

## Trivago (TRVG) - Introduction 5/3/17



Recognize this guy?

If so, good.

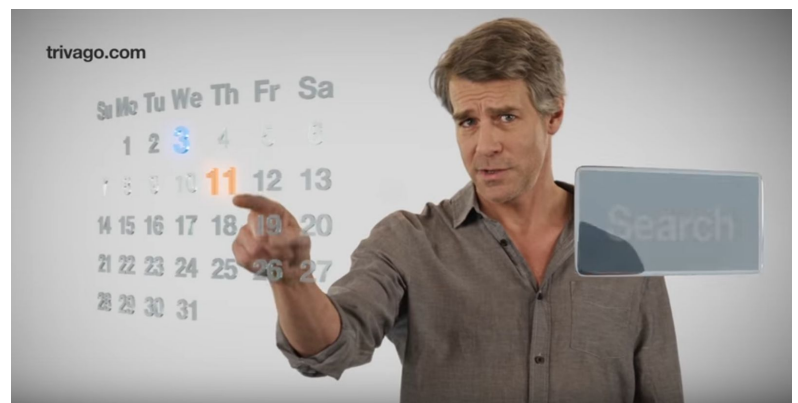
If not, well... you probably will soon.

He's known as the "Trivago Guy" — the unexpected TV sensation that introduced audiences to [Trivago \(TRVG\)](#), a German-based hotel search engine company.

Trivago's business model is simple. It's a hotel aggregator with a solid (although wordy) mission to "be the traveler's first and independent source of information for finding the ideal hotel at the lowest rate."

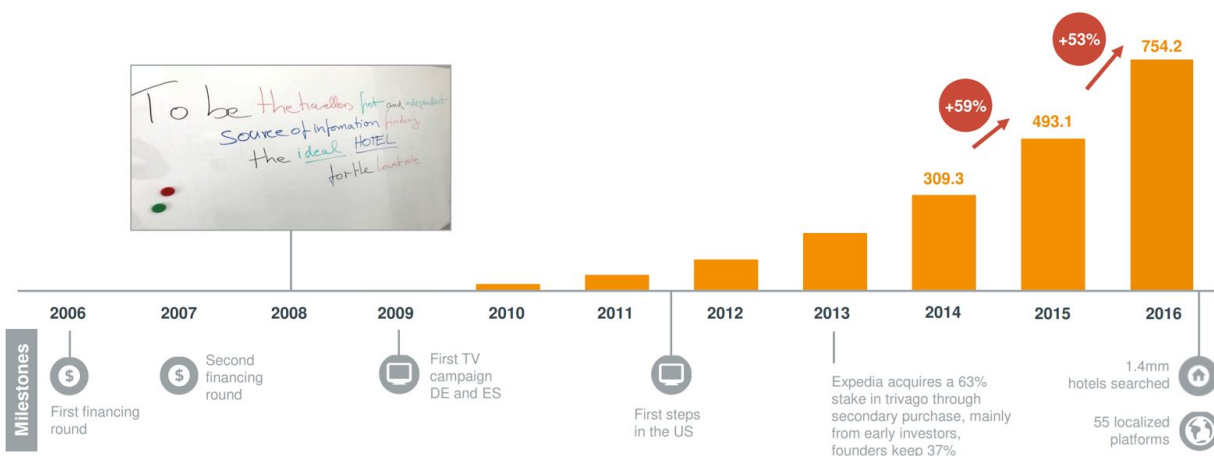
Basically you go to their site, select a city, and they'll find you the best deals on hotels there. Trivago pools offerings from a vast number of competing online travel agencies (like Booking.com for example) and displays them on easy-to-see list where you can select the best price.

The company makes money by charging these travel agencies advertising fees for hosting their listings on Trivago's website. They use a basic cost-per-click model. An agency like Booking.com will pay Trivago for each Trivago-user that clicks and ad or listing to go to their hotel deal. This business model works because Trivago has quickly become the world's largest online hotel search site, comparing rates from over 1.4 million hotels and 250 booking sites worldwide. They report over **120 million visitors per month**. If you want to fill your hotels, you need to be on Trivago.



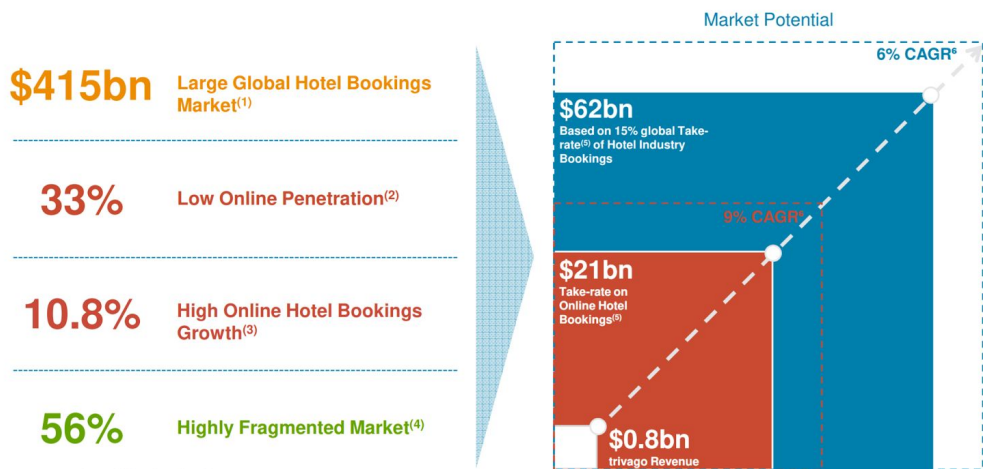
This model is a gangbusters one too as you can see from the company's explosive revenue growth:

**trivago has developed rapidly whilst raising only €1.4mm prior to our IPO**  
 trivago Total Revenue (€mm)



Their 50%+ annual revenue growth rate gives them a strong advantage in a market that's rapidly expanding. Currently **only 33%** of total hotel bookings are made online — probably a lot less than you thought. But this number is growing rapidly at a rate of 10.8% per year. Trivago has a lot of space to grow into. As CEO Rolf Schromgens explains, “our share is less than 5% [of the online market] so we see a lot of headroom for us to grow.”

**The online hotel market is vast and growing quickly as consumers continue to transition online**

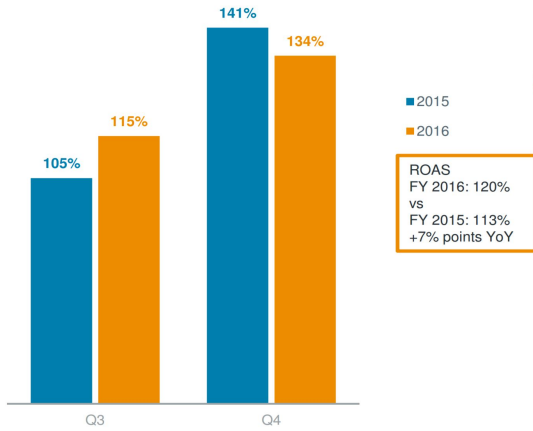


1. 2016 estimated number  
 2. According to Phocuswright, online hotel bookings as a percentage of gross hotel bookings  
 3. According to Phocuswright, 2015-17E online hotel bookings CAGR  
 4. According to Olatola, as of 01/01/2016 including hotels and extended stay  
 5. 15% estimated avg. take-rate of Global Hotel Industry Booking  
 6. 6% CAGR 2017-2020 expected for Global Hotel Industry Bookings, 9% CAGR 2017-2020 expected in online bookings

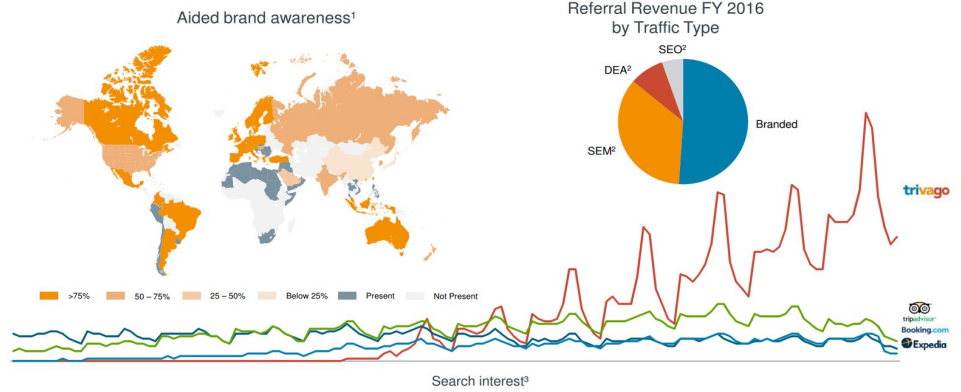
Trivago isn't profitable yet mainly due to their enormous sales and marketing costs. In 2015 they spent €461.2 million and in 2016 they spent another €674.7 million. About **90%** of their revenues go right back into marketing each year. Now even though this isn't optimal for the bottom line, the market is okay with it. They're fine with these expenses as long as they contribute to growth.

You can see below that Trivago's return on ad spend (ROAS) continues to improve year over year, from 113% in 2015 to 120% in 2016. The slight drop off seen in the 4th quarter is due to what the company called “interesting investment opportunities” that they threw more cash into than normal. They stated that these investments looked very promising so far... so we'll probably see the results of the extra spend in the next earnings report.

### ROAS (% of Advertising Expense)



### We dominate the top of the funnel for the hotel vertical with our strong consumer brand



The graph above also shows how Trivago’s search interest trounces other competitor sites. Clearly these guys are good at marketing. And a big part of that is because of the virality of the “Trivago Guy”. He’s so popular that [Rolling Stone](#) is writing articles about him. People can’t help but be enthralled by this scruffy, hobo-looking, yet strangely handsome spokesperson of the company. The “Trivago Guy” has inspired Twitter hashtags, parodies, memes, think pieces about gender equality, and more. Some find him creepy and others find him irresistible. Either way, the end result is the same — they all know what Trivago is. And that’s why it’s such a successful ad campaign. The company has plans to milk this campaign for all it’s worth while creating other “Trivago People” in the future. You can get the full “Trivago Guy” experience by watching him explain his website to you [here](#). His refusal to wear a belt is awe-inspiring...

Now even though we’re looking at Trivago like a high-growth stock, it’s not yet priced like one. The stock’s price-to-sales multiple is just 5.48. Competitor Priceline (PCLN) has a P/S of 8.6. And that’s with a yearly revenue growth rate of *only* 16.5%! That’s nowhere near Trivago’s growth rate that’s north of 50%.

Trivago is currently priced at \$18.45. If we conservatively estimate that investors will push its P/S from 5.48 to 8.6, that’ll equate to an \$10.50 increase in its share price to \$28.95 — **57% higher** than current levels.

Price has already ripped since Trivago’s CFO came out last Friday and increased the company’s full-year guidance. He explained that their strong start to the year increased their expectations of annual revenue growth from 45% to 50% in 2017. At this point, we don’t want to chase prices. Instead we’ll wait for either a consolidation to form or a retrace back to the 10 day moving average before entering. There’s still a lot of room for this thing to run...

