Edouard Lassalle – Vice President of IR

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

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

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 these 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, let me now turn the call over to Eric Eichmann, Criteo’s Chief Executive Officer.
Thank you Edouard and good morning everyone. I am pleased to report another strong quarter of profitable growth, the result of continued successful execution.

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

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

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

The Criteo performance marketing platform brings significant value to our partner ecosystem:
- With Criteo Dynamic Retargeting, marketers profitably target and convert shoppers at scale across online channels;
- With Criteo Sponsored Products, retailers gain additional revenue by monetizing their site inventory, while brands grow sales with comprehensive attribution measurement across retail partners;
- With Criteo Predictive Search today and other products in our pipeline, we help retailers drive higher sales and maximize ROI;
- And all of these products are fueled by the most powerful user graph focused on shoppers.
Turning now to the **Q1 results**. For 14 consecutive quarters as a publicly listed company, we have exceeded Revenue ex-TAC and Adjusted EBITDA guidance. At constant currency, we grew Revenue ex-TAC 30% to $210 million and Adjusted EBITDA 18% to $56 million.

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

We performed well **across the business**:

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

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

1. Within the **Engine**, as part of **Kinetic Design**, we rolled out enhancements on creative layouts to 75% of addressable demand, driving a 3% to 5% uplift in Revenue ex-TAC. We also continued to roll out **Adaptive Revenue Optimizer**, a feature allowing clients to bid directly on a cost-of-sales target instead of a cost per click. Clients adopting Adaptive Revenue Optimizer are seeing an average 5% uplift in sales. And we continue to have a **very healthy portfolio of innovations**. In Q1, we added 30 new variables in the Engine and A/B tested over 170 new ideas to improve our technology across the board.

2. Our **powerful user graph asset** keeps on growing in scale and efficiency, with Revenue ex-TAC generated from matched users accounting for 67% of our total, an increase of 7 points from the prior quarter. We continue to make good progress in building the user graph. 76% of clients now share CRM data with us and we leverage 3rd party data to augment this dataset. In addition, we launched a **probabilistic match approach** to complement our deterministic technology. Our clients are seeing increasing value from our user graph. All cross-device metrics, including sales, cost of sales, conversion rate and cost-per-order, are now available to all clients in the Criteo dashboard, allowing them to measure the cross-
device impact of their campaigns. In Q1, we launched the Criteo User Graph as a service, and more than 120 clients globally already access our cross-device graph to inform their own attribution tools. The user graph also enables new marketing scenarios. One such scenario is the onboarding of offline CRM identities to run online campaigns. A second scenario is to use CRM data to inform, optimize and measure the performance of retargeting campaigns. We are currently testing these two scenarios with alpha clients. A third scenario is the tracking of offline sales made by cross-device shoppers matched by our graph.

Shifting to the supply side of the business.

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

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

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

Moving to the demand side of our business.

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

As every quarter, clients of all sizes decided to work with Criteo. Midmarket continues to grow quickly, at 60% globally, and represents 32% of Revenue ex-TAC. Our automated platform for new client onboarding is now close to complete in most markets. The payment functionality will
soon become available, in addition to the tagging, product feed and creative modules, which
have been live for a few quarters.

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

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

Moving to **regional performance**. We executed well across all three regions.
**The Americas** showed good momentum with Revenue ex-TAC growing 38% at constant
currency. Q1 was the largest first quarter for new-client business in two years, with more and
larger clients signed, including Neiman Marcus, Intuit, TurboTax, QuickBooks, and Sweetwater.
At the end of March, we strengthened our leadership team with the appointment of Greg
Archibald as EVP for Americas, who brings over 20 years of experience in omnichannel, digital
and mobile.

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

Lastly, in **APAC**, Revenue ex-TAC growth remained strong at 28% at constant currency, despite
a challenging comparable basis last year. Japan and Korea continue to perform very well, across
the large client and midmarket categories. We delivered solid performance across South-East
Asian markets, especially in Vietnam and Taiwan. And our business with in-app advertisers was
again particularly strong across APAC markets, growing 175% year-over-year and more than
35% compared to Q4.
Looking ahead to the rest of 2017, we remain focused on a **clear set of priorities**:

- **First**, innovate on the core product and expand our core business worldwide.

- **Second**, scale Criteo Sponsored Products across existing and new markets, and integrate it with the Criteo technology.

- **Third**, deploy and continue to assess full market potential for Criteo Predictive Search in the U.S. and France and launch it in a few additional key markets.

- **Fourth**, build and leverage a powerful set of pooled assets - the user graph, our Universal Catalog, and sales attribution for brands across a retailer partner network - to benefit our overall ecosystem.

- **And, finally**, develop, test and launch compelling new products such as customer prospecting, app installs, offline CRM data onboarding and video.

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

With that, I will now have Benoit, our CFO, walk you through our financial results in detail.
Thank you Eric, and good morning everyone. I am also pleased with our success in Q1. We delivered rapid profitable growth and healthy cash flow while investing across the business. A combination that makes our model attractive and differentiated.

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

Q1 Revenue was $517 million, up 30% at constant currency. Revenue ex-TAC, the key metric we use to monitor our business performance, grew 30% at constant currency to $210 million. This was driven by the continued growth in same-client Revenue ex-TAC and the addition of new clients across regions, categories and products. Revenue ex-TAC margin was 41%, in line with our expectations.

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

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

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

On a Non-GAAP basis by function:

- R&D expenses grew 43% to $33 million, in line with our plans, largely driven by the 36% increase in headcount to over 600 employees.
• **Sales & Operations** expenses grew 33% to $79 million, well in line with our operating plans, also largely driven by the 30% increase in headcount to 1,550 employees, including about 100 employees focused on Criteo Sponsored Products. The addition of Criteo Sponsored Products accounted for approximately a quarter of the growth in Sales and Operations expenses. Quota-carrying headcount grew 34% to more than 720, with over 60% of the growth coming from midmarket.

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

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

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

**Net income** decreased 22% to $15 million. Income from operations was negatively impacted by a 78% increase in stock-based compensation, largely driven by a one-time equity grant in connection with the HookLogic acquisition, and our increasing stock price over the period. We are currently reviewing equity compensation practices to more frequently account for changes in market price. Net income was also impacted by a 61% increase in depreciation and amortization, primarily due to a $3.9 million intangible depreciation expense relating to the HookLogic purchase price accounting. Excluding the impact of non-cash accounting effects related to the HookLogic acquisition, net income increased 15% to $21 million. The effective tax rate for the quarter was 22%, based on an estimated effective tax rate of 29% for fiscal 2017. Adjusted EPS on a diluted basis increased 6% to 46 cents.
Cash flow from operations grew 134% to $44 million, driven by our strong operating performance and profitability in the quarter, as well as a positive contribution from changes in working capital. This represented a 78% conversion of Adjusted EBITDA into cash flow from operations.

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

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

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

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

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

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

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

For fiscal 2017, we now expect Revenue ex-TAC to grow between 28% and 31% at constant currency. We assume changes in forex to have a negative impact of 220 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 2016.

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

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 Q1, delivering sustained profitable growth and strong cash flow generation. We continue to execute on our plans and see exciting avenues of growth for 2017 and beyond.

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