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CORPORATE PARTICIPANTS

Matthias Tillmann *Trivago - Head of IR*

Rolf Schromgens *Trivago - CEO, Managing Director*

Axel Hefer *Trivago - CFO, Managing Director*

CONFERENCE CALL PARTICIPANTS

Brian Nowak *Morgan Stanley - Analyst*

Douglas Anmuth *JPMorgan - Analyst*

Lloyd Walmsley *Deutsche Bank - Analyst*

Jack Fuller *Guggenheim - Analyst*

Kevin Kopelman *Cowen and Company - Analyst*

PRESENTATION

Operator

Good day and welcome to the Trivago Q4 report 2016 conference call. Today's conference is being recorded, and at this time I would like to turn the conference over to Mr. Matthias Tillmann, Head of Investor Relations. Please go ahead, sir.

Matthias Tillmann - *Trivago - Head of IR*

Good afternoon, everybody. Welcome to Trivago's financial results conference call for the fourth-quarter and full year ended December 31st, 2016. I am pleased to be joined on the call today by Rolf Schromgens, Trivago's CEO and Managing Director; and Axel Hefer our CFO and Managing Director.

The following discussion, including responses to your questions, reflect Management's views as of today February 24th, 2016, only. We do not undertake any obligation to update or rewrite 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 today's press release and the Company's filings with the SEC for information about factors which could cause or actual results to differ material materially from these forward-looking statements. You will find reconciliations of non-GAAP measures to the most comparative GAAP measures discussed today in our earnings release, which is posted on the Company's IR website at ir.trivago.com; and I encourage you to periodically visit our Investor Relations site for important content, including today's earnings release.

Finally, unless otherwise stated, all comparison on this call will be against our results for the comparable period of 2015. With that, let me turn over the call over to Rolf.

Rolf Schromgens - *Trivago - CEO, Managing Director*

Yes, hello everybody. We are very excited to welcome you to trivago's first ever earnings call. So this is very new for us, but we always think new is good, new is learning, new is experiences; and so we are very much looking forward to this. So as we are especially happy because we are looking back on a strong finish of an already very good year.

So already in our -- already in our 11th year, we have maintained the very strong revenue growth. We have grown approximately 53%(corrected by company after the call) year-over-year to about EUR754 million in revenue. And despite the higher costs related to our IPO, we were able to significantly increase profitability with an adjusted EBIDTA of more than EUR28 million. We see that we are continuously growing our user base, and are becoming more competitive in all of our marketing channels.

The growth trajectory is unbroken in all segments, that said trivago becomes more and more a truly global Company. For the first time in trivago's history, actually the majority of revenue was generated outside of the core European market.

But we did not only improve or financial profile. But we also made significant progress in key areas of our business. For example, we rolled out our Mr. trivago's creative platform that enables us to steadily learn and optimize our campaigns to now more than now 26 different markets.

Part of our mission is also to find the ideal hotel, and that way we focus on personalization and semantic analysis. We built an expert team now in Amsterdam that only focuses on improving our algorithms and building up knowledge of our hotels.

On the product side, we continually improve and optimize user experience. Our open-ended marketplace allows us now to focus more and more on end-to-end value creation.

So at this, our first earnings call, please give me the chance to shortly summarize some key facts about trivago. Trivago was founded in 2005, (corrected by company after the call) and we have grown since 2007 profitably with just one EUR1.4 million external capital. After our only -- after our two financing rounds in 2006 and 2007, we focused the business in 2008 and created our mission statement, which is actually unchanged since then.

And with our mission statement, we took three important decisions. First, we only wanted to focus on hotels, so we did not want to do flights or rental car or other products.

The second important decision; we are only focusing on search. We do not want to be a shop, we do not want to sell room nights, we are not a community or a video portal. And the third was to conquer a position at the top of the funnel, to really built a brand that everybody knows and get people to ask for it.

We think that this was basically the basis of our success. This was the model that we were building out over the last eight years, and with our focus on continually learning and improving, we expanded step by step through our Europe, America, and beyond.

Starting at point of sale, always low return on advertising improving it over time, saving and taking the profits then to speed up learning in other geography. This also helped us last year to grow that fast and improve our profitability at the same time.

But still, when we are looking at the market, we have to conclude that this can just be the beginning, the hotel market is huge, it is growing; and only a third of that market is already online. But even looking at the current online market potential, our share is less than 5% so we see a lot of headroom for us to grow. And we think this also confirms our focus on growing and generating more revenue and generating more data to best solve the major challenges of the traveler.

And here, we can see that we have the three major challenges for travelers that we want to solve. We see the first challenge is the challenge of choice. So when you are looking at a destination you are always confronted with such a huge number of options of hotels and recommendations. It is super hard and clumsy process if you really want to find the best place for you.

Second, there is a challenge of availability. So even if you found your idea hotel it still does not mean that this hotel was bookable at the website we are currently looking at. And third is the problem of price, because even if you found your ideal hotel and it is bookable, you can still not be sure you booked it for the best price.

So, what we want to do is we want to use our knowledge about hotels and accommodations to get users into their ideal place to stay. We want to give them an overview about all available hotels and we want to empower them to see different prices for the same room, so actually they can decide where they want to book and for what price.

So here, you get an overview of the trivago structure, the trivago system. And when you are looking at our value chain, then this chain is also a reflection of our organizational structure. Which is actually divided into marketing, hotel search, and advertiser relation.

And all three of these areas have a very, very clear mission. First, we get users in through our unique and very analytical marketing approach, where we attract high-quality traffic to our platform. Then by leading users to their ideal hotel and our hotel search, we transform this traffic to clear intent to book a very specific hotel at a very specific advertiser.

And last but not least, in our liquid marketplace of advertisers, we secure that we always get a fair share of the value that we are generating. So let me now hand over to Axel to take a littlebit deeper look into the numbers.

Axel Hefer - *Trivago - CFO, Managing Director*

Thanks, Rolf. So during the fourth-quarter, our revenue grew from EUR99.3 million to EUR169.2 million, which is a growth rate of 70%. And that growth accelerated from the growth in the third quarter where you saw a year-on-year growth of 55%. The total growth in 2016 was 53% growing from EUR493.1 million to EUR754.2 million.

Looking at the profitability at our adjusted EBIDTA for the fourth quarter, you see a slight decline from EUR12.3 million to EUR11.9 million, which is impacted by two effects. One is that we had EUR3.5 million expense in the fourth quarter that was related to our initial public offering and the corporate restructuring that we are going through. And then the second effect was an increase in investment pace which I will come to a bit later.

In the third quarter, we see a significant improvement of profitability from EUR9.7 million loss in terms of adjusted EBIDTA to EUR6.4 million profit. And even there, in the third-quarter, you have a EUR2.3 million IPO and reorganization related expense. For the whole year, that means, as Rolf mentioned before, that the adjusted EBIDTA reaches EUR28.2 million, compared to EUR1.1 million loss in 2015.

In terms of return on advertisement spend, the key metric for our marketing efficiency for the full year you see an improvement from 113% up to 120%, and you see the same trend in the third quarter where there was an increase from 105% to 115%. In the fourth quarter, though, there is a reduction in the return on advertisement spend from 141% to 134%.

And the reasons for that is that we saw interesting investment opportunities in the fourth quarter compared to 2015, which is the quarter where typically the -- in particularly, the TV advertisement prices are on a seasonal high given that there Christmas season in many markets and in particular commerce companies are very bidding high given that it is their peak season. But this year we invested more and the first results of that investment are looking very promising.

So looking at the adjusted EBIDTA margin in the fourth quarter, that came down from 12.4% to 7%, again, keeping in mind the IPO-related costs. And for the full year an increase from .2% loss to a 3.7% positive adjusted EBIDTA margin.

So let me just point out some highlights when you go through the 6K that I think are worth commenting on to get give you a bit of background there. IPO related costs, I mentioned them already. So there we got a total expense as you can see in the G&A line of EUR7.5 million. The total costs that were incurred by us were EUR11.1 million, of which EUR5.4 million could be capitalized.

The related party-shared service fee is worth mentioning. So that is basically a noncash expense that is shown in our books, which is reflecting the services that we receive from Expedia. And the total number amounted to EUR4.2 million for the whole year, of which EUR600,000 were IPO-related and are actually part of this EUR11.1 million of the EUR5.7 million IPO-related costs that I mentioned before.

The reason why I am pointing this out is that this EUR3.6 million, in a way headquarter/management fee/allocation, that was companying to our books from Expedia is not pushed to the segment trivago in the Expedia reporting. So it is a structural difference in the way the numbers are shown and that is I think, very important to keep in mind, in particular given the fact that we, for this earnings release and the next earnings release, we will have different timing of our release.

So that is a structural difference that will stay. We have to show this service fee and Expedia is not showing it in the segment trivago.

IPO proceeds, that is obvious. So we had a net proceeds of EUR207.8 million, which, of course, led to an increase in the cash position at the year-end. Share base compensation is worth explaining.

We have got a total share compensation for the year of EUR53.7 million, of which EUR51 million were driven by a value accounting treatment of liability award, which is something that had to do with the way we historically structure the contract. Actually, you know before we even considered going for an IPO and that is something that we do not foresee to continue going forward.

Build-to-suit again is worth mentioning. So we will move in, or we are planning to move in a new corporate headquarter in 2018; and that building is currently under construction. And unfortunately, when we signed that contract, you know, we did not check it for you as GAAP so it did trigger a build-to-suit treatment. So what that means is that we have to show the progress of the construction on our balance sheet, so you see a EUR30.9 million increase in PP&E and a EUR30.9 million increase in liabilities.

The P&L that you see is a noncash effect of EUR1.7 million land lease expense is the term for it. So basically of the lease payment that will command in 2018 a fraction is assumed to be for the land and that land portion is spread out across a longer time period, because given that the building is under construction already in a way, it is assumed that we rent the land already.

So again that is worth keeping in mind, it is a noncash event but it is included in our G&A numbers. There are more details in the back of the presentation which we will not go through right now, but which will be online and there is commentary on there which we hope is helpful.

So now going one level deeper into the different KPIs and the business segments. Overall, if we look at qualified referrals and acceleration of growth, and more or less equal distribution of the absolute growth in terms of qualified referrals, with 36%, 31%, and 33% coming from developed Europe, Americas, and the Rest of World.

Looking at revenue per qualified referrals, there is one in fact that we talked about during the roadshow as well. When we introduced the marketplace in the first half of 2015, there was a temporary increase in commercialization revenue per qualified referrals. And why was that?

That was basically by opening up the auction on an individual hotel level. We saw that the expensive, so high booking value hotels were coming to the top of the sorting, which helped the commercialization, but led to a situation. So, overall it was positive for us financially, but the booking conversion went down. So that means that more and more of our users could not find what they were looking for.

So analyzing that development, we recalibrated our sorting algorithm and adjusted for that. So, you see a bit of a peek in a way of the commercialization of a first and second quarter of 2015, which of course still has an impact on the full year comparisons. When you look at the third and the fourth quarter, we have slight decrease and a slight increase; so a more or less stable revenue per qualified referral on an overall basis.

Looking at the return on advertisement spend, I commented on that already so as I said, there were interesting investment opportunities in the fourth quarter of 2016 compared to 2015, and that led to an increase spend and reduced profitability in the fourth quarter. Early indications are that that was a very wise decision.

Looking at developed Europe, similar trend. An acceleration of the growth in the fourth-quarter to 42% in terms of qualified referrals. Stable revenue per qualified referral in quarter three and quarter four. And then as I mentioned on the overall business an impact on the return in advertisement spend in the fourth quarter through the increase investment.

Turning to Americas, again, strong growth across the region; US, Brazil, and Mexico all significantly contributing to the absolute growth in qualified referrals. In terms of revenue per qualified referral, there are two points to point out here. One is, the dollar impact. There was a strong movement in the US dollar/euro exchange rate which led to a translation effect that we estimate to have an impact of around 5% on the revenue per qualified referral metric.

And the second thing that we see, and particularly in Americas is that there is -- that there is an improved commercialization which leads to an increase in the revenue per qualified referral. This happens frequently because we continuously optimize our marketplace algorithm and try out new things.

Having said that, you know, you need to -- it takes some time to see whether actually these effects are temporary or not. So we take it with a grain of salt and do not re-adjust our view on the business, and would like to see that improved commercialization for at least a second quarter, if not a third quarter before we will change our view. And very difficult to see -- to forecast whether these changes are temporary or lasting.

And return on advertisement spend, the trend continued. Basically a strong improvement in our baseline traffic, which boosted our profitability across the region and the quarters.

The Rest of World, very similar picture. Strong growth driven by Japan, India, and Russia moving from the testing phase to scaling stage where we start to invest significant dollar amounts on television in particular. Revenue per qualified referral pretty much stable in the third and the fourth quarter and return on advertisement spend increasing as a result of an increase in the baseline of direct traffic in the various markets.

So that brings me to our guidance for our 2017. So we expect the revenue growth of the financial year 2017 versus 2016 to be 45% or higher. We expect the adjusted EBIDTA margin to remain flat to slightly increase versus the margin in 2016.

So the long-term profitability drivers are intact. We still believe in our long-term profitability target. Key investment areas are as they have been in the past advertisement, the growth in particular in the markets where we just entered the scaling stage and where we are still in testing phase, and of course investment in the talent pool, in particular here in Dusseldorf.

Adding to that, I would like to make two comments on the seasonality pattern. Given that we only give annual guidance. So the revenue distribution in the fourth quarter, we expect in 2017 to be similar to 2016, with a slightly higher share of the first and second quarter compared to 2016.

In terms of the adjusted EBIDTA, we in principle expect a similar distribution between the different quarters of the annual target as in 2016, with one slight change. As I mentioned before, the increase investment in the fourth quarter seems to have been a good idea, so first indications are promising. So we expect the share of the fourth quarter to further go down and the share of the first three quarters to increase.

Rolf Schromgens - *Trivago - CEO, Managing Director*

Thanks a lot. So let me summarize. We are really happy to be able to start with such a strong year and an even stronger quarter. So I think that shows that we are still able to grow even our most developed markets with growth rates plus 40%, and we truly believe that going public was just a start. So we are happy to, you know, to receive your questions now.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). We now are taking our first question from Brian Nowak from Morgan Stanley. Please go ahead your line is open.

Brian Nowak - *Morgan Stanley - Analyst*

Thanks for taking my questions, I have two. The first one, and I apologize it is a simple question, but can you just explain the commercialization issue a little bit more in detail kind of what happened? Is that one of the drivers of the US -- I guess the US revenue and the qualified referrals were light but the RoW was better. Just talk about commercialization and what happened in the US in the quarter. And bigger picture, if we kind of step back, how do you think about the mix of your business over time between branded SEM and SEO to kind of get to your long-term target margins? Thanks.

Axel Hefer - *Trivago - CFO, Managing Director*

So let me just repeat the question. So the question is, what the details are behind the comment on the improved commercialization in the US and whether that is an effect we not only see in the US but also in the other markets.

So as I said, I mean, we continuously are optimizing our marketplace algorithms, and there are many small things that we continuously do. So it is a bit difficult to give you the technical detail and some of these tests are -- show a little of effect in the short-term and then normalize over time as there is just an initial reaction of the advertisers, and then they get used to it in a way and the bidding is normalizing.

Some of them have a lasting effect because they overall improve the liquidity of the marketplace; and as a result, improve our commercialization, which is just another term for our share of the overall value that we are creating. And so the marketplace algorithms are global so absolutely, that thanks for pointing that out. I did not make that clear enough.

But in the -- the changes in that test that we have been running in the fourth quarter, the effect that we saw was just greater in the US. And that is not uncommon, that you have different reactions in different markets given that the structures are very different, the competitive dynamics are very different by platform, by market. So that is something that is typical.

But yes, in this case, as I said, in Americas the effect was greatest. But, we are still conservative to see whether that is really a lasting effect.

Rolf Schromgens - *Trivago - CEO, Managing Director*

Yes. Let me take the second part of that question. So we generally do not disclose the shares of the different channel in our marketing mix. But I can stay that we have not seen any significant changes in the last quarter. And besides that, we just -- natural through seasonality, and we do not expect that in the short-term.

Brian Nowak - *Morgan Stanley - Analyst*

Okay. Thanks.

Operator

We are taking our next question from Douglas Anmuth from JPMorgan. Please go ahead, your line is open.

Douglas Anmuth - *JPMorgan - Analyst*

Hey, thanks for taking the questions. Two, I wanted to ask; first can you talk about ROAS trends, if we think about Europe for example and some of the more mature markets but then also some of the markets within that mix that are not quite at those levels. Can you talk about how some of those ROAS trends are going? And then secondly, do you think 2017 is a year where we would see bid dynamics evolve at all, you know, as you see the potential perhaps for more differentiation across devices, or based on deeper audience in targeting, or even local currency? Thanks.

Axel Hefer - *Trivago - CFO, Managing Director*

So let me just repeat your question, make sure that we properly understood it. So the first question was, whether you could comment on ROAS trends across the market, but in particular in the more developed markets and developed Europe?

So in terms of ROAS trends, we think it is better to look at the annual trends because they are -- the quarters tend to be slightly different and the cut-off points are slightly having, and sometimes having an effect there. So in general, we see the trend that we discussed in the roadshow intact.

The markets, the more they develop, trend upwards, and the drivers of that are twofold. One is that the time lag effect of the TV advertisement is kicking in the more the market develops, and the second one is that we continuously develop our loyal user base which increases the direct baseline traffic, which has a positive impact on our overall profitability.

So we do not see any change to that trend with the exception as I said, that you know the seasonality we think will slightly change given that the test that we did in the fourth quarter looks very promising. So we will probably most slightly change our seasonal investment profile, but that should have a positive impact on the annual development.

The second question that you raise was whether we can comment on the marketplace in 2017 and in particular, whether we would open up the marketplace to bids by device, or bids by audience, or into different currencies. Let me start with the different currencies; the bids are in Euros, but can be updated every day. So de facto that is a bid in local currency. It is just the way it is uploaded, given that you can change it every day.

As an advertiser, really take the currency movement risk intraday, if you are updating every day. So there, I do not really see the benefits, and we do not get any requests as I mentioned. So I do not think that is anything that we will do going forward.

In terms of audience and devices, we continuously test various different things, but there I do not think that we are in a position where we would -- so we have not taken any decision there, but we are continuously testing various different dimensions.

Douglas Anmuth - *JPMorgan - Analyst*

Okay. that is helpful. Thank you.

Operator

We now taking our next question from Lloyd Walmsley from Deutsche Bank. Please go ahead, your line is open.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Thanks. Two, if I can. First, just following up on Brian's question around commercialization changes. Hoping you can give us a bit more color on what drove that. Was that something like a higher number of clicks per user that drove the higher RPQR for more of a change in sort order, or something that drove the auction dynamics? Anything more you could share there would be helpful. And then a second one, curious if you think that getting hotel loyalty prices distributed to trivago is something that would be helpful for your customers or something that you are talking to hotel chains about at all? Anything you can share there would be helpful.

Axel Hefer - *Trivago - CFO, Managing Director*

Yes. So, to come to your first question, a bit more detail on the commercialization, whether that was driven by more clicks. So when you look at the revenue per qualified referral rate there, there are three drivers. One is the booking conversion, second one is the booking value, and the third one is really our revenue share, which we describe as commercialization.

So, and that in the short-term can be influenced by triggering more clicks, but is very quickly then adjusting as long as the booking value behind the clicks is not going up in-line; because otherwise, the profitability of us as a channel for advertisers would come down and they would adjust their bids.

So the tests that we are doing there are more targeted at increasing the liquidity of the marketplace, because that leads -- the more liquid it is, the fairer, in a way, our share of the overall value that we create is. So the way to think about that is more to optimize the algorithm in a way that every advertiser is well-equipped and has a fair opportunity to participate in the marketplace.

So -- and the -- can you repeat the second question?

Lloyd Walmsley - *Deutsche Bank - Analyst*

The second question was about the hotel loyalty pricing. Is there an opportunity to get that distributed to trivago and do you think that is something that would help and something you are talking to the chains at all about?

Rolf Schromgens - *Trivago - CEO, Managing Director*

Yes, I think that generally our goal is to get full transparency about all deal-related factors. And loyal rates are, of course, like all deal-related factors. And we always poll our advertisers to provide us more and more of this data. Sometimes it is a technology, so most of the times it is a technology issue on the other side.

But we are continuously working on improving that, and we are seeing a continuous improvement on our side. Still, we still have to have a specific market coverage. Even if you see that already happening, we have to have specific market coverage to open that feature up to our users.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Okay. Thanks, guys.

Operator

We now taking our next question from Jack Fuller. Please go ahead, your line is open.

Jack Fuller - *Guggenheim - Analyst*

Okay. Guys. So question in general on the margin side of the equation. So in some of your most mature markets where this advertising strategy has played out, do you have markets that are at or above your mature margin target?

Axel Hefer - *Trivago - CFO, Managing Director*

So the question was do we have markets that are above our long-term profitability targets?

Jack Fuller - *Guggenheim - Analyst*

Yes.

Axel Hefer - *Trivago - CFO, Managing Director*

Yes.

Jack Fuller - *Guggenheim - Analyst*

Would you be able to say how many or which ones?

Axel Hefer - *Trivago - CFO, Managing Director*

No. Unfortunately not.

Jack Fuller - *Guggenheim - Analyst*

I thought I would give it a shot. Thank you.

Axel Hefer - *Trivago - CFO, Managing Director*

It was worth a try.

Operator

We can now take our next question from Kevin Kopelman, please go ahead. Your line is open.

Kevin Kopelman - *Cowen and Company - Analyst*

Hi, thanks a lot. Can you give us an update on mobile usage trends, and also maybe in the early feedback from the features like Price Alert and things like that? Thank you.

Rolf Schromgens - *Trivago - CEO, Managing Director*

So I think trends are continuing. We see the trend towards mobile constantly continuing. Of course, it is not -- the growth rates are not like of the shares, are not like it is before. But that, I think, is a natural global trend, and I think within that trend also are mobile -- the part that is mobile is growing.

It is all growing over proportionally because we also stronger invest into ad marketing, because we see that is a very profitable channel for us. So we see these trends continuing. And but I can not give you right now like an update on the Price Alert feature and how are you how much that impacted. But it is a feature that we are constantly improving and we are still focusing on.

Kevin Kopelman - *Cowen and Company - Analyst*

Okay. Thanks.

Operator

(Operator Instructions). There are no further questions in the queue. I would like to now turn the call back over to the speakers for any additional comments.

Rolf Schromgens - *Trivago - CEO, Managing Director*

Thanks a lot again. Thanks a lot for joining this call. So we are very excited at the beginning. Hopefully next time we can play this more cool. And yes, so I hope we see all of you again like in about three months, I think. And have a great weekend.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
