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TRVG.OQ - Q2 2024 Trivago NV Earnings Call

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CORPORATE PARTICIPANTS

Johannes Thomas *Trivago NV - Chief Executive Officer and Management Board Member*

Robin Harries *Trivago NV - Chief Financial Officer and Management Board Member*

CONFERENCE CALL PARTICIPANTS

Jeremy Liu *UBS - Analyst*

Naved Khan *B. Riley Securities - Analyst*

Dae Lee *JPMorgan - Analyst*

James Lee *Mizuho - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Trivago Q2 earnings call 2024. (Operator Instructions) I must advise you the call is being recorded today, Wednesday, July 31, 2024.

We are pleased to be joined on the call today by Johannes Thomas, trivago's CEO and Managing Director; and Robin Harries, trivago's CFO and Managing Director. The following discussion, including responses to your question reflects management views as of today, Wednesday, July 31, 2024, only.

Trivago does not undertake any obligation to update or revise this information. As always, some of the statements made on today's call are forward-looking, typically preceded by words such as we expect, we believe, we anticipate or similar statements. Please refer to the Q2 2024 operating and financial review and trivago's other filings with the SEC for information about factors which could cause trivago's actual results to differ materially from these forward-looking statements.

You will find reconciliations of non-GAAP measures to the most comparable GAAP measures today in trivago's operating and financial review, which is posted under our Investor Relations website at ir.trivago.com. You are encouraged to periodically visit trivago's Investor Relations website for important content. Finally, unless otherwise stated, all comparisons on this call will be against the comparable period of 2023. With that, let me turn the call over to Johannes.

Johannes Thomas - *Trivago NV - Chief Executive Officer and Management Board Member*

Good morning, everyone. Thank you for joining our Q2 2024 earnings call. The second quarter of 2024 marks the fourth consecutive quarter with improved top line trajectory. We are pleased to see positive branded revenue growth in all three segments. Despite the challenges posed by Google's ad format changes, our branded revenue growth has largely offset the negative impact from performance marketing.

These known headwinds will likely persist for the remainder of the year and should cease in early 2025. We remain confident that we can return to growth in the second half of the year. Now let's move on to our strategic priorities. Our first strategic priority is branded growth. We remain one of the most recognized travel brands in the world and are pleased with the outcomes of our brand marketing campaigns in Q2.

Our marketing teams continue to push boundaries. In the first half of 2024, our in-house creative production team developed six new master spots for our TV campaigns. These ads were tested live, and the best-performing creatives were localized based on the impact in the market. Using AI, the team produced over 100 tailored TV spots, showcasing our unique capabilities to test assumptions and optimize campaigns across our segments.

Our second strategic priority is to improve our hotel search experience. We aim to help travelers find their ideal hotel. We have expanded our AI-powered hotel highlights to mobile and our app platform. We are focused on improving quality and put particular focus on surfacing unique selling points of hotels through that feature. I'm also excited to share that since we arrived, we had the strongest quarter in terms of the number of experiments we run on our website. These incremental improvements have collectively led to a tangible increase in conversion rate, which is our strongest proxy for user satisfaction and retention. This impact demonstrates the accelerated pace of execution and learning of our tech teams.

Our third strategic priority is to offer the best deal discovery experience. We strive to help travelers find great deals and better prices. We have improved the visibility and quality of deals in our search results. We experimented with new formats for highlighting deals and increased the coverage of member-only rates from our advertising partners. These special rates offer additional savings and require users to sign up for trivago.

Our fourth priority is to create value for our advertising partners. Compared to last year, we have seen improved booking conversion rates, delivering more effective traffic to them. The improved marketplace dynamics across all segments suggests that our branded and higher converting traffic is valued by our advertisers. We are also excited to announce the completion of our global rollout of the second price auction model in our marketplace.

This complex project was delivered on time, thanks to the strong collaboration with our partners. I'm also pleased to share news about our investment in Holisto. The company is an AI-driven travel tech platform and serves as a wholesale rate aggregator. In 2022, we partnered with them on trivago Book & Go, a co-branded booking funnel developed and hosted by Holisto. This initiative proved successful, increasing their conversion rates and growing their market share. In the US, they have become a top five advertiser on our platform and globally ranked among the top 10.

The investment and strong partnership will allow us to offer trivago Book & Go to all our advertising partners. Our goal is to provide a more consistent booking experience for our users and help our advertising partners to drive conversion. Holisto's footprint and rate optimization and price accuracy is best-in-class. The team is leveraging AI to optimize rate exposure and dynamic pricing, delivering tangible value to travelers. We are impressed by their tech teams and expansion in the recent years.

In summary, our brand investments are yielding positive returns that we anticipate will drive sustainable growth and enhance long-term monetization. Despite some headwinds, we remain optimistic about the rest of the year and in our ability to achieve double-digit top line growth in the medium term. We expect the strengthened partnership with Holisto to contribute to our growth through an improved user experience. We are looking forward to collaborating with the entrepreneurial Holisto team, and I would like to express my gratitude to our teams for their ongoing hard work and dedication. With this, I'll hand over to Robin.

Robin Harries - *Trivago NV - Chief Financial Officer and Management Board Member*

Thank you, Johannes, and good morning, everyone. Welcome to our second quarter earnings call. I've been back at trivago for four months now, and I'm really encouraged by our focus on our key strategic priorities. During this quarter, we've continued to see positive trends that move us closer to our midterm goal of achieving double-digit year-over-year revenue growth. We believe that trivago as one of the strongest travel brands in the world is both an interesting and powerful marketing channel for our advertisers. A significant part of our marketing budget is invested in brand marketing, including TV advertising, which allows us to also reach offline consumers and bring them into the online world.

Our strong brand marketing delivers incremental users to advertisers that they can acquire performance based on a global scale. We have seen the positive impact of our brand marketing campaigns, not only in branded revenue growth, but also in increased booking conversion and improved lead quality. I will now review our Q2 results and provide an update on our outlook for the remainder of 2024.

Unless otherwise stated, all comparisons for 2024 are on a year-over-year basis. During the second quarter of 2024, we achieved total revenues of EUR118.6 million, representing a 5% decline compared to the prior year's second quarter. However, the year-over-year decline was less pronounced than what we observed in the past four quarters.

Referral revenues increased by 12% in the Americas but decreased by 17% in the Developed Europe segment and by 2% in the Rest of World segment. We observed positive revenue growth from our branded traffic channels across all three segments and are pleased with the results of our brand marketing efforts. Although we are still early in our journey to scale brand marketing investments and our spending remains low compared to pre-COVID levels, we see significant upside potential in the coming years. We are confident that we will return to double-digit top line growth in the midterm.

Despite positive branded revenue development, we continue to observe negative revenue declines in our performance marketing channels across all three segments. Significant changes in Google advertisement formats, which began in the second quarter of 2023, increased exposure to less favorable formats for us. These changes led to increased volatility and traffic volume losses in our performance marketing channels. We expect this to continue and will maintain a disciplined opportunity-driven investment strategy. We do not intend to compensate for volume losses at the expense of our long-term brand investments.

The second quarter saw healthier bidding dynamics in our Americas segment, whereas Developed Europe and the Rest of World continue to lag behind the prior year but show signs of improvements. In summary, our Americas segment experienced positive branded revenue growth, healthier monetization levels and offset by performance marketing losses, resulting in overall referral revenue growth. In Developed Europe and Rest of World, while branded revenue growth was positive, performance marketing losses and softer building dynamics compared to the same period in 2023, offset the growth, resulting in an overall decline.

Regarding operational expenses, we incurred EUR11.5 million higher operating expenses totaling EUR127.4 million during the second quarter of 2024. This increase was primarily due to EUR12 million higher selling and marketing expenses, partially offset by EUR0.7 million lower general and administrative costs. Advertising spend increased by 31% in Americas and by 38% in Rest of World.

In Developed Europe, advertising spend decreased by 10% due to a significant reduction in performance marketing spend. Brand marketing spend increased in all three segments. As anticipated, the increased brand investments during the quarter resulted in a decline in our return on advertising spend, ROAS, our key metric comparing referral revenue with advertising spend across all three segments. Overall, we had a net loss of EUR4.9 million and an adjusted EBITDA loss of EUR5.4 million during the second quarter.

I would like to now share some further details on our investment in Holisto. We are happy about our initial investment in Holisto, which closed on July 30, 2024. Holisto is an AI-driven tech company that serves as a hotel rate aggregator and white label booking engine. Holisto was founded in 2015 and have several brands under its umbrella like Holisto, Algotels, Traveluro. In 2023, Holisto generated around USD37 million net revenue and have been growing double-digit year-over-year top line over the last years. They were almost breakeven in terms of operating income in 2023.

We have invested USD10 million to acquire a 30% interest and have an option to acquire the remaining 70% interest in Holisto to fully acquire the company within the next 15 months. Maximum exercise price for the call option is set to USD60 million. If we were to exercise the option, we may elect to settle the purchase price partially in cash and partially in trivago shares, with shares not representing more than 50% of the purchase price.

We believe that this strategic investment will help us to further improve our user experience and look forward to the entrepreneurial and data-driven team. Looking ahead, we see a solid travel demand. We continue to provide our partners with high-quality traffic and expect advertisers to appreciate this over time. We plan to maintain our profitability targets and will not offset performance marketing volume losses as we focus on our brand marketing campaigns for long-term growth. We still expect revenues to grow year-over-year during the second half of 2024 and we continue to guide our adjusted EBITDA for the full year to be around breakeven levels. We are pleased with the results of our brand marketing campaigns and remain confident that these investments will further increase our branded revenue over time, driving long-term growth and profitability.

With that, let's open the line for questions. Operator, we are now ready to take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jeremy Liu, UBS.

Jeremy Liu - *UBS - Analyst*

Hey good morning, guys. I have two questions. So number one, can you go into some of the product gaps that the Holisto investment will help fill? What drove the decision to invest in them now if you've been partners since 2022. And second question, it looks like ROAS has improved versus 1Q, while we'd expect it to step down given the historical seasonality what's driving this? Are you seeing better payback in the brand channel?

Johannes Thomas - *Trivago NV - Chief Executive Officer and Management Board Member*

Jeremy, thank you for your question. I will comment on Holisto. The product gap is basically that we see user irritation with leaving our site and landing on dozens of different sites. So we have on a hotel comparing lots of options. And whenever the user leaves, especially in a world that is mobile, it creates irritation with different landing pages. I need to get used to or I need to sign up to the sites. And we want to create consistency in the user experience when users leave our site, in particular, when they are logged in.

Or when you are using our app, that you have a smooth experience, you're not bouncing back and forth to different landing pages. And that is something we used to have pre-pandemic. We had the product Express Booking, which we had a team, a dedicated office in building that -- and maintaining that. During the pandemic, when we consolidated, this has reduced in focus and then was deprecated in 2022.

Holisto picked up the product, rebuilt it on their own costs and basically have shown that they were very well capable, building a booking funnel that were well converting. Over the last year, they have gained substantial share in the US [inaudible] of well-converting booking funnel, aggregate rates on a very competitive level with high-rate accuracy, which is always a challenge. And that's why we think they are an exceptional tech provider in offering a funnel that we can offer to other advertising partners as well to help them lift conversion rate, and that is a result of a more consistent user experience, and we do a co-branding.

So you have these less known booking sites that like a Priceline might be known in the US, but it's not known in Europe and then we would have a co-branded booking funnel that gives Priceline more trust and would also be part of lifting conversion. We just think it's a good timing. We have seen they delivered on what we partnered on, and that's why we think it was a good timing to do that now.

Robin Harries - *Trivago NV - Chief Financial Officer and Management Board Member*

And to the second question, so ROAS is effect of our marketing mix. And we saw branded revenues growth in all three segments. We are happy about the development. And so this contributes to our overall ROAS development.

Jeremy Liu - *UBS - Analyst*

Great. Thank you, guys.

Operator

Naved Khan, B. Riley Securities.

Naved Khan - *B. Riley Securities - Analyst*

Yeah, hi. Thanks. Two questions from me. One, in Developed Europe, the revenue decline was steeper in the second quarter versus the first quarter. And if I look at Americas, that growth turned positive. So what's causing the divergence between developed Europe from the Americas? And the second question I had is just on your guidance of positive growth in the back half. If I have to kind of think about third quarter versus the fourth quarter, do you expect to be positive in both of these? Or how should I think about that? And any trends you can share maybe for July would be very helpful. Thank you.

Robin Harries - *Trivago NV - Chief Financial Officer and Management Board Member*

Yeah. Thanks for your questions. So regarding Developed Europe, we had more headwinds from Google in Europe. So this is the case when you look at the performance, Americas positive, Developed Europe negative. We had headwinds from Google in all three segments, but it was worse in Developed Europe.

So the performance marketing revenue decline was much stronger in developed Europe than in Americas. And when you consider that we have branded revenue growth in all three segments, you get a feeling about the impact of the Google development. To your second question, in terms of guidance, we expect to return to growth over the course of the second half of this year. We expect Q3 still to be challenging because we already invested into brand marketing campaigns last summer and still have headwinds from Google. So challenging comps for Q3, and we expect to see Q4 to be better.

Naved Khan - *B. Riley Securities - Analyst*

Great. Maybe just a clarification on the Google headwinds that you saw. Is that due to the DNA that could have kind of impacted that? And then the bidding dynamics which you also mentioned seem to be better in the Americas. What's driving that?

Robin Harries - *Trivago NV - Chief Financial Officer and Management Board Member*

The Google format changes, they started in Q2 '23, and they have been increasing the GHA and PPA share over time. And when you look at the development -- so Q4 was worse than Q3, Q1 was worse than Q2 and Q2 was even worse than Q1. So we have the worst effect we saw in Q2. So this is definitely a driver. And to your second question, in terms of monetization, we see healthy monetization in the Americas. This is nice marketplace dynamics. Developed Europe and Rest of the World is softer compared to last year, but we see positive trends there.

Naved Khan - *B. Riley Securities - Analyst*

Thank you, Johannes.

Operator

Tom White, D.A. Davidson.

Unidentified Participant

Hey this is Wyatt on for Tom. Thanks for taking our questions. I have one on Google as well. Could you just talk about the impact expectations during the second half of 2024 relative to 2Q? Do you expect it to continue getting worse like you've seen and I think you mentioned you expect the impact to stop going into 2025. Can you just give some more color on your expectations regarding that? Thank you.

Johannes Thomas - *Trivago NV - Chief Executive Officer and Management Board Member*

The Google changes started. So this is Johannes, thank you for the question, Tom. The Google changes started in Q2 last year and they gradually have increased exposure of the Google changes. And they were peaking in Q1 this year, they've done a massive change on top of what they had done in the course of the last year already.

So the comps will soften in the course of the second half of the year. And then after Q1, let's say, they start ceasing in Q1. This is based on the known headwinds we have seen whether Google will do more changes or not, that's hard to say. We see them continue doing changes. The exposure has stabilized. So we are not seeing massive changes on top of what we have seen right now.

They have done algorithmic changes about two weeks ago, where they increased the diversity of advertiser mix in their placements. So there are continued changes. We see overall the exposure stabilizing. That's our observation. And over the course of the year, the comps will get better and start ceasing in Q1 next year.

Unidentified Participant

Understood. Thank you very much.

Operator

Ron Josey, Citibank.

Unidentified Participant

Hi this is Robert on for Ron. Thanks for taking the questions. Great to see the rollout of second price auction across all markets. Can you guys maybe talk to the initial feedback from your partners and then perhaps expand on the expected impact on bidding activity in second half of this year and then adding into 2025.

Johannes Thomas - *Trivago NV - Chief Executive Officer and Management Board Member*

Yeah. So this has been a process we started last year and it was an appreciated change from all -- most advertising partners, big ones, small ones, because it simplifies our marketplace. It makes bidding more simple, they have bidding algorithms that work on second price auction and other performance marketing channels. So the feedback in the process was positive, and there was a strong demand to roll this out quickly.

It's technically challenging from algorithmic -- doing this right was a big challenge but has gone pretty well. And so the satisfaction of the advertiser side is high. And then we want to see positive impact on the search results which we are happy with and the marketplace over time should become more competitive because smaller players can more easily optimize in our marketplace, which should drive a healthy marketplace.

Unidentified Participant

Got it. That's helpful. And then one quick follow-up. On the broader travel environment, how would you describe user trends so far in July? And to what extent are those trends translating to auction bidding demand?

Robin Harries - *Trivago NV - Chief Financial Officer and Management Board Member*

Yeah. This is Robin. We believe that the demand remains solid for the second half of the year. We also expect ABVs to be solid. So this looks healthy. And maybe you're interested in what we saw in Q2 in Americas, stable ABVs, stable ADRs, length of stay was stable, so healthy. Developed Europe, we had stable ABVs, but slightly decreased ADRs, but longer length of stay. And the Rest of World, we have stable length of stay, but slightly decreased ADRs, which led to slightly decreased ABVs.

Unidentified Participant

Got it. Thanks for that color.

Operator

Doug Anmuth, JPMorgan.

Dae Lee - *JPMorgan - Analyst*

Hey this is Dae on for Doug. Thanks for taking the question. First one, on the monetization in Developed Europe and Rest of World, could you remind us if you're seeing improvement there? And how we should think about monetization in those regions going forward? And then secondly, your comments about returning to growth in the second half. Is there something that could happen regardless of what Google does?

Robin Harries - *Trivago NV - Chief Financial Officer and Management Board Member*

Rest of the World was slightly negative. We expect it to be positive in the second half of the year. Developed Europe is challenging because I mentioned this because of the headwinds that we have from Google, softer monetization. We expect that it's getting better, but it will be challenging in the second half of the year.

Johannes Thomas - *Trivago NV - Chief Executive Officer and Management Board Member*

And on Google, maybe I can comment on Google. We don't see increasing headwind rather softening in the course of the year. We expect some volatility. I think overall, it's also important to understand, they have become less relevant in our overall revenue mix. So the volatility will have also less impact on our business moving forward. So regardless of what Google is doing, drastic change will impact us. We think the most drastic changes are behind us. And we are adapting to the formats, we are improving those formats as well. And we think that we are very confident that we are on a good track to return to growth in the second half of the year.

Dae Lee - *JPMorgan - Analyst*

Great. Thank you.

Operator

(Operator Instructions) James Lee, Mizuho.

James Lee - *Mizuho - Analyst*

Great. Thanks for taking my question. A couple of questions here. I'm sorry, I joined the call a little bit late, so I apologize if the questions repeated here. Can you maybe start talk about the rationale for investments for Holisto? What are kind of the key use cases for the company? And can you talk about what you're hoping to achieve with this technology? And also secondly, increased geo-political tension in Middle East, any impact on bookings that you're seeing in Developed Europe? Thank you.

Johannes Thomas - *Trivago NV - Chief Executive Officer and Management Board Member*

So let me comment on Hollisto. I think our rationale is user experience. If we improve conversion, that translates into higher quality of leads and that translates into a higher willingness to pay fairly for our leads. And if we are able to lift conversion for our advertising partners, they are able to compete more in our auction. And the more people we have, the more advertisers we have competing in our auction, the more healthy it is.

So and on the one side, that is a rationale. And then this better conversion is the best proxy for user satisfaction. So if we drive higher satisfaction across our core users, that has a higher implication for returning. So lifting retention is an aspect that also should drive growth moving forward. So it's a marketplace aspect to drive diversity, make more advertisers competitive in our auction and then a better conversion, better user experience, leading to more satisfaction and higher retention.

Robin Harries - *Trivago NV - Chief Financial Officer and Management Board Member*

Hi James, this is Robin. Not sure if I fully get your second question. So did you ask if we see a negative impact of the developments in the Middle East?

James Lee - *Mizuho - Analyst*

Yes.

Robin Harries - *Trivago NV - Chief Financial Officer and Management Board Member*

Okay. So there are certainly impacts, but it's not significant from what we see because the top markets are other markets in the Rest of World segment. And there was also something, I think, related to developed Europe. So can you repeat it, please?

James Lee - *Mizuho - Analyst*

No. That was exactly the question. The increase in your political tension in Middle East, how that impacts Europe's bookings. So you answered that question. Thank you so much.

So, Robin, if I can ask one more question here, you guys talking about shifting to brand spending in the past. And can you share about maybe the progress you've made so far? And anything that gives you confidence to continue moving forward this marketing strategy? Thanks.

Robin Harries - *Trivago NV - Chief Financial Officer and Management Board Member*

Sure. So we started the new campaigns in the end of last year, and then we have been increasing the investments. And with our investments, we follow seasonality. So the summer season is important for us. This is where we see the highest demand. This is also where we invest most of our budget. And this is also where we expect the highest revenues. The summer season is important. We are investing -- we keep increasing the investments. As we said, we saw in Q2, we saw branded revenue growth in all three segments. This is, I guess, this is good news. And we keep investing. We keep optimizing.

Brand marketing is not easy. It's complex. There are several drivers. You have to measure it. You have to understand it. You have to improve it. So negotiations are important. The spots are important. And then it's a test and learn approach, but we are happy about the development in Q2. We keep investing, and we move forward step by step.

Johannes Thomas - *Trivago NV - Chief Executive Officer and Management Board Member*

And in terms of confidence, this is Johannes, maybe I can add. So we're comparing what and in what channels we invested pre-pandemic. And we are certainly testing the health of these channels, and we see substantial upside potential and investing more in certain channels. And that gives us the confidence that there's growth opportunity in brand marketing activities.

Robin Harries - *Trivago NV - Chief Financial Officer and Management Board Member*

And we also see the positive effects of our brand marketing investments in terms of higher booking conversions, higher quality of leads to our advertisers. So the traffic really has high quality. And this will -- we anticipate that this will have a positive impact also on our monetization over time.

James Lee - *Mizuho - Analyst*

Great. Thank so much.

Operator

There are no further questions at this time. I will now turn the conference back over to Johannes. Johannes?

Johannes Thomas - *Trivago NV - Chief Executive Officer and Management Board Member*

Thank you all for joining our earnings call today. We appreciate your time and interest in our company. We look forward to updating you on our progress and results in the next call. Thank you.

Operator

This concludes today's conference call. You may now disconnect.
