Edouard Lassalle – Head of IR

Thank you, Keith. Good morning, everyone, and welcome to Criteo’s Q4 & Fiscal 2016 earnings call.

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

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

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

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

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

With that I will now turn the call over to our Chief Executive Officer, Eric Eichmann.
Thank you, Edouard, and good morning everyone. I am pleased with the successful execution against our plans in 2016 and the significant progress we made towards our vision. We continued to innovate and expand our core business. We made significant advances to becoming a multi-product company. And we opened exciting new avenues for growth.

Before diving into 2016, let me talk about the trends that are shaping performance marketing. Increasingly, marketers demand relevant advertising that is held accountable to performance metrics and provides seamless experiences to consumers. Three trends are driving this demand:

- First, the rapid growth in data-rich ad buying, providing more opportunities to drive performance.
- Second, the disjointed online shopping consumer experiences across devices, creating strong demand for seamless and integrated marketing.
- And third, the continued digitization of offline activities thanks to the ubiquity of mobile devices, opening new opportunities for performance advertising.

In 2016, we bolstered our position in performance marketing for commerce and brands, while keeping a strong focus on relevance, accountability and seamless experiences:

- We used our scale to grow a large user graph, helping ecommerce companies optimize the consumer journey across devices;
- We launched Criteo Predictive Search, a disruptive product bringing precise, predictive optimization to drive sales on Google Shopping, a critical and growing commerce marketing channel;
- And we expanded our business with Criteo Sponsored Products, formerly HookLogic, to bring performance marketing to brands on ecommerce sites.

These three products further differentiate Criteo in the marketplace and, with our core offering, provide a broad portfolio of performance solutions. Our scale and state-of-the-art technology bring retailers capabilities that allow them to compete on equal terms with the largest ecommerce players. These new and future performance products for brands and retailers address a growing set of marketing needs and strengthen our overall ecosystem.

2016 was another phenomenal year for Criteo. The unique strengths of our model allowed us to further solidify our market position:
• We grew our top line 36% to $1.8 billion and our Adjusted EBITDA 57% to $225 million;
• We added over 4,000 net clients;
• We maintained client retention at 90% while increasing our client base 42%;
• We added two new products, Criteo Predictive Search and Criteo Sponsored Products, and continued to innovate the core platform with our Kinetic Design creative capabilities, new features in the Engine and with a stronger Universal Match solution;
• We crossed the 50% share of our business on mobile and closed the year at over 60%;
• And we grew the number of Criteo employees to 2,500, while growing R&D capacity over 50% to more than 600 engineers in France, California and Michigan.

Let me now turn to the Q4 results. For 13 quarters in a row, we have exceeded quarterly Revenue ex-TAC and Adjusted EBITDA guidance. At constant currency and including Criteo Sponsored Products, we grew Revenue ex-TAC 41% to $225 million and Adjusted EBITDA 55% to $83 million.

We performed well across the entire business:
• We continued to innovate on our core product.
• We broadened our publisher relationships.
• And we added a new record number of clients.

Starting with innovation. Our technology drives more client sales every quarter. In Q4, the growth of same-client Revenue ex-TAC accelerated sequentially to 20% at constant currency. Having close to 80% of our business fueled by uncapped budgets continues to drive this growth.

Let me highlight three areas of innovation: Engine, cross device and mobile.

1. Within the Engine, we rolled out Kinetic Design, which optimizes creative elements of any kind, shape and size resulting in 17 trillion combinations, while maintaining brand consistency, to generate the one ad that drives the highest engagement for an individual shopper. This is a key innovation and drives improved performance across clients. We also started to roll out the Value Optimization feature of our Engine, which optimizes on the gross margin target that advertisers set by product.
2. On the cross-device front, our investments continue to pay off. With now 73% of our clients embracing Universal Match, we saw users matched through this technology generate 60% of Revenue ex-TAC in Q4. In addition, all advertisers can now measure the impact on their online sales by tracking their cross-device sales through the Criteo dashboard. Overall, our cross-device initiatives drove a 6% uplift to Revenue ex-TAC in Q4. We expect this to improve as the user graph drives more demand from the web into mobile app inventory. In other words, our user graph bridges the gap between mobile web and mobile apps, two separate and disjointed environments.

3. Mobile commerce continues to enjoy rapid momentum across our client base. Over 63% of Revenue ex-TAC is now generated on mobile devices, a significant increase over the prior year. Within mobile, demand from in-app advertisers continues to be very strong, growing Revenue ex-TAC by 460% year-over-year. Overall, we now generate close to 25% of total Revenue ex-TAC on app inventory, representing over 2.5 times what app inventory generated in Q4 2015. This is a great achievement and demonstrates how our scale provides us with additional competitive advantages.

Moving to publisher relationships and the supply side of our business.

Native continues to be a significant driver. Close to 500 publishers are live with our direct native offering launched in Q2, an increase of more than 20% quarter over quarter. Revenue ex-TAC generated on native inventory, excluding Facebook, grew close to 60% quarter over quarter. And our total share of business from native, including Criteo Sponsored Products, grew to 30% of total Revenue ex-TAC at the end of Q4. Our flexible integration and dynamic creative capabilities continue to be core competencies in native.

We continued to test an early version of our own header bidder that connects directly to publishers’ ad servers. We are currently connected to 10 large publishers with our beta product. We expect a broader deployment in Q2.

Our partnership with Facebook continues to be fruitful, driving over 16% more sales for Criteo clients on average.

Our ad blocking solution has been adopted by approximately 400 publishers, driving Revenue ex-TAC growth of 70% compared to Q3.
And, with **Criteo Sponsored Products**, we signed several new large retail publishers including Zulily, Toys R Us UK, Lazada, Morrison Supermarkets and Melissa & Doug.

Let’s now take a closer look at the **demand side** of our business.

We set another record in Q4 by adding close to **1,600 net new clients**, including 1,050 client additions without Criteo Sponsored Products. In the quarter, we also added many **brand advertisers** using Criteo Sponsored Products, including Garmin, Netgear, drone company Parrot and smart toy manufacturer Ozobot. Altogether, we ended 2016 with over 14,400 commerce and brand clients, a growth of 42% compared to 2015.

Clients of all sizes across all regions decided to work with Criteo. We maintain strong momentum in midmarket, which grew 75% worldwide and represented over 30% of Revenue ex-TAC. In Q4, we launched the creative module of our self-service platform for midmarket. The complete range of these tools, from registration and tagging, to product feed, creative and payment, will be available by the end of Q1.

Turning to **regional performance**. Our business saw healthy growth in all three regions.

**The Americas** Revenue ex-TAC year over year growth accelerated sequentially to 35% at constant currency excluding Criteo Sponsored Products. We had another very successful holiday season. We shortened the time it takes to sign new clients and launched several key accounts. In-app advertising increased significantly, and the U.S. is now our largest app market globally. It’s notable that one app-only client entered our top-10 client list in North America. We saw strong interest for Criteo Predictive Search in the U.S. and started signing new clients. Client satisfaction and retention remain high. Criteo Sponsored Products, formerly HookLogic, is seeing significant growth momentum. We now spend 2 to 5 times more on ad placements on several key U.S. retail publishers, compared with Q4 last year.

In **EMEA**, growth in Revenue ex-TAC excluding Criteo Sponsored Products accelerated both sequentially and year-over-year to 33% at constant currency. All established markets, such as Germany, France and the U.K., grew between 20% and over 30%, with strong performance across large and midmarket clients. We signed many new clients, including Thomas Cook, Turkcell and a large Chinese ecommerce pure player operating in Europe. In parallel, we grew...
our business with existing clients, especially those expanding campaigns outside of their home market.

Lastly, APAC Revenue ex-TAC grew 29% at constant currency despite a challenging comparable last year. We continued to deliver solid growth from both existing and new clients in Japan and Korea. In-app advertising is on a roll across the entire region, especially in Japan and Korea. We increased the cadence of new client wins in South East Asia, including Central and Adayroi. And we signed new key clients in India, such as Shopclues and Flipkart.

Looking ahead in 2017, we remain focused on a clear set of operating priorities:

- First, continue to innovate on our core product and drive worldwide expansion of our core business.
- Second, scale Criteo Sponsored Products across existing and new geographies, and integrate it with the Criteo Engine technology.
- Third, launch Criteo Predictive Search in key markets.
- Fourth, build and leverage our powerful pooled assets across our product portfolio and partner ecosystem – in particular our large user graph, our Universal Catalog, and the ability to attribute sales for brands across all retailers.
- And last but not least, develop great new products along the customer lifecycle, such as customer prospecting; new capabilities, such as CRM onboarding; and additional marketing channels, such as video.

In closing, I’m very pleased with our success in 2016. We continued to innovate and grow our core business. We became a multi-product company, addressing broader marketer needs. And we opened significant new avenues of growth. Overall, we continued to strengthen our leading position in performance marketing for commerce and brands. I look forward to updating you on our growth plans as we progress into the year.

With that, I will now have Benoit, our Chief Financial Officer, walk you through our financial results in detail.
Benoit Fouilland – Chief Financial Officer

Thank you, Eric, and good morning everyone. Just like Eric, I am very pleased with our success. In 2016, we continued to deliver rapid growth, expanding profitability and increasing Free Cash Flow while investing in innovation. We believe this attractive combination remains unique in our space.

I will walk you through the quarterly and fiscal year performance and share our guidance for Q1 and full year 2017.

Q4 Revenue was $567 million, up 43% at constant currency. For fiscal 2016, revenue grew 36% at constant currency to $1.8 billion.

Revenue ex-TAC, the key metric we use to monitor our business performance, grew 41% at constant currency in Q4 to $225 million. Excluding Criteo Sponsored Products, Revenue ex-TAC grew 33% at constant currency to $213 million. This sequential acceleration was driven by our largest quarterly addition of clients to date as well as the continued growth of existing live clients. Revenue ex-TAC (our equivalent to same store sales). Revenue ex-TAC margin in the quarter was 40%, or 41% excluding Criteo Sponsored Products, in line with expectations.

For fiscal 2016, Revenue ex-TAC grew 37% at constant currency to $730 million, and 34% at constant currency excluding Criteo Sponsored Products to $718 million. Revenue ex-TAC margin for fiscal 2016 was 41%, both including and excluding Criteo Sponsored Products.

Compared with guidance assumptions, changes in forex had a negative impact of approximately $3 million on reported Revenue ex-TAC excluding Criteo Sponsored Products in Q4, mostly driven by the stronger Japanese yen. However, compared with prior year periods and excluding Criteo Sponsored Products, changes in forex had virtually no impact on Revenue ex-TAC growth, in both Q4 and the fiscal year.

Shifting to expenses. Other cost of revenue, comprised of hosting and data costs, grew 37% to $24 million in Q4, mainly driven by increased hosting capacity across data centers. For fiscal 2016, other cost of revenue also increased 37% to $85 million.

Q4 operating expenses were $148 million, or $139 million excluding Criteo Sponsored Products. Non-GAAP operating expenses grew 32% to $128 million, or 25% to $122 million excluding Criteo Sponsored Products. Headcount-related expenses continued to represent approximately 75% of opex, both including and excluding Criteo Sponsored Products. We added over 290 net new
employees in Q4, including 190 from Criteo Sponsored Products, and closed the year with over 2,500 employees, a 36% increase compared with December 31, 2015.

On a Non-GAAP basis by function, which excludes depreciation and amortization, equity awards compensation expense, pension service costs and acquisition-related costs and deferred price consideration:

- **R&D** expenses grew 44% in Q4 to $31 million, and 45% in fiscal 2016 to $104 million, largely driven by the 51% headcount growth to over 600 employees including 90 from Criteo Sponsored Products. Excluding Criteo Sponsored Products, R&D opex grew 30% in Q4 to $28 million, and 41% in fiscal 2016 to $101 million, in line with our plans.

- **Sales & Operations** expenses grew 33% in Q4 to $73 million, and 21% in fiscal 2016 to $258 million, also largely driven by the 32% increase in headcount to 1,490 employees including 86 from Criteo Sponsored Products. Excluding Criteo Sponsored Products, S&O opex grew 27% in Q4 to $70 million, and 20% in fiscal year 2016 to $255 million. Quota-carrying headcount excluding Criteo Sponsored Products grew 25% to 660, with over 80% of the growth coming from midmarket. On a full year view and excluding Criteo Sponsored Products, Sales & Operations opex decreased by 150 basis points of revenue and 430 basis points of Revenue ex-TAC, well in line with our operating plans.

- Finally, **G&A** expenses increased 18% in Q4 to $25 million, and 31% in fiscal 2016 to $97 million, while headcount grew 29% to 410 employees including 14 from Criteo Sponsored Products. Excluding Criteo Sponsored Products, G&A opex grew 16% in Q4 to $24 million, and 30% in fiscal 2016 to $96 million. When excluding exceptional items of $1.3 million in Q4 and $2.7 million in fiscal 2016, which related to legal and tax fees, G&A expenses excluding Criteo Sponsored Products only grew 10% in Q4 and 27% in fiscal 2016.

Moving now to **profitability**:

- **Q4 Adjusted EBITDA** grew 55% at constant currency to $83 million, or 45% at constant currency excluding Criteo Sponsored Products to $78 million. This increase was primarily the result of our strong Revenue ex-TAC performance across all regions in the quarter. Excluding Criteo Sponsored Products, Q4 Adjusted EBITDA margin was 15% of revenue or 37% of Revenue ex-TAC.

- Adjusted EBITDA for fiscal year 2016 grew 55% at constant currency to $225 million, or 52% at constant currency excluding Criteo Sponsored Products to $219 million. Adjusted EBITDA
margin excluding Criteo Sponsored Products increased by 170 basis points of revenue to 12.5%, or 370 basis points of Revenue ex-TAC to 30.6%. Our expanding profitability remains well on track with our long-term operating plans and demonstrates the scalability of our model.

**Financial income** improved by approximately $1 million in Q4 and $4 million in fiscal 2016. This increase was primarily driven by the much lower foreign exchange loss compared with last year, mainly as a result of converting our Brazil intercompany position from debt to equity in Q2 2016. This was partly offset by interest expense on debt from drawing on our Revolving Credit Facility in Q4 to finance 30% of the HookLogic acquisition.

**Net income** increased 5% in Q4 to $41 million, or 40% in fiscal 2016 to $87 million. In the quarter, the growth in income from operations and financial income was largely offset by higher income taxes. In Q4 2015, income taxes represented a positive income as a result of recognizing deferred tax assets in the U.S. Net income in Q4 2015 was also inflated by a non-recurring reversal of $2 million acquisition-related deferred price consideration. The effective tax rate was 24% in Q4 and 28% for fiscal year 2016, in line with our expectations. Adjusted EPS on a diluted basis increased 16% in Q4 to 84 cents, or 51% in fiscal 2016 to two dollars and 8 cents.

**Cash flow from operations** grew 7% in Q4 to $72 million and 12% in fiscal 2016 to $153 million. Excluding Criteo Sponsored Products, cash flow from operations improved 15% in Q4 to $77 million, as a result of increasing profitability and a positive change in working capital, in line with expectations. For fiscal 2016, cash flow from operations excluding Criteo Sponsored Products grew 16% to $159 million. This represents a 72% conversion of Adjusted EBITDA into cash flow from operations for the year.

**Capex** increased 20% in Q4 to $23 million, driven by a sequential catch up in our hosting program, and only grew 4% in fiscal 2016 to $77 million, representing slightly over 4% of revenue, a decrease of 130 basis points of revenue compared to 2015.

**Free Cash Flow** increased 2% in Q4 to $49 million, and 21% in fiscal 2016 to $76 million. Excluding Criteo Sponsored Products, Free Cash Flow increased 15% in Q4 to $55 million and 31% in fiscal 2016 to $82 million. This translates into a 70% conversion of Adjusted EBITDA into Free Cash Flow in Q4, and a 37% conversion rate for fiscal 2016, consistent with the prior year. Finally, **total cash** and cash equivalents were $270 million at the end of December, after paying $175 million in cash for the HookLogic acquisition in Q4.
I will now provide you with our guidance for Q1 and fiscal year 2017. The following forward-looking statements reflect our expectations as of today, February 22, 2017. Please note that the contributions of Criteo Sponsored Products as well as Criteo Predictive Search are included in our guidance for Q1 and fiscal 2017.

We expect Q1 2017 Revenue ex-TAC to be between $200 million and $205 million. At the forex rates provided at the time of our Q4 2016 guidance, this would equate to between $208 million and $213 million. On a year-over-year basis, this would imply constant currency growth of 25% to 28%. We assume year-over-year changes in forex to have a negative impact of approximately 180 basis points on our Q1 reported growth.

And, we expect Q1 2017 Adjusted EBITDA to be between $47 million and $52 million. At the forex rates provided at the time of our Q4 2016 guidance, this would equate to between $51 million and $56 million.

For fiscal 2017, we expect Revenue ex-TAC to grow between 27% and 31% at constant currency. We assume changes in forex to have a negative impact of 320 basis points on our reported growth for the full year.

And, we expect fiscal 2017 Adjusted EBITDA margin as a percentage of Revenue ex-TAC to improve by 0 to 50 basis points, compared with 30.8% in fiscal year 2016.

Finally, with respect to investments, we expect our capex program for fiscal 2017 to increase to between 5% and 5.5% of revenue.

As usual, the forex assumptions underlying our guidance for both periods are included in the earnings release that we published earlier today.

In closing, I am pleased with our strong performance in Q4 and 2016, combining rapid growth, expanding profitability and increasing cash flow generation. We continue to execute on our plans and see exciting new avenues of growth ahead of us, for 2017 and beyond.

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