



1 **Q1 2017 Earnings Call – Prepared Remarks – May 3, 2017**

2

3 **Edouard Lassalle – Vice President of IR**

4 Good morning, everyone, and welcome to Criteo's Q1 2017 earnings call.

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

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

13

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

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

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

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26 With that, let me now turn the call over to Eric Eichmann, Criteo's Chief Executive Officer,.

27



28 **Eric Eichmann – CEO**

29 Thank you Edouard and good morning everyone. I am pleased to report another strong quarter
30 of profitable growth, the result of continued successful execution.

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32 Before we go through the quarterly performance, let me talk about how we help marketers win
33 in a fast evolving and increasingly complex environment. Marketers need relevant marketing
34 that drives sales in a measurable way and provides seamless experiences to consumers. **Three**
35 **trends** are driving their demand:

- 36 • First, the fast growth of data-rich ad buying is providing more opportunities to drive
37 accountable, personalized advertising at scale.
- 38 • Second, the increasing disjointed shopping experiences across devices and environments,
39 both online and offline, create strong demand for seamless and integrated marketing.
- 40 • And third, the continued digitization of offline activities, largely driven by mobile devices,
41 opens new opportunities for performance marketing.

42

43 In order to take advantage of these trends, marketers need **a trusted partner, with state-of-**
44 **the-art technology able to harness data at scale**, to enable them to drive more sales and
45 profits. Criteo's **performance marketing platform**, powered by proven machine learning, a
46 massive pool of granular shopper data and a network of tens of thousands of retailers, brands
47 and publishers, helps our clients maximize sales and profits across the shopping journey.

48

49 The **Criteo performance marketing platform** brings significant value to our partner ecosystem:

- 50 • With Criteo Dynamic Retargeting, marketers profitably target and convert shoppers at scale
51 across online channels;
- 52 • With Criteo Sponsored Products, retailers gain additional revenue by monetizing their site
53 inventory, while brands grow sales with comprehensive attribution measurement across
54 retail partners;
- 55 • With Criteo Predictive Search today and other products in our pipeline, we help retailers
56 drive higher sales and maximize ROI;
- 57 • And all of these products are fueled by the most powerful user graph focused on shoppers.

58



59 Turning now to the **Q1 results**. For 14 consecutive quarters as a publicly listed company, we
60 have exceeded Revenue ex-TAC and Adjusted EBITDA guidance. At constant currency, we
61 grew Revenue ex-TAC 30% to \$210 million and Adjusted EBITDA 18% to \$56 million.

62
63 In Q1, the growth in same-client Revenue ex-TAC remained strong at over 15% at constant
64 currency, a direct result of better technology and improved supply network. More than 75% of
65 our business is driven by uncapped budgets, helping to drive this growth.

66
67 We performed well **across the business**:

- 68 • We continued to deliver on our innovation roadmap.
- 69 • We expanded and improved our access to inventory.
- 70 • We added many new clients across all regions.
- 71 • And we made good progress with our new products, Criteo Sponsored Products and Criteo
72 Predictive Search.

73
74 Let me start with **innovation**, I want to highlight two areas: **the Engine** and **the user graph**.

- 75 1. Within the **Engine**, as part of **Kinetic Design**, we rolled out enhancements on creative
76 layouts to 75% of addressable demand, driving a 3% to 5% uplift in Revenue ex-TAC. We
77 also continued to roll out **Adaptive Revenue Optimizer**, a feature allowing clients to bid
78 directly on a cost-of-sales target instead of a cost per click. Clients adopting Adaptive
79 Revenue Optimizer are seeing an average 5% uplift in sales. And we continue to have a
80 **very healthy portfolio of innovations**. In Q1, we added 30 new variables in the Engine
81 and A/B tested over 170 new ideas to improve our technology across the board.
- 82 2. Our **powerful user graph asset** keeps on growing in scale and efficiency, with Revenue
83 ex-TAC generated from matched users accounting for 67% of our total, an increase of 7
84 points from the prior quarter. We continue to make good progress in building the user graph.
85 76% of clients now share CRM data with us and we leverage 3rd party data to augment this
86 dataset. In addition, we launched a **probabilistic match approach** to complement our
87 deterministic technology. Our clients are seeing increasing value from our user graph. All
88 cross-device metrics, including sales, cost of sales, conversion rate and cost-per-order, are
89 now available to all clients in the Criteo dashboard, allowing them to measure the cross-



90 device impact of their campaigns. In Q1, we launched the **Criteo User Graph** as a service,
91 and more than 120 clients globally already access our cross-device graph to inform their
92 own attribution tools. The user graph also enables **new marketing scenarios**. One such
93 scenario is the onboarding of offline CRM identities to run online campaigns. A second
94 scenario is to use CRM data to inform, optimize and measure the performance of retargeting
95 campaigns. We are currently testing these two scenarios with alpha clients. A third scenario
96 is the tracking of offline sales made by cross-device shoppers matched by our graph.

97

98 Shifting to the **supply side** of the business.

99 We completed the beta testing of our **next generation header bidding technology**, directly
100 connecting to publishers' ad servers. Using this new technology, we are now connected to over
101 100 publishers and some of our largest U.S. and European partners with positive results. Our
102 header bidding technology allows us to reach an incremental 15% of users and drives, on a
103 publisher basis, additional value of up to 40% for our clients. We are now ready to launch and
104 deploy the Criteo header bidding technology more broadly.

105 **Native inventory** continues to enjoy good traction across our business and represents more
106 than a quarter of total Revenue ex-TAC. Our flexible integration and dynamic creative
107 capabilities are key differentiators in securing native inventory.

108 And, in **video**, we are pleased with the early results of our alpha partnerships with several large
109 clients in the U.S. and Europe. We are working on unlocking quality inventory to understand the
110 overall potential that video could represent for our clients.

111

112 Moving to **the demand side** of our business.

113 We added over **950 net clients** across all regions, a growth of 25% in client additions compared
114 to Q1 last year. We closed the quarter with over 15,000 commerce and brand clients, while
115 maintaining a 90% client retention across the business. Among new clients were several dozen
116 consumer brands, including Peet's Coffee & Tea, Blue Diamond Growers, Bel Brands USA,
117 Noosa Yoghurt, Heritage Baby Products and Mifold, the "grab-and-go booster seat".

118 As every quarter, clients of all sizes decided to work with Criteo. Midmarket continues to grow
119 quickly, at 60% globally, and represents 32% of Revenue ex-TAC. Our automated platform for
120 new client onboarding is now close to complete in most markets. The payment functionality will



121 soon become available, in addition to the tagging, product feed and creative modules, which
122 have been live for a few quarters.

123
124 Turning now to our **new products**. In **search**, we are assessing the full market potential for
125 Criteo Predictive Search. U.S. retailers are showing interest in our product and existing clients
126 show good satisfaction levels. At the end of Q1, we launched Criteo Predictive Search in France
127 and signed several existing large ecommerce clients for Google Shopping campaigns.

128 With **Criteo Sponsored Products**, we continue to work on the integration with the Criteo
129 technology and are in line with our plans. We signed several new large retail publishers including
130 Walgreens and Office Depot in the U.S. and Notebooksbilliger in Germany. And we expanded
131 Criteo Sponsored Products in some European markets, signing new brands like Samsung and
132 Electrolux.

133
134 Moving to **regional performance**. We executed well across all three regions.

135 **The Americas** showed good momentum with Revenue ex-TAC growing 38% at constant
136 currency. Q1 was the largest first quarter for new-client business in two years, with more and
137 larger clients signed, including Neiman Marcus, Intuit, TurboTax, QuickBooks, and Sweetwater.
138 At the end of March, we strengthened our leadership team with the appointment of Greg
139 Archibald as EVP for Americas, who brings over 20 years of experience in omnichannel, digital
140 and mobile.

141 **EMEA** maintained its solid growth across all markets with Revenue ex-TAC growing 25% at
142 constant currency. All our main Western European countries continued their double-digit growth,
143 with strong performance across client categories. Client additions remain a significant driver, in
144 particular in the midmarket, where our Barcelona hub now counts 250 employees. We also
145 signed large new clients, including Emirates. Existing client growth is trending well in midmarket
146 and large retail and travel clients.

147 Lastly, in **APAC**, Revenue ex-TAC growth remained strong at 28% at constant currency, despite
148 a challenging comparable basis last year. Japan and Korea continue to perform very well, across
149 the large client and midmarket categories. We delivered solid performance across South-East
150 Asian markets, especially in Vietnam and Taiwan. And our business with in-app advertisers was
151 again particularly strong across APAC markets, growing 175% year-over-year and more than
152 35% compared to Q4.



- 153 Looking ahead to the rest of 2017, we remain focused on a **clear set of priorities**:
- 154 • First, **innovate on the core product** and expand our core business worldwide.
 - 155 • Second, **scale Criteo Sponsored Products** across existing and new markets, and integrate
156 it with the Criteo technology.
 - 157 • Third, **deploy and continue to assess full market potential for Criteo Predictive Search**
158 in the U.S. and France and launch it in a few additional key markets.
 - 159 • Fourth, **build and leverage a powerful set of pooled assets**- the user graph, our Universal
160 Catalog, and sales attribution for brands across a retailer partner network - to benefit our
161 overall ecosystem.
 - 162 • And, finally, **develop, test and launch compelling new products** such as customer
163 prospecting, app installs, offline CRM data onboarding and video.

164

165 In closing, I'm pleased with our strong execution in Q1. The year has started well and I'm
166 confident 2017 will be another successful year for Criteo. I look forward to updating you as we
167 continue to leverage our world-class technology and large scale to enable new solutions for
168 commerce and brands and strengthen our position in performance marketing.

169

170 With that, I will now have Benoit, our CFO, walk you through our financial results in detail.

171



172 **Benoit Fouilland – Chief Financial Officer**

173 Thank you Eric, and good morning everyone. I am also pleased with our success in Q1. We
174 delivered rapid profitable growth and healthy cash flow while investing across the business. A
175 combination that makes our model attractive and differentiated.

176

177 I will walk you through the quarterly performance and share our guidance for Q2 and 2017.

178

179 Q1 **Revenue** was \$517 million, up 30% at constant currency.

180 **Revenue ex-TAC**, the key metric we use to monitor our business performance, grew 30% at
181 constant currency to \$210 million. This was driven by the continued growth in same-client
182 Revenue ex-TAC and the addition of new clients across regions, categories and products.

183 **Revenue ex-TAC margin** was 41%, in line with our expectations.

184 Compared with guidance assumptions, **changes in forex** had a \$1.5 million positive impact on
185 Revenue ex-TAC, mostly driven by the Japanese yen. However, compared with the prior year
186 period, changes in forex represented a headwind of 90 basis points to Revenue ex-TAC growth.

187

188 Shifting to expenses. **Other cost of revenue**, comprised of hosting and data costs, grew 48%
189 to \$27 million, mainly driven by increased hosting capacity across data centers and, to a lesser
190 extent, third-party data to complement our user graph.

191

192 **Operating expenses** increased 39% to \$162 million, including \$18 million related to the full
193 quarter impact of Criteo Sponsored Products. **Headcount-related** expenses represented 75%
194 of GAAP opex. We added over 80 net new employees in Q1 and closed the quarter with more
195 than 2,500 employees, a 31% increase compared with Q1 2016. Non-GAAP operating
196 expenses, which excludes depreciation and amortization, equity awards compensation expense,
197 pension service costs and acquisition-related costs and deferred price consideration, grew 33%
198 to \$137 million. Excluding exceptional expenses of approximately \$2 million, primarily related to
199 corporate development projects, Non-GAAP opex grew less than 31%.

200

201 On a Non-GAAP basis by function:

- 202 • **R&D** expenses grew 43% to \$33 million, in line with our plans, largely driven by the 36%
203 increase in headcount to over 600 employees.

204 • **Sales & Operations** expenses grew 33% to \$79 million, well in line with our operating plans,
205 also largely driven by the 30% increase in headcount to 1,550 employees, including about
206 100 employees focused on Criteo Sponsored Products. The addition of Criteo Sponsored
207 Products accounted for approximately a quarter of the growth in Sales and Operations
208 expenses. Quota-carrying headcount grew 34% to more than 720, with over 60% of the
209 growth coming from midmarket.

210 • Finally, **G&A** expenses increased 20% to \$26 million, while headcount grew 26% to 430
211 employees. Excluding exceptional G&A expenses, Non-GAAP G&A opex only grew 11%.

212

213 Moving to profitability, **Adjusted EBITDA** grew 18% at constant currency to \$56 million, primarily
214 driven by our strong Revenue ex-TAC performance across all regions. In line with expectations,
215 Criteo Sponsored Products had a negative contribution to Adjusted EBITDA, due to the low
216 business seasonality in Q1 and the first full quarter of expenses. Excluding the impact of Criteo
217 Sponsored Products and exceptional expenses, Adjusted EBITDA margin was 31% of Revenue
218 ex-TAC, an increase of 120 basis points compared to Q1 2016. Q1 profitability is well in line with
219 our plans for 2017.

220

221 **Financial expense** increased by \$1 million to \$2 million. This was primarily driven by hedging
222 costs and interest expense in relation to the HookLogic acquisition.

223

224 **Net income** decreased 22% to \$15 million. Income from operations was negatively impacted by
225 a 78% increase in stock-based compensation, largely driven by a one-time equity grant in
226 connection with the HookLogic acquisition, and our increasing stock price over the period. We
227 are currently reviewing equity compensation practices to more frequently account for changes
228 in market price. Net income was also impacted by a 61% increase in depreciation and
229 amortization, primarily due to a \$3.9 million intangible depreciation expense relating to the
230 HookLogic purchase price accounting. Excluding the impact of non-cash accounting effects
231 related to the HookLogic acquisition, net income increased 15% to \$21 million. The effective tax
232 rate for the quarter was 22%, based on an estimated effective tax rate of 29% for fiscal 2017.
233 Adjusted EPS on a diluted basis increased 6% to 46 cents.

234



235 **Cash flow from operations** grew 134% to \$44 million, driven by our strong operating
236 performance and profitability in the quarter, as well as a positive contribution from changes in
237 working capital. This represented a 78% conversion of Adjusted EBITDA into cash flow from
238 operations.

239 **Capex** increased 133% to \$28 million, driven by investments in data center equipment, IT
240 equipment and software licenses, in line with our plans.

241 **Free Cash Flow** increased 136% to \$16 million, driven by the strong increase in cash flow from
242 operations.

243 Finally, **cash** and cash equivalents increased \$34 million to \$304 million at the end of March.

244

245 I will now provide our **guidance** for Q2 and fiscal year 2017. The following forward-looking
246 statements reflect our expectations as of today, May 3, 2017.

247

248 We expect Q2 2017 Revenue ex-TAC to be **between \$209 million and \$213 million**. This would
249 imply constant currency growth of 29% to 32%. We assume year-over-year changes in forex to
250 have a negative impact of approximately 370 basis points on our Q2 reported growth.

251 And, we expect Q2 2017 Adjusted EBITDA to be **between \$44 million and \$48 million**.

252 From a business seasonality standpoint, Q2 is typically the lowest quarter in the year for the
253 core business. In addition, we expect a sequential increase in expenses of approximately \$12
254 million, driven primarily by continued growth in headcount and Criteo's Annual Global Employee
255 Summit in the quarter.

256

257 For fiscal 2017, we now expect Revenue ex-TAC to **grow between 28% and 31% at constant**
258 **currency**. We assume changes in forex to have a negative impact of 220 basis points on our
259 reported growth for the full year.

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

262 Finally, from a cash flow standpoint, we expect our capex program for 2017 to be **between 5%**
263 **and 5.5% of revenue** and our cash tax rate to be **between 27% and 29%**.

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

266



267 In closing, I am pleased with our strong performance in Q1, delivering sustained profitable growth
268 and strong cash flow generation. We continue to execute on our plans and see exciting avenues
269 of growth for 2017 and beyond.

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