



1 **Q3 2016 Earnings Call – Prepared Remarks – Nov. 2, 2016**

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3 **Edouard Lassalle – Head of Investor Relations**

4 Good morning, everyone, and welcome to Criteo's Q3 2016 earnings call.

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6 Eric Eichmann, CEO, and Benoit Fouilland, CFO, are with me today.

7 During this call, management will make forward-looking statements. These may include projected  
8 financial results or operating metrics, business strategies, anticipated future products and services,  
9 anticipated investment and expansion plans, anticipated market demand or opportunities and other  
10 forward-looking statements. These statements are subject to various risks, uncertainties and  
11 assumptions.

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13 Actual results and the timing of certain events may differ materially from the results or timing  
14 predicted or implied by such forward-looking statements. We do not undertake any obligation to  
15 update any forward-looking statements contained herein, except as required by law. In addition,  
16 reported results should not be considered as an indication of future performance.

17 Also, we will discuss non-GAAP measures of our performance. Definitions of these metrics and the  
18 reconciliations to the most directly comparable GAAP financial measures were provided in our  
19 earnings release issued earlier today.

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21 Last, unless otherwise stated, all growth comparisons made in the course of this call are against  
22 the same period in the prior year.

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24 With that I am now turning the call to our Chief Executive Officer, Eric Eichmann.

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26 **Eric Eichmann – CEO**

27 Thank you, Edouard, and good morning everyone. I am pleased to report that we achieved another  
28 strong quarter of profitable growth and continued execution on our operating plans.

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30 Before going through the quarterly earnings, I will say a few words about our recent investments  
31 and their strategic importance to Criteo.

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33 The **acquisition of HookLogic**, which we anticipate will close shortly, and the **launch of Criteo**  
34 **Predictive Search** are two key milestones in the execution of our long-term strategy. With these  
35 two strategic initiatives, our performance marketing platform becomes an even more critical part of  
36 our advertisers' marketing programs and success.

37

38 **HookLogic** allows brand manufacturers to advertise their products on a performance basis on the  
39 world's largest ecommerce sites. With HookLogic, we will be able to capture a new source of  
40 advertising dollars from brand manufacturers while driving valuable site monetization for retailers.  
41 This new revenue stream for large retailers makes us more strategic to their business.

42

43 And the new **Criteo Predictive Search product** provides retailers with a sophisticated, end-to-  
44 end, automated solution that delivers significant performance improvement for their Google  
45 shopping campaigns. Predictive Search brings Criteo's unique machine-learning approach to  
46 search, to drive systematic uplift in sales of up to 49%. Predictive Search opens up a large new  
47 market for Criteo, almost as big as our core business today. Since retailers use search as their  
48 largest marketing platform, Predictive Search makes Criteo's solution even more relevant for them.

49

50 In addition to our core offering, the Hooklogic, search, and cross-device products provide retailers  
51 with a **full set of solutions**. This portfolio of products leverages the power of our network and large  
52 investments in technology to help retailers compete on equal terms with the largest ecommerce  
53 platforms. **We bring large scale** through our pooled assets across retailers and state-of-the-art  
54 technology that retailers could not develop on their own.

55

56 While we are not seeing significant changes in the competitive landscape, the addition of  
57 HookLogic and search will further differentiate Criteo in the marketplace. With these latest strategic  
58 initiatives, our journey to deliver relevant, accountable and seamless marketing to our customers  
59 continues, strengthening our ecosystem and providing large opportunities for future growth.

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61 Turning to **Q3 results**. For the 12<sup>th</sup> consecutive quarter, we exceeded Revenue ex-TAC and  
62 Adjusted EBITDA guidance. At constant currency, we grew **Revenue ex-TAC** 30% to \$177 million  
63 and **Adjusted EBITDA** 51% to \$54 million. We continue to make solid progress toward our long-  
64 term operating targets, demonstrating the leverage in our model.



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We performed well **across the entire business**:

- We delivered on our innovation roadmap.
- We further expanded our publisher relationships.
- And we added a record number of new clients globally.

**Technology innovation** drives more client sales every quarter. The same clients that were live in Q3 2015 and were still live in Q3 2016, generated 15% more Revenue ex-TAC at constant currency. The 75% of our business coming from uncapped budgets continues to drive this same-client growth.

I would like to highlight **four technology innovations**:

1. Our **Adaptive Revenue Optimization feature in the Criteo Engine** is now live and we've started deploying it across our client base. This new feature allows advertisers to bid on a cost-of-sales target, as opposed to a cost per click, or CPC. This makes the return on investment calculation and optimization much simpler for advertisers, and will be a key enabler in rolling out additional optimization models of the Engine, such as our Value Optimizer which maximizes gross margins for advertisers.
2. Our **Universal Match technology** continues to see strong client adoption, with users matched through this technology now representing 52% of Revenue ex-TAC. To help our advertisers with improving marketing measurement and consumer understanding, we have started sharing our granular cross-device data back into their analytics and attribution systems. We expect that this service will allow advertisers to better measure the impact of their marketing, and ultimately attribute more value to the cross-device conversions we drive. With this robust pooled asset, we believe we are in a unique position to help our clients gain better cross-device insights, a necessity for competing and winning in ecommerce.
3. We continued to invest in our **publisher-facing products**, taking advantage of recent shifts in the market such as **header bidding**. As we described at our Investor Day in September, we are making modifications to our bidding strategy to maximize yields for advertisers, such as



97 using our machine-learning technology to predict the prices of opponent bids. And we launched  
98 a direct header bidder technology that allows us to be in the auction without going through the  
99 traditional RTB platforms, reducing cost and capturing more data on the auction bids. While this  
100 is still in progress, our smart approach allows us to embrace the changes in the publisher  
101 landscape and take advantage of the opportunities that header bidding opens up for  
102 sophisticated technology players like Criteo.

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104 4. **Mobile in-app** commerce continues to enjoy strong momentum, with app advertising Revenue  
105 ex-TAC growing over 300%, making it a meaningful part of our mobile business.

106

107 Moving to **publisher relationships**, we grew our publisher base to over 17,500 direct relationships.

108 • Starting with **Native**. We launched a partnership with **Outbrain**, a native advertising platform  
109 specialized in content discovery and sponsored links, and expect it to grow in Q4. Additionally,  
110 close to 400 publishers are already live with the **direct native offering** that we launched in Q2.  
111 Overall, Revenue ex-TAC from native excluding Facebook grew over 80% quarter over quarter.  
112 And our flexible integration and dynamic creative capabilities remain strong advantages in  
113 native.

114 • As mentioned, we launched an early version of our **own header bidder** in Q3, which connects  
115 directly to publishers' ad servers. The broader deployment of our header bidder is scheduled  
116 for Q1 2017.

117 • Around 7,000 advertisers are now live on **dynamic ads** on Facebook and the Facebook  
118 Audience Network, both on mobile and desktop, and a similar number is live on Instagram. We  
119 launched our app-to-app solution for dynamic ads. We are now able to track sales on the same  
120 device and are working in partnership with the Facebook team to make this feature available to  
121 our clients.

122 • And we further broadened our **mobile reach** by expanding our partnership with Inneractive  
123 globally, and by adding MoPub and InMobi as new partners in China.

124

125 Moving to **client additions**. With over 1,000 net new clients, we set a new record and ended Q3  
126 with close to 13,000 clients, while maintaining client retention at 90% for 21 consecutive quarters.

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128 We signed up large and midmarket clients across all regions. Midmarket continued to grow fast



129 worldwide, bringing in over 80% of new clients. Midmarket now represents 26% of Revenue ex-  
130 TAC and **remains a significant opportunity** for us. To launch new campaigns even faster, we  
131 continue to roll out a **set of automation tools**. Following the Q2 rollout of the product feed module,  
132 we just rolled out the creative module in Q4, which automates the production and online validation  
133 of creative templates in line with advertisers' branding guidelines. The complete range of these  
134 self-service tools, from registration and tagging, to product feed, creative and payment, will be  
135 available by early 2017.

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137 Turning to **regional performance**. We executed well across all geographies, in line with our plans.

138

139 **The Americas** grew Revenue ex-TAC 31% at constant currency and remained the largest  
140 contributor to our growth. Our granular cross-device data service is increasingly a strong  
141 differentiator in our discussions with large U.S. prospects.

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143 In **EMEA**, Revenue ex-TAC growth accelerated to 27% at constant currency. Established markets  
144 continue to post solid double-digit growth, especially Germany, where client additions were  
145 particularly strong. We signed several new large clients including Idealo, Germany's largest price  
146 comparison website. Travel clients further expanded their business with us across several  
147 European markets.

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149 Finally, **APAC** Revenue ex-TAC grew 34% at constant currency. Momentum remains solid across  
150 key large markets. Japan once again delivered strong performance, especially with existing large  
151 strategic clients. Our partnership with Kakao is quickly ramping up and now represents close to  
152 20% of Korea's Revenue ex-TAC. Business in Taiwan was strong and we saw growth accelerate  
153 across the Pacific markets.

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155 Looking to Q4, we remain focused on a **clear set of operating priorities**:

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- 157 1. **Execute flawlessly** during the upcoming Holiday season, particularly in the U.S.
- 158 2. **Drive successful adoption of Criteo Predictive Search** in the U.S. before rolling it out in  
159 additional markets next year.
- 160 3. **Start the integration of HookLogic** once the acquisition is closed.



161

162 In closing, I'm pleased with our strong Q3 performance. We continued to deliver high growth while  
163 significantly improving our profitability. We executed in line with our plans, made a strategic  
164 acquisition and launched an exciting new product in search. The acquisition of Hooklogic, our new  
165 search product and our cross-device graph will **make us more strategic to advertisers,**  
166 **increases the overall stickiness of our solution** and **provides large growth opportunities.** I  
167 look forward to updating you on the progress of these initiatives in the coming quarters.

168

169 With that, I now turn the call over to Benoit, our Chief Financial Officer.

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171 **Benoit Fouilland – Chief Financial Officer**

172 Thank you Eric, and good morning everyone. Just like Eric, I am pleased with our strong  
173 performance in Q3. Rapid growth and expanding profitability remain key attributes of our model.

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175 I will walk you through the quarterly performance and provide you with our guidance for Q4 and 2016.

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177 **Revenue** was \$424 million, up 27% or 25% at constant currency.

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179 **Revenue ex-TAC**, the key metric we use to monitor our business performance, grew 32% or 30%  
180 at constant currency to \$177 million. This was driven by our largest quarterly addition of clients to  
181 date as well as the continued growth of our business with existing clients.

182

183 Compared with guidance assumptions, **changes in forex** had a positive impact of approximately  
184 \$2.5 million on reported Revenue ex-TAC, mostly driven by the stronger Japanese yen and the  
185 euro. Compared with Q3 2015, forex represented a tailwind of approximately 200 basis points to  
186 reported growth in Revenue ex-TAC, also largely driven by a stronger yen and partially offset by a  
187 weaker British pound.

188

189 Now a quick word about our **Traffic Acquisitions Costs**, or TAC. At constant currency, our  
190 average CPM, or cost per thousand impressions, decreased 4% year-over-year in the quarter,  
191 while our average click-through rate improved 11% over the same period.

192



193 **Revenue ex-TAC margin** was 41.7%, slightly above prior quarters and in line with our  
194 expectations. Our dynamic margin management approach allows us to optimize margins across  
195 regions, with the single objective of maximizing absolute Revenue ex-TAC at both the local and  
196 global levels. As a result of this approach, the margin differentiation between markets has  
197 increased and the margin in EMEA trended higher than historical patterns this quarter.

198

199 Shifting to expenses. **Other cost of revenue**, comprised of hosting and data costs, was  
200 approximately \$22 million, mainly driven by increased hosting capacity across data centers. This  
201 was approximately \$1 million below expectations, driven in equal parts by hosting and data costs.

202

203 **Operating expenses** were \$131 million. Non-GAAP operating expenses grew 23% to \$111 million.  
204 **Headcount-related** expenses represented slightly below 75% of Non-GAAP opex. We added 130  
205 net new employees and closed the quarter with over 2,200 employees, a 27% increase compared  
206 with September 30 last year.

207

208 Opex came in approximately \$5.5 million below our Q3 guidance assumptions, excluding forex  
209 impact. The HookLogic acquisition expenses, included in our guidance, account for approximately  
210 30% of this variance. Since the transaction is now signed, acquisition-related costs have been  
211 excluded from Non-GAAP opex, in line with our definition of Adjusted EBITDA. About 30% of the  
212 variance relates to employee-related savings, primarily travel expenses and variable  
213 compensation, while the remaining 40% relates to conservative estimates on market conditions,  
214 including on employer contributions on RSUs and other items.

215

216 On a Non-GAAP basis by function, or excluding amortization, equity awards compensation  
217 expense, pension service costs, acquisition-related costs and deferred price consideration:

- 218 • **R&D** expenses grew 28% to \$24 million, largely driven by the 32% growth in headcount to  
219 close to 480 employees.
- 220 • **Sales & Operations** expenses grew 15% to \$61 million, also largely driven by the 25%  
221 increase in headcount to over 1,350 employees. As a percentage of revenue, Sales &  
222 Operations opex decreased by 160 basis points on a Non-GAAP basis. Quota-carrying  
223 headcount grew 27% to 640, with 75% of the growth still coming from the midmarket.



224 • **G&A** expenses increased 40% to \$26 million, while headcount grew 26% to 380 employees.  
225 Excluding exceptional items and timing differences, primarily related to litigation expenses  
226 and employer contribution on stock-based compensation, G&A expenses grew only 28% to  
227 \$23 million.

228

229 We grew **Adjusted EBITDA** 55% or 51% at constant currency to \$54 million. Adjusted EBITDA  
230 margin for the quarter was 12.6% of revenue, or 30.3% of Revenue ex-TAC. This represents an  
231 improvement of 230 basis points of Revenue, or 450 basis points of Revenue ex-TAC, driven by  
232 our gross margin improvement and the continued operating leverage in Sales and Operations. In  
233 the first nine months of 2016, we increased profitability by 180 basis points of revenue, or 400 basis  
234 points of Revenue ex-TAC. This highlights the strong leverage of our model and our ability to drive  
235 Adjusted EBITDA expansion over the long term.

236

237 Speaking of our **operating model**, we do not expect the addition of HookLogic to materially impact  
238 our ability to reach our Adjusted EBITDA margin target of 40% of Revenue ex-TAC in the long  
239 term.

240

241 **Financial income** improved by \$6 million. This increase was primarily driven by the much lower  
242 foreign exchange loss compared with last year, mainly as a result of the conversion of our  
243 intercompany position in Brazil from debt into equity in Q2 this year.

244

245 **Net income** increased 154% to \$15 million, driven by the growth of our income from operations and  
246 the significant improvement in financial income over the period. The effective tax rate was 34% for  
247 the quarter and 30% for the first nine months of 2016. We now expect our effective tax rate for fiscal  
248 2016 to be approximately 30%, slightly above our initial expectation. Adjusted EPS on a diluted basis  
249 for the quarter increased 173% to 48 cents.

250

251 **Cash flow from operations** grew 149% to \$44 million, as a result of our increasing profitability  
252 and a positive change in working capital, in line with our expectations. This represents a conversion  
253 of Adjusted EBITDA into cash flow from operations of 82% in the quarter.

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255 **Capex** decreased 17% to \$20 million or approximately 5% of revenue. This compares to a peak  
256 quarter last year when we had spent a third of our annual capex program on a new Hadoop cluster,  
257 additional servers and fit out for new facilities.

258

259 **Free Cash Flow** increased by \$30 million to \$24 million and by 81% in the nine months of 2016.  
260 This translates into a 44% conversion of Adjusted EBITDA into Free Cash Flow for the quarter.

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262 Finally, **total cash** and cash equivalents were \$407 million at the end of September, up \$54 million  
263 from December 31, 2015.

264

265 I will now discuss our **guidance** for Q4 and 2016. The following forward-looking statements reflect  
266 our expectations as of today, November 2, 2016. We expect the HookLogic transaction to close in  
267 the coming weeks. The contribution of HookLogic is **not included** in our Q4 and full-year guidance  
268 communicated today.

269

270 We expect Q4 2016 Revenue ex-TAC to be **between \$207 million and \$210 million, excluding**  
271 **HookLogic**. This would imply a growth at constant currency of 28% to 30% without HookLogic.  
272 We expect changes in forex to have a positive impact of approximately 160 basis points on our Q4  
273 reported growth.

274

275 And, we expect Q4 2016 Adjusted EBITDA to be **between \$72 million and \$75 million, excluding**  
276 **HookLogic**.

277

278 Forex assumptions underlying the Q4 2016 guidance are included in the earnings release we  
279 published earlier today.

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281 For fiscal 2016, we expect Revenue ex-TAC to **grow between 33% and 34% at constant**  
282 **currency, excluding HookLogic**. We expect changes in forex to have a positive impact of 70  
283 basis points on our reported growth for the full year.

284



285 And, we expect fiscal 2016 Adjusted EBITDA margin as a percentage of revenue to **improve by**  
286 **120 to 140 basis points, excluding HookLogic**, up from our prior guidance of 60 to 100 basis  
287 points improvement excluding HookLogic.

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289 In closing, I am pleased with our strong performance in Q3, combining rapid growth with continued  
290 leverage and increasing profitability. I am excited about the expected positive impact of HookLogic  
291 and the new search product on our future growth and I am confident about the outlook for our  
292 business.

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294 With that, let me now turn the call back to the operator to take your questions.

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