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# EDITED TRANSCRIPT

TRVG.OQ - Trivago NV at Barclays Global Technology, Media and Telecommunications Conference

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Deepak Mathivanan** *Barclays Bank PLC, Research Division - Research Analyst*

## PRESENTATION

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

We're going to get started. So good morning, everyone. My name is Deepak Mathivanan. I cover online travel and SMID-cap Internet here at Barclays. We're super excited to have Axel Hefer, CFO of trivago join us today. So I have a list of topics which I want to cover, and then we'll certainly have time for audience questions. So, Axel, thanks for joining us.

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

Thanks for having me.

## QUESTIONS AND ANSWERS

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Great. So let's start with a big-picture question. Others on the metasearch space have been seeing some wide swings over the past couple years. What do you expect the environment to be in 2019?

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

So our expectation overall for the next couple of years is positive. And the main reason for that is that we believe that the value proposition of meta is actually broadening. Whereas, in the last 10 years, when we've built the business, the main value proposition towards the consumer has been to find a very good deal, either an additional hotel that you couldn't see on your favorite OTA, or a better rate by comparing for that specific hotel. That has been the key thing that we've built the brand upon and how we do it in the business. The value proposition that is now coming up and rising is to compare across multiple different accommodation types, which, by definition, is a more complex comparison, because you have more long-tail or ultra-long-tail inventory, and particularly, on the apartment side that are much, much more difficult to navigate. And as a consequence, the value that you can create by offering a tool to navigate through all the different options and comparing them side by side is getting bigger. So long story short, we believe that the value proposition is improving gradually over the years to come and that, that will lead to an increase in relevant market; and, as a consequence, we will benefit from that.

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**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

So talk about that in a little bit deeper way. What, from a product standpoint, do you need to do to kind of capture some of those areas? Is it an exclusive focus more towards long-tail inventory? Or is there something from a consumer conversion side that you can improve? What would be the product focus for the next few years?



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

So when you think about alternative accommodations, the key problem is it's not conceptually different. I mean, if you look at a very small bed-and-breakfast with 3, 4 bedrooms, it is actually very similar in terms of challenges to a serviced apartment that is rented out 365 days a year. But overall, the inventory is more long tail, and long tail inventory overall has the challenge that there's less revenue per location and, therefore, there is less focus on improving the content quality. Reviews are less frequent. So you have a lot less data to assess what kind of experience the user is likely to get. So you need to use less data to get the same proxies to understand is this a property that might be considered for this specific search, or will it not be considered. So it is not so much something that you need to change in the UX on the product side. It's more the logic behind that, how you actually select what to show and what to not show on which order you show it, which will require a lot of work, and we are working on it already. But that is something that will take some time to really bring to the level that ultimately is delivering the full value to the user.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. We'll address those topics in detail in a little bit, but before, a couple of other themes that I want to hit on. There is a view out there that says that travelers are increasingly combining compliments of travel booking, like hotels, flights, rental cars, into a single transaction. Now how do you think trivago can address that consumer behavior? Do you think -- is there anything that you can do from a product standpoint or a relation standpoint that's going to be an effort over the next few years?

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

I'm -- I can neither confirm nor detest that view. We are focused on one vertical, so we wouldn't be able to see that well in the traffic that we have on our website. From a conceptual perspective is users are more likely to use multiple products in one single search. Obviously, the players that offer all those different verticals would have a benefit. But I'm not sure that, that is really the trend or one of the strong trends that you currently see. If it would be a very, very strong trend, that would make it more attractive, obviously, to be multi-vertical and would give a greater benefit to multi-vertical and mitigate the negative effect of the multi-vertical, which is distraction on the product development and some conversion hit.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Oh, that makes sense. Okay, recently coming out of focus, right, there's some chatter that the macro-environment and travel demand is starting to turn and become a little softer. Are you seeing any of that at all? Should we think about 2019 from a consumer demand standpoint as something which is more moderate compared to 2018? What are your initial expectations?

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

For us, it's very difficult to see any of that, particularly in the third quarter, where the dominant effect that we see in our traffic is clearly the rebalancing of our marketing spend, which makes it impossible to see an underlying trend that is happening in the market. Whether the market is 1% up or down, we can't see because the shift has been so significant that it's just overlaying whatever has happened in the underlying market.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Got it, okay. Switching gears into the product front. On the last call, you talked about the new app design. What was the primary objective for it? And strategically, how are you trying to change the consumer behavior, if any, with this approach?

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

Yes. So the app was just an example to explain a bit better in a more tangible way what the direction of our product development is. And then in the past we have invested significantly in redeveloping our back end. And on the front end side, the direction is like in the app to reduce the



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click-outs that are not necessary and that are just happening because there is certain information that is relevant for your decision-making. So for example, we made a small change where we now display also the total cost for the trip, if you stay in multiple days or book multiple rooms, whatever. And that reduces the overall click-outs because they are users that are saying, "Okay, this is very cheap." And then they realize, "Oh, no, no, no. This was actually just for 1 night and not for 5 nights. So it is actually very expensive." And it does happen to a non-insignificant way. So that is optimizing the overall flow. It is keeping the user longer on our site and keeping the user on our site up to the point where he's deciding which hotel he wants to stay in. And that is strategically what we're optimizing for. There are no big changes but there are many, many small improvements that we are doing to the content presentation and the flow that will lead to a reduction in click-outs and also to qualified referrals, while keeping the overall transaction value the same or even increasing it, which is, in the long term, obviously, very interesting because it should lead to increase in retention.

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**Deepak Mathivanan** - Barclays Bank PLC, Research Division - Research Analyst

All right. And are you seeing like improvements in conversion from these initiatives at this time? How should we think about the cadence of these improvements over the next few quarters?

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

So technically, the click-out to book ratio goes obviously up because you take out non-converting click-outs. If you look at really the end-to-end conversion from somebody -- from a visit on our site to the ultimate booking, it is marginally positive for most of these things, but you don't have dramatic improvements. It's more -- the way to think about it is more -- it's a gradual improvement of the overall flow, which then, over time, will lead to an increase in overall conversion.

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**Deepak Mathivanan** - Barclays Bank PLC, Research Division - Research Analyst

Okay, that's helpful. And you touched upon alternative accommodations a little bit. You have over 1 million units. But drill down a little bit further. What type of inventory currently do you have predominantly? And does more efforts on the OTA side to go and capture a lot more of the long-tail of an inventory as it stands? So is there a priority for trivago to kind of service that as well? Actually think about the progress of inventory on the platform.

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

So the -- on the inventory side, it is, I mean, as we said, when we did the announcement last November, for us, it is important to gradually increase visibility, and it is easier to increase visibility in Tier 3 destinations where there's just little supply, if there are only 2 hotels and 5 apartments, you don't need to think about the blending that much. You just show everything, just to take an extreme example, which is obviously much more challenging in Tier 1. So if it is one of the 20, 30 apartments that are relevant to your search when you're going to Rome, where there are thousands of apartments in combination with the hotels that might be relevant to you. So to answer your question, as of today, there is more visibility already in the easier destinations, so Tier 2, Tier 3 destinations. But we are gradually increasing everywhere the visibility as we feel more comfortable with our blending logic and then with the training algorithm. And we will overall increase the number of accommodations available as we feel that we can integrate them well.

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**Deepak Mathivanan** - Barclays Bank PLC, Research Division - Research Analyst

Got it, okay. How does the commercialization compare for these properties? I mean, you talked about like how it's easier in less dense markets. But it is also similar that the competition for that specific property is a little bit lower, is that the right way to think about it?



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

There -- you need to compare like for like. If you compare whatever, the hotel that we are sitting in with a private apartment, that's clearly not a fair comparison, you need to compare the long-tail apartment with a long-tail hotel. And also on the long-tail hotels, you have quite a few where you only have a single supplier. So it's not that dramatically different. The main influencing factor there is more how much visibility are you getting? Again, to take an extreme example, if you have 10 apartments in 1 building, you don't need to show one after the other and for the user, there are probably 2 or 3 sufficient, and selecting the 2 or 3 that you display, you obviously create competition not so much on the same apartment but between very similar apartments. So the auction option dynamic is slightly different. But as of today, I wouldn't say that it is dramatically different. But obviously, the more we scale up there, the more we'll see there, but from the direct perspective, it's in the same ballpark.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Okay, that's helpful. OTA relationships, what would you say is that currently? That's something which has seen some pretty dramatic swings. Has that been stable at all? How would you view is that tracking now?

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

Yes. Overall, our relationships with our large advertisers are good and they are -- I think that they are good. And we are happy with the dialogue that we're having with the large advertisers, and they obviously, take their own profitability target decisions daily, monthly; and that's okay. But the dialogue and the relationship is very good.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Helpful. Okay. Booking talked about what they're doing with their performance marketing, and that's kind of implied in their fourth quarter guidance, too. Maybe it's still too early to talk about the large strategy shift of whatever they are pursuing. Do you have any comments? Or at least are you seeing any changes in their behavior at all?

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

Yes, I wouldn't comment on individual advertisers, but looking at the fourth quarter, I mean, we are, so far, seeing performance at the upper end of our expectations, which is obviously driven by many, many different things. But yes, I'm not sure that, that's advertiser-specific.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Got it. No, that's helpful. Okay. What about Expedia? I think the interesting thing. I know, again, you don't want to comment on specific advertisers, but just qualitatively, if you want to talk about the market share changes that's happened in Europe. I mean, is that something that you think is a function of that advertiser becoming more competitive with their supply in those markets? Or is it just like ramping up on marketing spend? What is going on with their market share changes during the third quarter?

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

Yes. It's always risky to extrapolate from one data point. It's, clearly, positive, but I think we will need more quarters to see a trend.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Yes.

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

For us it is positive so far, but whether it's a trend, we'll see.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Got it. No, that's helpful. Okay. International markets beyond U.S. and Europe, what is it like currently for you guys? Is the concentration there a little bit less compared to the core U.S. and European markets? Who are the bigger players? And would you say that, that's a market where there's further opportunities to scale better?

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

Yes. So in the Rest-of-the-World segment, in Q3, year-over-year the other players have gained share in the auction so that is correct. And the dynamic is obviously more diverse. Also, you've got a different dynamic in India than you've got in China, Japan. So the Western markets have a more comparable structure than a lot of the markets in Rest of the World. Generally speaking, the structure is not dramatically different than in the West, but there are individual markets where, obviously, the competition is very different. And the big opportunity coming out of Rest of the World is that some of the regional players or even local players become regional or try to become global and increase their reach and, as a result, increased competition even outside of their core home markets. And that is something we expect to happen over the next couple of years, but, obviously, is quite some work for the advertisers.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Got it. Okay, let's talk about your efforts on the advertising side. Last quarter, you pulled back on paid marketing, which kind of affected the paid traffic but then improved the profitability. What inning would you say we're at? And should we expect this to kind of continue for the next few quarters in 2019 as well?

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

So the effect that you've seen in the year-over-year in Q3 is likely to persist until the second quarter in the year-over-year comparison, because the recalibration that we've now done will have -- will need to lap, basically. In the quarter-over-quarter, there are some more optimizations that we can do. Not everything can be optimized from one month to the other or from one quarter to the other. But most things can be optimized within when we started end of April. So we're now end of the third quarter, 4 months in, significant optimization you can do in 4 months. That's on the recalibration. And then the other effect that is probably more interesting going forward coming from a very, very strong focus on revenue growth in the past now being more balanced on revenue growth versus profitability development. There is more focus on optimization and there are more resources in optimizing, and there are definitely levers to pull to optimize further in addition to the recalibration effect. But some of these, obviously, will show an effect more over years rather than months or quarters.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

What channels are these? Are these optimization effort results coming in from Google performance marketing? Or do you also see a cutdown on TV budgets, which likely to have some type of like long-term contracts? Now can you talk a little bit about that?



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

It's across really all the channels. If your focus is to maximize the output of a more limited resource today versus in the past, it was more on scaling up as fast as you could, like 2, 3 years ago and the outcome is different. And that has an effect across all the marketing channels. Some channels you can optimize more easily and more short term. Some take a bit more time and are more complex. But it is across all the marketing channels.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Got it. And are there any long-term contracts that still exist that you would potentially come out of over the next few years and you can achieve, like, a step up efficiency gains, maybe on the TV side?

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

Yes. There are hardly any multiyear contracts. They are, in particular in Europe, quite a few annual commitment and they tend to end, end of the year and then you renegotiate for the next year. So that is an effect where for next year, we have more flexibility on setting the level that we feel is the right level in the current situation. But there are hardly any multiyear commitments in the industry.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Got it. Okay. And with all these changes that you made in the advertising side, has the mix between data and direct changed significantly at all? I guess, has the pullback on paid marketing that were a dramatic decline on the paid traffic side, what does the mix look like right now?

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

Yes. We don't disclose the traffic mix. Last time we did it, it was for 2016, where we have broadly speaking, 50% branded, 50% non-branded. And we still believe that, that is not a bad mix, and the business doesn't look dramatically different. But obviously, the reaction -- and there's always some volatility market by market, and the reaction on the recalibration was not exactly the same across all channels, across all markets. But broadly speaking, that is still the mix that we feel is right.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Got it. Okay. I have a couple other topics that I want to hit, but I wanted to make sure if there is any audience questions.

**Unidentified Analyst**

Can you discuss in the Latin -- can you discuss anything in the Latin American market that you've seen?

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

No, we don't talk about subregional performance.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Okay, we'll keep going. Talk about Google Hotels. You started participating in that a few quarters ago. And the product, obviously, has a different funnel that brings in from a traveler standpoint. Is that something that you expect to scale further? Or is it still in early stages? If we can talk about what you're seeing there.



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

So far, for us, we are at a stage we are now active in 4 markets, if I'm not mistaken. And we will continue to ramp that up. It is a market where -- or, it's a marketing channel where we are still underrepresented. And there is, from our perspective, clearly, opportunity for an increase in volume or an increase in performance, clearly, by recalibrating the spend across all the performance marketing channels. And we are beyond the testing phase, I would say. We are not fully scaled up yet, but we believe it's an interesting channel and we will continue to invest into it.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Is there are any specific type of -- kind of properties or markets where it could be more well aligned with? Is there anything perhaps?

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

Well aligned with who?

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

With Google Hotels. Like is...

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

Yes. The U.S. market is clearly the biggest. And -- but other than that, there are multiple markets where we believe there is a lot of opportunity. Our brand is very strong in almost all the markets, and then that obviously helps you in that auction significantly.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Got it. And one other topic. Recently the news coming out of Australia from the advertising side, advertising campaigns. So what, I mean, is that -- do you think is a risk at all that we should be aware of? Can you provide some comments there?

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

Yes. I mean, that has gone on for quite some time. So it's not really new, but it's just more advanced. There are regulatory inquiries into the sector in quite a few markets. There's one in the U.K.; there are others in Europe. So it's not something dramatically new. I don't think there's a big change in the dynamic. It's just more advanced than it was 6 months ago.

**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Got it. Okay, okay. One final topic that we'll hit on, if you think about beyond the next few quarters and then opportunity to grow revenues again, obviously, the decision by the OTA partners is going to play a huge role on how they want to set the commercialization at. But beyond that, what are the areas that the investment community should focus on to build a path for revenue growth for you guys?

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

If you want to outgrow the market, you need to improve your competitiveness and, therefore, in your relevant market or you need to increase your relevant market. And one thing that I talked about earlier is that we believe that the relevant market is gradually increasing by addressing better



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and better the hybrid-user behavior of being agnostic to the type of accommodations that will come over time. On the competitiveness within the existing relevant market, there's about the product there. So the better the user experience is and the easier the product to use, the better the results you are finding, the more users you will appeal to, and the easier it will be for you to grow within and beyond the market growth.

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**Deepak Mathivanan** - *Barclays Bank PLC, Research Division - Research Analyst*

Great. Any final questions from the audience? Cool. We'll cut it there. Thank you so much, Axel, for joining us.

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

Thank you.

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