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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the trivago Q1 Earnings Call 2024. (Operator Instructions) I must advise you the call is being recorded today, Wednesday, the 1st of May 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; temporarily designated by trivago's Supervisory Board, pending shareholders' confirmation. The following discussion including responses to your questions reflect management's views as of today, Wednesday, May 1, 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 Q1 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 for the comparable period of 2023. With that, let me turn the call over to Johannes.

Johannes Thomas - *trivago N.V. - MD, Member of Management Board & CEO*

Good morning, everyone. Thank you for joining our Q1 2024 earnings call. To begin, I want to reflect on the journey we've embarked on last year. In May 2023, the new leadership team and I took the helm. In the quarter, when we arrived at trivago, we have encountered a business that was declining at a double-digit pace year-over-year. We experienced the aftermath of several years of rather low brand investment, while simultaneously dealing with the substantial changes Google began making to their search results and ad formats.

At the same time, we were thrilled to observe the enduring appeal and relevance of our matter proposition. Our data indicated an increase in the rate disparity since the pandemic, which has increased the value of price comparison. In addition, our research shows that trivago retained a significant global footprint as one of the most recognized global travel brands. And notably, we saw the company's highly capable team and unique culture as a competitive edge in a rapidly changing environment that is being disrupted by technology and IR.

Our belief in these invaluable assets has only grown stronger since then. We are committed to learn and execute at an unrivaled pace. We have stated our intentions to revitalize our brand and improve our core products with the goal of returning to growth in the near future. We are making long-term oriented decisions to increase our branded visitor baseline, which we expect to yield long-term compounding effects. We have been diligently laying the foundation of our plans, and we believe these efforts will bear fruit throughout the remainder of 2024 and beyond.

The addition of Robin to our team as of April 1 is a key milestone. Robin's wealth of expertise and experience enhances our collective vision. We're delighted to welcome him back to lead our financial organization and help us execute our growth strategy. Now let me provide you an update on our four strategic priorities.

Our first strategic priority is branded growth. We are pleased with the results of our latest campaigns, which is tracking well against our expectations. We're already seeing branded traffic growing on the back of this investment, reaffirming our decisions and strategic direction. Our renewed brand marketing team continues to impress us with their ability to drive positive impact and new TV ads that are being tested in preparation for our summer campaigns. The importance of our brand has grown even further, as Google has become a less relevant and less appealing marketing channel for us. We are opportunistically participating in new ad formats, though expect the channel to remain volatile and a substantial headwind.

Our second strategic priority is to improve our hotel search experience. We are here to help travelers find their ideal hotel. Our new AI-powered hotel highlights feature has been scaled significantly during the last quarter. It's now available in 7 languages across 25 markets and expanded to 120,000 hotels. Fully AI-generated, these hotel highlights are now visible in our search results and provide users with distinct aspects to know about hotel. Our tests indicate an increase in user engagement and improved search experience. We will continue to invest in this differentiating feature of our platform.

Our third priority is to offer the best deal discovery experience. We aim to help travelers find great deals and get better prices. Our recent consumer survey revealed that 71% of respondents in the U.S. compare prices from different websites in order to find the best deals. To deliver on the needs of price-savvy travelers, we have increased the visibility of relevant deals on our platform and made our search results more price sensitive.

By providing more savings options to our users, we aim to create a more memorable experience and increase user retention. Our fourth priority is to create value for our advertising partners. An increased share of branded traffic and continuous product improvements have substantially increased our conversion rate and therefore, the quality of leads we send to our partners.

As a result, we believe that trivago's attractiveness as a marketing channel is growing. We expect this to be appreciated by our partners over time. We have also innovated our option model and further rolled out our second price auction test last quarter. This auction model simplifies bidding for our partners and reduces their economic risk. Based on the positive feedback and test results, we plan to introduce the second price auction in all markets before the summer.

To summarize, we are seeing positive impact of our brand investment. We expect this to continuously increase our branded visitor baseline and improve monetization in the long run. Despite headwinds, we continue to be optimistic for the summer season and in our ability to return the business to double-digit top line growth in the medium term. With that, I want to say thank you to our teams for all your continued hard work and dedication. Now I'd like to hand over to Robin.

Robin Harries - *trivago N.V. - CFO & Member of Management Board*

Thank you, Johannes. Good morning, everyone, and welcome to our first quarter earnings call. It feels very good to return to trivago after nearly 6 years. I would like to express my gratitude to our Interim CFO, Kevin Hu, and the entire team for their outstanding work during the transition and onboarding process as well as Johannes, Jasmine and Andrej who laid the foundation for strategic initiatives over the last couple of months. I can say that I joined a highly energized team that wants to win. My return alongside Johannes, Jasmine and Andrej underscores our belief in the tremendous opportunity we see to create value for our users, partners and shareholders.

Today, our market cap is below $200 million despite having over EUR 100 million in cash, generating EUR 485 million in revenues, and EUR 54 million in adjusted EBITDA in 2023. Our valuation today is significantly lower than in 2012 when I first joined trivago. We see tremendous upside potential. Trivago still stands as 1 of the world's foremost travel brands operating across 53 local websites and apps in key global markets. Our product value proposition remains highly relevant, scaling up brand marketing worked well for us in the past. And we already see successes from the initial campaign started at the end of 2023.

We believe that our winning formula still works and remain confident in our ability to progress step by step towards renewed growth on the horizon. Now I would like to discuss our performance in Q1. I will start with a review of our results as well as provide an update on our outlook for the remainder of 2024. All comparisons for 2024 are on a year-over-year basis, unless otherwise stated. During the first quarter of 2024, we achieved total revenues of EUR 101.4 million, which was a 9% decline compared to prior year first quarter.

The year-over-year decline was of a lower magnitude as to what was observed in the past 3 quarters. The year started with softer bidding dynamics that gradually improved over the course of the quarter to healthier levels in the Americas, whereas Developed Europe and Rest of World are below the previous year. Overall, profitability decreased as we incurred higher selling and marketing expenses. We invested into our brand marketing activities globally as part of our strategy shift to long-term growth. Let me share some additional insights into our brand marketing efforts.

We saw first successes from our renewed brand marketing campaign that featured our AI-driven creatives that we launched late last year. We observed a total global brand traffic increase during the first quarter of 2024 compared to the same prior year period. We have seen significant branded traffic growth in Developed Europe and Rest of World and mixed results in Americas.

Our North American markets performed much better than Latin American markets. As we see positive branded traffic developments, our total traffic decreased due to higher performance marketing traffic losses as we continue to observe higher levels of competition on Google.

During the first quarter, we continued to observe Google ad changes which has made Google a less attractive marketing channel for us. We continue to invest opportunistically in performance marketing channels, though we plan to maintain or selectively increase our profitability targets. We are not planning to compensate volume losses stemming from performance marketing channels at a cost of long-term oriented brand investments. The overall volume losses in performance marketing channels were partly offset by our brand marketing gains. I would like to next discuss the results of our 3 reporting segments.

Referral revenues declined by 6% in Americas and by 15% in our Developed Europe segment, while it increased by 8% in our Rest of World segment. We invested across all 3 segments Advertising spend increasing by 45% in Americas, 12% in Developed Europe and 51% in our Rest of World segment. The increased brand investments made during the quarter resulted in our return on advertising spend, or ROAS, our key ratio that compares referral revenue with advertising spend to decline across all 3 segments as a result of our marketing campaigns.

The declines in our Americas and Developed Europe segments were largely driven by performance marketing volume losses as a result of continued higher levels of competition. In Developed Europe, the losses were further driven by softer bidding dynamics on our platform compared to the same period in 2023. In our Rest of World segment, we continue to see referral revenue growth primarily driven by higher traffic volumes as a result of increased brand investments and better booking conversion, which was partly offset by softer bidding dynamics.

Moving on to our operational expenses. We incurred EUR 16.7 million, higher operating expenses, totaling EUR 113 million during the first quarter of 2024. The increase was primarily driven by EUR 19.1 million, higher advertising spend, which was partly offset by EUR 1.4 million lower share-based compensation costs. Overall, we had a net loss of EUR 8.4 million and an adjusted EBITDA loss of EUR 9.2 million during the first quarter. Looking ahead, the main travel trends remain solid, and we continue to see strong demand for hotels as we head into summer.

We have continued to observe improved booking conversion levels on our platform, providing our partners with high quality and better converting traffic. We expect advertiser to react to this over time. We plan to maintain our profitability targets and do not plan to compensate for performance marketing volume losses, as we continue to focus on our brand marketing campaign to drive long-term growth. We continue to expect revenues year-over-year to decline in the second quarter and to reverse the trend in the second half of the year.

We continue to guide our adjusted EBITDA for full year to be at around breakeven levels. The initial results of our brand marketing campaigns are overall in line with our expectations, and we remain confident that our brand investments will help us to further increase our branded traffic over time to fill long-term growth and profitability. 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) Your first question comes from the line of Naved Khan of B. Riley Securities.

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

A couple of questions from me. Maybe just from the -- on the weakness in the performance channel. I mean we have seen some weakness even in the prior quarters. Did any changes related to the implementation of DMA, have any additional impact in March? And can you maybe just talk about the travel demand broadly across different regions? Did you see any changes on that front?

Johannes Thomas - *trivago N.V. - MD, Member of Management Board & CEO*

Thank you for the question, Naved. This is Johannes. I think on the first quarter in terms of performance marketing, there was weakness starting second half of the year already where Google gradually did changes to their search results and tested new ad formats and that has gradually increased over time in Q1 from what we observed the visibility of the new ad formats, PPA, especially in Europe. In the U.S., our observation is PPA and GHA being more visible, has increased in Q1, which we think is probably part of the DMA adjustments.

So it basically has increased in visibility. We are participating in these formats, though we are very focused on brand we see opportunistically where we are joining and what makes sense for us. We are seeing not the performance we would appreciate from a conversion perspective and also we lack in optimization levers that would help us optimize these ads effectively. And I think that's the performance marketing perspective. Robin, can you comment on demand.

Robin Harries - *trivago N.V. - CFO & Member of Management Board*

Yes. Thanks for the question. Regarding demand. So we see robust demand, so it remains strong. It's rather increasing. So on that side, it looks quite good.

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

Okay. Great. Maybe just a related follow-up on your answer to the headwinds and performance. So what gives you the confidence that you can see positive growth in the back half, given these headwinds are continuing in the third channel?

Johannes Thomas - *trivago N.V. - MD, Member of Management Board & CEO*

We are seeing a strong response of our branded campaigns. And branded campaigns have a compounding effect over time. So it's a matter of doing the right things and brand consistently. And that means optimizing markets, optimizing our creatives. We see room for improvement. And whenever we do improvements, we see further impact. So it's a matter of doing this consistently throughout the year, and we see a very good chance to offset losses in performance marketing.

And we certainly are learning on how to adapting and participating in the new ad formats, which we're trying to optimize over time as well.

Operator

Your next question comes from the line of Stephen Ju of UBS.

Jeremy Chandler Liu - *UBS Investment Bank, Research Division - Associate Analyst*

This is Jeremy on the Stephen. I got 2 questions. First, on brand marketing, can you talk broadly about how the ROAS and the payback period may be different from performance? And then second, as a follow-up on the demand side, the softer bidding activity you're calling out for Europe and Rest of World, is this largely a consequence of local currency devaluing relative to global, for example, with the yen and making it more expensive for travelers in APAC? Or is there something underlying you're seeing in terms of consumer demand?

Johannes Thomas - *trivago N.V. - MD, Member of Management Board & CEO*

So let me comment on the first part on the ROAS. The difference in performance marketing is that you have a good level of ROAS with the acquisition of the users. And that is basically in performance marketing, the beauty, you invest in quick and quickly get a return with brand is just a little bit of a longer horizon that we put on the perspective. But we see short-term impact, and we know what the short-term impact are as proxies for long-term impact.

That's where we have a ton of data about and good assumptions on how the branded visitor baseline would evolve over time, and that's translating into a long-term return.

Robin Harries - *trivago N.V. - CFO & Member of Management Board*

So regarding travel trends, what we see across the 3 segments is that ADRs are slightly down in the segments, so in our trivago internal data. And we see that length of stay is slightly down in Americas and Rest of the World, slightly up in Europe. So -- and this leads to slightly lower ABVs in Americas and Rest of the World and stable ABVs in Europe. So when we look at the star hotels, so we see a share of 4- to 5-star hotels that is continuously going down, yes, so in all 3 segments.

And, yes, so this indicates that people are more price sensitive. And we also see this in Rest of the World. So especially when you look into Japan, we see ADRs going down there as well, also on local...

Operator

Next question comes from the line of James Lee of Mizuho.

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

Great. My question is on AI investments. And an you help us understand what you're doing there specifically. Are you developing apps on top of the foundational model? If so, can you give a sense what you're working with and what use cases you're developing that could differentiate your product versus your peers?

Johannes Thomas - *trivago N.V. - MD, Member of Management Board & CEO*

Yes. Thank you for asking the question. I think it's pretty central to our efforts. On the 1 side, there's a ton of things we do internally to improve operations and be more efficient. And we create a lot of awareness, and it's on everybody's strategic priority internally to think about it. If you see our TV ads, we mentioned how we are leveraging AI to localize our ads. I the past we had a lot of different speakers per market, which was quite expensive.

Production was a very long period. We now use AI to localize our TV ads. So that's something you see teams innovating and leveraging AI like at the edge of what's actually possible, and that's what we expect from every team in the company. When it comes to our product, I've mentioned the AI highlights. So you can go to New York look at the Mandarin Oriental. And you will see snippets that say unbeatable views, gourmet cuisine and then we give context around it, breathtaking Panoramas of Manhattan. So very distinct things USPs hotel can offer.

These are not human generated. They are AI generated. And to be able to do this at scale for 120,000 hotels, we have built the infrastructure. We have used a range of models, tested different models where we are experimenting with. We have a solid setup that works for us now that is that is operational and effective, and we continue doing that. We're not sharing, who we work with and this changes over time as well, as we don't want to be locked in into 1 model, but continue to run on where we see biggest impact.

And then the last thing, so it's about content aggregating, bringing what's really relevant for users into their mind when it's relevant. And then the last 1 where we're excited about, where we have put a team on, is natural language search. Everybody that is in the search field certainly is thinking about conversational search and how you create a different experience for the user.

And that's what we have built core models on. How do we not use city plus date and region and like aesthetic data infrastructure, but rather free search environment that gives you a list of hotels. And we call this a natural language search that we're exploring, but it's super early in our space.

But I think we can expect everybody in search space, including us, will find ways of use cases where we make the search results more relevant through that. And machine learning and AI were used for a long time in showing more relevant search results already, but improving our search, showing more relevant content, leveraging it in marketing, that's a focus for us.

Operator

Your next question comes from the line of Ron Josey of Citi.

Ronald Victor Josey - *Citigroup Inc., Research Division - MD and Co-Head of Tech & Communications*

I wanted to ask Johannes you talked a little -- you talked about trivago's second-price auction test and plans to launch here shortly. Talk to us a little more about the results that you're seeing from the testing there and what makes you feel confident about moving forward here in launching that? And can you just provide some additional thoughts on just the DMA and the DSA and some of the newer rules and regulations regarding the gatekeepers and maybe how trivago is positioned here?

Johannes Thomas - *trivago N.V. - MD, Member of Management Board & CEO*

Thank you for your question. Maybe the SPA part, I think it has been a very big project for us. We have been working on this now for about 9 months, great effort. And this is work with our partners internally, quite complex infrastructure change. And we have rolled this out in record speed and very consistently.

And we are seeing the intentions were twofold. On the 1 hand, we want to improve our search results. In the first price auction, you have the problem when advertisers bid up, the hotel gets pushed up in the ranking very fast.

And that means you can pay hotels up the ranking and then that means that not the best hotels are in front of users' minds. And as a second price auction, this is milder. We have a more stable search result. That's the expectation over time with indication that we get there.

And that has been an important qualification, are we improving the user experience and that's what we want to see. And the second part, our partners are working on Google, on other marketing channels in the second price auction. So we simplify the world so they all need to think about first and second price, and we make it more simple for them.

Also when you bid in a second price auction, you don't have risk of overbidding, and don't need to bid down to understand, who's the next highest bidder so you may be overpaying in the auction. That risk is gone, which means the marketplace overall becomes more efficient and also medium-sized players can be more aggressive without huge economic risk. So that is, I think, on the expectations. We see both signals on the user side and the feedback we get from our partners that they are satisfied with how things are going with how they are steering our auction.

And then when you get to the tipping point, where partners are excited, we see the results on our user end, that's where we want to push the pedal. We want to be done by end of the month, ideally, but complexity is there. So there's a little bit of room. Before summer, we want to be out on auctions normalize and partners. And we have a new normal that we all feel good in and can optimize with forward. And that's it on the SBA. The DMA, I commented on it, and that is something where you have seen now a new reality in Google where this is now being assessed by the commission. And we will find out what the commission is happy with and what's not.

Overall, we see less entry points in Europe into GHA. So their hotel product, from our perspective, has been weakened. And that's good for us in the long term. In the short term, it's still a headwind that they put PPAs more visible and PPAs for us not converting as well as text ads did. And that, I think, would be interesting. We look at it as hard to predict where this is going. And we know they are experimenting further. They have other types of formats that they will be testing.

So it's volatile and hard to predict where this normalizes. And we are learning fast and how to find our sweet spot in this game. I think given we focus on brand and it's less relevant for us already because it has been happened for a while, and we now see the traction in brand. We aim this to offset. And then it will rather be an opportunity that we can dive into if we are excited about the dynamics in that space.

Operator

Your next question comes from the line of Brian Fitzgerald of Wells Fargo.

Brian Nicholas Fitzgerald - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

In the prepared remarks, you mentioned that branded traffic volumes are growing nicely and Developed Europe, Rest of the World, but not so much in Latin America. To what extent is that a function of you running material different campaigns? Or is it just the timing in the markets there? Anything different with respect to Latin America with regard to branded campaigns.

Johannes Thomas - *trivago N.V. - MD, Member of Management Board & CEO*

I think we -- in Latin America, we have strategically not focused on it at the beginning of the year. And the reason was that the levels of optimization and the focus we put there were not at the levels we liked. So you're trying to find out where you have the best dynamics across the globe and where you want to invest your money. And that was not the place where we have seen the returns we wanted to, and we quickly stopped investing in those markets, to be able to invest into markets with more elasticity.

Operator

(Operator Instructions)

Your question next question comes from the line of Doug Anmuth of JPMorgan.

Dae K. Lee - *JPMorgan Chase & Co, Research Division - Analyst*

This is Dae on for Doug. I have 2. So the first one, I'm curious to hear your thoughts on why you're seeing softer bidding dynamics and if that's properties across all advertisers and why specifically Developed Europe and Rest of the World and what makes Americas different? And I have a follow-up.

Robin Harries - *trivago N.V. - CFO & Member of Management Board*

Thanks for the question. So we saw that big advertisers a bit softer at the beginning of Q1, but went back to more healthy levels in Americas and remain softer in Developed Europe and Rest of the World. So the reasons, I mean we expect more branded traffic and higher conversions will be appreciated by our partners over time. We see at the moment in Americas, there might be more heated competition on our platforms so which leads to better bidding dynamics.

And, yes, so this is, at the moment, on a healthy level in Americas, and it's increasing in Developed Europe and the Rest of the World so but it's still softer compared to last year.

Dae K. Lee - *JPMorgan Chase & Co, Research Division - Analyst*

So I guess related to that, you kind of briefly touched on that already, but what do you think is needed for advertisers to react or appreciate the higher quality and better converting traffic that you're sending right now?

Johannes Thomas - *trivago N.V. - MD, Member of Management Board & CEO*

I think here, the most important or 1 of the important factors in our engagement with advertisers, and they are very engaged, big ones, small ones, medium-sized suppliers. There's very active discussions. What they certainly want is traffic that's incremental. So if we compete in Google and buy the same traffic, and it's not incremental for them, it's not that attractive.

And if we look at the recent years, our share of performance marketing has been bigger and now leaning back into brand. We expect them to see more incrementality. If that comes and we are showing that by much higher conversion rates already. Our branded traffic converts much better.

So along with both product improvements, conversion rates are up, and I think that is an aspect that in the next review, they will hopefully see that our traffic is more incremental. And then on a relative basis to other channels, you become more attractive. And that's a matter of how quickly does this materialize.

We have seen the year started much softer, and over the course of the quarter, numbers have normalized. And as Robin said in Americas, very healthy; in Europe and Rest of the World a bit softer but, overall, at good levels.

Operator

With no further questions, this concludes our Q&A session. I will now turn the conference back over to Johannes for closing remarks.

Johannes Thomas - *trivago N.V. - MD, Member of Management Board & CEO*

We are committed to delivering sustainable growth and creating long-term value for our shareholders. The success of the company will be driven by our continuous transformation in marketing and innovation in our core product. I'd like to thank everyone for participating in our earnings call.

We appreciate your time and your ongoing interest in our company. We look forward to updating you on our progress and results on the next call. Thank you, and have a great day.

Operator

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