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CRTO - Q2 2018 Criteo SA Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Criteo Q2 2018 Financial Results Conference Call. (Operator Instructions) And please note, this event is being recorded. I would now like to turn the conference over to Edouard Lassalle. Please go ahead.

Edouard Lassalle - *Criteo S.A. - VP & Head of IR*

Good morning, and welcome to Criteo Second Quarter 2018 Earnings Call. With us today are co-founder 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, the definition of which, 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 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, Edouard, and good morning, everyone. As you've seen, we've closed Q2 with a combination of modest growth, increasing profitability and cash generation.

Despite the headwinds we've been facing, we think these solid results highlight the strengths and resilience of our model.



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So during this call, I'd like to cover 4 important topics: First, I'd like to discuss ITP and GDPR. Second, I'd like to share some learnings on my first 90 days, back as CEO. Third, I will explain our revised guidance for 2018, and our related plan to reaccelerate. And fourth, I'd like to share some highlights on Criteo's strategy.

So first thing first, let's discuss ITP. The reason I'm starting with this topic is that it has affected significantly our business over the past year. And it's important our investors have full clarity on this matter. As you probably recall, in September 2017, Apple launched iOS 11. This release included a feature referred as "ITP" in their Safari browser. The impact was that we were no longer able to deliver value-added advertisements to users when they were browsing the web on Safari, even when users had consented to see those ads.

So initially, we believed, we could address this with a simple workaround that would mitigate a large part of the issue and put the user back in control to decide whether they want to see value-added advertising or not.

As you know, we got this wrong. Our approach was invalidated, last December with iOS 11.2, that followed. As a result, we realized, we had to absorb a much bigger revenue impact that we had originally anticipated.

I am keenly aware that the related adjustment of our financial forecast over a relatively short time frame was frustrating for investors.

We have heard our shareholders loud and clear on this, and we will redouble our efforts in this regard. In hindsight, we should have done 3 things differently on ITP: first, we should have understood much faster the reasons why Apple did this. Apple's actions came as a surprise as they stand in contrast with the overall industry trends to let users have control of what they want to see and what they don't.

It appears now that Apple's objective seems mainly to drive users to spend more time within apps, a place not impacted by ITP and where they receive favorable economics as compared to the browser. To that point, in-app advertising is today one of our top priorities and the fastest growth area for Criteo.

Second, as part of our business strategy, we should have better anticipated how quickly Apple would react to our ITP workaround. If we had, we would not have had to update the market mid-December when iOS 11.2 was released.

And third, we should have accelerated our roadmap sooner to make our user graph less dependent on the decisions of any one browser manufacturer. In order to deliver value-added advertising to users, who have expressed consent, we now rely on a variety of technologies, including hashed e-mails, login data, multi-browser cookies and app IDs, instead of just relying on standard cookies. Although for competitive reason, I'll not go into details on our various technologies. We feel our platform has now become increasingly resilient to face similar type of changes in the browser settings.

Moving on to GDPR. Overall, things are unfolding as we expected. Since the implementation on May 25, we have received further comfort that our long-standing position is aligned with the French Data Protection Authority, one of Europe's most influential privacy agencies. Whereas, as long as users are properly informed and given the choice on how their data is used, they will effectively give consent by browsing the website they are on. This very clear doctrine ensures limited friction when collecting consents, while offering solid protection for the user against any abuse.

This said, the responsibility to obtain user consent rests not with us, but with our clients and our publisher partners. Today, a small fraction of those publishers had taken, what we considered to be an excessively rigid approach, an approach to consent that could negatively affect their businesses in the short term.

This is the reason why in our prior guidance, if you remember, for 2018, we took a prudent stance on the potential for short-term revenue headwinds. So far, the actual impact of this on our business has been quite limited and lower than what we expected.

For the remainder of the year, we remain cautiously optimistic that the overall impact to our business will remain limited and within our expectations. To summarize our position on ITP and GDPR, we firmly believe that these are not existential threats. As I explained, we have a plan to address those challenges and are executing on to it.



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Okay, now turning to what I've learnt in the 90 days I've been back as the CEO. And the impact of these learnings on my view is on Criteo's strategy going forward. So during the past quarter, I've spent significant time with our clients and publisher partners. From those interactions, I've heard many positive comments on Criteo. Our clients confirm that they get real value from our solutions, which as a matter of fact, you can see in our strong client retention figures.

As a starting point for me, it was important to confirm our solid market position. In those conversations I had with our clients, I have also noticed a real change. Let me explain. In the past 2 years, our clients have watched Amazon to be increasingly successful leveraging its data and audiences to create large new stream of revenue with brands. Our retail clients have always suspected that their data had tremendous value.

With Amazon success in plain sights, they now can see a clear path to a tangible way to monetize this goal. This said, the challenge is that competing effectively in this new game requires sophisticated technology and that is very difficult for most retailers to develop in-house.

As a result, we see our clients engaging with us, as they look for this hard-to-build and complex technology. Given the performance, Criteo has demonstrated consistently over the years, we're seen as a natural partner for this new play. By providing highly effective solutions to acquire, convert and reengage the customers, we have enabled our retailer partners to better compete against Amazon. By providing retailers with a platform to monetize their data and inventory, we can now enable them to get their fair share of brand budgets.

Furthermore, our clients have shared with us that search and social are massive media channels for them. No surprise. But most of them have expressed to me a growing concern about their extreme dependency on Google and Facebook. So for all the other media buying, our clients insisted that it's key for them to keep control of their direct relationship with the end users.

For that, they want their media buying to be powered by an independent technology partner, that is strong, but at the same time that will never become an existential threat to them. These multiple feedbacks suggest we are in the right place at the right time.

Outside of Google and Facebook, owned and operated inventory, we have the opportunity to be the third pillar of any advertiser playbook. That is the ad platform of choice for the open Internet.

In these new market dynamics, there is a tremendous opportunity for Criteo to morph from a tactical solution to become a much broader strategic partner for our clients. I will go into more details on how we will pursue those exciting opportunities. But before that, I'd like first to provide some color on the elephant in the room, that is our revised guidance for 2018.

We're working hard towards returning to double-digit growth in the coming years. However, our return to strong growth will take one step backwards before taking several steps forward. The reason is that, in order to capture the new opportunities, I mentioned before, we need to deeply transform our company. In particular, our move from a single-product to a multiproduct platform has been so far way too slow. Furthermore, in the past 2 years, our decision-making processes regarding product road-map priorities have not always been fast enough.

Overall, for our business to function at optimized speed, we need some engineering that will take some time to produce its effects.

As a result, we're adjusting our guidance for 2018 revenue ex TAC growth between minus 1% and plus 1% at constant currency.

I understand that this significant deceleration in the short-term can be disappointing for investors and shareholders. However, I believe the right operational changes that we are making are necessary to pave the way for future healthy growth. In any case, we will ensure that this business transformation is achieved with the right level of cost discipline.

As a result, we're at the same time raising our 2018 adjusted EBITDA margin guidance to between 30% and 32% of revenue ex TAC.

So our slow pace in transforming ourselves so far and the steps we're taking to correct this in the coming quarters, are in fact the primary reasons for us to lower our revenue ex TAC outlook for the second half of the year.

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Let me share a few concrete steps we're taking to conduct this business transformation: first, as we evolve into a platform company, we need to adopt our go-to-market strategy. Our multiproduct solutions require a more granular segmentation of our clients, which itself requires to reshuffle our resource allocation to better serve each segment of clients.

This transformation also involves a different hiring plan that will include bringing on new people with complementary skill sets than the ones we currently have. So far, our new headcount has been behind plan. And we intend to accelerate hiring in the second half of the year. Though, we do not expect to fully catch up on our hiring delay by end -- by year-end.

The adjustments we've made to our sales teams, coupled with our delayed hiring, represents a large driver of our reduced growth in the second half of the year.

For large clients, not having enough of the right sales people, capable of selling our strategic platform, is restraining our growth. For mid-markets, making sure we've enough inside sales people in seats is also critical to achieving our goals.

As a matter of fact, we've made recently a leadership change on our staffing group, that we expect will accelerate our ability to efficiently onboard sales people, so that we can achieve those goals.

Additionally, we expect that the sales team realignments we've made will begin to bear fruits earlier next year. The second element of our transformation involves our product roadmap. To accelerate on this front, I step into the role of Chief Product Officer, in addition to my CEO role. With this, I should be hopefully able to help the organization, iterate much faster to seize new market opportunities in front of us.

For instance, although Criteo has historically sold its product exclusively on a cost-per-click basis, we have begun to receive clients requests to price some of our new products on a cost-per-impression or other types of variable fees. And there's no sacred cow at Criteo, nothing is forcing us to have all of our products sold exclusively on a cost-per-click basis. So we've included this feedback into our roadmap, and we should be able to offer much more flexible pricing options for our new products to our clients by the beginning of next year.

This delay in our adjusting to how our clients want to consume our solutions, is a second driver behind the lowering of our near-term outlook.

Our company-wide transformation will not be completed overnight. And we anticipate it will last approximately 6 to 12 months.

I will, of course, share more details with you as we progress in the coming quarters. And I'm confident, it will set up us well to achieve our strategy goals over time. Speaking of which, I'd like now to say a few words on the future of Criteo.

Our vision is to be the advertising platform of choice for the open Internet. Through this vision, we'll create value for advertisers, consumers and publishers alike. For advertisers, that means driving enhanced advertising performance across their full funnel, combined with transparency, monetization and self-service capabilities as a platform. For consumers, that means relevant product recommendations with engaging creatives, while benefiting from user-friendly consent management capabilities. And for publishers, this means reaping the benefits of direct access to advertiser demand at scale, to effectively control the monetization of the inventory, while not getting trapped into walled gardens.

We'll execute our platform vision with the combination of organic investments and targeted acquisitions.

On the organic front, as you may have heard, we recently announced a EUR20 million investment in the Criteo Artificial Intelligence Lab in Paris, to define the advertising technologies of the future. This ambitious, multiyear plan in next-GEN deep learning will not yield immediate results, however, we expect it will become a core component of our future performance in the coming years.

On the acquisition front, today, we just signed a small-sized acquisition called Storetail to further accelerate the rollout of our new monetization platform.



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This 60-people company based in France, it will enable retailers to tap into very significant trade marketing budgets from brands by monetizing native media placements on their e-commerce websites on a cost-per-impression basis, and expand this all across the Internet.

While having no material revenue contribution at closing, the addition of Storetail solution would expand very significantly our opportunity for data monetization.

As a matter of fact, based on feedbacks from large retailers we discussed with, we're hearing that the market for audience selling to brands on the cost-per-impression basis is several times bigger than the market for our existing cost-per-click sponsored product. Storetail also bring us a very meaningful footprint of large food retailers in France, a sector complementary to our existing verticals. We expect the deal to close in the third quarter of this year.

Looking forward, overall, with our multiproduct platform, we believe, we can grow our non-retargeting business from the current 6% of revenue ex TAC to 30% over 3 years.

Before I let Benoit go into details of our Q2 results and discuss the guidance in more details, I want to reiterate that my top priorities as a CEO is to ensure that the steps we're taking now and the adjustments we're making are paving the way to reaccelerate revenues in the coming years. With that, I will now happily turn the call to Benoit.

Benoit Fouillard - Criteo S.A. - CFO

Thank you, JB, and good morning, everyone. I will walk you through our Q2 performance and share our guidance for Q3 of 2018.

Revenue was \$537 million. Revenue ex TAC, our key metric to monitor performance, grew 2% at constant currency to \$230 million. This growth was primarily driven by new clients, both large and mid-market, and was achieved despite a significant headwind the user reach limitations in Safari had on our business with existing clients, in line with our expectations.

Using the ForEx assumption implied in our Q2 outlook, revenue ex TAC was \$234 million or \$4 million above the higher end of our guidance. Compared with Q2 2017, changes in ForEx represented a tailwind of over 200 basis points to revenue ex TAC growth, about half of what was assumed in our guidance. Looking at our operating highlights. We added over 400 net new clients in line with our plan, bringing total client count to 19,000, while maintaining retention at close to 90% for all products. Before the impact of discontinuing prior products, this represented 500 new clients net of churn, an acceleration compared to Q1.

We're making progress building our self-service platform for mid-market, which we expect to be live in the first half of 2019. By then, we expect to return to higher growth in client additions. Same-client revenue ex TAC decreased 3%, compared to flat growth in Q1, entirely driven by the user reach limitation in Safari.

Excluding the impact of these limitations, we estimate the same-client revenue ex TAC increased approximately by 11%.

Revenue ex TAC from all non-retargeting products altogether, including Criteo Customer Acquisition, Criteo Audience Match and Criteo Sponsored Products increased 72% year-over-year.

We accelerated our business in apps, a strategic area for us where we do not rely on cookies to access user data.

We significantly reduced the time to integrate app retargeting and are now on par with the best players in the industry.

This led to accelerated deployment of app retargeting with our in-app business growing 38% on a revenue ex TAC basis.

Last, we continue to increase our direct access to publishers. As the number of partner deploying -- partners deploying Criteo Direct Bidder increased to over 2,300 publishers, up from 2,000 last quarter.



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Turning now to regional performance. In the Americas, we grew revenue ex TAC 4% at constant currency, including 8% in the U.S., driven by the strengths with both large and mid-market clients and the continued ramp up of our newest products in the region.

EMEA revenue ex TAC decreased 1% at constant currency, in line with expectations, driven by external headwinds on our business with existing clients, and short-term disturbance related to the implementation of our new go-to-market model across the region.

In APAC, we grew revenue ex TAC 6% at constant currency. The strong business in Korea and India, particularly in-apps offsets weaker-than-expected performance in Japan.

For the second half of the year, we're taking a more prudent stance on our APAC growth. 2 factors explained the slowdown. We're having a change of senior leadership in the region and the Japanese mid-market business is performing below our expectation, in part due to higher attrition in the sales team.

Revenue ex TAC margin improved 230 basis points to 42.9%. Similar to Q1, the margin improvement was largely driven by the increased share of mobile app supply, a large portion of which we purchased at the lower cost than expected.

We view this margin level as high and expect it to normalize over time.

Moving to expenses. Other cost of revenue decreased 9%, excluding the one-time charge in Q2 2017, related to the restructuring of our domestic business in China, other cost of revenue decreased 1%.

Operating expenses grew 1%, reflecting a stable headcount over the period. In line with prior quarters, headcount-related expenses represented 76% of GAAP OpEx. We ended the quarter with close to 2,700 employees, somewhat lower than expected. The slower headcount growth can be attributed to 3 factors: first, the sale of HookLogic Travel, combined with the restructuring of Criteo Predictive Search last year, accounting for a reduction of about 50 employees. The transformation of our go-to-market model, coming with a reshuffling of resources and the need for adding different profiles. And third, continued hiring delays, in particular in the mid-market.

We're working on accelerating the hiring process across the organization, in particular in our Boston and Barcelona mid-market hubs, and believe hiring will pick up in the second half.

On a non-GAAP basis, operating expenses decreased 1% to \$147 million. In 2018, we did not hold our Global Employee Summit and on an apple-to-apple basis, non-GAAP OpEx grew 4%.

On a non-GAAP basis by function now. R&D expenses grew 7%, in line with investment plans and largely driven by the 6% increase in headcount to over 680 employees.

We expect to grow R&D expenses in H2 2018. Sales and operation OpEx decreased 8%, slightly below our plan. This was driven by a 4% decrease in employee headcount to over 1,500, including 700 quota-carrying employees after the sale of HookLogic business and the Search restructuring.

We expect our sales and operation headcount to increase in the second half.

And G&A expenses grew 8%, driven by a 4% increase in headcount to 470 employees. Excluding a one-time expense relating to the change of our prior CEO, G&A expenses grew 4%.

While the trend in expense growth shows effective expense management, we did incur about \$5 million of temporary savings compared to our expectations. The majority of these savings relates to delayed hiring, which we expect to partially reverse in the second half. However, we do not expect to have fully caught up with our hiring delay by the end of the year.



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Moving to profitability. We grew adjusted EBITDA 20% at constant currency to \$69 million. Adjusted EBITDA margin improved 530 basis points to 30% of revenue ex TAC.

As in Q1, the reported effective tax rate was 37%, based on the conservative 37% projected income tax rate of fiscal year 2018. However, pending clarification of interpretation of the U.S. tax reform as well as the impact of our ongoing tax structuring plan, we believe the projected tax rate for the year could go down by 3 to 5 percentage points.

Net income increased 96% to \$15 million and adjusted net income per diluted share increased 36% to \$0.53.

Cash flow from operations decreased 33%, due to one-time negative changes in working capital, after a favorable timing of accounts payable in Q1 for approximately \$23 million.

This momentarily drove transformation of adjusted EBITDA into cash flow from operations to 59%, compared to a normalized 80%.

CapEx decreased 34%, driven by delayed cash out of investments committed in Q2.

Going forward, we continue to expect CapEx to represent slightly less than 5% of revenue in 2018.

Free cash flow decreased 33% to \$22 million. For the first 6 months, free cash flow increased 51% to \$74 million, representing 51% of adjusted EBITDA or above 10 points above the historical average.

Finally, cash and cash equivalents increased \$66 million from the end of 2017 to \$480 million -- \$66 million, yes, despite a \$14 million negative ForEx impact on our cash position.

I will now provide our guidance for the third quarter and fiscal year 2018. The following forward-looking statements reflect our expectation as of today, August 1, 2018.

In Q3 2018, we expect revenue ex TAC to be between \$218 million and \$223 million. This implies constant currency growth of minus 5% to minus 3%, and assumes that year-over-year ForEx changes will [negatively] (corrected by company after the call) impact reported growth by about 160 basis points.

And we expect Q3 2018 adjusted EBITDA to be between \$61 million and \$66 million. In light of the lower revenue outlook for 2018, we have adjusted our variable people expenses assumption for the year. This translates into \$4 million lower expenses in Q3 compared to Q2.

For 2018, we're adjusting our revenue ex TAC growth outlook to be between minus 1% and plus 1% at constant currency.

We expect ForEx changes to impact positively the 2018 reported growth by about 160 basis points. In parallel, we're increasing our guidance for the adjusted EBITDA margin in 2018 to between 30% and 32% of revenue ex TAC.

This translates into an increase in implied adjusted EBITDA of about \$4 million, as compared to the prior guidance, despite a reduction in revenue ex TAC of about \$50 million, suggesting disciplined expense management despite a continued hiring delay.

Our guidance for both the third quarter on fiscal 2018 does not include any contribution from the acquisition of Storetail. The ForEx rates assumed in our guidance for the third quarter and for fiscal 2018 are included in the earnings release that we published earlier today. With that, we will now take your questions.



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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today will come from Andy Hargreaves of KeyBanc.

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

I just wanted to sort of clarify a little bit, because I'm a little bit confused given the uncapped nature of lot of your clients' budget, how the change in hiring impacts the revenue so materially? And maybe just as part of that, is there an incremental impact in the guidance from the changes to ITP Apple made and -- or that they announced?

Benoit Fouilland - *Criteo S.A. - CFO*

So there is no incremental impact that is assumed from ITP or GDPR in the guidance. The guidance -- the revision in guidance is primarily driven by the transformation that JB has described during his prepared remarks. And the hiring delay has an impact obviously that has a ripple effect in the second part of the year on the new business and the fact that we've been 200 people on average below our hiring approximately in H1, is going to impact our ability to maximize the opportunity for new business in the second half.

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

Okay. And then in 3-year target for non-retargeting revenue to grow to 30% of rev ex TAC, does retargeting stay flat or it'll -- or grow?

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

We're not giving the breakdown right now exactly of how this is going to be translating into actual numbers. The idea is that we want to have a more balanced business with a much broader portfolio of products. And as I explained, as we move from being a point solution to being a broad strategic platform for our clients, very naturally, we should see many other products than retargeting to become a key part of the portfolio. And -- but we need to answer your question, we feel very good about retargeting itself. So it doesn't mean -- it's not because we're expanding new products that we're targeting, it's not -- we're not investing in retargeting. This is a big money machine and it's going to keep going.

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

And what I would add is, we're looking at the reacceleration, especially in the second half, as we've indicated in the prepared remarks, including obviously, for the core retargeting business.

Operator

Our next question will come from Aaron Kessler of Raymond James.

Aaron Michael Kessler - *Raymond James & Associates, Inc., Research Division - Senior Internet Analyst*

Couple of questions. First on Europe that seemed to be a little lower than we expected. How much -- can you help me quantify GDPR? And was there anything else that was weighing on Europe? We saw a couple of other companies thus far report weaker Europe results also, quarter. And then if you guys clarify the increasing revenue ex TAC margins in the Americas business? Didn't catch that completely on the call.



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

So for Europe, as we mentioned, the GDPR impact has been very modest and within our expectation. And as you can expect, it's highly concentrated in Europe, by definition. GDPR is something European, so any impact from GDPR that is going to translate into the numbers, will be, to a very large extent, concentrated in Europe, for sure.

Benoit Fouilland - *Criteo S.A. - CFO*

And what I would add also on Europe and GDPR was, in line with our expectations, slightly -- in fact slightly better than our expectations, what has also had an impact on the EMEA is the short-term disturbance related to the implementation of the new go-to-market model, especially in EMEA, as we have multiple markets that we operate. With respect to the second question, on the rev ex TAC margin. As I explained, we are -- we've been running at the rev ex TAC margin, overall, on the global basis, but it's also valid in the Americas, that has been higher than the traditional level, it's partly due to the increased mix of apps supply that we buy at a lower CPM than anticipated. We would expect this normalize over time, not necessarily in the very short time, but over multiple quarters.

Aaron Michael Kessler - *Raymond James & Associates, Inc., Research Division - Senior Internet Analyst*

And then finally any thoughts on 2019? I think you indicated before kind of double-digit growth 2019, and that change is now given your updated '18 guidance?

Benoit Fouilland - *Criteo S.A. - CFO*

What we've indicated on the call today is that we were working towards a return to double-digit growth in the second half of 2019.

Operator

Our next question will come from Doug Anmuth of JP Morgan.

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

I've a couple. First just on ITP, obviously, you've helped us walk through the past year, but just trying to understand where we are now in terms of financial impacts? And it feels like we're about to lap since here -- are we still seeing deterioration? Or are we at a baseline kind of level at this point? And then second, I'm trying to understand why some clients want to move from a CPC to a CPM basis? Is that existing clients or is it more a newer set of clients to potentially reach out to? And then when you think about how the business is changing, anything about what the economics will look like a year out in the new configuration, as you're competing with Amazon more, becoming more of this open platform for advertising and at different pricing structures?

Benoit Fouilland - *Criteo S.A. - CFO*

Shall we start with ITP?

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

Yes.



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Benoit Fouilland - *Criteo S.A. - CFO*

So I can cover ITP quickly and then JB will cover the rest. On ITP, I mean, we've seen the impact in Q2 was pretty much as expected, 14 percentage point of growth was the impact in Q2. I mean, we're at a point where, in terms of rollout of the solution, we're close to the peak of the rollout, we have not yet reached the peak of the rollout. It should be some times in Q3. So we should see the impact plateauing. And obviously, as we go out of Q4, all of that would be included in our base.

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

So regarding the change in pricing. So this is not for retargeting. Retargeting -- I think we defined market practice, which is not -- now widespread on CPC and the clients are very comfortable with that. This is mostly for our new and promising acquisition product that we call CCA, Criteo Customer Acquisition, where we realized that way our clients are measuring things, is -- it's different from retargeting. They want to see the value of the click, but also the value of the view. So by charging cost-per-impression, we suggest them that than they have a better way to measure this by including both the click and the view, which is opening the door for new type of inventory, like video. As you know, so far, video is representing a very, very, very small amount of our inventory. And it's obviously something we intend to change in the future, particularly as we go upper funnel -- and scale this acquisition product. And we have very strong appetite for clients, for the -- they all want new clients. So this is something we're putting a lot of effort in. So regarding the impact of Amazon, that's interesting. It's something very favorable for us, because if you use a goal that we're trying to educate the market about the value of monetizing the data, they would say okay, and some of them would do things with that, but it was all relatively low on their priority list. Today, it becomes much more strategic and very hot topic, not only because it's opportunistically a very interesting new line of revenue for them, with virtually no cost, but also because they realize that Amazon is running their core retail business with very little, with no margin, and making margin on new type of businesses, like advertising. And as they want to compete with Amazon, that -- they realize that it's very important to -- on their own, to have additional margins on this advertising business. So overall, it makes our conversation with our clients much more strategic and creates a lot of momentum. And some very big names in the U.S. that's -- were very hard to get their attention, now we're getting meetings and really up into their organization, because it becomes very strategic for them.

Operator

Our next question will come from Charles Bedouelle of Exane.

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

Just to clarify on the change in the guidance around the revenues in the hiring delay. So first, we've seen, let's say, 11% like-for-like growth in the existing clients ex ITP, which is probably slower than what you had. What do you imply roughly in your H2? So that we can see what's the split between less new clients and lower activity of existing clients? And the second element I just wanted to clarify is, with your hiring delays, how much is due to the fact that you're struggling to hire? How much is due to the fact that the management has been busy, may be reorganizing and thinking about a new option? And how much is it may be due to the fact that you're seeing some lower, maybe revenues and so you're may be being slower in hiring? Or is it really a hiring delay, or is it a voluntary hiring delay?

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

So I'll take the second half and I'll let Benoit jump for the first half of the question, on the hiring delay. To be fully transparent, end of last year, in Q4, when we got hit really hard by ITP, we kind of, I wouldn't say, freeze, but slowed down and reduced the size of our hiring machine. And one of my first priorities, when I came back, was to reinitiate this hiring process, but it takes time. There is a lag, because first, you have to hire staffers. You have to hire the hirer before they can hire our passionate people. So that you -- and we had also a change in our HR leadership. And I had to adjust and have a new Head of Staffing stepping in. So all those changes are taking a little more time than what we expected. I was hoping our hiring machine will restart faster. But it takes time, you have to -- as I said, you have to get the staffers in and then they need to find the people, we need to recruit them and then you need to get them onboard and then you need to train them before they are fully operational. So there is always a couple of quarters to get at full speed once you press the button.



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Benoit Fouillard - *Criteo S.A. - CFO*

So regarding the guidance, why doesn't -- dissecting all of the assumption behind it, I think, maybe it's worth mentioning what are the primary reasons why we revised the guidance. I mean, there are basically 4 main reasons: the first one is obviously, we're assuming a slower growth in APAC, which is mostly related to Japan. As we've said on the call, we have a leadership change in the Asia-PAC. And we're also -- we have also mid-market business that is performing below our expectation in Japan, primarily due to attrition.

So we are working on correcting this, but I've been taking a prudent stance. Hiring delay, which has been a big topic, discussed, has an impact on the new business in H2. We have a change in HR leadership going on, as we speak within the company, to address that particular hiring delay, but we do not plan to catch up fully before the end of the year. And our new go-to-market strategy is also driving some short-term disruption in the resource reshuffling. So finally, I would say that CSP, as we are going to reposition the offering on CSP also is, we're slightly below our expectation on CSP and more prudent on the second part of the year. So all in all, these are the reasons, why we've been revising the guidance. What I want to insist on is that we're confident that past the end of the year, we should see a rebound and with an acceleration to double-digit growth in the second part of next year.

Operator

Our next question will come from Sarah Simon of Berenberg.

Sarah Simon - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

I've got a couple of questions. First of all, in terms of GDPR, I'm just interested as to whether you're saying -- you mentioned, a stricter approach with some of the publishers, who obviously have influence on other publishers, I'm just wondering, if you're saying anybody changing their position? That's the first question. And the second one is on the margin in -- your revenue ex TAC margin in Europe, have you seen any benefit from people kind of self-selecting out by saying no to cookies? And then the second one was just -- you just referenced repositioning of Criteo Sponsored Products, and I am sorry, I missed what are you doing there?

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

Okay. So on the GDPR, as I said, there is a small fraction of publishers that probably under the influence of their legal team have taken an approach, which is, we believe, very rigid and not the spirit of the law. Very practically meaning what does it mean, when you go on their website in Europe, usually you just see a new (inaudible) and you get some choices, but you can browse, it's okay. In some rare cases, the whole site is frozen, and the only way you can browse on the website is you have to go through a very intrusive opt-in process on your data, which is way, way beyond any recommendation of the data privacy agencies. And I would say most of those outliers are subsidiaries of American publishers, where probably the European operation is very small compared to what they're doing in the U.S. and they take a over cautious stand, because it's -- yes, probably in the U.S. they'll see this from a -- from the long distance and it's harder for them to adjust. We believe that either most of them are going to adjust or their visitors will go to other websites, there's plenty of that -- and we've seen this happening that some U.S. players completely shut down their European website due to GDPR, which we think it's kind of extremist and (inaudible), but it's benefiting to local publishers. So overall, it's going to be a redistribution I think of the traffic among publishers. And the ones taking a pragmatic approach will be the winners. Regarding the margin, I will -- I like your idea that self-selecting people creates a better engagement. This is something we're trying to implement into smarter consent management. But I would say, this meaningful impact you're seeing as -- on our revenue has been -- like I explained, is mostly coming from the -- from this in-app inventory, where we get better economics than other type of inventory, which happened to be where we are growing the fastest. You asked a legit question on CSP also. So CSP, that's interesting. This is a Criteo Sponsored Product. When we came into the market 2 years ago, once more, it was not a very strategic topic for our retail partners. So let's say, okay, we're happy to test this, but why don't you go to the brands and try to monetize them yourself. And where to put together so-called a brand team to go after the brand budgets and try to convince them to spend their money on the website of our retailer partners. Now today, increasingly in the past 6 to 12 months, they are like -- wait a minute, this is like super-strategic for us, we should have our own sales team going and you guys should be the technology platform for us. And we are like, wow,



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we are more than happy to do this. And so we're translating, but it's a different business model where rather than offering this full solution including the sales team, we become what we really are, a technology partner, a technology provider, offering the platform and letting them do their own monetization, at least the biggest ones. And this change in pricing, it's something new for Criteo. We're a company that used to sell clicks and now we're selling a platform solution, as a technology provider, a bit like a SaaS thing. And adjusting into this new pricing, it takes a lot of time. And this is why in the short term, as we're shifting to this new market dynamics, which is very exciting, it's creating some short-term delay into the growth of CSP.

Operator

The next question will come from Tim Nollen of Macquarie.

Timothy Wilson Nollen - Macquarie Research - Senior Media Analyst

Couple of things please. There's been quite a bit of discussion on hiring delays and so forth in this call. You haven't talked so much about your efforts that you've spoken of before on building out kind of a platform for mid-market kind of self-served clients, I wanted if you can talk a little bit about that, please? And then, could you discuss a little bit about your acquisition today? I think a lot of us have been waiting on hearing what you might do with your cash? And this looks like a small deal? Is this one of perhaps more to come? And then could I slip in a last question, please. A lot of discussion on GDPR, pleased to see that that's not been such a problem for you. I wanted if you could say something more about any updates to the ePrivacy legislation or the California regulation, which has just been announced?

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

So, yes, it's true that we didn't talk about [No Audio] the -- we're making big efforts in the mid-market to include 2 things: one is automation and two is self-service capabilities for our mid-market clients to be fully autonomous in the way they interact with our platform. And this is one of those projects that I love, because it's kind of a no-brainer and a sure win. When you increase automation and you increase productivity, and this flows directly to the bottom line. So this is a project that is a high-priority for us, because the gains we have are obvious and sure. We've other bets, which are more speculative. When we try to enter the new area, there is always a risk that we're not going to find the magic formula. But these are -- this is the type of bets that are our assurance. So you are absolutely right, this is something, which we're pursuing. And by the end of this year and exiting 2018 and getting in 2019, you should start to see some very meaningful benefits, both in terms of reacceleration, hopefully of net new addition of clients, and also the overall dynamics of -- and the economics of our mid-market business. Acquisition, as I explained, we are morphing into this platform solution and being much more strategic to our clients. We're identifying gaps into our product portfolio. One of those gaps was the ability to monetize native placements on the website of our clients for brand advertisers. And this Storetail acquisition is fitting exactly well this piece. And this -- you should see more coming in this spirit. So Storetail today is purely a French business. But the first thing we're doing now is bringing them to the U.S., as we're having strategic conversation with the top 10 U.S. retailers. They're all asking for this specific functionality. And our sales teams were banging their heads saying we want this product. And we knew if we take some time to build it internally, so we thought, let's accelerate and acquire this capability. So we can grab land very quickly, especially now that those clients, they are with the right spirits, they want to make a decision in the coming months of their strategic partners, so we need to be here to offer the full solution. So you should see more acquisition, it's relatively modest one, yes. We'd not necessarily want to do only huge ones, but one which fits very nicely as a complement of our product portfolio. Third question regarding ePrivacy. So ePrivacy is the next iteration after GDPR. So as you know, it's still in discussion and it's going to be a long way before this gets into implementation, at the best, end of next year and could probably be even later. Right now, it's going into the right direction. And we've seen from the last iteration, we're getting increasingly positive that ePrivacy is taking the best of GDPR in a very pragmatic approach. And I think the whole spirit there is that you want to do right thing with a user that without creating a hellish nightmare in terms of consent management.

Benoit Fouilland - Criteo S.A. - CFO

So I think there was also an -- a question on the California.



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

Yes, I like this, because California is kind of following the path of GDPR. So all the experience we're learning with GDPR, we're going to be at the forefront for the U.S. And as we see increasing opportunity to be the expert in consent management for our clients, the experience we're building in Europe, we're going to be able to do this for the U.S. and we're excited to see the U.S. following the same path.

Edouard Lassalle - Criteo S.A. - VP & Head of IR

Thank you JB.

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

Thanks.

Edouard Lassalle - Criteo S.A. - VP & Head of IR

That concludes the earnings call. We'd like to thank you, everyone, for attending today. And the IR team is available for any follow-up you guys may have. Thank you all and have a great end of day.

Benoit Fouilland - Criteo S.A. - CFO

Thank you.

Operator

Ladies and gentlemen, this conference is now concluded. And we thank you for attending today's presentation. You may now disconnect your lines.

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