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CRTO - Q1 2019 Criteo SA Earnings Call

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## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Daniel Salmon** *BMO Capital Markets Equity Research - Analyst*

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

**Mark Patrick Kelley** *Nomura Securities Co. Ltd., Research Division - Executive Director and Lead Analyst of U.S. Technology, Internet, Media & Telecom*

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

**Thomas Steven Champion** *Cowen and Company, LLC, Research Division - VP*

**Timothy Wilson Nollen** *Macquarie Research - Senior Media Analyst*

## PRESENTATION

### Operator

Good morning, and welcome to the Criteo First Quarter 2019 Conference Call. (Operator Instructions) Please note this event is being recorded.

I would like to now turn the conference over to Edouard Lassalle, Vice President of Investor Relations. Please go ahead.

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

Thank you. Good morning, and welcome to Criteo's First Quarter 2019 Earnings Call. With us today are Co-Founder and CEO, JB Rudelle; and CFO, Benoit Fouilland. During 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. As always, 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.

Today, we'll also discuss non-GAAP measures of our performance. Definition of such metrics and the reconciliations to the most directly comparable GAAP financial measures were provided in the earnings release published earlier today.

Finally, unless otherwise stated, all growth comparisons made in the course of this call are against the same period in the prior year.

With that, I'll now turn the call over to JB.

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

Thank you, Ed, and good morning, everyone. Looking at where we are after Q1, we see a mixed picture. On one hand, we are making good progress on several key priorities. Our new solutions are growing fast. We are shipping important product features, and we are getting positive feedback



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from clients testing our new solutions. In Q1, our top line grew above the high end of our guidance, and we significantly exceeded expectations for profitability. Overall, I feel good about our strategic direction and our financial model.

On the other hand, I acknowledge that our top line growth is still way too modest relative to our potential. I also realize that some of the new capabilities we are building to achieve our transformation are going to take more time before yielding the acceleration we are working very hard for.

In particular, despite encouraging client performance from our new solutions, we are not ready yet to sell them in a truly scalable way. To complete our transformation, we have a few execution issues to fix, more on that in a minute, and we believe it's going to take a bit longer than expected to get the full benefit of it.

While we are paving the way for acceleration in 2020, the issues we have identified lead us to take a more modest approach to our 2019 growth outlook. As a result, we now expect revenue ex TAC growth to be in the range of flat to 2% in 2019. Despite this slow growth, we are maintaining our profitability margin outlook for the year.

So with this in mind, I'd like to address 3 big questions today: First, why are we more cautious in our outlook and what does it mean for 2019? Second, what are we doing about it? And third, how did we perform in Q1 and where are we going next?

Starting with why we are taking a more modest view for 2019. It relates to delayed execution in two well-identified areas. One, our ability to successfully sell our product suite at scale requires further expertise building. While we're shipping new features on time, we need to evolve the sales organization and go-to-market further in order to grow the solutions even faster. This relates primarily to our web upper-funnel and our app-install products. In those two areas, the gap in terms of sales pitch, client onboarding process and campaign management as compared to retargeting is significantly larger than what we anticipated.

Two, our demand-generation programs for mid-market are not ready yet. While the technology for self-service onboarding will be ready on time at the end of Q2 as planned, we realize that our demand-generation programs to attract new small clients in large numbers will take until 2020 to be fully effective in driving new client additions at scale.

Given how significant the contribution of new products and mid-market small clients sales were to our original plans, those two factors combined account for a material gap compared to our prior expectation for 2019. While it will take more time to see the business reaccelerate, I strongly believe those two issues can be fixed.

So what are we doing to address them? In both areas, we are working hard to make our go-to-market processes more scalable. First, to accelerate the sales growth of our new products, we are focusing on three initiatives: One, adapting our sales and operations organization; two, bringing new sales specialists on board; and three, doubling down on training our client-facing teams. In parallel, we are adjusting our hiring and people onboarding processes to more effectively scale up sales capabilities for upper-funnel products.

In retrospect, while we understood that we needed to adjust our go-to-market, we underestimated the time it takes to hire specific sales experts in a very competitive market for talent. Effective May 1, we are also unifying all app-install sales specialists under a single management. The intent is to create the right level of focus and urgency in our organization. Overall, we expect those initiatives to start driving tangible results by early 2020.

Second, with respect to our mid-market demand-generation programs, we are also grouping various initiatives under a single senior executive, also effective May 1. These initiatives include: one, selling our solutions through third-party sales channels; two, integrating with e-commerce platform partners to make our solutions directly available to our clients on their e-commerce platforms; and three, increasing our own lead-gen programs on social media and other digital channels.

We expect the implementation of those initiatives will start to drive significant momentum in mid-market client additions in the first half of 2020.



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Turning now to our Q1 achievements. We made tangible progress on several priorities. First, our new solutions, which include all solutions outside of retargeting, grew 74% on a revenue ex TAC basis to 9% of total. This compares to 5% in Q1 of last year. This momentum shows that our new product road map is moving in the right direction. However, for the reasons I mentioned before, we will experience a delay of a few quarters before this new growth engine contributes to our overall numbers at the level we originally expected.

As a reminder, the Criteo platform comprised of two main components: On one side, marketing solutions that includes self-service, an API and a managed platform to address the entire advertising funnel all the way from brand awareness campaigns down to conversion programs to generate sales. On the other side, retail media also includes a self-service, an API and a managed platform to power brand advertising revenues for retailers.

With respect to marketing solutions, we increased the performance of our customer acquisition product by 11% in Q1. Finding new prospects is a key ask from our clients, and our improved performance drove revenue ex-TAC for this product up 155%. In apps, our business grew 32%. While this is solid, we were expecting significantly higher growth in apps in Q1. As discussed before, we're putting a plan in place to address this important point. On our product road map for apps, we made good progress for app-install, including the shipping of a new campaign optimization tool, publisher bidding and user scoring algorithmics.

These new features, all combined, drove performance improvements of 10% to 50% for our test clients. This is promising for a product that is still early, but expected to bring significant contribution to our growth next year.

In our retail media business, we also continued to make progress. In particular, our transactional SaaS offering for large retailers once again grew triple digits. This said, despite having all the technology pieces to become an industry leader, our momentum in retail media is not yet on par with our ambition. To accelerate the execution, in March, we appointed Geoffroy Martin, former CEO of Art.com, as our new General Manager for retail media. Geoffroy brings a wealth of revenue generation expertise in the retail and technology space, combined with a strong operational background and financial discipline. This senior appointment highlights our commitment to bring our retail media business to the next level.

In Q1, we also shipped several important features for our client self-service platform. These allow clients to turn the dials themselves and have more control over their marketing operations. Q1 shipments included a whole suite of rich analytics tools, providing clients with full transparency on where and how their campaigns are performing. We also introduced self-service support tools, so clients can self-repair broken campaigns much more easily. And the most significant module we introduced a month ago is the ability to design and launch, in full self-service mode, new marketing audiences covering multiple advertising scenarios. We tested this module with 3,000 advertisers in the U.S. and in the U.K. In the first month, over 60% of their consideration campaigns were created and managed entirely in self-service mode. This is a very encouraging signal.

Still talking about our platform, I'm also pleased to confirm that we are on track to ship our self-service registration onboarding module for new small and medium clients by the end of Q2, as planned. This said, as discussed earlier, we anticipate it will take until early 2020 to fully implement the related demand-generation programs and reaccelerate the pace of our new net client additions.

Now moving to the supply side. Our ability to bid the optimal price for each impression has always been one of Criteo's distinctive strengths recognized by the industry. I am pleased that we further improved the performance of our critically important first-price bidder in Q1. In parallel, our Direct Bidder continues to make good progress. The growth is mostly driven now by mobile apps where 135 app developers are now working with our technology, an increase of 70% compared to the previous quarter.

Finally, on the talent front, employee morale improved in Q1, and we saw unwanted attrition slow down across the organization. This trend illustrates a good alignment of our people with Criteo's strategic direction and priorities.

Before closing, I'd like to say a few words about user identity. Recently, a media outlet speculated about Google's intention to make potential changes to third-party cookies in the Chrome browser. We already addressed this topic in our last earning calls. And compared to what we discussed three months ago, nothing new had happened in the industry. However, given the negative pressure these speculations have put on our stock price, I feel it's worth to reiterate our position.



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Given the intense scrutiny Google faces from antitrust authorities globally, we believe it is unlikely they would take advantage of Chrome's dominant position in the browser market to restrict the ability of other digital players to compete.

In closing, where are we going next? Despite making significant progress on our road map, we recognize that 2019 is another transition year for Criteo. Yet, despite slower growth, we maintain our profitability margin outlook for the year. While our investments will lead to a few points of leverage this year, we believe the actions we are taking will drive a higher profitability margin next year.

We're confident in our strategic direction and are 100% focused on execution to support our future.

With that, I'd like now to turn the call over to Benoit.

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

Thank you, JB, and good morning to everyone from my side. As usual, I will walk you through our performance for the quarter and share our guidance for Q2 and fiscal year 2019.

Revenue grew 3% at constant currency to \$558 million. Revenue ex TAC, our key metric to monitor the business, increased 2% at constant currency to \$236 million. Existing clients adopting our new solutions as well as new client business drove our growth in the quarter despite some continued short-term headwinds.

Changes in currency negatively impacted revenue ex-TAC by \$11 million or 4.4 points of growth compared to Q1 2018. Compared to our guidance assumptions, FX changes were immaterial.

Revenue ex-TAC margin declined 40 basis points to 42%, in line with our expectation that margins would normalize at a lower level compared to the peaks we saw in the first half 2018.

Looking at our main growth drivers for the quarter. We grew the number of clients by 5% to over 19,000, while maintaining retention at close to 90% for all solutions combined. As we increased our focus on higher-value mid-market clients until we launch our self-serve registration onboarding module, this resulted in a lower client addition in the quarter.

Same client revenue ex-TAC was down less than 1%. However, on a revenue basis, which truly reflects our clients' spend with us, same-client revenue increased 2%, demonstrating the growing adoption of our new solution by existing clients.

Turning to regional performance. In the Americas, revenue ex-TAC grew 8% at constant currency, including 8% in the U.S. This was driven by the growing number of existing clients adopting new solutions, accelerated growth in the mid-market, good performance of retail media in the U.S. as well as improving performance of our Brazilian business.

EMEA revenue ex-TAC decreased 2% at constant currency despite solid growth of our new consideration solution as well as accelerated growth in our mid-market business, partly offset by continued short-term headwind related to GDPR implementation.

And in APAC, revenue ex-TAC grew 3% at constant currency, driven by strong results in Korea, our growing business with several large clients in Japan and healthy improvement in mid-market, in part offset by slower business in India and Southeast Asia.

Shifting to expenses. Other cost of revenue decreased 13%, driven by gains from a sale of decommissioned servers and lower depreciation expenses as we extended the useful life of our servers from 3 to 5 years. This was partly offset by a provision for the new digital tax on revenue introduced in Italy and France, and higher expenses for third-party data to complement our shopper graph.

GAAP operating expenses were flat year-over-year. The increase in headcount cost was fully offset by lower equity award composition expense due to the lower stock price over the period.



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Headcount-related expenses represented 74% of GAAP OpEx, down 3 points compared to the prior year period. We ended the quarter with over 2,800 employees, an increase of 5% year-over-year.

On a non-GAAP basis, operating expenses increased 2% to \$150 million.

Looking at these expenses by function: R&D expenses increased 1%, driven by a 5% increase in headcount to over 700 R&D and product engineers. Sales and operations expenses were flat despite a 4% increase in headcount to just shy of 1,600, slightly higher than expected. Quota-carrying employees, comprising sales and account strategists, grew 3% to over 720.

And G&A expenses increased 9%, in line with the 9% increase in headcount to over 500 employees. Adjusting for exceptional items, namely the gain on the HookLogic travel business disposal last year as well as one-time accounting and tax advisory fees this year, non-GAAP G&A expenses actually decreased 1%.

For 2019, we now expect non-GAAP expenses to grow more modestly across all functions than originally expected.

On the profitability side, adjusted EBITDA was \$69 million, 13% above the high end of our guidance and 6% below Q1 2018 at constant currency. This drove our adjusted EBITDA margin to 29.2% of revenue ex-TAC, down 320 basis points. In Q1 last year, adjusted EBITDA was unusually high due to the proceeds from the sale of the HookLogic travel business and lower expenses as we were significantly behind at that time -- behind our hiring plans at that time.

Just adjusting for the sale of the travel business, adjusted EBITDA margin was down only 280 basis points.

Depreciation and amortization expenses decreased 18%, mainly driven by the change in the useful life of our servers from 3 to 5 years.

Equity award compensation expense decreased 28% due to the lower stock price.

Financial expense increased 49%, largely due to the impact of change in ForEx rates in our hedging positions.

And our effective tax rate was 32%, in line with our projected tax rate of 30% for 2019, adjusted for negative discrete items related to the lower stock price. This compares to a 37% effective tax rate in Q1 2018. As a result, the provision for income tax decreased 19%.

Net income increased 1% to \$21 million, driven by the lower tax expense, partially offset by a 4% decrease in income from operation and higher financial expense.

On a non-GAAP basis, earnings per diluted share was flat to \$0.60.

Cash flow from operations decreased 20% to \$67 million, driven by the lower adjusted EBITDA, unfavorable changes in working capital and increased taxes paid. Despite this, our transformation of adjusted EBITDA into operating cash flow was strong at 97%.

CapEx decreased 27% to \$24 million, representing 4% of revenue. As a result, free cash flow decreased 16% to \$44 million, reaching 63% of adjusted EBITDA.

Finally, cash and cash equivalents increased \$31 million in the quarter to \$396 million.

With regards to capital allocation, we are requesting a new authorization at our shareholder meeting in two weeks to increase our flexibility to execute share buybacks in the future.

I will now provide our guidance for the second quarter and fiscal year 2019. The following forward-looking statements reflect our expectation as of today, April 30, 2019.

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Given the slow start in Q2 and the delays we are experiencing in execution, we are taking a more cautious approach to our quarterly and full year revenue ex-TAC outlook. As a result, for Q2, we expect revenue ex-TAC between \$221 million and \$224 million on a reported basis. This implies constant currency growth of minus 2% to 0%. We expect year-over-year ForEx changes to be a headwind of about \$5 million or 230 basis points to the reported growth.

For the full year 2019, as JB indicated earlier, we now expect revenue ex TAC to grow between 0% and plus 2% at constant currency. Using our current ForEx assumptions, this means revenue ex TAC of approximately \$950 million to \$969 million. Compared to our prior guidance, this is a reduction of about [3%] (corrected by company after the call) of growth at the midpoint. Compared to 2018, ForEx changes are expected to have a negative impact of about \$16 million or 170 basis points of reported growth.

On the profitability side, we expect Q2 2019 adjusted EBITDA between \$50 million and \$53 million. Adjusted for reported -- adjusted for temporary savings and exceptional items of approximately \$6 million in the prior year quarter, this translates into a margin dilution of approximately 390 basis points.

For 2019, given our softer top line outlook, we will increase our focus on effective cost management to ensure we deliver on our profitability goals in 2019 and take the adequate action to drive an increase in profitability margin next year. We, therefore, maintain our expectation of an adjusted EBITDA margin of approximately 30% of revenue ex-TAC for 2019, demonstrating our commitment to profitability.

As usual, FX assumptions supporting our guidance for the second quarter and fiscal year are included in our earnings release.

In closing, I want to reiterate our confidence in the clear direction of our strategy and in the strength of our financial model.

With that, we'll now take your questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) The first question today comes from Tim Nollen with Macquarie.

### Timothy Wilson Nollen - Macquarie Research - Senior Media Analyst

JB, I'd like to pick up on your comments on any potential Google Chrome changes. I know that you're going to be limited in what you can say. But could you help us understand how much of your retargeting business is reliant on using those cookies versus any changes they might make that you could adapt to, whether that would be easy to do or difficult? Any comment on that would be great. And then, another follow-up, please. Relatedly, Facebook, rather surprisingly, called out GDPR as creating a cumulative risk for them into the second half of this year. I haven't heard anybody else say that. I just wonder if you have any comments on any impacts from GDPR at this point on your business?

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

Thank you very much, Tim. Okay, let me come back to that. Thank you for asking about Chrome because I know a lot of our investors want to know more about this. I don't know if you've heard, you had -- there was earnings of Google yesterday. And I think the CEO made a very interesting comment, he was -- which is confirming what we heard from our side. So this is very consistent that, one, they're going to make some changes in the future about how Chrome manages identity; and two, that -- those changes will be done in a way to minimize any impact on the ecosystem. And he was very clear on that and insisted that for them it's extremely important to maintain a healthy advertising ecosystem, that this is the key revenue source for most publishers. Obviously, it's a very important part of Google business, including their exchange where we are one of the biggest buyers on the exchange. So this is very consistent what we heard ourselves. That yes, there will be some changes, but those changes will



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not be adverse to the ecosystem. And this is the basic assumption we are working with. And we are working hand-in-hand with Google to implement this -- those changes.

As a matter of fact, and it's kind of a good segue to your second question, I think a good way is to look how Google handled GDPR because there was also a lot of concern a year ago about how Google will handle GDPR, will it destroy the ecosystem. I think Google has been handling this in a very calm and very thorough way, where they implemented GDPR in the spirit of the law, but also in the spirit of making sure it would have minimum impact on the ecosystem, and which is exactly what happened. When it comes to Facebook, I think they are facing very specific issues on GDPR, which is very different from us. As you know, Facebook's core value is the fact that they have personal information on users, which is a completely different class of data than what we are manipulating. We are -- from the start, Criteo is only managing nonpersonal information. Everything is hashed and anonymized, which is why from the start, from the get-go, we were completely compatible with all the GDPR. As a matter of fact, we were GDPR compliant way before the law was implemented. Well, when you have personal information like Facebook, it's a whole different story. Obviously, the sensitivity of the public is much higher with personal information. And this is why they face specific scrutiny on the way they handle their data.

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**Timothy Wilson Nollen** - *Macquarie Research - Senior Media Analyst*

Okay. Any color around your use of the cookies versus any other methodology of tracking users?

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

Yes. Absolutely. As you know, we were impacted by cookie restriction in the Safari browser 18 months ago. And in a way we learned our lesson. We've been putting a lot of technology resources to implement new ways to get the -- to the Criteo graph. And we are very pleased today that we have now a full-fledged Criteo graph with 1.5 billion users -- unique users in this. And a very large part of this graph is not cookie dependent. So in short, we are reducing very significantly compared to two years ago our dependency on cookies. This is something which is a long-term investment for Criteo. And we believe that as some browsers, especially Safari, are implementing restrictions on cookies, this investment we've done in our user graph is creating a very unique competitive advantage compared to other independent players who haven't done this effort. So it's probably because we've been impacted probably much more than others on ITP that we also invested much more. And today, we see ourselves in a good position compared to others in this space.

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**Operator**

The next question comes from Mark Kelley with Nomura.

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**Mark Patrick Kelley** - *Nomura Securities Co. Ltd., Research Division - Executive Director and Lead Analyst of U.S. Technology, Internet, Media & Telecom*

First question is just on the sales headcount you're planning, the sales specialists you're talking about. What's the skill set you're looking for? And is that headcount focused in a particular geography or is it global? And the second thing is, can you talk about the shift to selling through third-parties? It would be helpful for you to maybe offer an example there and how does that flow through the P&L?

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

Sure. So the skill set, if I take, for instance, apps versus web, it's very different in terms of how app-first clients look at the world and - I would say - more traditional web-centric clients look at the world. The metrics are different. This whole concept of app install has no equivalence in the web world. So you have this idea of cost per install. The way you measure also the performance of the company is different. The way you do the technical integration is different. The whole, I would say, customer pipeline is different. So this requires a significantly different pitch. The questions also asked by clients are different. The ecosystem, also, is different. So it requires some very specific skills.





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So some of our sales people have been trained to sell both, but it's really hard, and today, we rely on a mix of sales specialists that are really specialized in app-first clients versus generalists that are capable to address clients that are both on the web and on app. We have kind of two types of clients. We have clients that are purely app-first that are selling all of their products primarily through an app; and clients that were purely web and that have expanded into apps. And this is really very different. So this is why we have this mix of the two. And you're absolutely right that not all regions are equal. APAC and the U.S. are the most advanced in terms of apps, and this is where we're investing today the bulk of our resources. EMEA is a bit behind in terms of app penetration. It will catch up eventually. But the pace at which app is developing is not the same in all market. I mean some market is pretty extreme like India, where 70% of our business is in app and we still have countries in Europe where it's low single-digit.

Regarding new sales channel, third party, so this a very exciting area for us to develop, having -- we're developing what we call reseller program, third parties capable to resell Criteo. Before we had a self-service platform, it was not really possible because there was not much value they could create on top of our platform. Now that we have more and more a self-service platform, they can build their own value-added services on top. What we're developing is a certification program. So those third parties can be certified on the Criteo platform. And for this, we have not reinvented a wheel, we have just copied and pasted what Google and Facebook have been doing on their own platforms. And they created a whole ecosystem of third parties building services on top of the platform, and we are doing the same on ours. And as I said before, we have this whole self-service platform, it was not really possible. When you have a managed-service business, you cannot really have an ecosystem of third-party resellers. But now we can do that. This is still very new for us. So we have to develop this expertise. Those indirect sales requires new skills for us that we are currently building.

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#### Operator

The next question comes from Sarah Simon with Berenberg.

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

I have got three questions. First one, you talked about app-related revenue growth being lower than you had expected, but you came in above. So I'm just interested what it was that should have more than offset that. Which areas grew faster than expected? Secondly, you talked about attrition improving. Can you just give us a few words on where you are in terms of accelerating the pace of hiring? And then the third question was for Benoit, the increased flexibility for the buyback. Can you talk around what you think is the right kind of cash balance, capital structure and so on for the company given where you are today in terms of the return to growth?

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

I can say a few words on the app revenue. We had a pretty aggressive goal for Q1. We were hoping to do 63% year-on-year growth. So we had put the bar really high. And we ended up with quite a big gap with 32%. It's still a very solid double-digit growth, but it's clearly short of our expectations.

Regarding attrition, so yes, we were again...

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

JB, what was it that grew faster then because if you fell short on app revenue, you still came in better than guidance, so what was the offsetting factor that did better?

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

It was the web, if you look at the two components of our business, web -- app and web. And broadly speaking, so if app is short and we still make our numbers, it means that web was better than expected.



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

Maybe, Sarah, just to be slightly more specific, within the web where did we see greater strength than what we had anticipated in our guidance? We saw good performance in mid-market from an existing client standpoint, not so much on the new business, but the existing clients in mid-market where we've seen a rebound in growth there. And we've seen a good performance even if it's -- these are small numbers into our new product that we are seeing consideration outside of app.

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

Excellent. Thank you. So regarding your second question, regarding attrition, so yes, we made some significant progress and we pretty much hit our hiring goals for Q1. We want to make sure it's quality as much as quantity. So we are focusing more and more on quality. As I mentioned, we want to make sure we acquire the right expertise, especially in areas where we have gaps. So this is where the hiring team is focusing right now.

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

So with respect to capital allocation on buyback, we had indicated in the last earning calls that we would seek more flexibility, so that's part of our proxy, and you've seen that we've asked for an authorization, which allows us to blend two objectives within the same authorization, the objective to buy back shares for the sake of satisfying the obligation towards equity plan for employees as well as buying shares for potential use of cancellation purposes. So clearly, we've initiated a buyback program last year. You've seen that we executed first on this one. I think we will monitor very closely on the opportunity to do further buyback after having obviously obtained the authorization from the shareholders. With close to \$400 million of cash on the balance sheet, I think we've got significant flexibility to both fund for the continued growth of this business and provide return to shareholders through buyback.

**Operator**

The next question comes from Doug Anmuth with JPMorgan.

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

I wanted to ask, just going back on the outlook, just trying to understand, are you saying that the revised outlook is all based on kind of internal execution related issues or is it considering some factors externally related that you may not be able to control as well? And then second on the retail media business, I know it's off a small base in an emerging business area. But can you just talk about retailers willingness to partner rather than trying to do this more directly themselves?

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

So -- I mean, we're aware of -- obviously of the external factors in our industry. Broadly speaking, they were already taken into account into our previous forecast. So the revised forecast is mostly done on internal factors. And this is really why we had to revisit this. As discussed before during the call, there was a number of area where we didn't have the full picture in terms of transformation that we had to do. Benoit, do you want to add something on this?

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

I think it's clearly driven by the internal execution delays. The only factor that was not fully baked in our internal forecast was the digital tax that has been newly introduced in Europe. Unfortunately, we are also being targeted even in France. And that -- at the time we put together our first



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guidance, we were hopeful that we will not be impacted by the digital tax in France, and it looks like now that it passed the first step in Parliament that we are going to be impacted to the extent of total for the France and Italy of around \$7 million that are accounted for in our cost of sales.

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

So regarding retail media, if I understand well your question, are we working with partners? Is this the question, just for me to understand, Doug?

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

Meaning just retailers acting as publishers and their willingness to partner with you as opposed to kind of going directly, trying to use more...

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

Sure. What we see is more and more they use us as a pure technology provider, that they want to take the monetization of their audience in their own hands with their own selling team, which is totally fine with us. This is why this kind of transactional SaaS model that we introduced a year ago is really enjoying very high momentum. It's the second quarter in a row we are having a triple-digit growth, so we're starting from a very small base. But still, it shows a very consistent trend that specially for the big retailers, they are taking things into their own hands. And we've been developing an agnostic ad server and ad exchange for their own inventory, where we can plug any type of demand, either coming from their own sales team, also coming from third parties. And so more and more we are selling this as a technology solution, and this is really exciting the way it's going.

**Operator**

The next question comes from Tom Champion with Cowen.

**Thomas Steven Champion** - *Cowen and Company, LLC, Research Division - VP*

I'm wondering if you could just expand a little bit more on the health of the core business. We're quite a ways off from the implementation of ITP and some of the issues from last year. And I'm just looking at same client spend. It looks like it was flat and customer growth, it looks to me like it was down quarter-over-quarter for the first time. Just the question is, how do you get both of these moving in the right direction? And then secondly, can you just help us understand the philosophy behind full year guide? What's your level of confidence in the achievability of full year target?

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

So I'll take perhaps the first part of the question and let Benoit come back on the guidance. So as we discussed previously, I mean, our so-called historical business or core business grew as expected in Q1, even slightly better. As you know, there is an industry shift of user attention from the browser to the app. This is why we -- people are spending more time in apps and less time in browser, especially on desktop. And we want to make sure we are helping our clients in these transition. Some of our clients are moving faster than others in this transition from desktop to apps. This is something we don't fully control, how quickly they make the move and how quickly they can transition their own business from the browser to the app. This is why we're putting very aggressive, ambitious targets on our ad growth because we know this is where the future in term of incremental value is and we want to set the bar really high. And even with 32% year-on-year growth in this area for Q1, we are not happy about this momentum. We want more. And with the right level, I think not only we can mitigate this change of user habits from the web to the app, but grow the whole pie together. So this is really the strategy. And so in the short term, you have sometimes some frictions, as we've seen in our Q1. But with the plan we're putting together, we want to make sure we have full efficiency in all channels regarding our core business.

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

So with respect to your question on the philosophy around the full year guide, I think the philosophy, has not changed -- I mean, are we consider our full year guidance as realistic, balanced and achievable. Now of course, what we've reflected in that guidance, we've reflected the execution issue that are well identified with respect to our ability to sell effectively at scale our broader offering as well as for the second part of the year, the delays in our ability to generate demand for our new self-serve channel for mid-market. So those are reflected, and these are really the explanations for the change, which just to remind you, the change on a full year view is \$34 million in the mid -- if you look at the mid of the guidance, and that's explained by those two factors. Assuming that the effect of our action plan on which we are working hard to resolve these two issues, we start yielding tangible result only from early 2020.

**Operator**

Our next question comes from Dan Salmon with BMO Capital Markets.

**Daniel Salmon** - *BMO Capital Markets Equity Research - Analyst*

JB, I'll follow-up on that question, the Google CEO about Chrome yesterday and the one here earlier on the call to just ask, specifically, if you could size out what percentage of your revenue ex-TAC was generated from the Chrome browser? You've sized out for Safari and Firefox in the past. I'm wondering if you can do that for Chrome as well. And then maybe just a follow-up on the retail media business. Just maybe take it up even a higher level than the prior question, is just, could you see as your competition in -- for that business, is it for publishers or is the businesses like Quotient, like Triad Retail Media, is it general market sell-side platforms when you're trying to sort of build awareness for with the publisher community? And then for the advertisers, is it sort of Google as it so often is or really is it the large owned and operated retailers themselves there, like Amazon and Walmart and eBay that are doing more of it themselves? Just sometimes it's a little bit difficult for us to piece together how different players interact with each other in a growing ecosystem, and I would love to hear your high-level views on how you view that landscape.

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

Sure. So on Chrome, this is very simple. We have roughly 50% of our business related to the Chrome browser. And as I said, we believe that -- the change that Google will implement on Chrome will make identity on Chrome more robust for the advertising industry in a way I think very similar to what we have now in apps, that today the cookie has number of limitations that the whole industry is very aware of. And we are looking forward to this new Chrome identity that hopefully will be more robust and will let us do even more things than what we can do today with the cookie. Especially if this identity is cross domain, which is one of the major limitation with cookies that it's, as you know, limited to specific domains, which creates a lot of friction. And if like in the mobile app world we could have a cross-domain ID, I think it would be much better for the whole industry. And I believe that this is what Google is working on. It's something which is going to be more robust and more in favor of what we have in the mobile app ecosystem. It seems to be something where all parties are happy with, including Apple, who's very happy with IDFA in the iOS ecosystem on apps.

So retail media, if I understand well, the question is what are the other retailers doing compared to Amazon? Today, Amazon is, I would say, absorbing a large part of the brand dollars going into this retail media market, probably a share bigger than their own share of e-commerce, which is something which is a bit frustrating for the other retailers. They say we want to have our fair share of the brand dollars. We understand very well that it is strategic and it has the strategic impact on our bottom line. Now those retailers, they obviously don't have the same R&D capabilities of Amazon. So they cannot build in-house the whole stack, wouldn't make sense in terms of ROI for them to do so. So they look for a tech vendor that can provide them with best-in-class stack so they can compete on par with Amazon. Because if you want to have your fair share in terms of brand dollars, you need something that performs as well or even better than Amazon. And basically, there is one company in the world capable of doing this, it's Criteo. We are way more advanced than any other player in this emerging market. This is why it's very exciting. And this is why we are investing heavily. This is why we have just hired a very senior General Manager for this business because we are a big believer in this space. And we believe we're in a unique position to win. Like always, it comes down to execution, and this is why that we are working on really, really hard to make it work.



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**Daniel Salmon** - *BMO Capital Markets Equity Research - Analyst*

Okay. Great, JB. If can follow-up -- can I just clarify that with 50% of your business on the Chrome browser, 5-0 or 15%, 1-5? Just want to...

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

5-0.

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

5-0.

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

5-0. I mean, as you know, Chrome is 65% of the browser market, and it's 5-0, 50% of our own business.

**Daniel Salmon** - *BMO Capital Markets Equity Research - Analyst*

Okay. And that's total revenue or the core retargeting business if I can just clarify?

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

Total business.

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

Pretty much. Yes, pretty much total revenue then.

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

Well, thank you, everyone. This concludes today's call, and we'd like to thank everyone for attending. The IR team is available for any follow-up questions you may have. Goodbye, everyone, and enjoy the rest of your day.

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

Thank you.

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

Thank you.

**Operator**

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.



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