Edouard Lassalle – VP, IR

Good morning everyone, and welcome to Criteo’s Q4 and fiscal year 2017 earnings call.

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

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 such metrics and the reconciliations to the most directly comparable GAAP financial measures were provided in the earnings release published 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.

I will now turn the call over to Eric Eichmann, CEO of Criteo.
Eric Eichmann – CEO

Thank you, Edouard. Good morning everyone. I am happy to report another record quarter for Criteo. We continue to deliver high profitable growth while expanding our product portfolio.

Let me start by restating our vision of building the highest performing and open Commerce Marketing Ecosystem. We deliver measurable results at scale to the retailers and brands who participate in our open and trusted data collectives. The Commerce Marketing Ecosystem represents a large opportunity for our clients and for us. Today, retailers and brands are sitting on very large amounts of data and Criteo’s expertise is to successfully activate these large datasets in real time to drive sales and profits. To do this, we help marketers gather and structure granular shopper data in real time online and offline and on a large scale. And, through state-of-the-art predictive technology, and the ability to reach consumers across devices and environments, we generate more sales for them.

Our Commerce Marketing Ecosystem continues to be positively received by chief marketing officers around the globe. As a result, we are making good strides with the adoption of our new products, Criteo Sponsored Products, Criteo Customer Acquisition and Criteo Audience Match. These products rely on our unique data collectives and our powerful predictive technology.

Turning to earnings. We delivered better results than expected, led by strong holiday sales momentum, particularly in the U.S.

At constant currency, we grew Revenue ex-TAC 20% and Adjusted EBITDA 36% in Q4. In fiscal year 2017, we increased Revenue ex-TAC 29% and Adjusted EBITDA 35% at constant currency. Including all products, same-client Revenue ex-TAC grew over 6% at constant currency in Q4, thanks to better technology, broader inventory and more products. This additional revenue came mainly from clients who have uncapped their marketing spend with us.

We performed well across all areas of the business:
• We delivered strong innovation across our technology and product portfolio;
• We improved our access to inventory;
• And we added new clients across all regions and products.
Starting with innovation, I want to mention three areas: the Criteo Engine, the Criteo Shopper Graph, and enhanced client reporting.

1. In the Engine, we added new variables for improved Predictive Bidding within in-App inventory, which increased Revenue ex-TAC by more than 3% in A/B testing environments. Improving performance for in-App is critical given the growing mobile app usage of consumers.

2. Criteo Shopper Graph, made up of our three data collectives – Identity Graph, Interest Map and Measurement Network – increased in size and efficiency.
   - Our world-class, global Identity Graph links users across devices and environments. It continued to see good traction, with close to 80% client participation. We now have one of the largest user graphs in the market with an estimated 1.2 billion individual users matched, with an average of three matches each. Over 90% of our Revenue ex-TAC is now generated from users matched in the graph. And what’s more, our Identity Graph shows a 19% uplift in post-click conversions across devices, helping our clients see more sales driven by Criteo.
   - Our Interest Map organizes anonymized shopping intent and purchasing data across retailers in our ecosystem. We are seeing great momentum, as clients who give us permission to share shopping data on an aggregated basis within the Interest Map, represented already 43% of Revenue ex-TAC in Q4.
   - And our Measurement Network, which allows brands to measure sales on retailer sites, continued to grow.

We are pleased with our progress in growing the Criteo Shopper Graph, a foundational and differentiated asset to develop new products for our Commerce Marketing Ecosystem.

3. Moving on to enhanced client reporting. Clients can now download standard reports showing detailed impression-level information for our core business through the Criteo API. These reports include publisher domains where client ads are shown, time stamps of displayed ads and the value of each impression. They will soon include encrypted User IDs allowing for reach and frequency calculations. More transparency increases our clients’ confidence in our platform and further strengthens our relationship.
Switching to the **supply side** of the business.

We continued to deploy **Criteo Direct Bidder**, our proprietary header-bidding technology, adding 500 premium publishers worldwide to a total of about 1,500. Recent partner additions include Orange and Viber. Criteo Direct Bidder drives additional monetization for publishers of 20% to 40%. We made improvements to this technology by reducing the latency, enabling usage on mobile sites leveraging Accelerated Mobile Pages technology, and by strengthening bidding strategies for first price auction environments.

Regarding **client expansion**, we added 820 net new clients in Q4 across regions, products and categories, and maintained client retention at close to 90% for all products. This net addition was lower than in prior quarters, mostly due to our focus on larger midmarket clients at the expense of smaller midmarket clients in order to increase revenue ex-TAC from new clients. As a matter of fact, Revenue ex-TAC per new client grew 14% versus Q3 and 9% versus Q4 2016. We expect this trend to continue in 2018, until we implement our fully scalable self-service platform to manage smaller midmarket clients more efficiently.

We closed 2017 with more than 18,000 commerce and brand clients, an increase of over 3,600 net clients, or 25% for the year. New brand clients include Activision brands such as Call of Duty, Destiny and Overwatch; Marshall headphones; Urban Ears and STX Entertainment. And what’s more, we are successfully upselling our new products, resulting in the number of live clients using at least two products quadrupling from Q3 to over 600 in Q4.

Looking now at our **performance by region**.

The **Americas** Revenue ex-TAC grew 22% at constant currency thanks to a particularly strong holiday season. New business contribution in the U.S. was the strongest ever, as five new clients signed in 2017 entered our Top-15 client list, including several retailers from Hudson’s Bay Company. In addition, we displaced competitive solutions in several large commerce companies. Also, Criteo Sponsored Products grew more than twice as fast as the core business in the quarter, as brands continue to trust us with their performance marketing spend.

**EMEA** Revenue ex-TAC increased 16% at constant currency, largely driven by solid growth in Germany and Emerging Markets. We signed several large clients, including Deutsche Bahn and
eMAG, a very large e-tailer in Eastern Europe. The Travel vertical was particularly strong, with our largest client growing 80% in the region.

Finally, APAC Revenue ex-TAC grew 25% at constant currency, driven by existing large clients along with fast growth in midmarket in Japan. South East Asia and India also supported the growth, as well as strong in-App revenues across the entire region.

Building and deploying new products that rely on our data collectives is core to realizing our vision of the Commerce Marketing Ecosystem and we are pleased with our strong progress in this area.

Criteo Sponsored Products had a strong quarter, as six of our Top-20 brand clients in the U.S. grew their spend with us by more than 5X. Apparel increased over 200% and remains a vertical with large potential. We also had good traction in Europe, thanks to the addition of five large retailers and the good growth of existing ones. Overall, Criteo Sponsored Products represented over 5% of our Revenue ex-TAC in 2017. We are confident that the strong Q4 momentum positions Criteo Sponsored Products well for continued growth in 2018, even after the recent disposal of the Travel brand business.

Criteo Customer Acquisition and Criteo Audience Match, our two beta products launched in early Q4, already generated $3 million of Revenue ex-TAC. Together with dynamic retargeting, these products help our commerce clients cover the entire shopping journey, from new customer acquisition to re-engagement. Early results for these two products are very promising.

- About 6% of clients have adopted Criteo Audience Match to re-engage their existing customers, generating on average 15% more Revenue ex-TAC compared to retargeting only.
- And Criteo Customer Acquisition was adopted by 26% of Fashion clients in the U.S., France, Germany and the U.K. Those clients drove on average 10% more Revenue ex-TAC compared to retargeting only. In Q1, we are introducing the product to all Retail clients beyond Fashion, a 2x market opportunity, and plan to launch it in six additional markets.

We are encouraged by the potential of both products based on these initial results.

In mid-November, we also introduced a beta version of the Criteo Reseller Program to enable online marketplaces to offer Criteo Dynamic Retargeting to their own sellers. This offer applies to all marketplaces, ranging from retail to classifieds and travel, and was already deployed with
several large clients, including Yahoo! Japan. For marketplaces, this program brings additional sales, new services to their partners and increased Gross Merchandise Value. For us, this means new ways to drive sales from users we would otherwise not reach inside a marketplace.

Overall, we are excited about the momentum and reception of our new products and will continue to improve them to drive even more sales across the shopping journey.

Let me now say a few words about user coverage with regard to data tracking. Personalized data-driven advertising benefits publishers, advertisers and consumers alike and we believe it is here to stay. Facebook, Google, Amazon all rely on the ability to drive advertising through data. Over the years, we have developed privacy-friendly solutions to reach users everywhere, irrespective of browsers and environments, and will continue to do this as a matter of normal business operations. Our technology roadmap is focused on increasing our independence from third-party browsers to access data. We believe that privacy decisions should be in the hand of consumers not intermediaries and we will continue to work to empower consumers to make their own decisions. We are confident in our ability to sustainably reach users in all environments over time.

I also want to bring some clarification around the European Union’s General Data Protection Regulation, or GDPR, which comes into place on May 25. There is still a lot of misconception and confusion in the marketplace about the consequences of GDPR for consumers and businesses. GDPR is a big change in the area of protecting the integrity and security of personal data. However, the text also clarifies applicable rules for the collection of data based on the level of sensitivity and risks for the privacy of individuals. When it comes to using browsing data to drive personalized advertising, there is little change to the law. For non-sensitive data like cookies, the law requires unambiguous consumer consent, something that Criteo has already been doing in Europe for years. Unambiguous consent is about providing consumers with transparency and choice but does not require explicit opt-in. GDPR states that explicit opt-in is only required for personal sensitive data. Several data protection authorities in Europe have published guidance and recommendations that are aligned with our views. While Criteo is already abiding today by the principles of GDPR for personalized advertising, we are working with our clients to make sure this is clearly understood.
Looking ahead to 2018, we are focused on three key priorities:

• First, grow our core business. In addition to innovating on our world-class Engine, we are undertaking a significant transformation of our go-to-market approach. This new approach will help maximize the commercial opportunity while becoming more strategic to our large clients and allow us to scale the midmarket more profitably. Specifically, we will focus on a multi-product sales approach, refine service levels based on client size and potential, and build self-service capabilities for the midmarket.

• Second, grow Criteo Shopper Graph. We will continue to build our three data collectives – Identity Graph, Interest Map and Measurement Network – to further strengthen our product portfolio.

• And third, develop and scale new products for commerce and brand clients. We will continue to improve and deploy Criteo Customer Acquisition and Criteo Audience Match in additional verticals and markets. In addition, we are building an audience platform to enable new commerce marketing products such as look-alike, and other capabilities for marketers willing to leverage flexible audience targeting for new marketing scenarios. We plan to run a first test of our look-alike product with a select number of clients in the first half of the year. Building on the success of Criteo Sponsored Products, we also plan to roll out other new products for consumer brands in 2018.

In closing, I am pleased with our execution and results in Q4 and 2017. The fundamentals of our business are sound and we are seeing strong momentum worldwide, especially in the U.S. We are building highly differentiated assets and innovative products to drive more sales and profits for commerce companies and brands. I’m confident our expanding Commerce Marketing Ecosystem positions us well for future growth in 2018 and beyond.

Benoit will now take you through our results and guidance in detail.
Benoit Fouilland – CFO

Thank you, Eric, and good morning everyone. I am equally pleased with our strong performance. We delivered another year of high growth, increased profitability and cash flow while investing for the future. In mid-December, we had indicated our confidence in the business for Q4 and saw a strong finish for the year for both Revenue ex-TAC and profitability. Our productivity initiatives and effective investment approach drove higher profitability, which positions us well for 2018. The attractive combination of high growth, increasing profitability and strong cash flow continues to be a key differentiator for our model.

I will talk about the quarterly and annual performance and share our guidance for Q1 and 2018.

**Revenue** was $674 million in Q4, up 16% at constant currency, and $2.3 billion in 2017, up 27%.

**Revenue ex-TAC**, our key metric to monitor performance, grew 20% at constant currency to $277 million in Q4, and 29% to $941 million in 2017. This was driven by continued growth in same-client Revenue ex-TAC throughout the year and the addition of over 3,600 net new clients in 2017 across regions, sizes and products.

**Revenue ex-TAC margin** was 41% in both Q4 and the year, in line with expectations and prior year levels.

Compared with our Q4 guidance, **changes in forex** had a positive impact of approximately $1 million on Revenue ex-TAC, thanks to the stronger Japanese Yen and euro. Compared with the prior year, forex changes represented a tailwind of about 300 basis points to Revenue ex-TAC growth in Q4 and only about 40 basis points in 2017.

Switching to **expenses**. **Other cost of revenue**, comprised of hosting and data costs, grew 31% in Q4, and 43% in 2017. In both periods, this was driven by a higher number of servers to increase our hosting and computing capacity worldwide, as well as additional third-party data to complement the Identity Graph.

**Operating expenses** grew 18% to $175 million in Q4, and 30% to $682 million in 2017. Headcount-related expenses represented 73% of GAAP opex in Q4 and 75% in the year.
Headcount grew 10%, ending 2017 with close to 2,800 employees. Non-GAAP operating expenses grew 10% to $141 million in Q4, and 23% to $566 million in 2017.

On a Non-GAAP basis by function:

- **R&D** expenses grew 15% in Q4 and 33% in 2017, in line with investment plans and largely driven by the 16% increase in headcount to over 700 employees in R&D and Product.

- **Sales & Operations** opex grew 13% in Q4 and 27% in 2017, also in line with plans. This was driven by a 7% increase in employee headcount to 1,600, in particular quota-carrying, which grew 16% to 750, with over two thirds of the growth coming from midmarket.

- And **G&A** expenses decreased 6% in Q4 but grew 4% in 2017, despite a 14% increase in headcount to 470 employees.

In light of our positive momentum and strong finish of the year, we funded a higher percentage of the target variable compensation than previously anticipated. In addition, the trend in Q4 expense growth demonstrates our effective opex management, our targeted investment approach and the success of our initiatives to drive productivity across the entire company.

This effective investment management shows up well in our **profitability**:

- Q4 **Adjusted EBITDA** grew 36% at constant currency to $120 million, driven by Revenue ex-TAC growth and sustained operating leverage across the organization. This drove a 640-basis point improvement in the Adjusted EBITDA margin to 43%, a record level.

- Adjusted EBITDA for fiscal 2017 grew 35% at constant currency to $310 million. This translated into a 210-basis point improvement in Adjusted EBITDA margin to 33%, or close to 100 basis points above the high end of our guidance. Our increasing margin highlights our scalability and remains on track with our long-term operating model.

**Equity awards compensation** expense increased 55% in Q4, and 67% in 2017. The one-time equity grant we did in November 2016 in connection with the HookLogic acquisition represented about $3 million in Q4 and $12 million of expenses in 2017, or 18% and 34% of the growth respectively. Excluding this one-time grant, equity awards compensation grew 52% in Q4 and 46% in 2017, representing approximately 6% of Revenue ex-TAC for the year.
Depreciation and amortization expense increased 52% in Q4, and 60% in 2017. Amortization of intangible assets relating to the purchase price accounting of HookLogic, represented about $4 million in Q4 and $16 million in 2017, or 47% and 46% of the growth respectively.

Financial expense was $2 million in Q4, and $10 million in 2017, primarily driven by forex hedging costs and interest expense related to the funding of the HookLogic acquisition. To put things in perspective, the $6 million hedging costs we incurred in 2017 on a $250 million intragroup loan to our U.S. subsidiary generated approximately $25 million of net positive impact on our cash position thanks to our effective forex hedging strategy.

The reported effective tax rate after discrete items was 23% in Q4, and 25% for 2017. The U.S. Tax Reform drove a 130 basis-point increase in the 2017 effective tax rate, primarily due to the limited impact on deferred tax assets and deferred tax liabilities. Despite this, our 2017 effective tax rate was down 3 points compared with 2016, and was in line with our projected tax rate of 30% before discrete items like tax deductibility on stock-option exercises.

As a result, net income increased 29% to $52 million in Q4, and 11% to $97 million in 2017. Excluding non-cash accounting impacts from the HookLogic acquisition, namely equity awards compensation and amortization of intangibles, net income increased 35% to $57 million in Q4 and 31% in 2017 to $117 million.

Adjusted Net Income per diluted share increased 44% to one dollar and 21 cents in Q4, and 30% to two dollars and 70 cents in 2017.

Cash flow from operations grew 10% to $79 million in Q4, and 60% to $245 million in 2017. This was driven by strong operating growth and profitability, and offset by negative changes in working capital. The transformation of Adjusted EBITDA into cash flow from operations was 66% in Q4 and 79% in 2017, above our expectations.

Capex increased 11% in Q4 and 40% in 2017. In both periods, we invested in additional servers to equip data centers, leasehold improvements in our offices and new IT software and tools to improve productivity across the business. Total capex of $109 million for 2017 represented just under 5% of revenue, a slight increase compared with 2016, and in line with our plans.
As a result, **Free Cash Flow** increased 10% to $54 million in Q4, and 80% to $137 million in 2017, a record level.

Finally, **cash** and cash equivalents increased by $144 million in 2017 to $414 million.

I will now provide our **guidance** for the first quarter and 2018. The following forward-looking statements reflect our expectations as of today, February 14, 2018, and incorporate our updated understanding and best assumptions around user coverage.

We expect Q1 2018 Revenue ex-TAC to be **between $230 million and $235 million**. This implies constant currency growth of 3% to 5%. We assume that year-over-year forex changes will have a positive impact of approximately 640 basis points on the reported growth in Q1. And we expect Q1 2018 Adjusted EBITDA to be **between $60 million and $65 million**.

For 2018, we expect Revenue ex-TAC to grow **between 3% and 8% at constant currency**. We assume that forex changes will have a positive impact of approximately 120 basis points on our reported growth for 2018. And we expect our Adjusted EBITDA margin for 2018 to be **between 28% and 30% of Revenue ex-TAC**.

In terms of **seasonality**, we currently anticipate that the second half of 2018 should be a bit more weighted than in 2017, and represent between 54% and 56% of our Revenue ex-TAC for the year, and between 65% and 67% of Adjusted EBITDA for the year.

I want to highlight that our guidance for 2018 reflects the **good momentum of our business**, the **expected ramp up of our new products** throughout the year and the **effectiveness of our efforts to increase user coverage**.

As usual, the forex assumptions underlying our guidance for the first quarter and 2018 are included in the earnings release that we published earlier today.
In addition, at this early stage, we currently expect the U.S. Tax Reform, in particular the BEAT tax, to drive an increase of approximately 7 points to our 2018 projected effective tax rate before discrete items. We also expect equity awards compensation in 2018 to represent between 6% and 7% of Revenue ex-TAC, and our capex program to stand at approximately 5% of revenue for 2018.

Beyond 2018, we are confident in our future growth prospects. The fundamentals of our business are strong and we have compelling opportunities ahead of us, both in the core business and our new products enabled by the Commerce Marketing Ecosystem. As we exit 2018, we believe these opportunities will translate into double-digit growth for Criteo.

In closing, I am pleased with our strong performance in Q4 and 2017, which delivered sustained high growth, increasing profitability and strong cash flow. These results highlight the strengths and scalability of our business. We remain highly focused on executing our plans. And I’m confident our positive momentum and expansion along our Commerce Marketing Ecosystem will feed continued growth in 2018 and beyond.

With that, we will now take your questions.

[...]

Edouard Lassalle – VP, IR

Thank you. This now concludes the Criteo call. We would like to thank everyone for attending. The IR team is available for any follow-up questions. We wish you all a great Valentine’s Day today! Good bye!