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CRTO - Criteo SA at Morgan Stanley TMT Conference

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CORPORATE PARTICIPANTS

Benoit Fouilland *Criteo S.A. - CFO*

CONFERENCE CALL PARTICIPANTS

Sean Diffley

PRESENTATION

Sean Diffley

All right. Thanks, everyone, for joining us. My name is Sean Diffley. I'm the Internet, Media and Telecom Sector specialist at Morgan Stanley. Very excited to have the CFO of Criteo, Benoit Fouilland with us.

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

Thank you.

Sean Diffley

So Benoit, welcome to Barcelona.

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

Thanks. Thanks for having me.

Sean Diffley

So for the uninitiated, maybe if you could just spend a few moments reminding us of who Criteo is, what you do and how you're positioned in the ad-tech space.

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

Yes, absolutely. So we are, first and foremost, a technology company. So we are working for advertisers. So our clients are e-commerce companies, travel, online travel and classified and brands. And we leverage very high-quality third-party data assets to provide those clients with value-added advertising services.

And we have a big ambition. We have the ambition of building the advertising platform for the open Internet. And we do have very strong assets that we built over the years that allow us to have that ambition around technology, around scale and around neutrality. So we leverage those assets to ultimately build a comprehensive multi-solution -- multiproduct solution for our clients addressing multiple marketing objectives and across the entire open Internet, meaning what's outside the walled gardens.

And just a few words about those assets. From a technology standpoint, we've got 700 R&D engineers, highly-skilled R&D engineers, focused solely on machine learning with now more than 10 years of experience in developing such a platform. We have a very large scale with close to 20,000 clients and a very large set of data we access through those clients, more than \$700 billion of sales data -- \$700 billion of sales data we access through those clients. And from a neutrality standpoint, we do not have any conflicting agendas, and we have built the largest data graph in the industry solely focused on shoppers.



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Sean Diffley

Great. That's an excellent introduction.

QUESTIONS AND ANSWERS

Sean Diffley

So you kind of -- you mentioned there's 2 large players driving a lot of the ad dollars. How do you see your position evolving in the industry as it develops over time?

Benoit Fouilland - Criteo S.A. - CFO

So again, I mean, our vision is to build a platform for the open Internet. And the open Internet is ultimately an environment outside of the walled gardens that enables direct interaction with consumers and with audiences and fair and transparent measurement without any conflicting agendas. And if you think about what the open Internet represent today, it's 50% of the time spent by users is spent in the open Internet. But only 30% of the monetization happens in the open Internet. So we see a huge opportunity for us to help our clients better monetize the open Internet. And that's ultimately our aspiration, our vision, and we feel we are very well positioned to execute on that vision.

Sean Diffley

Got it, okay. And you guys have mentioned transformation multiple times over the last few quarters. Can you talk to us more about what that transformation is? How you view it progressing over time and where we are in that progression?

Benoit Fouilland - Criteo S.A. - CFO

Yes, absolutely. So it's a key transition year for us, 2018, and we want to leverage this transition year in order to transform ourselves and be positioned at best for the rebound in 2019. And we have 2 key dimensions in our transformation. One is on the product side. On the product side, we traditionally have addressed one single marketing objective with one solution, dynamic retargeting. We have embarked on a transformation to enrich our product portfolio in a manner that we can address now multiple marketing scenario and marketing objective for our clients, not only the conversion objective but being able also to address the consideration objective of our clients. So looking for new clients, offering their products to new prospects as well as over time, probably, the awareness objective. Beside moving up into the funnel through our product enrichment, what we want as well is to help our clients better monetize their data. Our clients have seen, especially in the retail space, have seen that Amazon has been monetizing very effectively their data, creating new opportunities for retailers as well to monetize with brands, and we want to help our client in doing so. So that's one part of the transformation. In order to achieve the transformation on the product side, it means that from a technology standpoint, we need to take an approach where we build a platform that can be consumed through different components as opposed to a single solution approach. And that's a big part of the transformation on the product and technology side. So second dimension is on the sales force. From a sales force standpoint, our sales force traditionally was pushing one single product out there. What we want is to enable that sales force to position a multiproduct solution. And the transformation consisted first at looking at -- in a much more granular manner at segmenting our customer base so that we can serve those clients according to their needs. For the large clients, it's much more a consultative sale. For the midsize, the torso of the clients, it's going to be a tele-sales approach. And for the bottom of the -- of our client base, a self-serve approach. So we embarked on that transformation. We are in the middle of it. We feel that the transformation would be completed only early next year when we will specifically add the self-serve solution, which will be launched at the end of Q1.



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Sean Diffley

All right. Maybe we can just dive a little bit further on the product side. So maybe you can talk about what the new products are and how significant you expect their contribution to be over the next few years. Any hurdles that you might face as you enter some of these product sets?

Benoit Fouilland - Criteo S.A. - CFO

So first, what I want to reinforce is that we feel good about the transformation, both on the product side as well as on the sales-force side. We are in the middle of it. It's not completed, but we feel good about the progress. So if we look at the product specifically, so our objective is to be able to address more marketing scenarios. So moving into the consideration scenario is one of the core objective within our product offering. So we had launched now -- a few quarters ago, we have launched a customer acquisition product, and we want to build on this early success of the customer acquisition product. We've launched also an audience match product. Increasingly, we see also an opportunity to build on the very nice growth momentum in the apps environment. Apps -- the usage of app is increasing very fast. We have already a portion of our business, which is apps. Pure apps is 10% of our business, so app to app business. If you look at the full view of what happened between the web and the app, it's up to more than 30% of our business. So we already have a significant footprint in the app, but we want to double down on app. And we've recently announced the acquisition of Manage, an app-install company on the West Coast. And that particular company is going to help us enriching our product offering to address the consideration objective. So helping our clients getting a footprint of apps through an apps-install scenario, which is increasingly important for our clients. So that's one example of how we are increasing our product offering. On the retail monetization part, we are also -- we've made a small acquisition that we announced in Q2, Storetail, a French startup. That is going to help us enriching our offering to address the monetization needs of our client with a slightly richer type of format of ads, which will allow us to address also upper in the funnel the monetization for our clients. And that is at the moment being tested with our large retailers in the U.S., and we have some good early signals of success there. So we feel good about the progress. Today, it's 7% of our revenues. So it's still modest. That is done outside of, I would say, core dynamic retargeting. What we've indicated is as we execute on our strategy, we feel that within 3 years, we should get to a portion of our business which would be meaningful, around 30% of our business, that should be done within those new products.

Sean Diffley

Great. Now maybe we'll turn to the go-to-market strategy. There's been some talk about challenges on hiring. Maybe you can just talk about that. And how are you measuring the success of the sales force in the reorg?

Benoit Fouilland - Criteo S.A. - CFO

So I would say that it's more than a reorg. It's a new strategy of how we go to market that we've implemented. And obviously, as you implement such a strategy, which look at segmenting your customer base in a much more granular manner, it's changing the way you address those customers to be able to position a multiproduct to those customers, reallocating accounts across those various segments, so reallocating salespeople also across those segments. And changing the way you address certain segments, I mean, is not without creating a disruption. So as part of this transformation, we have seen some challenges in terms of attrition that you face in any significant transformation. We have also started the year from a sales-capacity standpoint with a hiring capacity that was below our needs. So we have rebuilt our talent-acquisition team following the reduction of hires that we did last year. We've rebuilt our talent-acquisition team in Q2. I think we feel good about where we are in our ability to hire. We've restored good capacity to hire for the sales team. But attrition was at the peak in Q3. So it continued to increase. I feel that we should see probably a stabilization of our sales capacity in Q4, and I'm confident that as we move into '19 and we complete the transformation, then we will see the effect of restored hiring plus reduced attrition, which should allow us to increase, again, our sales capacity.

Sean Diffley

That's helpful. So ecosystem changes, there's been a bunch in the last year or so in regards to tracker and cookie blockers as it relates to Apple. Where are you now as you lap the Intelligent Tracking Prevention, the ITP, that was rolled out in 4Q '17? Any further changes we should be thinking about in ITP 2.0?



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Benoit Fouilland - Criteo S.A. - CFO

So ITP, maybe just to remind what ITP is. It's a tracking-prevention functionality that was included by Apple in the release of iOS 11 last year. So ITP had a significant impact on our business simply because it reduced our ability to reach the Safari users, so users of -- purely users of Safari. If they are using other apps in addition to Safari, we still can reach them. So ultimately, it's been -- to speak about it in simplistic term, it's just like if you were contracting by a factor of close to 15%, the user base that we can reach for our business, so it's a significant impact. However, it doesn't reduce the efficacy of our solution. It just reduced the number of users that you can cover as a result of this functionality. So the impact has been significant. What we are seeing is that now we are at the peak of the impact in term of year-over-year comparison because we've reached, in term of penetration, adoption of IOS, we're at the peak of now in Q3. So as we progress in the next quarters, we should see a diminishing impact from a year-on-year gross comparison rapidly diminishing after Q1 most probably, which means that we should not feel -- by Q3 next year, we should not feel any more headwind from a growth standpoint from ITP. What it means for us in terms of our solution and technology road map? Clearly, it was a significant event that has pushed us to now allocate permanently resources on the identity side of our solution to ensure that we leverage multiple mechanism to identify users beyond solely the cookie. So we are making that effort as a constant effort in our technology road map. We've seen some good success of leveraging the multiple access to identities that we have in order to become less dependent in the future to any decision by any manufacturer of the industry. As we also increase our presence in the app, we are going to become more independent from cookies as we increase the share of our business that is done in the app. With respect to ITP 2.0, which is a new version that has been released recently, I mean, it doesn't impact us. We felt the entire impact with the first version of ITP. I think it has impacted other players like Facebook, for example, breaking some of the links that they have between sites.

Sean Diffley

Got it, okay. And somewhat similarly, GDPR implemented in 2018. Maybe you can walk us through the impact that that's had on your business to date. It's obviously been European-led, but we're seeing some impacts elsewhere. So maybe your initial thoughts on how that's progressed and then next rounds of regulation, whether it's e-piracy -- ePrivacy or other pieces to that equation.

Benoit Fouilland - Criteo S.A. - CFO

So GDPR, we took a very early stance as to our vision about GDPR. We've never believed that it will be an existential threat for our business, particularly given where we've been in terms of adopting within our technology solution to give control and transparency to the user. From the early days of Criteo, I mean, just -- I'd like to remind the small triangle that you've seen, any banner and any ad now as a standard, is something that was started by Criteo as early as I think 2009. So we never believed it would be an existential threat, and I think what we were anticipating as a scenario is unfolding. What we see is a majority of the publishers have adopted consent management platforms that are allowing to obtain consent in a compliant manner, but I would say, frictionless for the user. That's the majority, and that's what is establishing as a standard in the market. And I invite you to go and check yourself. It's pretty easy. If you erase your cookies on your browser and you go to a selection of publisher sites and you'll see the type of consent that you get and you'll see that the standard is pretty much frictionless in terms of how the consent is being requested. Of course, there are certain publishers that took a hard stance of taking a very disruptive hard approach, which is reducing the rate of opt-in. Ultimately, this is impacting their own business. And we feel that as the approach of compliance matures, they will realize that it's not in their best interest, but that remains a minority today. So in terms of impact, it has been below what we were anticipating. We had an impact of around \$2 million in Q2 for a partial quarter. We had an impact of \$4 million in Q3. So that remains, I would say, a friction in our business, but not an existential threat.

Sean Diffley

Got it. And then next waves of regulation?



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

With respect to ePrivacy, it's difficult to know how this regulation is going to -- when this regulation is going to land because especially with the election coming, so there is uncertainty. With respect to the evolution of the drafts, the draft has been quite stable for some time now. And in the latest version of the draft, I think some of the concerns that were expressed by players in the industry had been, to a large extent, positively addressed. So at this stage, based on the drafts that we have, we don't feel particularly threatened by ePrivacy, which, again, is going to be an application of GDPR to the digital sector within Europe. So we don't expect at this stage any major disruption there.

Sean Duffley

Got it, okay. And as you continue to embark upon transformation, as CFO, how do you balance kind of profitability versus growth? As you weigh those 2 items, how do you think about them?

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

So I think we've demonstrated now for 5 years since we've been public as a company that we have a model that allows us to balance well growth and profitability. So it's our intention to continue to grow and grow profitability, increasing our profitability over time. Obviously, we had a transition year in 2018. We are below in terms of sales capacity where we were expecting to be. So there's going to be a pickup in investments that I think we should anticipate, and I have -- we've talked to you about it in 2019. We want to be well positioned for a rebound in terms of growth. So I mean, I would expect that our EBITDA margin that -- higher than what we were expecting this year would normalize and go down slightly next year as we invest for growth. But our model allows for a balanced growth and profitability management.

Sean Duffley

I think you guys have talked about like a significant acceleration in growth in the back half of '19. Maybe just walk us through how you kind of get there. What are the drivers...

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

So I mean, we feel good about where we are in the transformation. Obviously, it's a -- 2018 would have been a very intense year for Criteo. It's -- we were growing 30% last year. We -- as you know, this year we're not planning for growth. But we've used that time of transition to transform ourselves and position at best the company to address a much larger addressable market as we move into this multiproduct, multi-marketing objective strategy. So we feel that our core business has been extremely resilient despite strong headwinds in '18. We are seeing opportunity to increase penetration in our core business, especially in mid-market as we embark on our new sales motion in mid-market. We see good signal in terms of spending of large customers as well. So we feel that we are well positioned to see the core business even if it's not going to return to the necessarily to the level of growth that we've seen 2, 3 years ago, but to see a good momentum in the core business, to which you would add the initiative on the new products that we just discussed. So if you combine both sides, given where we are in the transformation, we feel good that we should be in a position to see growth next year and towards the end of the year. I mean, our aspiration is to go back to double-digit growth. One of the reason we elected to do a buyback now is because we feel that we are good in terms of the transformation plan and obviously, the stock price is at a level which is very attractive for buyback.

Sean Duffley

Yes. I guess continuing with that line of thought, what are your kind of balance sheet priorities? And walk us through the buyback. Like how much authorization do you have? How do you determine how much you'll buy?



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

So from a capital allocation standpoint, we've been managing the company with a growth agenda on allocating capital. We -- in priority on growth and acquisitions. That has been a constant prioritization. As we've got a good cash flow generation and given the circumstances around the stock price and where we are in our transformation, we feel it's the right time for a buyback, a buyback of a size that allows us to still retain significant capital for M&A. So the authorization is for \$80 million. The authorization from the board is relying on a shareholder authorization that expires in June. So the intent is clearly to execute this rather in the short term and to benefit from the current stock price that we believe is very attractive for a buyback.

Sean Diffley

Okay. And then when we think about M&A broadly, do you think there'd be scale benefits to you guys being part of a larger organization? And then when you think about things that you would look to acquire, what are the characteristics of those businesses that you look for?

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

So we feel that we have the right ingredients and right assets. We have just to focus on execution in order to be successful in our strategy on a stand-alone basis. So in other words, we don't feel that we have a need to partner with another company in order to execute on our strategy. That being said, there could be benefits from a scale standpoint to partner, but we don't think it's required at this stage. So it's not our core focus to look for a partnership. If, as any public company, somebody knocked at the door, then our board would act in accordance with their fiduciary duties. They would look at getting the best value for the company and for the shareholders. But that's not part of our strategy today to look for a partner.

Sean Diffley

Understood. All right. Do you have any questions in the crowd? Go ahead.

Unidentified Analyst

On the publisher side, it seems like a lot of publishers are pushing now more for subscription given the issues around advertising. Do you see any impact there that basically the addressable pool for advertisers is just shrinking because publishers are going basically the Netflix way of kind of just trying to avoid, in general, advertising? I just want to see what you're seeing in the market maybe in general.

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

I don't think I share the view that there is a massive trend of publishers moving to subscription. I think publishers want to monetize their inventory at best. And the move towards programmatic selling of inventory is something which is really profound, and that has yield some significant benefits from -- for the publisher industry. So I'm not sure that I'm seeing a trend of publisher moving away from that because that's what provides the best environment, leveraging on technology to get the best yield for publisher. What we are seeing is advertisers looking for different ways of consuming advertising solutions. And that's one of the aspects that we are looking at very carefully, especially for our large retailers. We've developed this solution on the back of an acquisition of HookLogic a few years ago to help our retailers to monetize their audiences and their data, and it's increasingly strategic for them. They are seeing what's happening with Amazon. Amazon is competing against them with significant advertising revenue, and they see an opportunity. However, retailers are seeing an opportunity to ultimately monetize their audience and their data with the brands, and there is going to be probably profound changes in the way brands are going to allocate their trade marketing budgets because of the increasing importance of the digital channel for the brand and the measurability that they can get in the digital channels that they have difficulty to have in the traditional channels. So there is lots of change happening there. And in this respect, in this space, especially with large retailers, we are seeing some retailers who look at us as a provider of a technology solution. They don't necessarily want the full managed service, but they want us to provide our technology to help them monetize their data and not necessarily have a full managed-service offering. In those cases, it could

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make sense for us, and this is something we are looking at very seriously, to develop a slightly different offering for them, so allow them to access to a component of our solution. Hence, why this platform approach is very important for us to grab a larger opportunity. And potentially, this component of the platform, purely the access to technology, which is sold on a SaaS basis, so more on a subscription basis. So this is happening, offers new opportunity for us, but it's less on the publisher side. The publisher side is still very much driven by programmatic selling and buying.

Sean Diffley

So you're saying the addressable market has still solid growth. Is that what you think?

Benoit Fouilland - Criteo S.A. - CFO

I see -- I mean, for us, the publishers are our partners. It's a way for us to access to inventories in order to reach the end users. And we see a lot of content being developed. So there's lots of growth area and you see lots of growth in video in particular. And for us, it's going to be an interesting opportunity because in the past, we were not able to address -- to use video. As we are moving now up in the funnel and we are going to adopt different pricing models as we move up into the funnel, we are going to be able to leverage this format of inventory. So we see definitely a continued growth there, yes.

Sean Diffley

I guess maybe just more on Amazon. How has their move into advertising and marketing impacted your business directly? And has that been a surprise to kind of what you've seen?

Benoit Fouilland - Criteo S.A. - CFO

So it's not been a surprise because they've started this move quite some -- a few years ago. What has been astonishing is the pace at which they have developed their advertising revenues. Amazon has an indirect impact on us. Amazon is a competitor of many of our clients. So Amazon, to a large extent, has been prompting many of our clients to adopt more solutions in order to be competitive. So it has been a good, I would say, catalyst for demand for our core retargeting -- dynamic retargeting. But now what we are seeing as well is as Amazon is developing very effectively data monetization for themselves and for their merchants, our clients are coming to us saying, "Hold on a minute. I mean, I see how Amazon is leveraging their audience and their data. I want to do the same. Can you help us doing so?" And that's how we ultimately entered into this market 2 years ago, and we see a significant opportunity because Amazon is educating, to a certain extent, the market, especially on the brand side. And this is going to have profound effects on how brands are going to deploy their former trade-marketing budgets across now not only the traditional channel, but through the digital channel. And that would create an opportunity for our retailers in order to monetize their audience. Our retailers do not have the technology assets that Amazon has. We can provide them with those technology assets, and that creates a very significant opportunity for us. So there are good benefits for our industry to a certain extent of the pressure of Amazon.

Sean Diffley

Got it. And the presentation just before this was AT&T's CFO, and he talked about -- a bit about some of their ad-tech endeavors. They bought AppNexus. Kind of how do you see yourself positioned? And as bigger companies are buying ad-tech companies, how do you see that kind of playing out over time in the landscape?

Benoit Fouilland - Criteo S.A. - CFO

I mean, it's definitely an interesting -- when you were telling me earlier, "Do you need a partner," and I told you no, we don't need a partner. If I was the CFO of AT&T, I would probably look at Criteo because we have pretty much built some pretty unique assets. And clearly from the world of



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telecoms and where there's lots of data there, some of the capabilities that we have developed are capabilities that are going to be increasingly important for those players to leverage their data. So I can understand why we could be looked at by such players. Even so, our strategy is to develop our -- execute on our agenda on a stand-alone basis.

Sean Diffley

Yes, great. And I think we'll end it there. Thank you very much. Appreciate it.

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

Thank you very much.

Sean Diffley

Thank you.

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