic, that is content marketing traffic, that is branded at the [indiscernible] (14:58) traffic and that's obviously direct to the home based traffic.

<Q – Brad Erickson>: Got it, okay. And any meaning for organic component there, I mean, is organic...

<A – Axel Hefer>: The organic search, that is for us not part of branded. And why is that because if somebody is using Google to search for something. They are searching a Google, I know they're not. If we then get some traffic for free, that's good. But it's really the user is using for contract decision, Google. So it's not really our user.

<Q – Brad Erickson>: Okay.

<A – Axel Hefer>: Google's user.

<Q – Brad Erickson>: And talk about just performance channels in general, lately, which ones are most useful, which ones are less useful.

<A – Axel Hefer>: I think the biggest channels are obviously adverse and Google hotel apps, are the most relevant channels. There are lot of other channels that have high potential, all kind of online video, channels are obviously growing.

<Q – Brad Erickson>: What about that, I mean, the social media channel is obviously. Are those useful to you or...

<A – Axel Hefer>: They're also interesting. But they are not as developed as the other channels, and I guess, the key thing there is – we need to have some kind of intense signal, because the traveler frequency is not that high. So just to market to somebody who might travel in six months is not very efficient. So you need to market to somebody around the time, where he is actually thinking about, where he wants to travel and what he wants to book. And that's obviously an advantage that Google has the product naturally, if you just type something in you gather an intense signal, which you don't get or you don't get as easily and have clearly for lot of the other channels.

<Q – Brad Erickson>: Got it, okay. And maybe to good to step back, talk about some of the things you've built over the years in terms of your attribution. I think that's one of the components, right, everybody know, you've guys probably on the TV commercials that Trivago's well known for, but I think you guys do some of the probably better attribution around brand advertising in the space. Talk about, how you built in kind of what goes on there a little bit.

<A – Axel Hefer>: Yeah. So I think that's really something that that differentiates us from a lot of other – most of the online players and we have historically always gone into market very early with TV and TV is in very, very big channel for us everywhere. And what that has led to is that we have developed a lot of own tools and capabilities around the whole process. So we pretest creative ideas, we do significant part of the creative production in-house, where again, we can test interims that we are currently running various different creative globally to test, which one is working better, how can we find tune it. And then adapt it directly internally in-house. Go to another market, run other test.

So it's a system that allows us to – from the idea to the ultimate broadcast for a specific audience to continuously test and find tune. And that is something that everything can be replicated by

everybody. But it can take sometime to build. And then, obviously, for every step you've got dedicated tools that you develop, how do you do a very efficient and cheap pretest, how do you then manage to the campaigns in, I think currently 50 markets, around 50 markets globally was various different channel, how do you do that in efficient way that you make sure that you have the right path for the right audience, et cetera.

So they are definitely a lot of tools there. And I think the most important thing is just a focus area for us. And so tools can be replicated, but if you focus on something, you put a lot of effort into it with a lot of experience in it, and obviously your tools are continuously fine tuned and optimize. That has certain advantage and that advertising for.

<Q – Brad Erickson>: Yeah. And has this effort sort of improved in the last couple years, just with AI and the ability to do some more, we'll call it, robust modeling around that. Or is this something you guys have kind of always done in processes are generally...

<A – Axel Hefer>: No. We're continuously optimizing the tools, I mean, more tools in there. And so, but overall, our philosophy is more optimizing and smaller steps rather than bigger steps. And so I would say, it's more a flow of continuous optimization rather than radical changes coming in.

<Q – Brad Erickson>: Got it, okay. In terms of geographies, I think about – whatever the businesses split pretty evenly about 40% Europe, 40% Americas and then kind of 20% rest of world. What are the growth differences there and just maybe any of the nuances going on? Just curious specifically around what's going on in Europe, given the activities of, again, your largest few customers.

<A – Axel Hefer>: So, I mean fundamentally, obviously rest of the world is growing faster. Because the economies are growing faster, you've got emerging middle class in a lot of these countries, et cetera. But also because, we have entered a lot of these markets most recently compared to the other markets. So there is definitely catch up effect and also fundamental strong growth underneath, that's clearly the case. In Europe and in Americas, we – our brand recognition is very high, we've got strong market position, a lot of people have used us already. So this catch up effect is not really there to be honest.

And so there is just not so much about further building the brand is more about educating the user. What I talked about earlier what actually is our value proposition. And how is the value proposition different to the value proposition of the other players. And for what kind of surge or what kind of trip is our value proposition actually superior to the value proposition of the other players. And that's something that that is ongoing, but there is a long way to go.

<Q – Brad Erickson>: Okay. And then I guess just curious, I think you pretty much said on your last call that for the time being you're seeing bidding trends generally persisting or kind of stabilized. I think is the word that you've used. Maybe any particular call outs where you're seeing better or worse between Europe, Americas and rest of world. I understand the growth rates are different, but on a marginal basis, are you seeing any sort of nuances in there.

<A – Axel Hefer>: I mean, they always different in five markets, but if you look through it over a longer period. I mean, not really, you've got the large players, basically in most of the relevant markets. I mean, there – I mean there're – also historically there are always some ups and downs and I guess the key question is more, how long well players focused more profitability versus growth. And then what point in time is growth becoming more important again in the industry was well that automatically change the trade of and there bit and improve all commercialization.

<Q – Brad Erickson>: Got it. And how, I mean, for you guys how do you think about that. Clearly, you reacted to kind of how your customers pull back from the market and it made your own done your on both tightening to reduce some of the losses, but like given you've run the business historically to kind of that breakeven point. What is the future hold from that perspective for you? How do you think about that?

<A – Axel Hefer>: Today, we get to say and all – because it's sometime in the future, for us right now, the most important thing is to recalibrate and have a solid base starting point and then growth on there. And define that, that right calibration is now step one. And then what then exactly the right trader for the growth trajectory is and growth versus profitability improvement. I think that's something that that we will assess at that point in time, was the market dynamics at that point in time. Clearly, it's another trade off, but first step.

<Q – Brad Erickson>: How do – and I guess, when you talk to investors, where clearly visibility has been an issue. How do you help them get comfortable with the visibility or lack thereof that has existed in this last two, three, four quarters.

<A – Axel Hefer>: Yeah, it is a challenge, obviously. One thing that could do as you can look at quarter-over-quarter development, because there any fundamental changes you can see much, much faster. And we've done that and some of our last earnings release is gaining some quarter-over-quarter developments, because an idea how to model. And that's definitely an important data point to get some idea and look through some of these fundamental changes. Because of the only look at year-over-year and takes four quarters for any fundamental change to lap. And so it's just not responsive enough in a way as a modeling. So quarter-over-quarter definitely is very helpful.

<Q – Brad Erickson>: Got it. And as you've seen this call it a cooling of the auction over the last few quarters, I think hotels act any differently. And how the hotels doing or is it still sort of OTA driven and the share gains coming there.

<A – Axel Hefer>: The, I mean, hotels are active players in the auction, clearly. But if you look at just the shares of the different players, obviously, any significant change in the auction dynamic is coming from the large players in the auction. And so, if you look at the auction currently, still the large travel groups account for the vast majority of the revenue.

<Q – Brad Erickson>: Okay, okay. And just talk about any diversification you can sort of drive to the advertiser base over time. Or is it something that's largely going to remain pretty concentrated amongst, do you have big advertisers.

<A – Axel Hefer>: I mean the – I would say, over the next couple of years, it's likely to diversify more. And the big levers are, I mean, obviously the hotels. And it's really hotels chain by hotel chain. Question on how fast they move. And we can support it. But we can't control it, obviously. Alternative accommodation is already diversifying the auction and we'll continue to do that. There you've got obviously different players, partially overlapping, partially different players that are relevant and are very strong position. And also looking into the rest of the world, there are a couple of local players that have global ambitions. And again, we'll not happen tomorrow, but overtime, it's likely that they would become more active in the west as well.

<Q – Brad Erickson>: Got it, got it.

<A – Axel Hefer>: And so, in a way everything that we see there is more of a tailwind, but you can't control the timing of it. And that's not our current situation, very important to focus on what we can control. And the shorter and bit levels of certain industry, but there is a time, you can't control that is just – that's part of the business model that you can control lot of things.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Got it. Cool, I think we're just about out of time. But Axel, thanks again for being here.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Thank you very much.

<<Brad Erickson, Analyst, KeyBanc Capital Markets Inc.>>

Good conversation.