Good morning everyone, and welcome to the conference call on Criteo's Q2 2017 earnings.

With us today are Eric Eichmann, CEO, and Benoit Fouilland, Chief Financial Officer.

During the course of 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 published earlier today.

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

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 happy to report another strong quarter of profitable growth for Criteo.

Before I talk about this quarter’s performance, I’d like to say a few words about Criteo’s vision in a disrupted commerce landscape where retailers and brands face a number of evolving threats and opportunities. There is no doubt that shopper behavior has changed dramatically. Empowered with a wealth of information online and offline, and leveraging the power of mobile devices, shoppers expect seamless and relevant marketing experiences at each phase of the purchase journey. As marketers try to profitably meet shoppers’ expectations, they are faced with many challenges:

- Most retailers and brands do not have the **technology capabilities** to fully organize and activate the abundant data they collect online and offline;
- They also lack **scale** to reach and engage consumers online;
- Legacy **physical stores** and their associated economics are perceived as a liability, limiting financial investment flexibility and online growth;
- Finally, the **use of multiple devices** on their path to purchase, makes it hard to reach shoppers and provide them a seamless experience.

We intend to help marketers overcome these challenges by building the **highest performing and open commerce marketing ecosystem** that connects shoppers to the things they want to buy. Our mission is to deliver performance at scale to the retailers and brands who participate in our open and trusted ecosystem.

**Commerce Marketing** is the category of marketing that directly drives sales and profits, unlike other forms of marketing that rely on objectives such as awareness, reach, and engagement.

We power the **Criteo Commerce Marketing Ecosystem** with purpose-built machine learning, and a network of tens of thousands of retailers, brands and publishers. Four key pillars support our ecosystem:

1. **Granular and actionable data** that provides shopper intent and purchase history from over 15,000 commerce partners;
2. Integrated commerce marketing **technology** that enables unparalleled shopper engagement through targeted, personalized marketing;
3. **Publisher scale** that maximizes performance and reach across the shopper’s online journey, reducing dependence on walled gardens while embracing them;
4. And, large **pooled assets** built through collaboration and data sharing among participants in our ecosystem.

These **powerful pooled assets** include:

- The Criteo User Device Graph, which connects user identities across devices and environments;
- The Criteo Shopper Product Graph, which maps shoppers’ intent and purchasing across retailers in our ecosystem;
- And, the Criteo Measurement Network, which measures sales attribution for brands across our many retail partners.

**Openness, transparency, security and fairness** are cornerstones of our commerce marketing ecosystem, where every participant gets more than what they contribute:

- Brands and retailers get measurable results, as they profitably target, acquire, re-engage and convert customers online and in stores;
- And, retailers monetize their site inventory, while brands measure sales with comprehensive attribution across retail partners.

We believe **now is the time** for retailers to level the playing field with the largest ecommerce players over online data, technology and scale. It is also time for brands to more actively participate in driving online sales with retailers, helping them with additional traffic and advertising revenue streams. And, for both retailers and brands, it’s time to leapfrog ahead by activating offline data to leverage omnichannel advantages.

In summary, we intend to build the highest performing and open commerce marketing ecosystem for retailers and brands. Our massive pool of shopper data, large scale networks and world-class performance-driven technology make us **the ideal commerce marketing partner in this highly dynamic market**.

Turning to **Q2 results**. For 15 consecutive quarters, we have exceeded Revenue ex-TAC and Adjusted EBITDA guidance. At constant currency, we grew Revenue ex-TAC 34% to $220 million and Adjusted EBITDA 42% to $54 million.
Same-client Revenue ex-TAC growth accelerated to 17% at constant currency. Better technology and a broader supply network drove increased client spending at a constant ROI. Having 78% of our business driven by clients with uncapped budgets enables this elastic spend.

Again this quarter, we performed well across the entire business:

- We delivered on our innovation roadmap, both in the core technology and in new products,
- We further expanded and improved our access to inventory.
- And we added many new clients across regions, sizes and products.

Starting with innovation, I want to highlight three areas: the Engine, Criteo User Device Graph and new product initiatives.

1. Within the Engine, we improved overall performance by approximately 5%, mainly by adding 10 new variables into our bidding and creative layers. Some of these variables focus on users’ long-term engagement with the sites and apps of our clients.

2. Criteo User Device Graph further grew in scale and efficiency. Three quarters of our clients share CRM data with us and we continue to augment their data set with third-party data. 76% of our Revenue ex-TAC now comes from users matched in the graph, a 9-percentage point increase over the prior quarter. Using the Criteo interface, clients can now see an average 10% more post-click sales on devices or in environments different from where the click was generated. In addition, the graph bridges web browsers, where shoppers search for products, and apps, where users spend time and see ads, driving growth in app inventory supply.

3. We are testing three new product initiatives with promising results. 1) We are running a number of app install campaigns for clients across several markets. While still in beta, we see an average performance uplift of 7% for those clients. 2) We tested our CRM onboarding solution that allows the uploading of online and offline CRM identities, like hashed emails, to inform and run online campaigns. We believe we are matching our clients’ customer CRM data with online profiles at similar rates to Google and Facebook. 3) We also tested Store-to-web retargeting campaigns, to make offline visitors buy online. These new initiatives strengthen our value proposition and cement stronger relationships with senior clients.

Switching to the supply side of the business.
We launched **Criteo Direct Bidder**, our header bidding technology, in May and are now connected to 450 large publishers globally. These include The Weather Channel, Daily Mail, The Telegraph and The Washington Post. We also started deploying the technology with large app publishers across Asian markets. Our solution has been very well received by publishers, helping them increase their average monetization by 20% to 40%. We will continue to aggressively deploy it over the coming quarters, focusing on the biggest publishers in each market.

**Native inventory** continued to be a significant growth driver, now representing over 25% of the business. We integrated 11 new publisher platforms, some of which are native-only partners. Our flexible integration and dynamic creative capabilities remain key advantages to secure native inventory.

In **video**, we continued to develop and expand our ad format, now deployed to about 1,000 advertisers across Tier-1 and midmarket. We are integrated with four video platforms and are looking to expand the supply. The performance of our video format is comparable to display. However, higher inventory costs today limit the impression volume we can buy for our clients at a given ROI. Better access to video inventory at the right price and technology improvements will help develop this channel in the future.

Finally, on the **Criteo Sponsored Products** side, we added 40 new retail partners, including Newegg in the U.S. and Spectrum Brands in Europe.

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

We added a total of **950 net new clients** across all regions and sizes while maintaining client retention at 90%. We closed the quarter with over 16,000 clients, a 38% increase compared to Q2 2016. Midmarket Revenue ex-TAC accelerated its growth to 75% and now represents 34% of total Revenue ex-TAC. Among the new clients are over 50 consumer brands, including L’Oréal Paris, Hoover and WAHL clippers.

Moving to **regional performance**. We executed well and saw growth **accelerate in all three regions** compared to the prior quarter.

**The Americas** saw continued momentum with Revenue ex-TAC growing 39% at constant currency. With Criteo Sponsored Products and our CRM onboarding solution, we are having higher-level discussions with clients that help drive new client additions, especially with large
retailers. As a result, we were successful in adding new clients in Retail and Travel, in both Tier-1 and midmarket, as well as large clients in newer verticals like Finance and Media.

EMEA saw significant acceleration with Revenue ex-TAC growing 32% at constant currency. Our largest Western European countries saw double-digit growth again. Business with existing clients, both Tier-1 and midmarket, was particularly strong. Our top-10 clients in the region grew Revenue ex-TAC with us 48% at constant currency, compared with the 17% same-client Revenue ex-TAC growth for the group, demonstrating our ability to deepen our strategic relationship with them. We continued to add Tier-1 and midmarket clients across all markets. We made further progress expanding Criteo Sponsored Products and signed large retailers in the region.

Lastly, growth in APAC also accelerated, with Revenue ex-TAC growing 32% at constant currency. Japan grew strongly again across Tier-1 and midmarket, in particular with respect to top clients. Growth in South-East Asia remains fast, largely driven by a buoyant in-app business across all markets. In China, we decided to refocus our efforts on the export business. And, in India, we strengthened our leadership team with the appointment of a new Managing Director.

Let me now add a word about our broader business environment. Apple recently announced the future launch of its Intelligent Tracking Prevention feature, or ITP, as part of a new version of the Safari browser, planned for September. This feature will make it more difficult for third-party providers to access data on Safari users. Given the importance of cookies for users for anything they do online, we believe this technology change can have broad-based impacts on the online ecosystem. We are working on solutions to adapt to ITP. As we demonstrated with adblocking and header bidding, we have a proven track-record of adapting fast and effectively to business and technology changes in the past. Given that ITP will be released in mid-September, it is still too early to assess the potential impact this change may have on our Q4 business. This, combined with a rapidly evolving retail environment, makes us a bit more cautious on our Q4 outlook.

Looking ahead to the second half of 2017, we remain focused on the same 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, **continue to assess market potential for Criteo Predictive Search**.

• Fourth, **continue to build and leverage our powerful pooled assets** – Criteo User Device Graph, Criteo Shopper Product Graph, and Criteo Measurement Network – to benefit the entire ecosystem.

• And finally, **develop, test and launch compelling new products** like app installs, CRM onboarding for brands and retailers, and store-to-web retargeting campaigns.

In closing, I’m pleased with our strong results. We executed well across the business in the first six months and I’m confident 2017 will be another exciting year for Criteo. I look forward to updating you as we build the highest performing and open commerce marketing ecosystem for brands and retailers and strengthen our position in the market.

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

Thank you Eric, and good morning everyone. I am also pleased with the Q2 performance. We delivered accelerating profitable growth and increasing cash flow, while investing across the business. Our differentiated business model continues to make our financial profile attractive.

I will walk you through the quarterly performance and share our guidance for Q3 and 2017.

Q2 Revenue was $542 million, up 35% at constant currency.

Revenue ex-TAC, the key metric we use to monitor business performance, grew 34% at constant currency to $220 million. This was driven by accelerating growth in same-client Revenue ex-TAC to 17% at constant currency and the addition of 950 net new clients across regions, sizes and products. Revenue ex-TAC margin was 41%, in line with expectations.

Compared with guidance assumptions, changes in forex had a $2.5 million positive impact on Revenue ex-TAC, mostly driven by the stronger euro. However, compared with the prior year, changes in forex represented a headwind of 225 basis points to Revenue ex-TAC growth.

On the core product, both Tier-1 and midmarket saw healthy growth in Revenue ex-TAC per client.

Moving now to expenses. We decided to refocus our efforts in China on our export business. As a result, we incurred one-time restructuring costs of $3.3 million, including $2.5 million related to the early termination of data center contracts and $0.8 million of employee-related expenses. Given the non-recurring nature of such expenses, we elected to disclose them as restructuring costs and to exclude them from Adjusted EBITDA and Adjusted Net Income.

Other cost of revenue, comprised of hosting and data costs, grew 62% to $33 million, mainly driven by the $2.5 million restructuring charge in China, increased hosting capacity across data centers and additional third-party data to complement our user device graph.

Operating expenses increased 36% to $174 million, including $0.8 million of restructuring costs in China. Headcount-related expenses represented 76% of GAAP opex. We added over 110 net
new employees, in line with our hiring plans, and closed the quarter with 2,700 employees, a 29% year-over-year increase. Non-GAAP operating expenses grew 28% to $148 million.

On a Non-GAAP basis by function:

- **R&D** expenses grew 35% to $36 million, in line with our plans, largely driven by the 38% increase in headcount to over 640 employees.

- **Sales & Operations** expenses grew 33% to $86 million, also in line with our operating plans. This was largely driven by the 27% increase in headcount to 1,600 employees, including 110 employees focused on Criteo Sponsored Products. As in Q1, Criteo Sponsored Products accounted for over a quarter of the growth in Sales and Operations expenses. Quota-carrying headcount grew 33% to 760, with two-thirds of the growth coming from midmarket.

- Finally, **G&A** expenses grew 8% to $27 million, while headcount increased to 450 employees.

Switching to profitability, **Adjusted EBITDA** grew 42% at constant currency to $54 million, driven by the strong Revenue ex-TAC performance across all regions and sustained operating leverage across the organization. Adjusted EBITDA margin was 25% of Revenue ex-TAC, up over 100 basis points compared with Q2 2016. In line with expectations, Criteo Sponsored Products had a negative contribution to Adjusted EBITDA in the quarter. Excluding the impact of Criteo Sponsored Products, Adjusted EBITDA margin was over 27% of Revenue ex-TAC, an increase of 380 basis points compared to Q2 2016. Q2 profitability remains well in line with our plans for 2017.

**Financial expense** was $2 million, primarily driven by hedging costs on the euro/dollar exchange rate and interest expense related to the funding of the HookLogic acquisition.

**Net income** decreased 44% to $8 million, driven by a lower income from operations and higher financial expense. **Income from operations**, down 26% year-over-year to $13 million, was negatively impacted by three factors:

1. The $3.3 million restructuring charge in China,
2. a 94% increase in equity awards compensation, largely driven by the $2.9 million impact, or 40% of the increase, from the one-time equity grant in connection with the HookLogic acquisition in November 2016, as well as the higher stock price over the period,
3. and a 68% increase in depreciation and amortization expense, including $3.9 million, or 43% of the increase, in amortization of intangible assets relating to HookLogic’s purchase price accounting.

We have reviewed our equity compensation practices to more frequently account for changes in market price when awarding equity to participants. We continue to expect our equity awards compensation charge to represent approximately 6% of revenue in fiscal 2017.¹

Excluding non-cash accounting impacts from the HookLogic acquisition, namely equity awards compensation and amortization of intangibles, net income increased 7% to $14 million.

The effective tax rate for the first half 2017 was 26%, based on a revised estimated effective tax rate of 30% for fiscal 2017. Adjusted Net Income per diluted share increased 18% to 39 cents.

Cash flow from operations grew 214% to $60 million, driven by the strong operating performance and profitability in the quarter, as well as a positive contribution from changes in working capital. This represented a conversion rate of Adjusted EBITDA into cash flow from operations of 112% in Q2 and 91% over the last four quarters.

Capex increased 21% to $27 million, driven by investments in data center equipment, IT equipment and new facilities, in line with our plans.

Free Cash Flow increased by $37 million to $33 million, driven by the strong increase in cash flow from operations and the more limited growth in capex over the period.

Finally, cash and cash equivalents increased by $38 million in the first half to $308 million.

I will now provide our guidance for Q3 and fiscal year 2017. The following forward-looking statements reflect our expectations as of today, August 2, 2017.

We expect Q3 2017 Revenue ex-TAC to be between $227 million and $230 million. This implies constant currency growth of 30% to 32%. We assume year-over-year changes in forex to have a negative impact of approximately 120 basis points on our Q3 reported growth.

And, we expect Q3 2017 Adjusted EBITDA to be between $69 million and $72 million.

¹ For the sake of clarity, we expect our equity awards compensation charge to represent approximately 6% of Revenue ex-TAC in fiscal 2017, consistent with prior periods. On the Q2 2017 earnings call on August 2, 2017, the Company erroneously referred to “approximately 6% of revenue in fiscal 2017”. [footnote added on August 29, 2017]
With regards to the fourth quarter, we are a bit more cautious, given the rapidly evolving nature of retail, the tough comparable basis from the strong U.S. holiday season we had in Q4 2016 and the potential impact Apple’s ITP may have on our business. As a result, based on our current view of the business, we are **reiterating our full year guidance as communicated on May 3, 2017.**

For fiscal 2017, we expect Revenue ex-TAC to **grow between 28% and 31% at constant currency.** We assume changes in forex to have a negative impact of 90 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.

We anticipate that refocusing our efforts in China on the export business will generate savings of approximately $10 million of Non-GAAP expenses on an annual run rate, starting in Q3 2017, and have a positive impact of approximately $2 million on Adjusted EBITDA in fiscal 2017.

Finally, we expect our capex program for 2017 to be **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 was published earlier today.

In closing, I am pleased with our solid performance in Q2, which delivered accelerating profitable growth and sustained cash flow generation. We remain focused on executing on our plans as we continue to build the Criteo Commerce Marketing Ecosystem in 2017 and beyond.

With that, I will now turn the call back to the operator to take your questions.

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**Edouard Lassalle, VP, IR**

Thank you operator. We want to thank everyone for attending the Criteo call. Friederike and myself will be available if you wish to discuss any follow-up point. Have a great day! Thank you.