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CRTO - Q1 2018 Criteo SA Earnings Call

EVENT DATE/TIME: MAY 02, 2018 / 12:00PM GMT
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PRESENTATION

Operator

Good morning, and welcome to the Criteo First Quarter 2018 Conference Call. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Edouard Lassalle, Vice President and Head of Investor Relations. Please go ahead.

Edouard Lassalle  Criteo S.A. - Head of IR

Thank you, Nicole. Good morning, everyone, and welcome to Criteo’s first quarter 2018 earnings call. With us today are Co-Founder, Chairman and CEO JB Rudelle; 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. Such 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.

Finally, 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 JB Rudelle, CEO of Criteo. JB?

Jean-Baptiste Rudelle  Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Thank you, Ed, and good morning, everyone. I am glad to be here after having been away from the day-to-day operations of the business for more than 2 years. As you know, the Board of Directors have asked me to lead again the company, I love, as CEO. I’d like to take this opportunity to thank Eric Eichmann for his great commitment and contribution in growing our business over the last years. Eric will assist me in this transition as my
special advisor. Given the many changes that are happening in the industry, there is a lot that needs to be done to prepare Criteo for its next chapter of growth. I must say, I am super excited with this challenge. This said, I also recognize that we have not always done a good job in the past explaining why we strongly believe Criteo has so much potential to create value for shareholders. And with Benoit, Edouard, and the rest of the team, our task would be to regain the trust of our investors and convince them of our ability to reaccelerate our growth in the coming years. This said, I’d like to stress the fact that Criteo is today in a healthy state. Despite the significant headwinds we are facing with respect to user coverage, I am happy to report a pretty solid first quarter, delivering positive growth, while significantly expanding our profitability and cash flow. At constant currency, we grew our revenue ex TAC 8% and adjusted EBITDA 22%. I believe those better-than-expected results somehow illustrate the resilience of our business when dealing with external shocks.

Looking at our results by region. In the Americas, we grew revenue ex TAC 3% at constant currency, with the U.S. market growing at 7%, driven by our dynamic business with large clients, particularly those that we added in 2017. Offsetting this, difficult market condition in Latin America, particularly in Brazil, continued to negatively impact the region. Revenue ex TAC in EMEA grew 11% at constant currency, largely driven by solid performance in Germany, Middle East and Africa.

In APAC, increased revenue [ex-TAC] (corrected by company after the call) was 10% at constant currency, driven by healthy growth across large and mid-market clients in Japan. Built on our unique data collectives and technology assets, our suite of products is well received by our clients and partners all around the globe. We drove stable growth in same-client revenue ex TAC, despite, as you know, some user coverage limitations, reflecting, I think, the strength of our underlying business.

One key driver of the business is our Criteo Shopper Graph, which includes our proprietary Identity Graph, our Interest Map, and our Measurement Network. With all 3 data collectives, we have made meaningful progress during the quarter, increasing the scale and efficiency, and I’d like to provide some more details on this.

First, let’s speak about our Identity Graph. This graph creates a unique and anonymized identifier across devices, browsers, apps and offline world. With about 1.4 billion individual users worldwide in the graph, we already operate one of the largest user graphs in the industry. This massive scale allows us to offer our clients a comprehensive coverage of consumers globally. We are also making promising progress in developing technologies to improve our user coverage in all other environments. This is a key area for us, and we believe a source of long-term sustainable competitive advantage. And as a result, there is a significant area of focus in allocating our R&D resources.

Secondly, our Interest Map. So Interest Map organizes anonymous shopping intent and purchasing data across participating retailers. Based on making highly relevant product recommendations, our technology focuses on maximizing the likelihood to create consumer engagement. We do this through anonymized IDs. By the way, I’d like to remind that as opposed to some other players, we do not collect, store or process sensitive personal data, such as age, gender, political views or friends. Clients who give us permission to process shopping data on an aggregated basis within our Interest Map, already represent nearly half of our revenue ex TAC.

Thirdly, our Measurement Network. This allows brands to measure sales across retailer sites and this continues to grow as we expand our retailer network. This permission-based sales attribution is typically not available to brands in the offline world, and we believe differentiates our offer from traditional solutions. Overall, building and deploying new capabilities based on our Shopper Graph is really core to our vision.

In mobile now, I am pleased to report that new improvements in bidding and increased flexibility with ad design and layout allow us to grow our app revenue ex TAC by over 60%. Overall, we believe there is a lot more growth potential to unlock down the road for value-added advertisement in this app environment. As a result, this is one of the key areas, where we plan to invest in the future, and I’ll come back to that. This in-app inventory is growing very quickly, and we want to be in the best possible position to take advantage of this exciting trend.

Regarding Criteo Sponsored Products, we are making nice progress in signing more brands and more retailers onto our marketplace. As you might recall, the foundation of this Sponsored Product was the acquisition 18 months ago of HookLogic. This business is now a growing part of our overall revenue mix, and this diversification is an important component for the long-term sustainability of our business. Furthermore, I’d like to say that the success of this integration is encouraging us to pursue a strategy to complement our organic growth with acquisition of high-quality assets that would expand our business into exciting new markets.
In parallel, we are pleased with the results of our beta products, named Customer Acquisition and Audience Match. Audience Match helps our clients to reengage with the existing client -- customers typically through uploading customer contact lists. Thanks to our, as we said, very powerful Identity Graph, we are proud to offer one of the best match rates in the market that allow our clients to reconnect online with their customers. I believe these best-in-class match rates will be key to generate good client adoption in the future. Second beta product, Customer Acquisition, leverage our Interest Map to head our clients acquire entirely new customers. This -- as you know, this is a huge market, and we're getting significant interest from our clients to expand their customer footprints. This beta program is now alive in 10 countries, and we are planning to expand it in more countries in the coming quarters. Overall, those 2 new beta products, though they still deliver robust revenues compared to the rest of the business, the first results continue to be encouraging.

Now moving on to the supply side. The Criteo Direct Bidder, our proprietary header-bidding technology, continues its rapid adoption. With less than 1 year in market, our direct bidder is now already deployed with over more than 2,000 premium publishers worldwide. In parallel, we are developing a direct bidder solution for mobile apps and are encouraged by its earlier results. And as I mentioned earlier, accelerating our growth in app is one of our key priorities.

Moving now to the client side. We closed the quarter with over 18,500 clients, while maintaining client retention rate -- client retention at close to 90% across all our products. This is an increase of 410 net clients, a lower level than in prior quarters. As previously announced, we are implementing specific plans to optimize our go-to-market strategy. We are focusing now more on large mid-market clients, and developing a fully scalable self-service platform to manage smaller mid-market clients in a more efficient way. As we manage this transition, we expect our net new client additions to remain at fairly similar level through this year, 2018. However, with further -- future rollout of our self-service platform that will be targeting smaller clients, we hope to see a reacceleration of new client addition in the course of next year.

Before closing, let me say a few words about data privacy. As a matter of fact, where we are really focused, when it comes to privacy, is consent management. I am fully aware that the upcoming GDPR is generating a lot of questions and concern in the industry. As a European company, I believe we are likely in a better position than some of our U.S. counterparts to embrace this new regulation. Consent management is indeed something we have built a strong expertise in. I remember back in 2009, we were one of the first companies in the world to impose to all of our clients to manage consensus related to data collection and data usage by offering end user an opt-out link directly embedded into every banner. At that time, I remember many people have thought we were crazy to do this and this would badly damage our business. Today, I am very proud to see that this feature has become a market standard because without consumer trust, there is no sustainable business. In other words, giving more choices and control to the consumer is a major, massive historical trend. And we believe it's better to embrace this trend than to resist it. Specifically, we work very closely with the CNIL, the French Data Protection Authority, we rely on, and the CNIL is one of the most thoughtful and influential data protection agencies in the world. We are totally aligned with the CNIL on how to implement GDPR guidelines for consent management.

This said, other players in the ecosystem, in particular on the supply side, appear not to have yet solid plans in this field. As a result, they may decide to apply processes to manage user consent that could create friction for all stakeholders in the ecosystem, including end users. This transitory situation might not only create friction, but also some interesting potential opportunities for us to leverage our consent management expertise to help our partners.

Looking now for the full year 2018. We have 3 key priorities. First, to continue to invest in the Criteo Shopper Graph to reinforce our leadership position in this area, with a particular focus on user coverage and consent management.

Second, we’re going to bring more brands and retailer onto our Sponsored Product marketplace.

And third, as I said, we want to expand our footprint in the fast-growing mobile in-app market.

So in closing, I am pleased with the friction and our results in the first quarter. And I think this track quite well with our upcoming priorities for the year.

With this, Benoit will take now through the financial results and guidance further in detail.
Benoit Fouilland - Criteo S.A. - CFO

Thank you, JB, and good morning, everyone. I am pleased to see that we are off to a good start in 2018. We delivered another quarter of growth, increased profitability and strong cash flow, while investing for the future. I will walk you through our Q1 performance and share our guidance for Q2 and 2018.

Revenue was $564 million. Revenue ex TAC, our key metric to monitor performance, grew 8% at constant currency, driven by new clients across region and sizes as well as expanding business with existing clients across our various solutions. Revenue ex TAC margin improved 200 basis points to 42.6%, largely driven by changes introduced by key supply partners in mobile apps that positively impact how we get charged for inventory. We are working to have our engine adapt to these changes, and as a result, anticipate that our revenue ex-TAC margin will normalize to prior levels over time. Compared with Q1 2017, changes in ForEx driven by the rising euro represented a tailwind of about 680 basis points to revenue ex-TAC growth, a slightly higher impact than anticipated.

Switching to expenses. The increase in other cost of revenue was mostly driven by a higher number of servers to increase our hosting on computing capacity worldwide. Operating expenses grew 9%, largely driven by a 4% increase in headcount. We ended the quarter with close to 2,700 employees, and 3 drivers explain the slower headcount growth. First, the sale of the travel activity of HookLogic in January 2018 combined with the restructuring of Criteo Predictive Search accounted for a reduction of about 50 employees. Second, the transformation of our go-to-market model comes with a reshuffling of resources. Third, we had some hiring delays, in particular, in the mid-market. Headcount-related expenses represented 77% of GAAP OpEx. Our non-GAAP operating expenses grew 7% to $148 million.

On a non-GAAP basis by function, R&D expenses grew 19% in line with investment plans and largely driven by the 12% increase in headcount to over 670 employees in R&D and Product.

Sales and operation OpEx grew 5% slightly below our plans. This was partly driven by a 1% decrease in employee headcount to over 1,500, including 700 quota-carrying employees after the sale of the HookLogic travel business and the restructuring of Search.

On G&A expenses, we are flat despite the 8% increase in headcount to 470 employees. Excluding a gain from the disposal of the HookLogic travel business of approximately $1 million, G&A expenses grew 4%. While the trend in expense growth continues to demonstrate our targeted investment and effective expense management, we did incur about $4 million of temporary savings compared to expectations, the majority of which relate to delayed employee hiring.

Moving to profitability. Adjusted EBITDA of $78 million, up 22% at constant currency, was driven by revenue ex-TAC growth as well as gain from disposal and temporary savings. Adjusted EBITDA margin improved 550 basis points to 32% of revenue ex-TAC. After excluding the gains from disposal and temporary savings, our adjusted EBITDA margin still improved about 350 basis point to 30%, highlighting our scalability and remaining well on track with our long-term operating model.

Equity awards compensation expense increased 29%. Excluding the onetime equity grant in connection with the HookLogic acquisition, equity awards represented about 7% of revenue ex-TAC.

Depreciation and amortization expense increased 17% or 24% after excluding the amortization of intangible relating to the purchase price accounting of HookLogic.

Financial expense decreased 43% as a result of lower ForEx hedging cost. Since the end of January 2018, we have accounted for $265 million intragroup loan to Criteo Corp as a net investment in a foreign operation, while recording ForEx revaluation in Criteo S.A.’s balance sheet are no longer hedging the ForEx exposure. The reported effective tax rate after discrete items was 37%, in line with our projected income tax rate for fiscal year 2018 of 37% before discrete items. As a matter of fact, discrete items were not significant in the quarter as few stock options were exercised in the quarter.
Net income increased 45% to $21 million. And adjusted net income per diluted share increased 30% to $0.60. Cash flow from operations grew 91%, driven by strong operating growth and profitability as well as positive changes in working capital. A large part of this positive working capital contribution, approximately $23 million, was due to the favorable timing of some account payables to large publisher around Easter time. Transformation of adjusted EBITDA into cash flow from operations was 108%, above expectation on historical patterns, or 79% after excluding the exceptional positive change in working capital.

CapEx increased 15% as we invested in additional servers and made leasehold improvement in some offices. As a result, free cash flow more than tripled to $52 million, representing a 67% conversion ratio from adjusted EBITDA. Even after excluding the exceptional change in working capital, free cash flow still increased 80%.

Finally, cash and cash equivalents increased $70 million to $484 million.

I will now provide our guidance for the second quarter and 2018. The following forward-looking statements reflect our expectation, as of today, May 2, 2018. We expect Q2 2018 revenue ex-TAC to be between $226 million and $230 million. This implies constant currency growth of minus 1% to plus 1%, And assumes that year-over-year Forex changes will positively impact reported growth by about 400 basis points. And we expect Q2 2018 adjusted EBITDA to be between $53 million and $57 million. I want to point out that from a business seasonality standpoint, Q2 is typically the lowest quarter of the year for our overall business.

In addition, we have taken some level of cautiousness, given the various changes happening in the industry. For 2018, we maintain our expectation of a revenue ex-TAC growth of between 3% and 8% at constant currency. We assume that ForEx changes will have a positive impact of about both 350 basis points on our reported growth for 2018. And we also maintain our expectation for adjusted EBITDA margin in 2018 to be between 28% and 30% of revenue ex-TAC. As usual, the ForEx assumption underlying our guidance for the second quarter and 2018 are included in the earnings release that we published earlier today.

In closing, I am pleased with our strong Q1 performance. These results delivering sustained growth, increased profitability and strong cash flow once again highlight the strengths and scalability of our model.

So with that, I will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Matthew Thornton of SunTrust.

Matthew Corey Thornton - SunTrust Robinson Humphrey, Inc., Research Division - VP

JB, welcome back. Your opening comments there were helpful. Maybe one question for JB, and one for Benoit. JB, I mean, obviously, the board is actually kind of come back in here. Can you bring it full-circle and maybe give 2 or 3 bullets on what you’re charged with accomplishing and how the strategy might change under your direction kind of moving forward, including your view of GDPR versus your predecessor? So maybe just a couple of bullets to kind of bring that all full-circle would be helpful. And then Benoit, just couple of housekeeping items. Take rate was up a little bit, it seems to have a modest upward trajectory. I guess, is that sustainable and kind of what’s driving that? And then also the same client sales. I apologize, if I missed this, but last quarter you talked about same client sales ex ITP. Just wondering if you had an update on that number for the quarter?
Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Thank you very much. So just to give you a bit more color on my -- kind of -- my return. I guess you are an entrepreneur and my mindset is to try to look at challenges into opportunities. And that's probably what the board was seeking from me, to try to look at things from a different angle and to seize more of the opportunities. Whenever it's implied to GDPR or other things, people can see this, as you know, challenge, concern, depressing things, or it could be seen as -- you know Europe is at the forefront of a new way to interact with consumers, and we need to embrace this and educate the market. So when it comes to strategy, my plan is not to change the strategy for the sake of changing it. I want to do what's best for the company. But more specifically, I want to make sure that when we see an opportunity, we move quickly on it. And sometime in the past, we have been probably a bit too slow in terms of assessing and going after new opportunities, and it's going to be one of my focus in the future to put the organization into the right mindset to move faster on new opportunities.

Benoit Fouilland - Criteo S.A. - CFO

Okay. So with respect to your question. First on the take rate, so you're right, I mean, rev ex-TAC margin was higher in the quarter. It likely improved 200 basis point year-over-year and 150 basis point compared to prior quarter. So this is largely driven by changes that were introduced by key supply partners in mobile apps that ultimately positively impact how we get charged more for inventory. So we are working on to have our engine adapt to these changes. So you should not assume that we will stay at those levels, and I think over time, we should see the margin normalizing to, I would say, historical level around closer to 41% that we've seen in recent quarters. With respect to the same client revenue ex-TAC growth, we had -- in fact, we maintained the same client rev ex-TAC, despite the users coverage limitation. Now this is in line pretty much with our expectations. So now, the impact of user coverage is embedded into our figures and it would be increasingly meaningless to try to recompute these numbers without this.

Operator

Our next question comes from Andy Hargreaves of KeyBanc.

Andrew Rex Hargreaves - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

I just wanted to ask a couple around sort of the client acquisition strategy that you guys are implementing. I wonder if you could just say a little bit more specifically about what is causing the slowdown in retailer growth during that transition, and what sparked the change in approach? And then secondly, on ePrivacy, I wonder if you could just give us any update on where that drafting process stands, and what your guys expectations are there?

Benoit Fouilland - Criteo S.A. - CFO

So maybe just quickly to remind what is our go-to-market strategy and transformation there. So it's a key priority for 2018 for us, and we have already 3 subjects -- 3 objectives around this transformation. We want to maximize our commercial opportunity globally, we want to become more strategic to large clients, and to be more efficient and profitable in the mid-market. So these are the objectives behind this strategy. And the strategy is implemented -- is going to be implemented across the entire year. During the period of the transition, in the mid-market, in particular, and that we have already highlighted during the last quarter, we are focusing on larger mid-market clients until we will have developed a fully scalable self-service platform. And that's the reason why during this transition phase you would see a lower number of net add of -- in the mid-market until the point we are able to have a fully scalable self-service solution, which should come by the end of the year, and we should then see a rebound in our number of net add driven by the high volume of the mid-market.
Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So when it comes to ePrivacy regulation, as you know, this is still in discussion. So there are lot of moving pieces in this. So we are promoting our viewpoint about how to translate this into something, which is as user-friendly as possible, because at the end of the day, I think everyone wants the same thing, the consent management to be transparent and easy to understand for the end user, and not something bothering where you have a hard interruption all the time. So there is a particular point that we're trying to promote is the ability to do what we call universal portable consent, so this is -- we are trying to make sure this view is taking into consideration in the drafting of the agenda. The idea is to be able to -- once the consent is -- for a specific usage is given on a website to be able to use this consent on another website. And I think, this will make a very fair playing field for all players in the industry, big and small. And it's important for -- and I think it's the mindset of the European Commission to make sure that this new regulation doesn't favor too much the biggest players, that give equal chance of opportunity for players of all size. That's the right spirit. And we are confident that our view is going to be taken into consideration into this drafting.

Operator

Our next question comes from Douglas Anmuth of JP Morgan.

Douglas Till Anmuth - JP Morgan Chase & Co, Research Division - MD

Welcome back JB. Just first on -- I wanted to ask you about Amazon, so they already have a large advertising business. I want to get your take on Amazon as a disruptive force among brands and retail advertisers, and how Criteo is pushing back here with Sponsored Products in the commerce marketing ecosystem? And then secondly, I think your cash balance now is approaching just under $500 billion -- $500 million, close to 30% of the market cap. Just wanted to get a sense of how you're thinking about M&A versus potentially buying back stock? And why not put an authorization in place particularly just as the company has been susceptible to some of these exogenous factors in the past?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So Amazon first, and then I will address M&A. So as you know Amazon has been growing a very big business by offering brands the ability to target individual consumers, all the way down to their shopping basket, which has been the dream of brands for years. This is why this offer is so successful because brands rather than doing random air coverage, the way they have been doing for 50 years, now have the ability to precisely dialogue with consumers on a very granular level. So as a matter of fact, this exactly are plans for our Sponsor Product. So we are glad in a way that Amazon is educating the brands on those new capabilities. So basically, we are doing pretty much the same thing, but for the rest of the world, Amazon is one touch point for the brands, but thank god, it's not the monopoly. And the e-commerce world has many diversified players. And we have thousands and thousands of retailers, with very high-quality shopping engagement from consumer. And each of them independently, it would be very hard to develop an offer "Amazon style", but Criteo is exactly in the right position to -- with the core program to -- all combined to have something which is extremely attractive. So this is why we are investing and putting a lot of focus on this Sponsored Product offer and it's one of our key priorities for this year. And the success of Amazon is validating -- I see this -- that there is a lot of potential in this space. So regarding M&A and you know what the 2 things that are connected is, HookLogic, was, as you know, our biggest acquisition. And today, it's a growing part of our business. And we've been learning a lot in terms of our ability to acquire and integrate in an efficient way other businesses into ours. And as you know, we have plans to expand Criteo into new markets. So clearly, our cash in the company is a great tool for this strategy. And we definitely pursue a strategy to complement our organic growth with further acquisition, always in a disciplined way, quality assets, but it's something the success of this HookLogic integration is encouraging us to pursue.

Operator

Our next question comes from Sarah Simon of Berenberg.
Sarah Simon - Berenberg, Research Division - Analyst

I just had two questions. I guess, one probably is on from what you were just saying, your comments earlier about maybe not being fast enough to react. Is that to do with developing new products organically, or to do with M&A opportunities you missed out on? And the second question is, whether you could give us any indication of how fast Criteo Sponsored Products grew during the quarter?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So it's not one or the other either new product or M&A. I think it's 3 things. It's our existing business to make it much more solid and resilient, and this is all based on the -- on our Shopper Graph, and we are doing a big push there into strengthening our user coverage to make it less dependent on specific technologies, like cookies, in particular. So I think this is a very important for the long-term sustainability of our business and there is a very big effort there to make it much more resilient and sustainable. We are, as you know, developing new products and that's probably the biggest change for Criteo in the last years, is we've been moving from being a single-product company to multi-product company and it's also the reason why we've been changing our go-to-market and our sales organization. And this put us in a much better position to be more aggressive on the M&A side, because when you're a single-product company, it's much harder to do M&A, you have to buy things that are fit completely directly into your one-product approach. Once you had the right go-to-market and organization to scale a multi-product approach, then it opens a lot of new opportunities in term of M&A.

Operator

Our next question comes from Richard Kramer of Arete Research.

Richard Alan Kramer - Arete Research Services LLP - Senior Analyst

First question, I think, if you could just go through a little bit more on your comments. There was a bit of slowdown in the Americas business. And I don't know how much that's more directly linked to the ITP issues and user coverage issues, you mentioned, but -- and you made some comments on Brazil. So maybe if you could go into a bit more detail on that? And then maybe the wider question, JB, if you could talk a little bit more about measurement? And there's a lot of discussion in the industry about proving incrementality of spend on retargeting or remarketing. Can you talk through where you are in your efforts to improve measurement and prove that incrementality for clients since it still seems to be a very contentious issue?

Benoit Fouilland - Criteo S.A. - CFO

So maybe let's start with the Americas. So the Americas region grew 3% rev ex-TAC, but there are contrasted dynamics by market. In fact, the U.S. grew 7%, and Latin America, especially in Brazil, has been decreasing, where we've been facing some pretty difficult market condition. So in the U.S., maybe a bit more color in the U.S. We've seen continuous good traction with existing clients, while on the mid-market size the impact of the transformation or the transition into -- in the mid-market of the go-to-market transformation had an impact, which is a temporary impact on the mid-market performance.

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So speaking about measurement and specific incrementality, that's a very good question. But it's something, which is nothing new in a way that since the very beginning of Criteo, that's probably the first question I got when I was pitching clients back to in 2008 and 2009. When you explain them that there is a lot of value to reengage with their audience, the first question they ask is, is that incremental? Because it in a way goes against intuition. Intuition, you would think people will be engaging with the brands and, of course, they are going to come back, what's the matter? Why should I pay for this? So we've been running hundreds, if not thousands, of incrementality tests because this question, which is a very legitimate question, which is something at the very heart of the questions that our clients ask. As a matter of fact, we have a specific group dedicated in R&D
to design the right protocols to prove incrementality. And the devil is in the details, you need to do those A/B test in a very controlled manner to be sure that you measure the right thing. So it’s an area where we put a lot of expertise, and I am really glad that more and more people are aware of this. And it’s a very basic of sustainable advertising, it’s proving to your clients that what you do to is incremental, otherwise why would they renew the budget rate.

Operator

Our next question comes from Charles Bedouelle of Exane.

Charles Bedouelle - Exane BNP Paribas, Research Division - Head of the European Media Team & Media Equity Research Analyst

JB, welcome back. We are glad to have you on the call. Two questions, if I may. The first one is, can you characterize maybe a little bit more the friction you were mentioning around Q2 supposed to be probably due to GDPR, but can you explain a little what it is going to look like and how long it could last? If you have any views on that? The second question is, you’ve explained very clearly what you think is the reasonable outcome of ePrivacy in terms of consent portability. Can you maybe explain us what are the other options discussed at the moment, so we can have, maybe, I would say, a broader range of potential outcome? And the third question is, maybe here for Benoit, clearly, the second part of year’s performance, if we deduct the full year, the Q2 seems very cautious or very conservative. So is that because the friction, you mentioned, could last a bit longer? Or is it just because you are always on the conservative side of guiding?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Thank you, very good question. So specifically, on GDPR, to go a bit more specific is, there is a law coming about. And as you know, the spirit of the law, the law is about getting more control and transparency and ease of use for the consumer. What the law is not about is bothering users by making their browsing experience very poor. This said, there might be some publishers that decide that they want to implement a very interruptive, hard obtained thing, where you cannot do anything before obtaining to their consent. We believe that such approach is not user-friendly and not in the spirit of the law. And as a result, we think it’s very unlikely that there’s going to be -- this rigid approach will become the industry standout because this is not the intention of the legislature, and the CNIL, the French CNIL, where we’ve been discussing this at length plan is completely aligned with this interpretation. Now this said, we don’t control how many of those publishers might decide to implement this kind of interruptive, hard opt-in. And those that would decide to do this could create some friction, friction for the end-user because it’s going to damage their browsing experience, and friction for the ecosystem because it would create more difficulties in terms of connectivity across the players. So we need some more clarity on how those players are going to implement this. We are doing a big effort to promote what we think is the right way to implement the law, and in a way we think our expertise in consent management may offer us some opportunity to even reengage with some publishers we’re not working with today directly. And said, that’s the opportunity for us, hopefully, to implement our direct-bidder solution with those guys. And so this is interesting because, as you know, we are favoring as much as we can to go direct with publishers and removing any middleman between us and publishers, and in a way this creates an opportunity for us. So it’s going to be a long battle to educate everyone on those new ways to do business. We think this is the future, and everyone should embrace consent management in the right way. Regarding ePrivacy, so this now has different aspects. I discussed one of them. Another one, which is very interesting, is what -- on what grounds publishers can allow to let a user access or not access to their work site? And the latest draft -- and once more, this is work in progress -- the latest draft, we think, goes into the right direction, which stated that access to website may be made conditional to the well-informed acceptance of a cookie, which I think is a pragmatic balanced way to do things, and respect the right of the publisher that you won’t have access to my content, while you need to access value-added advertising, it goes together. So once more this is still work in progress, but we are very confident that the pragmatic approach is going to prevail at the European level.

Benoit Fouilland - Criteo S.A. - CFO

So with respect to your questions on the full year, I mean, we have not changed the way we guide the market. We feel that with all of the information that we have in hand today, and as you can see around the discussion on the potential implementation of the GDPR and the transition effect of
that implementation on the supply side, in this context, we think that our guidance for the full year seems to be realistic and balanced at this point. So I would not necessarily characterize it, as you say, as conservative. There is still a lot of questions as to how some of the players are going to react in the current environment.

Operator

Our next question comes from Tim Nollen of Macquarie.

Timothy Wilson Nollen - Macquarie Research - Senior Media Analyst

I’d like to come on to the question of guidance, again, as well, please. Your Q2 guidance seems quite strong versus what we had modeled coming in, yet your full year guidance is unchanged. GDPR comes into effect on May 25. Can you say -- all the comments we're hearing about friction and so forth, but can you say if there has been any advertiser reaction to GDPRs? And any concerns about spending, which it doesn't seem like you're saying, given the Q2 guidance and yet you remain cautious on the full year? So just want to understand from the advertiser's perspective what you're seeing? And then similarly relatedly, GDPR seems to us to bring some power to the walled garden, in particular, perhaps Google, which is making some pretty bold moves ahead of GDPR as well as perhaps to Amazon and yet Facebook, I think, maybe, obviously, what they've been going through, and given your comments on your access to Facebook data and your supplying of advertising to Facebook might be a different situation for you. I just wonder if you could talk a little bit more about those 3 big walled gardens, please?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Do you want to speak about the guidance?

Benoit Fouilland - Criteo S.A. - CFO

Yes, I can speak briefly about the guidance. I think what you are referring to when you say our guidance comes strong is probably around the EBITDA, where, as we've described, in Q1 we have some temporary savings and hiring delay, and we are not going to catch up on those hiring delays fully in Q2. So that is reflected in our guidance. With the respect to the top line in the guidance, reminding you that we are looking at minus 1 to plus 1 in terms of growth on the top line at constant currency. And that reflects as always with the same philosophy the best view we have, with the knowledge that we have at this point of demand from advertisers, and that reflects current the state of affairs. With respect to advertisers, I think many advertisers are still busy adapting to GDPR. We've not seen a strong reaction of this point. That being said, we want to be relatively cautious on the supply side, where there are still a certain number of question marks as to how large players are going to implement the consent management.

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So the second part of your question is very interesting regarding walled gardens. And yes, of course, the big players have -- are seen as so-called walled gardens, which creates advantage for them because they can control in a very tight way at least all the data. But it creates also some limitation and in a way opportunities for us, in a way that some of our clients, they are a bit frustrated that there's data behind walled gardens and they don't fully understand what's going on with their own consumers. We have a different approach where we make this data very open and actionable for our clients. We have this, as you know, this coop view, where based on, obviously, on their -- on our clients consent, we pool data together and allow them to benefit from the network effect of all our partners. And I think this open approach, which is very different in terms of philosophy than the walled garden, resonates very well with our clients. And specifically when it's going to come to consent management, where nobody has 100% footprint on this, and ability to manage this consent across our different partners is something which has a lot of value for our partners. So in a way, we have a different philosophy than those walled gardens. There are some pros and some cons, and where we see a lot of opportunities to strengthen and deepen our relationship with our clients, given our open philosophy on this aspect.
Edouard Lassalle - Criteo S.A. - Head of IR
Thank you, JB. This would now conclude our earnings call. I’d like to thank everyone for attending. The IR team is available for any follow-up question that you may have. We wish you a very good end of day.

Benoit Foulland - Criteo S.A. - CFO
Thank you.

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board
Thanks, everyone. Good one, bye-bye.

Operator
This conference has now concluded. Thank you for attending today’s presentation. You may now disconnect your lines.

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