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TRVG.OQ - Q4 2024 trivago NV Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the trivago Q4 earnings call 2024. I must advise you the call is being recorded today, Wednesday, February 5, 2025. 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 questions, reflects management's views as of Tuesday, February 4, 2025 only, unless expressly stated otherwise, in which case, it reflects management's views as of today, Wednesday, February 5, 2025 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 Q4 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 discussed today in trivago's operating and financial review, which is posted on trivago's 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 results from the comparable period of 2023.

And with that, let me turn the call over to Johannes.

Johannes Thomas - *trivago NV - Chief Executive Officer, Managing Director - Communication, Strategy, Partnerships and Talents and Culture, Member of the Management Board*

Thank you, everyone, for joining us on our Q4 2024 earnings call. I'm excited to share that after 1.5 years of intense groundwork and strategic execution, we achieved revenue growth in Q4 2024. This marks a turning point for us as we see solid momentum heading into 2025. We are pleased to report that we achieved 5% growth in Referral Revenue and delivered EUR11.1 million in adjusted EBITDA last quarter, both exceeding our expectations. The start of this quarter has been equally promising with strong double-digit top line growth across all segments.

Key drivers of our performance include major product enhancements over the past year and continued positive returns from our brand marketing investments. As we look ahead to 2025 and beyond, we are well positioned for continued growth. Early results from our new AI-powered marketing campaign featuring our brand ambassador, Jurgen Klopp, have been promising. We have already launched brand marketing campaigns in more than 23 key travel markets this year. We remain disciplined in our approach, aiming to invest near breakeven adjusted EBITDA levels. Although it's still early in the year, we expect to achieve at least high single-digit revenue growth in 2025.

We see significant margin and growth potential, especially since our revenue has not yet returned to pre-COVID levels. The major reason for this delay in recovery has been conservative brand marketing investments during the pandemic and the rebound phase in 2022. However, we cost-corrected starting in Q2 2023, with the arrival of the new leadership team. Shortly after, we increased our brand investments and rebuilt a world-class brand marketing team. We have focused our technology investments on improving our hotel search and price comparison products. We have multiplied the number of experiments conducted on our website, resulting in a substantial improvement in conversion rates during 2024.

Since our arrival, we have cultivated a performance-driven culture that prioritizes continuous learning and rapid execution. We have accelerated the pace of experimentation rigorously measuring impact and boldly scaling successful initiatives. We implemented OKRs across the organization, established a new performance measurement approach and enhanced our reward structures to better incentivize impactful contributions from our employees. Our aim is to instill an entrepreneurial mindset with the objective of delivering more value to our users and partners faster.

We made AI a central focus within our organization. One of our first initiatives in 2023 was to establish a company-wide AI Ambassadors group and fast-track the implementation of Gen AI tools, enabling our talents to leverage the technology. Today, we have built a competitive AI infrastructure with 70% of our employees reporting that these tools save them 30 minutes or more each day. We've launched powered TV ads, new personalization algorithms for our search results and unique AI highlights for over 300,000 hotels. In November last year, we unveiled our new AI Smart Search offering travelers entirely new ways to search for hotels.

We are very excited about the widespread internal AI adoption, which is unlocking both productivity gains and the potential to further increase user value. trivago is a leading brand in a large and expanding market, we are well positioned in a market estimated to be over EUR1.5 trillion in size, especially the Hotel segment is highly attractive in terms of margin and scope. We are among the strongest and most recognized travel brands across key markets in developed Europe, the Americas and Asia. This brand recognition is an invaluable asset that we aim to continually leverage and strengthen. Compared to pre-COVID levels, there remains significant potential for us to increase our brand investment in the coming years, which we expect to be a growth driver.

Our value proposition is more relevant than ever, particularly in an era, where travelers seem to be price conscious. Our research indicates that about half of US travelers place a high value on securing competitive prices. More than 40% actively seek out deals and compare prices across various booking sites. Since the pandemic, the number of deals and price discrepancies, we have identified has significantly increased. US travelers who use trivago to compare prices have a good chance of saving up to 40%. We aim to unlock value for our shareholders and users by diligently executing on our strategy.

Going forward, our strategy will be laser focused on three strategic pillars. Our first strategic priority is brand marketing. We will continue to optimize our brand investment across the globe and deliver captivating ads that strongly convey our value proposition. Our second strategic priority is our core hotel search product. We will continue to run dozens of experiments at a time and improve user experience and conversion rates for our core products. Further, we will dedicate investments to develop a differentiated member proposition. We want price savvy travelers to start their journey on trivago instead of other search engines or GenAI applications. These efforts will be complemented by investments and personalization of our search results in cutting-edge AI features on trivago.

Our third strategic priority is to empower our partners to maximize their potential on trivago. A key initiative in 2025 will be the evolution and expansion of trivago Book & Go. A facilitated booking funnel for our partners that offers them the opportunity to increase conversion rates and competitiveness in our marketplace. We believe that these priorities will drive sustainable growth and value to our users as well as partners. On behalf of our leadership team, I would like to thank our remarkable talent whose hard work and dedication were essential to return to growth. We look forward to continuing our successful journey together.

With that, I'll turn over the call to Robin for a detailed financial review.

Robin Harries - *trivago NV - Chief Financial Officer, Managing Director, Member of the Management Board*

Thank you, Johannes, and good morning, everyone. Q4 marks an important milestone for us. It is the first time since Q1 2023 that we can demonstrate top line revenue growth again. Total revenues grew by 3% to EUR94.8 million in the fourth quarter compared to the same period last year, primarily

driven by a 5% increase in referral revenue. We believe that returning to year-over-year growth represents a turning point in our strategic multiyear effort to revitalize the brand and achieve our previously announced goal of double-digit revenue growth in the midterm. We are pleased with the strong start to the year and have seen strong double-digit growth in January compared to the prior year.

As of the end of Q4 2024, we had over EUR130 million in cash, no long-term debt and maintained robust financial health. Our focus on branded revenue growth continues to be a fruit with further positive developments over the quarter. Additionally, our efforts to enhance booking conversions and lead quality are making us an increasingly attractive marketing channel for our partners.

Let's now delve into our Q4 results and outlook for 2025, unless otherwise stated, all comparisons for 2024 are on a year-over-year basis. In the fourth quarter, our total revenue was EUR94.8 million, representing a 3% increase compared to the same period in 2023. In our Rest of World segment, referral revenues increased by 15%, the Americas experienced an 8% increase and Developed Europe showed a 2% decline, which, although negative, as an improvement from the previous quarter.

Our brand investment efforts are yielding positive results again, particularly in Developed Europe and the Rest of World segment, where we achieved double-digit revenue growth from branded channel traffic year-over-year. In the Americas, we saw mixed effects with brand revenue growth in North America and a decline in LatAm, where we did not focus our investment efforts in Q4. Despite the positive branded revenue growth, we continued to face challenges in our performance marketing channels, primarily due to changes in Google advertising formats. These changes have introduced volatility and resulted in traffic volume losses.

However, we have observed stabilization over the past months which was encouraging. We remain committed to a disciplined opportunity-driven investment strategy and will not compromise long-term brand investments to offset performance marketing volume losses. While monetization was softer this quarter compared to the prior year, it remained healthy in the Americas, whereas it was slightly negative in the rest of world and headwinds in Developed Europe still persist. During the fourth quarter, we reported a net income of EUR5.1 million and achieved an adjusted EBITDA of EUR11.1 million. The adjusted EBITDA in Q4 exceeded our expectations primarily due to a higher-than-expected revenue growth and more efficient marketing, resulting in a higher return on ad spend ROAS.

Operational expenses decreased by EUR0.3 million, totaling EUR87 million for the fourth quarter, primarily due to EUR0.5 million reduction in general and administrative expense and EUR0.1 million lower selling and marketing expense, partly offset by EUR0.4 million higher technology and content expenses. Advertising spend increased by 18% in the Americas and 3% in Rest of World, while decreasing by 15% in Developed Europe. While overall advertising spend was only slightly more than the same period in 2023, we invested proportionately more into our brand marketing channels. This increase was driven by stronger brand marketing spend, especially in Developed Europe and Americas partly offset by reduced performance marketing spend, particularly in Developed Europe.

Globally, our ROAS improved from Q4 2023 with improvements in Developed Europe and the Rest of World due to better marketing efficiency. The ROAS in the Americas was below Q4 2023 due to strong marketing investments. Looking ahead, travel demand remains solid and healthy. We continue to provide high-quality traffic to our partners, and we are optimistic about regaining more advertiser appreciation over time. We remain confident in our ability to the full year 2025 to grow total revenue by at least high single-digit percentage levels compared to the same period in 2024. We expect adjusted EBITDA to be at least at breakeven as we continue reinvesting our profits into our marketing strategy.

We see substantial opportunities to scale our brand marketing activities, enabling us to reach a larger audience and positively impact overall revenues long term.

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)

Naved Kahn, B. Riley Securities.

Naved Khan - B. Riley Securities, Inc. - Analyst

Okay. Great. Congrats on return to growth and the positive EBITDA. I just have two questions. One on your commentary about getting to double-digit growth on the top line trying to understand what needs to happen for you to accelerate growth into the double-digit from current levels? And then in terms of just your brand campaign for 2025, do you plan to expand this into new markets beyond the 23 that you are already in? Or do you just want to increase spending in the existing markets? Just talk about that.

Robin Harries - trivago NV - Chief Financial Officer, Managing Director, Member of the Management Board

Hi Naved, this is Robin. Thanks for the question. Regarding top line growth, as we said, we already see strong double-digit top line growth in January. So we are very happy about the start into the year. And moving forward, we see opportunities to scale our brand investments, which we think is the right thing, which is important. And we also uploaded the investor presentation this time. And there, you can see that we have a big opportunity to further scale our brand marketing investment, and this will be, of course, one driver for our performance.

And the other is to further improve the product, we see nice development here. The retention goes up, conversion rates go up. We deliver better quality leads to our partners so that we think it's brand and its product. And in terms of the brand marketing campaigns this year, we started in over 20 markets. In the past, we had TV campaigns running in around 50 countries. So yes, there are further opportunities to also go into new markets. But there are also further opportunities to scale the investments in the current market.

Naved Khan - B. Riley Securities, Inc. - Analyst

Just on the double-digit commentary for January. So you're still expecting sort of high single digit, I think, is the outlook for the year. Why should -- does January have easy comps? Or why do you expect growth to slow?

Robin Harries - trivago NV - Chief Financial Officer, Managing Director, Member of the Management Board

Yeah. So January is or was much better than we expected. So we had it in our plan, but the numbers now are much stronger in terms of top line, in terms of bottom line, we see nice double-digit growth also in our three segments. We see growth in all channels. So the marketing campaigns are good. They are efficient. We are happy about the product. And yes, that's it.

Johannes Thomas - trivago NV - Chief Executive Officer, Managing Director - Communication, Strategy, Partnerships and Talents and Culture, Member of the Management Board

The full year, maybe, I think why full year is still at least, I think, what we corrected in our messaging, is high single digit, we made at least high single digit. So the first -- the start into the year is a signal for the full year, but it's still early in the year. So correcting how we look at full year is a bit early for us. And I think when we are more confident then we will revise that. And it is true, Q1 comps is easier than rest of the year where we already ramped up more in summer. That's why we expect Q1 to be one of the stronger quarters.

Robin Harries - *trivago NV - Chief Financial Officer, Managing Director, Member of the Management Board*

Yeah. So in terms of the revenue growth compared to '24, as Johannes said, we see Q1 as a strong quarter because of the comps and then certainly, Q3 will be also a strong quarter because this is the quarter where we invest the most and where we have the highest -- where we expect the highest revenues.

Operator

Douglas Anmuth, JPMorgan.

Dae Lee - *JPMorgan Chase & Co - Analyst*

This is Dae Lee on for Doug. I have two. So when you look out to 2025, you talked about these high single-digit percent of growth. And I guess there's potential that, that could be higher. So as you get more revenues, the idea to continue ramping brand investments and keeping adjusted EBITDA close to breakeven? And when could that (inaudible) you guys could start generating more profitability? And then secondly, on AI Smart Search, I realize it's still early days here, but curious if you have any early learnings to show on how searched that start on the AI Smart Search is different in terms of conversion or monetization or any other KPIs where you're seeing different results there?

Robin Harries - *trivago NV - Chief Financial Officer, Managing Director, Member of the Management Board*

Thanks for the questions. This is Robin. I'll take the first one. So in this stage, we believe that achieving growth is more important than being profitable. So we say we steer the business at least adjusted EBITDA breakeven. We don't want to have losses. -- but we take the money and we invest it into growth opportunities. And when we look into where we are coming from, where we were pre-Covid when we look at the revenue levels, we believe that this is a huge opportunity for us. And we also see when you look into the Q4 numbers, I just mentioned the strong start in January, we are convinced that it's the right thing to invest it into brand marketing and brand marketing is not only TV advertising, it's a connected TV, it's online video, it's brand campaigns.

So we are convinced that this is a very good opportunity for us. That's why we rather take the money and invest it into growth to become more relevant and to become to more relevant and nicer revenue levels.

Johannes Thomas - *trivago NV - Chief Executive Officer, Managing Director - Communication, Strategy, Partnerships and Talents and Culture, Member of the Management Board*

And how we -- maybe on this, Johannes here, how we are trading this off is just looking at when do we see diminishing returns of our investments. And when we see the returns are not coming as we anticipate and that depends also this year, what's the elasticity of our spend, which currently looks very promising. And that's when we see that elasticity going down, then we would turn more into profitability. Given the size of trivago compared to pre-Covid the overall market, there's just a lot of gain you can get by activating our brand bringing it top of mind faster and from there, then turn into more attractive profitability levels.

And then you had AI Smart Search. Johannes, I comment on that quickly. We were very excited about that product because we have not seen anybody else launching it or having similar features like that. It is basically a new way of searching. Traditionally, you search for a city, then you put a date and then you get a result. On Smart Search, you can basically type semantic freesearch sentence basically, you could say, I'm looking for a hotel that has rooms with views on the Eiffel Tower. We give you a result and our AI hotel highlights that we scaled up over the course of the last year to 300,000 hotels in 27 markets reflect basically your query. So you have a new way of searching hotels, and you can do searches that go beyond a city or a polygon kind of.

You could search something like I'm looking for a hotel close to the Route 66 with a pool and get really good results out of that, and we're very happy with that feature. We are very, let's say, conservative in how we are surfacing that to our users. It's currently a stand-alone feature. You can

access and use. We have -- I think it was actually this week, we have launched and making that part of our search suggestions to educate people on using freesearch functionality. And I think that will, to manage expectation from experience that user behavior changes on trivago or generally, it's just a very slow process.

So similar as you have seen mobile share going up over many years, we think the same here as well. We will not push users into a product just to get numbers up. It will be a gradual behavior change. that we will be watching and depending on the results, we will increase its exposure or not.

Operator

Ron Josey, Citibank.

Unidentified Participant

This is Robert on for Ron. You mentioned potentially introducing a differentiated member proposition in the prepared remarks. Can you maybe just help us understand how your approach would differ from the traditional loyalty program and perhaps expand on the strategic rationale for loyalty program on trivago?

Johannes Thomas - *trivago NV - Chief Executive Officer, Managing Director - Communication, Strategy, Partnerships and Talents and Culture, Member of the Management Board*

Yes. Ron, this is Johannes. Thank you for asking this question. I think it's pretty important. I think one angle and the main reason why we are approaching this is that, we want to differentiate to other search engines, GenAIs that will basically try to show live prices for hotels and so on. So we think a lot of shoppers, price-conscious people are on trivago, and we want to basically lock those users in and using trivago start the journey on trivago. That's the core rationale of logging these users in it's a relevant double-digit percentage of our business where we think this proposition will be built for. You can see that we today already, and we talked about it last year, we have worked with partners to share us fenced rates.

So there are basically deals that are not allowed to be publicly visible, but they are allowed to be shared for members. So we are sourcing these deals with our partners and then basically inform our users about it, our members and users basically get better prices if they log in. We don't really need a member loyalty program around it. We just give this value to users that are logging in and that's a strong way you should log in. There is other things like we are informing you if your hotel got cheaper, if prices have changed and other perks we are working on to make this attractive. But I think the strongest reason is that you just get better prices if you log in and probably the strongest angle we're seeing here.

Unidentified Participant

Got it. And you mentioned, a quick follow-up. You also -- you called out specifically that Bookg & Go is a key initiative for this year for 2025. So I'd love to hear how you see the Holisto partnership evolving over the next few months here? And then given you have the option to purchase the remaining equity, what would have to happen for you to exercise this option?

Johannes Thomas - *trivago NV - Chief Executive Officer, Managing Director - Communication, Strategy, Partnerships and Talents and Culture, Member of the Management Board*

Yeah. Good question as well. So we are very thrilled about the partnership continue to think that was a very good decision. The team of Holisto is very strong. They have delivered on our OKRs, we have aligned with them on. And we've taken a test life that we are basically build proof of concepts of Bookg & Go that we want to see. And now we are assessing scalability.

And it's still early before we can share, I think, concrete numbers given the complexity of projects we have. But over time, we basically want to check box are they delivering on their OKRs and are we happy with the results we are seeing from Book & Go, and I think we have the call option for quite some time. And in the course of that, we will take a decision, but there's no decision on that so far.

Operator

(Operator Instructions)

Wei Fang, Mizuho.

Wei Fang - *Mizuho Securities USA - Analyst*

And this is Wei calling for James. Congrats on the turnaround. Just a quick double click on to your branded channel, right? Can you help maybe talk about any metrics that you can share such as repeat customers or like organic traffic mix, et cetera, that you are seeing right now?

Robin Harries - *trivago NV - Chief Financial Officer, Managing Director, Member of the Management Board*

This is Robin. Thanks for congrats and the question. So we don't disclose further KPIs regarding our brand traffic or brand revenue. I mean, how we look at it, we have our brand campaigns running. We look at direct response. We look at brand after effects we look at unaided brand awareness, so quality measures. There's a wide range of KPIs that we look at and then we optimize it really performance based. So that means we look at the direct response. We look at how many people do we reach how many people come to our website, what do they do there's a couple of metrics, but this is actually not -- there's nothing that we disclose.

But yes, so we have -- I think we started in water to [2009] (corrected by company after the call) or so relatively early with our brand marketing campaigns and have quite good understanding about how to optimize it and how to measure success of brand marketing campaigns

Johannes Thomas - *trivago NV - Chief Executive Officer, Managing Director - Communication, Strategy, Partnerships and Talents and Culture, Member of the Management Board*

And maybe one comment on retention. I think everybody in the space knows how difficult it is to measure retention in travel given the low usage on average. I think the -- how we think about it, the stronger proxy for retention is conversion rate.

So if we see conversion rates going up, particularly among our branded users, that's for us a proxy that retention is moving. And part of why we think results are better than expected in Q4 and Q1, the product is a big part of it. In our investor presentation that we have shared as well, you will see indication of how conversion rate has changed. And that can make a big difference on retention and the trajectory we are seeing.

Operator

And that does conclude today's question-and-answer session. So I will now turn the call back over to Johannes Thomas for closing comments. Johannes?

Johannes Thomas - *trivago NV - Chief Executive Officer, Managing Director - Communication, Strategy, Partnerships and Talents and Culture, Member of the Management Board*

Yeah. Thank you for joining today. I want to remind you of the investor presentation. Have a look. I think there's a lot of insights of what we think has driven performance last year and will drive performance this year. Overall, we are very proud of the progress made in Q4 2024 and encouraged

about the momentum we are seeing in this year, and we are confident on the strategy and focus on execution to deliver strong results for our shareholders. Thanks a lot for joining today, and see you soon.

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