

trivagoNV

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Lloyd Wamsley: Thanks everyone for being here. Excited to have Axel Hefer here, CFO of Trivago. We'll start with just some questions I asked towards the end, we'll open it up to the audience in case you guys want to ask anything, but Axel thanks for being here.

Axel Hefer: Yeah, thanks for having me.

Lloyd Wamsley: All right. Well just starting in a big picture, give us an update of kind of where you are at Trivago now and kind of maybe an outline of what some of your top priorities are for the next couple of years for the business?

Axel Hefer: Yep. So I think the -- where we are currently, we, in the second quarter, changed our marketing strategy and, let me rephrase that, decided to recalibrate our overall spend level in the industry and adapt it to the current commercialization levels that we'll see in the current market reality. We started to make these changes in the second quarter and obviously are now in the third quarter working on implementing those across the business or the markets or the marketing channels and so far very happy with the direction that we've taken and that is obviously something that will be a focus for a couple of months to come.

We take a slightly longer time horizon. There are -- one big project and one big focus for us has been for more than a year alternative recommendations so we increased significantly the visibility on a lot of platforms already and continue to increase the [stability] and at the same time, solve some of the challenges that are coming with it and make sure that the overall business is not hurt by a significant increase obviously in long-term [inventory]. Other than that, it obviously continues optimization of the product making it more convenient, more usable, increasing overall the functionality, improving the effectiveness of our marketing, but also that is more incremental and more business as usual but one big focus is clearly (inaudible).

Lloyd Wamsley: Okay, well look, there have been a lot of questions from investors in general on what's going on in this space. We've seen some of the biggest players slowing down and it

seems like everybody is increasingly focused on efficiency and margin. So how would you characterize the state of online travel and what are some of the driving factors behind what seems like an industry-wide shift?

Axel Hefer: Yeah, I would agree to what you said, there is overall greater focus on profitability not only with us but with the other leading players as well and I think the way we are looking at the market is, I mean, it's almost like (inaudible) development and so there are times where we focus more on profitability and there are times we are focused more on market share gains and from our perspective obviously the times where everybody is focused on market share gains are better given where we sit in the overall ecosystem and we are comfortable that those times we'll come back and [enter]. The reason why I'm saying that is that, if you look at the industry structure, it is not a structure where you would say, it will not change over the next five years. I mean, there is for almost every player in the industry, there is a strategic interest and need for more scale and that at some point in time, will automatically lead to a situation where the battle for more scale will reignite.

Lloyd Wamsley: Okay, and do you think any of this is just a function of saturation in online penetration in the leisure markets? Do you think there's still meaningful room left to move travel bookings online or do you think the bulk of it shifted, is that part of this?

Axel Hefer: So, I think the market is obviously a lot more developed than it has been five and ten years ago. I think that's clear and it's becoming more and more developed or even mature over time. I think there is still room for offline to online migration but obviously every year that potential is coming down and the percentage clearly because the base is increasing but also as an absolute opportunity. But having said that, that doesn't mean that there is not any interest for every individual player to really gain share from the others. And so even if the overall growth rate is coming down, the strategic objective of everybody is to reach a certain strong position in the market and I think not everybody is where he wants to be. So I think one is obviously (inaudible) the other but they are [partially motivated].

Lloyd Wamsley: And I guess when you look at aggregate OTA marketing spend, is that something you think is likely to grow as we look at out to 2019 and 2020? Do you think that the general marketing spend is going to perhaps accelerate next year after these companies just kind of reach some of their base marketing plans?

Axel Hefer: I think it will accelerate at some point in time but predicting the timing is impossible and I guess it's something that we can't really control so it's nothing that we spend too much time on.

Lloyd Wamsley: Right, right.

Axel Hefer: But I think overall it is likely that it will reaccelerate at some point in time.

Lloyd Wamsley: And as you all look to kind of diversify your revenue concentration, you know, away from big OTA to smaller OTA, hotels, different accommodation types, what are some of the things that you guys are doing to drive diversification?

Axel Hefer: I mean the -- if you look at the structure of our marketplace, I mean it's obviously not too dissimilar from the overall market strategy so there is a high level of consolidation in the

industry in many, many markets and us running a global business globally even more so. What we can do is obviously we can work together with all of our customers and help them as much as we can by providing tools as we have done in the past, integrating them on our automated or express booking and trying to help them to become more competitive. Having said that, with all of these efforts, we will not create a structure in our marketplace that is significantly different than the overall industry market, market structure. But at the margin, obviously, I mean that's what you can do and therefore we are doing.

Lloyd Wamsley: Looking at the auction dynamics, how would you characterize stability right now. You saw the biggest pull back last year and I think last quarter talked about seeing stability but then on the other hand we hear Expedia seems to be joining booking in this focus on efficiency, so are you seeing any real further changes in auction dynamics?

Axel Hefer: So, the overall auction I'll say it's relatively speaking stable currently. So no significant changes. There's always an up and down by the individual player so there's always movement but when you step back I wouldn't say that there's significant movements right now.

Lloyd Wamsley: Okay. Looking at some of the things you all have been doing to improve your own traffic quality and optimize for the downstream booking, you know, can you talk about how that -- maybe give us a little background on that effort and kind of where are you today there?

Axel Hefer: And so there are basically two big levers that you can pull. One is the marketing targeting and so what kind of traffic are you targeting and there we started to roll out an attribution model that was more targeted towards the booking and the booking conversion rather than really the click-out conversion that we focused on more before. And the other one is an optimization of the Website or the product as such to increase the booking conversion as well and as a consequence obviously the traffic quality to our advertisers.

And both have had a positive impact on the business and even if we don't report the traffic quality separately, I mean you can see that in our Q1 and Q2 numbers, particularly in Europe where you don't have currency, we said that we had a double-digit drop in commercialization but the [RPQR] was relatively speaking, stable, and if you take the commercialization and the other element of the [RPQR] is obviously traffic quality, so that means that we increase or improve the traffic quality double digit as well which is the result of the efforts that we've started a year ago.

Lloyd Wamsley: And as you take, you know, kind of another renewed focus on efficiency with the marketing and the shift to the profit focus, can you give us a sense of some of the things that you've learned over the last year in terms of the tradeoff between, you know, advertising leverage versus top-line growth as you pull back?

Axel Hefer: Yes, I guess what we are currently obviously learning is that -- is we are, by optimizing the spend across really all of the channels and all of the platforms, we get a lot more data points than we had in the past about the exact [specificity] and we are also running more extreme scenarios and more extreme tests that we hadn't run for a very long time and we have markets where we stopped TV advertisement, we have a market where we've stopped (inaudible) channels to get a better understanding exactly of what you're

referring to; the elasticity by channel at a very different level and that's definitely very helpful for us to really optimize going forward which in the days where we were growing 60%, 70%, we didn't really dare to do because obviously the cost of not doing anything are very, very high, if you have fundamental growth 60%, 70% versus their current environment.

Lloyd Wamsley: Okay, and then when you look specifically at brand spend, you know, you guys have been big brand spender historically, do you feel like you can slow that without a huge near-term impact or is the direct marketing nature of your approach to TV suggest there is like a pretty quick impact, did you scale back TV?

Axel Hefer: I mean, if you reduce your marketing spend I guess you would expect that to have an impact on revenue, otherwise you would have just wasted money before. The question is obviously how much revenue you're losing by reducing and optimizing; that's I guess what we'll see in the third quarter results altogether.

The other element of your question is, does it really have a [shorter] impact on brand awareness and [unaided] and all of the market research, I guess, elements? So far we haven't seen any of that. Having said that, if there's an impact we would expect that to be visible over 6 to 12 months rather than immediately but so far there hasn't been an impact.

Lloyd Wamsley: And then you all have been expanding into a lot of markets geographically. Does the shift in profitability focus change how you approach some of the newer markets in terms of where you're leaning in?

Axel Hefer: It has an impact on the whole business obviously which doesn't mean that there's a one-size fits all approach. If we are seeing significant growth opportunity and a significant opportunity to build a very strong presence in new markets, obviously we'll continue to do that. And the answer, what kind of profitability we want to see in that market would be very different to a market that is already very developed and very mature. But still there's a margin and it has an impact on the overall business.

Lloyd Wamsley: Okay. And then if you look at the non-hotel accommodations market, you know, are you seeing the same profitability focus or is that a market where the people bidding are still looking for growth are perhaps less focused on efficiency?

Axel Hefer: I think the market is in a different stage and so that is a market that is growing much more penetration growth and that's obviously not offline to online but of the overall markets; it's a growing part of the market. And I think there the -- too early focus on too much profitability, it's strategically much more expensive, obviously there are economies of scale in that market as well and that's why I think the answer of the different players to that different tradeoff has to be different than in the hotel booking businesses.

Lloyd Wamsley: Okay, and then when you look at that business, what are some of the challenges that you guys have faced integrating that sort of inventory into the business and how have you kind of had to tweak your product to make it address that?

Axel Hefer: I mean, the biggest challenge is obviously to calibrate the -- to find out what the user really wants and what he's really looking for and I think they are -- everybody is still

working on that. We're doing that better and there will be probably years to come to make it better and better but to detect a rough intent, are you likely to consider alternative recommendation or not and what kind of recommendation are you likely to consider? That is obviously one very important element. That prediction obviously needs to get better over time. Another challenge is obviously matching, so to identify a duplicate inventory from different advertisers is more difficult than for hotels. Hilton San Francisco is clearly the same if you get it from two advertisers but obviously the names are not as standardized as for hotels or an apartment doesn't have a name [yet] so I guess it's whatever you call it and it's not necessarily the same on different platforms.

And then there are also a couple of [detailed] questions, how do you deal with, for example, properties that give you instant availability but not instant bookability, so where you get a confirmation email sometime, do you treat those exactly the same then if bookable apartments, don't you treat them the same, how do you factor that in? What is the user expecting? How do you deal with lower quality content, how it can enrich the content?

So, anyway, a lot of the questions that -- there's some new questions that are coming from the fact that you're looking at not professionally run clearly identifiable properties but smaller units. There are other questions that you have in the long-tail of the product side and on the hotel side as well. Content quality, etc., that are just more severe. And so that's why we said when we announced the HomeAway integration that we think it is important to integrate at the right pace and solve these issues on the way rather than rushing it and then presenting an incomplete product. That actually would be dangerous from our perspective because it would harm our existing value proposition rather than adding another value proposition to the existing business.

Lloyd Wamsley: And where are you in terms of inventory and non-hotel accommodation. You obviously have a partnership with HomeAway, where are you in terms of getting their -- what percent of their inventory is onboard and then you have broad participation from other key players in that space?

Axel Hefer: We've got more than one advertiser clearly and we are -- they're the same thing. We are gradually increasing our advertiser base to see whether there are new challenges coming up from slightly different inventory, different markets and different APIs, etc.

The latest number that we reported in the public was more than 800,000. So, it is uncertain if (inaudible) is already relevant but we are doing it in small increments to make sure that we don't break anything in the product.

So we think it's more a one to two year project rather than something over the next couple of months, it's not that straightforward but the improvement and value proposition we think is quite significant.

Lloyd Wamsley: What about some of the Asian OTA's, you know, looking at a more global audience, are you seeing more bidding from the (inaudible) trip in markets outside of China and is that something that longer term you think can help drive the auctions?

Axel Hefer: Yeah. I mean, they are, particularly in China, they are clearly advertisers with global ambitions and they're very vocal about it. And so I think over a longer time horizon, I

would definitely expect them to become more aggressive and push into the Western markets. And today I think their key focus is still on Asia and building an international business outside of China but in the midterm, yeah, I would be surprised if they wouldn't become a lot more active in the West and in certain acquisitions, I guess, indicate that ambition clearly. I think they are also -- it's a step-by-step approach and for us that definitely would be positive.

Lloyd Wamsley: And when you look at the markets over in Asia, there's clearly a lot more competition between OTA's, is that an opportunity for you guys to focus more on that market to benefit from just more competition and more focus on growth and is that something that you guys are thinking about or doing?

Axel Hefer: I mean, there are definitely markets that have a lot lower level of concentration compared to some of the Western markets, that's definitely true. And there are a lot of markets that we are very excited about but our own growth trajectory and also the overall opportunity. Yeah, so I think you're right.

Lloyd Wamsley: And when you look at going back to kind of the auctions and some of the big players taking efficiency, do you see some of the regional OTA's also taking advantage of that to pull back their own bids or are they trying to take advantage of that and gain share? What are some of the dynamics that you see with the regional OTA?

Axel Hefer: Yeah. It's difficult to generalize but I would say the main shift is really with the global OTA and there is an increase in visibility broadly from the smaller players. But if you look at the -- just the five of the different levers, 75% of the auction moving in one direction, it's very difficult for the other 25% to fully compensate, so net/net obviously it's still a headwind.

Lloyd Wamsley: Okay. Shifting gears a bit, Google seems to be rolling out more and more products in some ways faster and faster. One of which being their Google hotel ads. You know, you've talked about as a successful trial channel that you're starting to expand, how meaningful is it today, you know, what does the ROI of that channel look like? Do you think it's going to be continuing to grow in your ad mix?

Axel Hefer: Yep. So yes, we are happy with the tests that we've run so far and in the markets where we tested, one of them being the U.S. We have significantly increased our visibility and our attraction in the product which doesn't mean that we are fully rolled out neither internationally nor in our initial markets. So, we're definitely very happy with what we see there. I think there -- it's a channel that is very interesting for us and we are also happy with the profitability in the channel. So, it's really been positive.

And yeah, I mean, as a result we would expect [the banners] to become more relevant for us going forward, for the rolling it out.

Lloyd Wamsley: To go ahead and get a little bit [too in the weeds], curious, what kind of landing page are you guys using? Is it regional or hotel?

Axel Hefer: On Google, everybody uses regional.

Lloyd Wamsley: Okay. We've seen some third-party data out there that shows that in their metasearch

channel they send a higher percentage of traffic in HotelDirect. Is that something that -- is that data accurate, do you think, is this an issue for the whole space as Google just shifts more and more traffic into the metachannel?

Axel Hefer: Yeah. The focus -- So I mean the shift that they are showing there was before we were already active there so it's a bit difficult for us to say. I think what conceptionally is true is that the auction is different in Google hotel ads and in [network]. The breadth of the inventory is on Google [Hotel] that's obviously not relevant. On the other hand, the competitiveness of your prices is relevant. So, the competitive dynamics are different and conceptionally should favor hotel chains. So it's not implausible to see that but whether the dimension is (inaudible).

Lloyd Wamsley: Yeah, another question we've been wondering about doing work on is this Google One product which I would say for extra Gmail storage I got an email recently talking about the hotel discounts I can get alongside my extra storage on Gmail; a bit of a non-secretor but they seem to start be showing closed group deals. I've only seen it in the [wild] partnerships with small OTA's, but is that something that you think is likely to be meaningful, is that something you hear much about from your operators down in the channel?

Axel Hefer: I think what -- I mean, you're absolutely right, but Google is testing many, many different things and that's one of the many tests that they are running. Whether it will have legs and will be rolled out, I think that's too early to say. But there are many, many different things that they are currently trying out.

Lloyd Wamsley: Yeah, okay. And, you know, want to make sure the audience, if you have any questions, raise your hand, we'll get a mic over to you. I will keep going in the meantime but don't hesitate to pipe up if you have some questions. Turning to kind of some of the things that you all have been doing, can you talk a little bit about some of these experiments you've been doing with kind of different ad slots for OTA's versus HotelDirect?

Talk about those experiments, what -- where are they, what have you learned?

Axel Hefer: Yeah, so what we do is we -- if there is a (inaudible) that is submitted directly by the hotel, we give it slightly preferential visibility through color-coding and we tested that and that's overall positive for the conversion of that property and that's why we are doing it. And so, that's really -- I would say that's really the big thing that we are doing in terms of everything, preferential treatment. Other than that, we are being neutral.

Lloyd Wamsley: Okay, and then I think you've mentioned in the past, you know, you considered doing some partnerships in the ROW segment. How do you think about your shift towards, you know, profitability versus growth when you evaluate deals like that?

Axel Hefer: ROW?

Lloyd Wamsley: Rest of world segment, local partnership deals?

Axel Hefer: What do you mean by that?

Lloyd Wamsley: Yeah, it's -- you know, I understand you guys have -- maybe it's just, I think you all

talked about it at other conferences but hoping that -- get a little bit more color there but -
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Axel Hefer: Yeah, not sure I can say that much about it.

Lloyd Wamsley: Yeah, okay. Okay. Turning to long-term margins, what -- any update on where you guys see long-term margins in the business and kind of in the new world that you're in?

Axel Hefer: Yeah, I mean -- I think our view is unchanged there. The long-term margins are -- I mean, we said in the IPO, we expect to be 25% plus and that view is unchanged.

Lloyd Wamsley: Okay, and then when you think about the components there, is that based on a return on ad spend, kind of contribution margin, just core fixed costs? Any component that you would identify there to get to build to that 25%?

Axel Hefer: I think it's a combination of everything. So there's obviously more room to optimize our (inaudible) contribution margin, that's what we are currently doing and I guess that's what we want to show in the next couple of quarters.

On the overhead obviously there is fixed cost [aggression] with (inaudible) scale and there's also room to optimize there and so the different levers will contribute to an overall improvement in profitability.

Lloyd Wamsley: Okay, and any approximate sense of timeframe where you hope to get margins back in that upward trajectory and to that level, is that a three-year target, five-year, any rough horizons on that?

Axel Hefer: So I mean, our guidance for the second half is positive so that's the positive trajectory from our perspective from really negative in the first half to positive in the second half and I think that's where you really start with the positive trajectory.

Lloyd Wamsley: Yes, okay. And then going back to some of the data you shared around the time of the IPO, the business seemed to index pretty heavily towards business travel and weekend getaways more so than kind of longer trips. Is that still the case that you're over-indexing towards those and is there anything that you would like to -- would you like to change that mix, is that anything that you're looking to do?

Axel Hefer: Yeah, on longer summer vacations, for example, obviously a vacation rental will help because that is particularly for families, very relevant, and in a lot of cases a better offering and a more competitive offering. So I think that will definitely change the mix of the margin. But overall, we don't have any specific kind of travel that we would focus more or less on. So, we want to be a product that you can use for all kinds of travel no matter how many people you want to travel where and for what reason; you should find what you're looking for.

Lloyd Wamsley: Okay, and then any -- you know, as you think about the product, you've obviously started to focus more on non-hotel accommodation but is there any impulse to move beyond that at all and look at other segments like cars or package or flights or are you still laser focused on the accommodation side of things?

Axel Hefer: Yes, for now we are and I think it is in our current situation extremely important to be focused because there's obviously a lot of things going on. There was a lot of volatility in the business and a lot of ups and downs in the last 12 months. So in these kind of situations, we believe it is very important to be focused to run the business well. That doesn't mean that at some point in time we wouldn't reconsider and challenge our current setup which you always should do in a changing market, and actually rapidly changing market. But for now, we stay focused on what we do.

Lloyd Wamsley: And you know, we've heard from other players in this space that I think the combination of World Cup and just excessive heat this summer in Europe may have slowed the market a little bit. I'm wondering if you have any perspective on whether that impacted your business you think at all and then as the temperatures have kind of normalized a bit, any change in trajectory that you see in just travel in Europe in general?

Axel Hefer: Yeah, I mean for us obviously the situation is slightly different as we've started to implement -- start to rebalance really our business in Q2 so that is in the year-over-year comparison clearly dominating effect. So it's very difficult to see something there. Perhaps you see something, perhaps you don't see something. So, yeah, I mean I don't know. So we didn't call it out when so far and I'm not sure whether some of the OTA's have seen it or haven't seen it. I mean, we can neither confirm nor -- we don't see that.

Lloyd Wamsley: Right, okay. Okay, and then as Expedia, I guess the majority is the shareholder, as they focus on their five key markets to really improve the supply and the localization in those markets, you know, the first thing that an OTA does when they add new supply is plug it into a channel like Trivago and start to put dollars against it. Are you seeing in some of these markets where perhaps booking was one of the only providers of inventory as Expedia comes in with the same inventory and starts to bid? Is there some element where that can tighten up auctions in any meaningful way that you're seeing or that we could see over the next year or so as they implement this strategy more aggressively?

Axel Hefer: So you're right. I mean, there are not that many channels where you can, in a very targeted manner, get traffic for a specific property. So that's definitely something that we will profit from. Having said that, I think there are basically two [effects] where we benefit. I mean one is the direct effect which is in particularly the long-tail obviously for each property relatively speaking big. So if you have two bidders rather than one, it's a significant difference in the auction. But the long-term properties obviously are not that relevant for the overall business. So there's a small lever but a big, big change in a way.

I think the other lever is more indirect, there's more coming over time. With an increasing overlap in the long tail, I think, the Expedia will become overall more competitive because the overall value proposition would become more complete and overall increasing competitiveness in those markets will obviously be good for us and some other players in the industry because the competition would intensify.

Lloyd Wamsley: Yeah, okay. And then with the hotels pushing their loyalty pricing, how do you think about integrating that pricing potentially into Trivago and would it have to be closed group or could you kind of signal lower prices? How does that impact what you guys are looking to do?

Axel Hefer: Yeah, I mean, unfortunately there's no industry solution to that because every advertiser

has a slightly different view there but I mean, it's the right question and there are different approaches already. Some you display the [number right] and then a link it to the sign-up page. Some want to have a closed group but it's definitely interesting for us. Obviously the more diversity there is in pricing, the greater the benefit of comparing those prices. Some approaches are easier to integrate than others so that's definitely the case and it's something that the industry will need to solve over the next couple of years how to display these different rates to different users and how to deal with the price differentiation that is personalized.

Lloyd Wamsley: All right, well we're about out of time but Axel thanks for being here.

Axel Hefer: Thank you very much.

Lloyd Wamsley: All right.