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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the trivago Q3 Earnings Call 2023. (Operator Instructions)

I must advise you that this call is being recorded today, Thursday, the 2nd of November 2023. We are pleased to be joined on the call today by Johannes Thomas, trivago's CEO and Managing Director; as well as Matthias Tillmann, trivago'w CFO and Managing Director. The following discussion, including responses to your questions, reflects management's views as of today, Thursday, November 2, 2023 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 Q3 2023 operating and financial review and the company'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 the company's IR website at ir.trivago.com. You are encouraged to periodically visit trivago's Investor Relations site for important content.

Finally, unless otherwise stated, all comparisons on this call will be against results for the comparable period of 2022.

With that, let me turn the call over to Johannes. Please go ahead.

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

Good morning, everyone, and thank you for joining our Q3 2023 earnings call. Following our last conversation, I'm glad to provide you with updates on our journey towards reigniting trivago's growth and presence in the market.

Our mission is clear. When price-savvy travelers think about booking a hotel, we want them to think trivago. We simplify their planning, help them save and instil confidence in their booking decisions. The quarter unfolded largely as we anticipated. The continued negative effects of reduced brand marketing during the pandemic, our normalized monetization and volatility in Google search ads continue to impact us. However, with major uncertainties now behind us and robust travel outlook, we are encouraged by our TV campaign performance this summer.

This positive momentum has steered our decision to change course and prioritize growth in the upcoming years. As a result, we expect adjusted EBITDA to be close to breakeven in 2024. I will now detail 4 strategic priorities that we believe will propel our success.

Our first strategic priority is to reignite our globally recognized brand. We are planning to revamp our brand marketing investments to get back to the forefront of travelers' minds. Lifting our branded visitor baseline will be key to return to growth, and we expect it to be a multiyear effort.

As we approach the launch of our winter campaign, we are optimistic that we can demonstrate initial results by the first quarter of 2024. It's essential to note that our brand marketing isn't just about campaigns. We treat it as a performance marketing channel that can be optimized over time.

Growing from our summer learnings, there's a considerable scope of enhancement across multiple dimensions from media channel and country mix to stronger creatives. As we refine these elements, we plan to prioritize growth as long as we see the anticipated incremental returns.

Our second strategic priority is to provide a seamless hotel search experience. We're simplifying the search across hundreds of sites and millions of accommodations, saving travelers significant time. We are constantly enhancing the user journey by conducting experiments on all aspects of our product. In the past months, we have qualified a range of product tests with positive impact on our user experience and conversion. We are glad to share that we have completed our image migration to the Google Cloud. This step has improved the quality and selection of our images and will enable us to iterate faster on the visual experience for our users.

Our third strategic priority is to deliver the best deal discovery experience. We want to be the short test for finding great hotel deals and better prices. This is where we can play our strength and differentiate uniquely. Many travelers are price conscious and due to inflation they have become even more sensitive. Rate disparity has increased since the pandemic, which elevated the value of comparing prices We've introduced new ways of spotlighting savings and great deals in our search results.

Getting price-savvy travelers to return to trivago will be important for our future success.

Our fourth strategic priority is to empower partners to realize their full potential on trivago. We're enhancing our marketplace infrastructure with more bidding granularity and rolling out a second price auction test in 3 relevant markets this quarter. By co-creating and innovating with our advertising partners, we aim to unlock user value throughout our metasearch and their booking journey.

We are deepening our key partnerships and are encouraged by the active engagements we observe. Our brand strategy supports our commitment to remain a relevant marketing channel for our advertisers, driving high-quality traffic to them. In addition to our strategic pillars, we are committed to accelerating our pace of execution and fostering a culture of rapid learning.

We have increased velocity in our product development and have doubled the number of experiments we run on our website. The positive momentum within the organization is very tangible. Now our operations are becoming more streamlined around the aforementioned strategic priorities.

As we look ahead, we are confident of showcasing our enhancements and growth in 2024. As a last point, let me express my gratitude to Matthias for his outstanding service to trivago in the last 7 years. His leadership was instrumental in navigating the challenges of the pandemic and maintaining our financial stability. We are looking forward to Robin Harris, who will join as the new CFO next year. His expertise will enrich the leadership team in executing our new strategy.

With that, I'd like to pass the floor to Matthias.

Matthias M. Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Thank you, Johannes, and welcome, everyone, on the call. Before I walk you through our third quarter results, I would like to thank our leadership team, Supervisory Board and all employees for supporting me during the last 7 years. I've learned a lot and enjoyed working with amazing people. I will continue to support the company as a consultant during the first quarter to ensure a smooth transition to my successor, Robin Harries.

Now turning to our results. I will review our results for the third quarter as well as our thoughts for the year. All comparisons for 2023 are on a year-over-year basis, unless otherwise indicated. Our revenue development in the third quarter was in line with our expectations. Revenue declined by 14% or at the same rate as in the second quarter, despite the loss of favorable tailwinds during the first half of 2023 from higher average booking values and foreign exchange headwinds, which negatively impacted our monetization levels.

Bidding dynamics in our auction remained stable, albeit at lower monetization levels compared to the prior year, and we continue to observe ad format tests in Google. The combination led to volume losses on our platforms. However, the dynamic improved slightly compared to the second quarter.

The net loss of EUR 182.6 million in the third quarter is a result of a cumulative impairment charge of EUR 196.1 million in connection with our annual indefinite-lived intangible asset and goodwill impairment analysis. The impairment was primarily driven by adjustments made to our profitability outlook arising from the announced strategy shift to long-term growth and our share price decline during the third quarter of 2023.

Adjusted EBITDA, which excludes the impairment of goodwill was EUR 16 million, [down from EUR 33.5 million](added by company after the call) in the same period last year.

Now on to the dynamics in the different regions. We saw referral revenue declines in Americas and Europe, while referral revenue increased in our segment Rest of World, as most countries in that segment continue to recover post COVID. Referral revenue declined by 21% and 17% in Americas and developed Europe, respectively. The decline was largely driven by a loss in performance marketing volumes as we continue to observe Ad format tests in Google, leading to fewer impressions of traditional text ads for us.

We started testing the new ad format, however, it is still too early to conclude on its potential. The early indication is that the traffic quality seems to be lower compared to text ads and consequently, the new ad formats did not compensate for the loss in high-quality traffic from text ads.

Referral revenue in our segment Rest of World continued to grow driven by the recovery in markets like Japan, Turkey or Hong Kong. Overall, our referral revenue increased by 24%, driven by an increase in traffic volumes in all channels and higher average booking values. This was partly offset by negative foreign exchange effects.

Moving on to our operational expenses. Excluding advertising expenses and the impairment of intangible assets and goodwill our operational expenses decreased by 13%. Compensation expenses, including share-based compensation and commission and other fees related to non-core products that we stopped last year were the main driver for lower operational expenses.

Our cash and cash equivalents balance at the end of the quarter was EUR 299 million. We have taken steps to improve our capital structure and reward our investors with a special onetime dividend of EUR 184.4 million, which reflects our confidence in the future. Our shareholders approved the distribution of the one-time dividend on November 1 and we anticipate the payment of the distribution to ADS holders to be made on November 13, 2023.

Let me close with an outlook on the fourth quarter. The main travel trends remained stable in October. We continue to see robust travel demand and elevated average booking values on our platforms in all regions. The dynamic in performance marketing channels remains volatile, while monetization levels in our own auction have normalized.

As a result, the year-over-year referral revenue development in October was in line with our third quarter results for all regions. During the third quarter, we announced a shift in strategy, which aims to fuel long-term growth. We intend to start intensifying our brand marketing investments already in the second half of the fourth quarter. We expect the short-term effect on traffic volumes to be limited. However, we are confident that the investments will help us to increase our brand baseline traffic over time and keep trivago on top of travelers' minds, which is crucial to achieve our goal of sustained long-term growth. For the full year 2023, we expect our adjusted EBITDA to be around EUR 50 million.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from the line of Naved Khan from B. Riley Securities.

Naved Ahmad Khan - *B. Riley Securities, Inc., Research Division - MD of Internet Equity Research*

Yes, I just had a couple of questions. Maybe the first one for you, Johannes. As you kind of start on your brand advertising strategy, Johannes, you're also seeing some pressure on the performance channels. And I'm wondering if you think you can offset the pressure and performance with the initiative that you're taking in the brand channels? Or do you think you can more than offset that? Just give us your thoughts there.

Also, if I look back historically, marketing spend as a percentage of revenue has been as high as in the 80 percentage. Should we expect to kind of go back to those levels and then expect optimization from those levels? Or is that not necessarily the case? How should we think about that?

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

Yes. So thank you for your question. I can cover the first one. I think what we clearly see is that we can offset the current drop, I think Google is volatile. It's unclear whether that is a long-term volume loss in Google. We are experimenting with the new format. So it's not that this will be gone forever. We're exploring it. And Google will do changes in their self-preferencing in Europe. And that is also something that's hard to predict how this plays out, but this is until Q1 where we expect changes in volatility and then hopefully, things get a bit more clear.

From a brand marketing, we substantially invest into brand, and we do believe that we can turn to growth next year, so offsetting that also in the short term. Brand has compounding effects. So it's a multiyear effort of consistently investing into brand. And then you have people coming back in campaign in the first year and then also in the following years. And that's why it's a multiyear effort in brand where you consistently invest, build your branded visitor baseline over time. And you see the stronger impacts later down the line.

Matthias M. Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Yes. And let me take your second question. So Johannes mentioned that for next year with the shift in strategy, how you should think about our profitability and adjusted EBITDA, is that it will -- we anticipate it to be positive, but we focus on growth. So as we have done in the past, as we've done pre-COVID. And when you look at that, if you look at our cost structure, you see that as a percentage of revenue, that's likely to be above -- just above 20% for 2023.

In absolute terms, we believe it will be similar next year. And then, I mean, we indicated already that we expect to grow next year again. We will give more specific guidance at the beginning of the year when we report the fourth quarter. But let's assume we grow and at stable operational expenses that brings that down to like 20%. And if you take that together, then you know that you need to achieve around 125% ROAS to be at adjusted EBITDA breakeven.

And that is something -- I mean, that's how I can think of the lower bound. And when you do the math, then you see that's getting you close to the 80% that we had.

One thing I would mention as well is, a, it's still early. I mean, that's the direction we want to take for next year. But obviously, it depends also on what we see. I mentioned that we will start ramping up brand towards the end of the year. We plan to invest early next year as well. And obviously, we take the learnings that we see, and that will inform what we continue to do throughout the year 2024. But I guess as -- yes, as a high level, how to think about the dynamics, that's probably a good starting point.

Naved Ahmad Khan - *B. Riley Securities, Inc., Research Division - MD of Internet Equity Research*

And so just a quick clarification on the products on EBITDA there. So when you say flat talking -- flat in terms of just margin or just absolute dollar amount, how should I think about that?

Matthias M. Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Exactly. In absolute dollar amount, we historically -- we used to discipline ourselves to not run EBITDA losses, and that is what -- how we think about it as well now. But you shouldn't expect us to deliver significant positive EBITDA.

Naved Ahmad Khan - *B. Riley Securities, Inc., Research Division - MD of Internet Equity Research*

One quick follow-up. So just on the -- in terms of trends in October, I think your commentary suggests Johannes said trends were stable in October in terms of the demand. Is that a fair assumption or do you see any volatility or sign of weakness in terms of consumer demand?

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

I think we see stable demand and not -- no concerns that we have on Q4 impact or even long term.

Matthias M. Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Yes. Just to add to that, so what I said is, on a regional level, when you look at volumes and also pricing, the dynamics were similar to what we reported for the third quarter. So no real change, and that was consistent across all 3 regions.

Operator

The next question today comes from the line of James Lee from Mizuho.

James Lee - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*

A couple of questions here. I think you guys have talked about in the past that you're seeing the length of stay by region and maybe slowing down, decreasing due to maybe consumer trading down. I was wondering maybe you can comment about that metric maybe by region? And also it would be helpful, maybe you can comment on the trends you're seeing and maybe quantify some of the increase or decrease you're seeing in ADR, especially in Europe and North America.

Matthias M. Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Yes. Thank you, James. On length of stay, let me go through that by region, starting with Europe. What we saw in the third quarter is that length of stay only slightly decreased compared to last year. But we were lapping the effect of the larger decrease during summer last year. So when you look at it relative to 2019 levels, length of stay was down by mid-teens in developed Europe.

In Americas, we didn't see the same decrease last year. And this year, we saw a slight decrease, but only slightly lower, so low single digit. And in Rest of World, we don't see a meaningful change. So that was roughly stable. So that was your first question. Can you remind me or repeat your second question was on ADRs, right?

James Lee - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*

Yes, ADR, the puts and takes by region, Matthias.

Matthias M. Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Yes, sure. No. So starting with Europe, again, we saw slight increases throughout the quarter, like low single digits. And with the slight decrease in length of stay, that led to a stable average booking values. So the basket value was roughly flat in Europe and again, driven by slightly higher ADR, slightly lower length of stay.

In Americas, it's very similar with flattish ADRs and slightly lower length of stay. But there we had a negative foreign exchange effect as well. And that's why, overall, the average basket value for us was slightly down year-over-year. And then in Rest of World, dynamic is still very different as we saw a strong increase in ADR, let's call it, around 10%. Lengths of stay roughly flat, and there are also some foreign exchange headwinds leading to still higher average basket values, average booking values of around 10%. Does that help?

James Lee - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*

Yes, great. And last question here. Are you seeing any changes as you're looking at bookings into 4Q. Help us understand the booking window. Obviously, you saw a little bit elongated booking window in the first half of the year. Are you seeing like booking window kind of normalize? And just curious how much of visibility on bookings you're looking at into 2024?

Matthias M. Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Yes. At this point, we don't have great visibility into 2024 because our booking venue tends to be between 30 and 60 days, depending on the region and time of the year. And at this time, I mean, what we do see is some bookings for the end of year holiday season. So there, we see no big change. So as I said, dynamics are fairly flat compared to the third quarter. And overall booking windows have normalized for us. So there's no big difference to 2019.

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

And I think they have always been rather consistent without big changes over the last years.

Operator

(Operator Instructions) The next question today comes from the line of Lloyd Walmsley from UBS.

Lloyd Wharton Walmsley - *UBS Investment Bank, Research Division - Analyst*

Two, if I can. First, just -- can you help us understand the -- just the dynamic where you're seeing increased competition in performance channels on one hand, but reduced bidding dynamics on your platform on another? Is that all a function of changing ad formats in Google, and there's just more competition for fewer text ads there? Or do you feel like customers are leaning out of the metasearch more towards Google? Anything you can share there would be helpful.

And then the second one, -- just do you all have a sense for what the changes are going to be? I think you mentioned in Q1 from Google and Europe around self-preferencing and how that might impact you. Any sense of how that will impact things?

Matthias M. Tillmann - *trivago N.V. - MD of Finance, Marketing & Product, CFO and Management Board Member*

Lloyd, yes, let me take your first question, and then Johannes can comment on your second. So I think it's -- I mean, it's a good question. Like why are we seeing lower monetization levels in our own auction, but more competition in performance marketing standards.

Let me first comment on our auction. It's consistent with what we've seen in the second quarter already. So how we look at it is that monetization levels normalized. So we see that there is healthy competition in our auction. And what we are seeing in terms of bidding dynamics make sense. And I think it was rather last year that the auction was a bit hot, and we saw inflated levels. And that's why we're saying it's normalized now.

And yes, that's what we have seen in the third quarter as well. Why we see increased competition on performance marketing channels? I think it's more related to the ad test that we mentioned. Because what is happening there is that we see different formats being introduced at the expense of the traditional ad words. And because of that, you see fewer impressions.

And then if you have the same number of advertisers fighting for fewer slots, that's where you see more competition, not necessarily that people increase their bids because traffic quality change or something. But that is the dynamic there.

And I don't think it's related to what you're alluding to that advertiser leaning out of meta and shifting to Google. I think it's really the volatility that we see there related to those tests and then optimizing their campaigns on our platform and other meta platforms. But again, I think what I see makes sense, and it's actually a healthy auction right now.

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

And let me maybe address the self-preferencing. So we expect Google to do changes until Q1 next year in Europe. And what, in essence, our understanding is that there will be less entry points to Google Hotel Ads which means that basically the price comparison on Google is less visible, which in the long term should adapt the habit of users of comparing prices of Google and people more -- they search for hotel, they look for images and stuff and then they also compare price on Google natively and that is changing. The prices will be much less visible from what our interpretation is.

In the short term, it's difficult to understand where this is going. And I think it's hard to speculate. I think we will adapt and try to learn as much in how we can embrace the formats Google has. At the same time, we'll be curious to see how in the midterm this might be a tailwind for us.

Operator

(Operator Instructions) There are no additional questions waiting at this time. So I'd like to pass the call back over to the management team for any closing remarks.

Johannes Thomas - *trivago N.V. - CEO and Management Board Member*

Thank you for your continued trust in trivago and joining us today. We are energized by the journey that we have ahead and are very focused on executing on our strategic priorities. So stay safe and remember, when you think hotel, it's trivago. Thank you.

Operator

This concludes today's conference call. Thank you all for your participation. You may now disconnect your lines.
