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CRTO - Criteo SA at Nasdaq Investors Conference

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CORPORATE PARTICIPANTS

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Brian Nowak *Morgan Stanley - Analyst*

PRESENTATION

Brian Nowak - *Morgan Stanley - Analyst*

All right. Thank you everyone for joining us this afternoon. We're thrilled to have Benoit from Criteo with us. Before we get started, I have to read the obligatory disclosures. Please note that important disclosures including my personal holdings disclosures and Morgan Stanley disclosures all appear as a handout available in the registration area and on the Morgan Stanley public Web Site. You don't have a soundtrack to this.

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So Benoit, you have had a variety of seats kind of overseeing all of finance and a lot of strategy at Criteo. I guess as a starting point just to sort of table set, can you just sort of talk to the room sort of about the core offerings and the core products at Criteo and how has it evolved over the last couple years?

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

So thanks for having me first. So maybe just to remind you who we are. So we are a technology Company so working for advertisers and in particular retailers. So our clients are e-commerce companies selling products and services online. And we leverage high quality, first party data that we get directly from the interaction with our clients' properties to provide them with value-added advertising solutions.

And our vision is clearly to build the advertising platform for the open internet. And we have very strong assets to fulfill that mission, around technology, around scale, and around neutrality. And we leverage these assets to ultimately build a comprehensive multi-solution offering, multi-solution platform with the objective to address multiple advertising objectives and scenarios for our clients beyond the sole conversion scenario that we've been addressing historically and to do that across the open internet.

So just maybe a few words about the key assets we are referring to. We are deep inside a technology company, so the first key asset is our technology, our machine learning technologies that we've developed over the last 10 years. We've got 700 R&D engineers and product, people who are solely focused on machine learning.

In terms of scales, we've got close to 20,000 clients, 19,000 clients and we see through those interactions with those clients, we see 700 billion dollars of sales every year which is much bigger than many of the players out there including Amazon, and we bring neutrality, which is very important to our clients.

So what do we mean by neutrality? It means that we have no conflicting agendas and we have built, thanks to this neutrality, one of the biggest consumer shopper graphs that exists in the open internet based on transparent data sharing across our clients.

Brian Nowak - *Morgan Stanley - Analyst*

Yes. And within the online advertising ecosystem, there continue to be these two big players in Alphabet and in Facebook who are driving a very high percentage of incremental advertising growth, in some quarters all of it. Maybe just with that as a backdrop, how has Criteo's competitive position evolved and how do you think about it changing over the next couple years as Google and Facebook continue to grow as they are?

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

Yes, certainly. I mean first we believe that advertisers want to have choice beyond the duopoly that you are just describing. They don't want to be tied in this duopoly. And by the way, I want to mention that when we say that this duopoly is grabbing most of the growth in the market, don't forget that we participate--

Brian Nowak - *Morgan Stanley - Analyst*

Yes.

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

--directly into this because Google is one of our partners and we work also with Facebook. But if we come back to the feedback we get from our clients, they want to have choice. And we are in a pretty unique position because of the asset that we build to offer choice to them beyond the duopoly.

So that -- they don't solely, ultimately rely on the two duopoly for their needs in terms of advertising. And if you think about the mission that we've set for ourselves to become the advertising platform for the open internet -- let's talk about what do we mean by the open internet.

This word which is outside of the walled garden. So what we call the open internet, it's the environment where -- that enables direct interaction with consumer and audience and with fair access to data and transparent measurement. So without relying on any of the larger walled gardens.

If you think about the monetization of that space -- it attracts only 30 percent of advertising, while 50 percent of the time is spent in the open internet by users. So in other words, this space is very much under-monetized. And we see a massive opportunity for us given the assets that we've developed to help our advertisers, to help our partners to better monetize the open internet.

So we are pretty much in a unique position in this respect if you look at the other players in the space in terms of scale, in terms of technology, in terms of data access in order to monetize this. So what's our intention, our strategy is ultimately to dramatically improve the monetization from the 30 percent currently, and help our clients to ultimately get advantage of this opportunity for themselves.

Brian Nowak - *Morgan Stanley - Analyst*

One of the questions that I often get asked by investors is just to sort of drill in a little more to the -- you mentioned the -- you have exposure to Facebook and to Google. You're actually -- you work with them. So just for people sort of in the room and on the webcast, just maybe can you talk to how big that exposure is and so we sort of understand the dynamics between you and Facebook and you and Google, how it actually works?

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

So Google is a very big partner. First, we are buying inventory on the Ad Exchange from Google, and that represents a sizable portion of our supply. We have a very diversified supply, but Google is the first platform that, we use to again, buy through the platform from Google -- inventories within a very vast number of publishers. So Google has been a very good partner for many years. And in fact, when we meet with Google, they treat us as a client, I mean they pay for lunch when we sit with them.

Now, of course, Google is also a competitor. They have developed Google Remarketing which is a competitive offering within re-targeting. But interestingly enough, we do not much face head-to-head competition, in fact, Google has been developing its presence much more in the smaller size -- the long tail with -- Google had less success in the top advertisers for reasons which are I think pretty much through -- sharing of data.



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With respect Facebook, Facebook is in a different position. Facebook is a massive publisher obviously. They have a very large pool of owned and operating inventory.

Brian Nowak - *Morgan Stanley - Analyst*

Yes.

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

They've been a partner for many years. We've been an early partner. We've helped them to ramp up their ad stack. As you've probably noticed over the years, they have taken a much more closed approach to partnership and they've ultimately restricted to a certain extent the use of partners as they build their own stack and are very much favoring much more from a reseller approach.

So we still are in a partnership with them, even so to a smaller scale and we still buy from them. It's one of the source of inventory. It's a small source of inventory for us now. It's around 3% to 4% of our revenue generated from them. So we are in this situation of just being a competitor to Google to a certain extent, to Facebook also maybe much more as we move up the funnel but at this same time being a partner.

Brian Nowak - *Morgan Stanley - Analyst*

If you go over the last few quarters, you've talked a lot about transformation.

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

Yes.

Brian Nowak - *Morgan Stanley - Analyst*

And using that word transformation. So maybe just give us some more detail on what are some of the biggest aspects of the business that you see really transforming the next couple years, and how does that impact overall revenue and profit growth?

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

Yes, absolutely. So why are we going through a transformation? I mean why transforming? And it is really to become more strategic for our clients. And our clients have been telling us for now many years, help us to cover more marketing scenarios on the -- specifically more recently there's been a lot of change in the industry.

You've seen your strengthening of the duopoly that we just talked about and this desire from our clients to become not solely dependent on this duopoly, there is also the impact of Amazon. We have a large portion of our clients that are retailers, and Amazon has demonstrated a very strong success in building advertising revenues and monetizing the audience.

And that obviously gives strong ideas to our clients, retailers, also to monetize our data. So you know, why transforming is to ultimately be able to become more strategic for those clients and help them ultimately in this new condition. So where are we transforming?

We are expanding our portfolio of solutions to address more marketing scenarios, that is beyond the conversion scenario which has been traditionally where we've played in the funnel. We want to extend to cover consideration, so to help our clients to ultimately bring new prospects for themselves.

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And in a second step we might also cover awareness at the top of the funnel at some point. And what we want also is to extend our product portfolio to a series of monetization scenarios, data monetization scenarios and audience monetization scenarios for our clients. So what do we need to be successful in doing so?

Ultimately, first we need to have a more flexible and modular platform, product platform. And that's a significant change for us because we've been very much focusing on one single solution. Our solution could not be consumed by components. It had been consumed in one single all-or-nothing. So that's a significant change for us on the technology platform.

On the second aspect of the transformation is on the sales side to ensure that our sales team will be in a position to sell multiple solutions and to sell multiple solutions in an effective, intuitive, easy manner which is a deep transformation compared to our traditional one single product sale type of approach.

So ultimately in this transformation on the platform side, on the product offering, on the sales side, what's really going to matter for us now is the focus on execution, because it's a significant program and we feel good about where we are in our transformation plans, that's what we've expressed in our latest earnings. And we feel good that with the pieces in place and also on the top of the resilience of our core business, we should be in a position to look back at growth in 2019 and a double digit growth. This is our aspiration in the second part of the year.

Brian Nowak - Morgan Stanley - Analyst

Yes. And the go-to-market, so I think -- you're -- you have -- there's a lot of new products and sort of the way in which you manage their product is evolving, over the years, there's been sort of a yin-yang of the self-serve versus sales force. How do you see the mix of the business changing over time? And sort of talk about the sales force and where you are now and sort of really executing with the sales force to bring in clients.

Benoit Fouilland - Criteo S.A. - CFO

So on the sales force, the transformation there is quite deep because we were, up to now, solely positioning one single product and we had relatively simple go-to market with two main motion for large clients and what we call mid-market clients.

We've now segmented our client base in a much more granular manner with six different segments of clients depending on the business potential of those clients. And we have a different sales model and service level for each of those segments. To make it very simple for -- on the top part for the two top segments, the large clients, it's a very consultative sale -- with client partners who are able to position ultimately the entire offering with marketing executives.

Brian Nowak - Morgan Stanley - Analyst

Yes.

Benoit Fouilland - Criteo S.A. - CFO

So which means that from a transformation standpoint, we need a different caliber of sales people. So we've promoted existing sales people and we've been recruiting outside also sales people in order for them to be able to orchestrate a sales process at a more strategic level.

For the two middle tier, middle segments, we are going to rely on a telesales, telesales model. So still with account management but with telesales so with much more scalability and automation. And for the two bottom segments, we are going to rely on self-serve and that's where self-service tools are going to be extremely important. We are in the process of developing our self-service solution.



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We expect from a product standpoint the self-service solution to be available by the end of Q1 next year. So that would include your registration on the client portal by the customers and full autonomy for the customer and full control for the customers without the need for dedicated account management and only by default -- by exception if needed to talk to a Criteo person.

What we see is a, we see our clients very willing to use self-serve tools. We've recently launched in the context of Q4 a self-serve solution to help our clients dealing with couponing. So there's lots of promotional offers around Q4 with couponing and what we've seen, a very rapid take up of the solution on the self-serve basis by our clients.

So we feel good about the ad option of self-serve. Now, self-serve by itself as a product is important, but what's even important as well is a set of revenue-generating programs and marketing program and partnerships that you can build around this to get the full benefit of the self-serve solution. So we are committed to use self-serve as a key motion to penetrate and fully harness the potential that we have in the mid-market.

Brian Nowak - Morgan Stanley - Analyst

It's been an ecosystem full of changes the last couple years, when you just think about tracker blocking -- the tracker blockers, the ad blockers, ITP, GDPR, more acronyms than I even know how to pronounce and what they stand for anymore. I guess through all of that, if you sort of step back, maybe can you just tell us one or two of your biggest learnings from all of that?

And what is the response to the question of like what type of guardrails do you put in place to ensure that you're still going to continue to be able grow and execute on the double digit growth of any potential further changes?

Benoit Fouilland - Criteo S.A. - CFO

So I think I mean the main impact I would talk about is probably ITP.

Brian Nowak;^ Yes.

Benoit Fouilland - Criteo S.A. - CFO

ITP which is a functionality that was introduced by Apple last year as part of the release of IOS that prevents cross-site tracking--

Brian Nowak - Morgan Stanley - Analyst

Yes.

Benoit Fouilland - Criteo S.A. - CFO

--had a significant impact on our business. And we've drawn a lot of learnings from this obviously. The first one is with respect to our focus from a technology roadmap standpoint. We've been continuing to adapt and now making it a core part of our technology strategy from an identity standpoint to adapt our solution to be less dependent on any manufacturer's decision like the one from Apple and to be less dependent on cookies overall--

Brian Nowak - Morgan Stanley - Analyst

Yes.

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

--when we deliver value-added services to our clients. And we've moved away from relying only on cookies by leveraging the power of our identity graph. That's one of the benefits of our scale is that we've built that strong identity graph, making it a systematic effort to try enrich this graph to get a way to accessing to the Safari users through other identity mechanisms than through the cookies.

So that's a long-term effort. So we've recouped part of the coverage that we'd lost, but I think that's one of the key learnings from us is this needs to be a constant effort in our technology. And the fact that we are doubling down on app through the very significant roles of our app business, still relatively small but growing very fast but also the acquisition we did with Manage is going to help obviously in that effort.

The second learning from ITP, if you think of the recent figures that we've published is a very strong resilience of our core business, because if you think about the headwinds that we had to face as a result of this decision -- last quarter, Q3, 13 points of growth. We faced 13 points of growth as a headwind from ITP. And plus some additional friction from GDPR implementation which means 15 points of headwind in total.

And our core business, it was contracting by five points which means that there is very strong resilience within our core business. The good news also on the learning from ITP that ITP did not impact the efficacy of our solution and the value we can provide to our clients. It just impacted the coverage in terms of users that we can reach and the -- you know, this anniversary of ITP comes by next year, by Q3 next year, I mean ultimately those headwinds in terms of growth should disappear and we feel good about the resilience of our core business.

Brian Nowak - *Morgan Stanley - Analyst*

Yes. As part of the transformation, you talked about the different sales channels and developing new products and new measurements, et cetera. Maybe just talk about the ROI and sort of the payback on these investments. And how should we think about how you're going to manage growth versus profitability through this?

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

So I think we've -- I mean managing growth versus profitability is a balance that we've always been very careful to maintain over time. We feel that -- we feel good about the resilience of our core business, the potential of those new initiatives that will bring on the top and our ability to return to double digit growth and in the back end of next year.

So if you think about investment, where investment is going to be prioritized to support this effort and this return to growth, we are going to prioritize investment on the sales and operations, sales, rebuilding the sales capacity that has been pretty flat pretty much since the beginning of the year in terms of effective sales capacity. So that's where we are going to put most of our investment, as well as in continuing to grow our resources in R&D to support our technology roadmap on platform transformation.

So if you combine those efforts and the confidence that we have on the strength of our business, we feel that we have a good balance in between profitability and growth. And we feel that the investment obviously next year is going to have an impact most probably on the margin, on the EBITDA margin.

We should expect to see the EBITDA margin being down by a few points in order to fund for those investments compared to where we will land this year, but beyond that we feel good to see continued incremental leverage in our business.



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QUESTIONS AND ANSWERS

Brian Nowak - *Morgan Stanley - Analyst*

We have one or two questions in the audience? Raise your hand if you have a question; there's a mic runner. Question over there.

Unidentified Participant

Hi. Thank you. Could you comment on Apple's aspirations for the developing and advertising business and how that's going to impact your business?

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

It would be difficult for me to comment on Apple willingness to develop or not develop an advertising business. What we see overall in the positioning of Apple is that Apple has quite an ambiguous positioning if you look at the positioning within Safari and the positioning within the app environment.

Certainly within Safari with a decision like ITP, Apple has taken a view that from a marketing message standpoint it was good to launch within the Apple user base a message that using Apple devices and using Safari, you will be protective from advertising to a certain extent, from value-added advertising.

But on the other hand, when you look at the world of application -- Apple has a very different approach and Apple has been favoring the tracking, the very tracking that Apple is fighting in Safari is to the contrary favored in the world of apps.

Our reading is that world of apps is something which is very important for Apple in terms of generation of business and profit while Safari is probably not important, hence why they took this positioning.

So we would watch very carefully obviously what Apple would be doing in that respect, but what we see is most probably an app environment that is going to be a much more suitable environment for advertising where tracking is easier with obviously proper consent from the user. That is going to be beneficial to the ecosystem and to us and that's one of the reason why we are doubling down in terms of investment in the apps ecosystem.

Brian Nowak - *Morgan Stanley - Analyst*

Great. All right. Thank you very much.

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

Thank you.

Brian Nowak - *Morgan Stanley - Analyst*

Thank you. Thanks.

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