



1 **Criteo Q4 2014 Financial Results Conference Call – Prepared Remarks**

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3 Good morning and good afternoon to all of you and welcome to Criteo's financial results for the
4 fourth quarter and fiscal year ended December 31, 2014. Joining us on the call today are JB
5 Rudelle, Chairman and CEO, Benoit Fouilland, Chief Financial Officer, and Eric Eichmann,
6 President & Chief Operating Officer. Eric will participate in the Q&A session of our call.

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8 Please note that the earnings release issued before the opening of the US market today, along
9 with a live broadcast of this earnings call are both available on our Investor Relations website at
10 ir.criteo.com. A replay of the call will also be available later today on our Investor Relations
11 website.

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13 Before we begin discussing our earnings, I would like to remind you that some of our discussions
14 today will contain forward-looking statements. These may include projected financial results or
15 operating metrics, business strategies, anticipated future products and services, anticipated
16 investment and expansion plans, anticipated market demand or opportunities and other forward-
17 looking statements. As always, these statements are subject to risk, uncertainties and
18 assumptions.

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20 Actual results and the timing of certain events may differ materially from the results or timing
21 predicted or implied by such forward-looking statements, and reported results should not be
22 considered as an indication of future performance.

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24 Also, I would like to remind you that during the course of this call we will discuss non-IFRS
25 measures of our performance. Definitions of these metrics and the reconciliations to the most
26 directly comparable IFRS financial measures are provided in the earnings press release and
27 accompanying financial tables issued earlier today.

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

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32 With this in mind, let me now turn the call over to JB Rudelle, Criteo's Chairman and Chief
33 Executive Officer. JB, the line is all yours!

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36 JB:

37 Thank you Edouard. I'm very pleased to present our fourth quarter and full year 2014 results to
38 all of you today. We closed **another great quarter and a record year of profitable high growth**.
39 We exceeded the high end of our guidance, for both revenue ex-TAC and Adjusted EBITDA.

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41 In the fourth quarter, we grew revenue ex-TAC by 73% at constant currency to 96M€ and adjusted
42 EBITDA by 120% to 32M€. For the full year 2014, our revenue ex-TAC grew by 72% at constant
43 currency to 304M€, while Adjusted EBITDA increased 154% to over 79M€.

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45 As we like to say at Criteo, **performance is everything**. This powerful idea is at the very core of
46 our DNA. Our most important, if not only objective, is to generate more incremental sales for our
47 clients through innovation and technology. As we drive more sales for our clients, it also makes
48 our own business more successful. In 2014, we increased the total amount of post-click sales we
49 generated for our clients by 77%. As you can see, we have grown the revenue of our clients even
50 faster than our own revenue.

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52 Our clear focus on performance combined with disciplined execution enabled us to **grow faster**
53 **in 2014 than in 2013** and to further **accelerate our year-over-year growth in Q4**.

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55 Overall, **2014 has been a truly great year for us, confirming the power of our business**
56 **model**. During the year:

- 57 • We have added over 2,000 clients to a total of more than 7,000
- 58 • Despite this important client growth, we have maintained client retention rates above 90%
- 59 • We continued to generate over 75% of our business from uncapped budgets
- 60 • We significantly improved our core prediction engine technology
- 61 • We have broadened our product portfolio, in particular with our complete mobile solution at
62 full scale. Over 80% of our clients now use our multi-screen solution, a technology only
63 introduced towards the end of 2013.
- 64 • We believe all of this makes our solution more strategic for our clients

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66 Overall, our focus on performance has paid off.

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70 Moving on to our Q4 results, our strong performance resulted from **3 main drivers**:

- 71 • First, the **complete roll-out of our new prediction engine**
- 72 • Second, the **continued momentum of our multi-screen solution**
- 73 • Third, our **record client and publisher growth**

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75 By the end of December 2014, we had rolled out the new generation of our **prediction engine** to
76 95% of our clients. As a reminder, this release came into production early last year and was a
77 major breakthrough for our Criteo Engine. Optimizing our targeting not only on engagement, but
78 also on direct conversions, it has enabled our clients to significantly increase post-click sales,
79 while at the same time also improving their ROI. As you know, during the holiday season, we
80 typically see our clients bid more aggressively on their CPCs to win higher volumes of inventory
81 and generate more sales. This year, we saw a much steeper increase in CPC between
82 Thanksgiving and Cyber Monday as our clients were taking full advantage of our enhanced Criteo
83 Engine.

84

85 The **continued momentum in our multi-screen solution** was the second driver of our
86 performance. This complete solution allows our clients to seamlessly engage and convert
87 customers across all devices and leading operating systems. In December, 80% of our clients
88 used our multi-screen solution. The growth in mobile commerce continues to be a huge
89 opportunity for us. To help our clients understand this critical new sales channel, we released our
90 first report on the 'State of Mobile Commerce', which is the start of a quarterly series. Based on
91 our own data from billions of dollars of transactions, this showed that globally mobile now
92 accounts for approximately 30% of ecommerce transactions.

93

94 Our technology improvements and ability to engage seamlessly with end-customers across all
95 big and small screens, helped generate more sales for our clients. As a result, our clients have
96 kept increasing their spend with us. In Q4, our revenue ex-TAC per client increased 24%, mainly
97 driven by **significant growth from existing clients**. Put differently, our Q4 2013 clients that were
98 live in Q4 2014 generated 37% more revenue ex-TAC compared with the prior year. Our ability
99 to convert a very large portion of our clients to **uncapped budgets** is also a key driver of this
100 growth in revenue ex-TAC per client.

101



102 With regard to **our third performance driver**, we added this quarter more than 600 new clients
103 in Q4. This is the **largest quarterly addition in Criteo's history**. We ended 2014 with a record
104 7,190 clients. We continue to add large clients in all geographies. In addition, we are also very
105 pleased with our strong momentum with midmarket clients. Our revenue ex-TAC growth in this
106 area was close to 100% in Q4, while we believe we have only penetrated a small fraction of the
107 addressable midmarket segment.

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109 In parallel, we continued to make good progress in **expanding our publisher relationships**.
110 During the last quarter, we added more than 900 new publishers, bringing the total of our direct
111 relationships to over 9,000 publishers at the end of 2014. This also represents the **largest**
112 **quarterly addition in Criteo's history**. Latest comScore data showed that Criteo ads reached
113 more than a billion unique users worldwide in December 2014. Our publisher marketplace for mid-
114 sized publishers continues to enjoy very positive traction and increasingly contributes to the
115 success of our business. In addition, we delivered significant technical improvements to our
116 buying technologies, leading to further scale across all publishers. We also signed deals with
117 large local RTB platforms in major emerging markets like China, Russia and Korea.

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119 Moving now to our **performance by region**. We continue to be pleased with our execution across
120 all geos.

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122 Starting with **the Americas**. Our year-over-year growth in revenue ex-TAC continued to
123 accelerate in this region for the fourth consecutive quarter. From 62% in Q4 2013, 66% in Q1,
124 78% in Q2 and 97% in Q3, our year-over-year growth reached 114% at constant currency in the
125 fourth quarter. In the US, we continue to see very positive traction, driven by greater scale,
126 increasing buying power and best-in-class performance. Our clients' massive adoption of our new
127 Engine optimizing on sales, had a particularly strong impact on volumes delivered at the peak of
128 the holiday season. The increasing contribution of mobile screens to the holiday shopping mix
129 has also been particularly beneficial to us. Furthermore, the rapid ramp-up in our midmarket
130 business out of Boston continued to be a strong contributor to the region's growth.

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132 Moving now to **EMEA**. Our growth continued to be strong across all markets in Q4 and
133 accelerated to 57% at constant currency in Q4. This acceleration was driven by both new and
134 existing clients. Our client base in EMEA further expanded across markets, segments and

135 verticals. Our enhanced Criteo Engine along with mobile and email, continued to drive incremental
136 spend from existing clients, in particular during the holiday season.

137

138 In **Asia-Pacific**, revenue ex-TAC grew 61% at constant currency, and 6% sequentially. Higher
139 adoption of our multi-screen solution and enhanced Engine continued to increase spend from
140 existing clients. We recently implemented a new sales organization in Japan and launched our
141 APAC midmarket organization out of Tokyo. We see great near-term potential for midmarket
142 across the region. We are also making good progress in South-East Asia out of our Singapore
143 office, as well as in China. Overall, we continue to be very excited about the opportunity to capture
144 incremental growth across the fast-moving APAC region.

145

146 Moving to **2015**, we are focused on a **clear set of priorities**:

147 **1. Help our clients to expand their marketing channels**

148 **2. Continue to innovate in products and technology**

149 **3. Growing our presence globally.**

150 • Our first priority is to help our clients get the full benefit of our **multi-channel performance**
151 **marketing solution**. Converting end-customers across multiple marketing channels is critical
152 for CMOs. Our solution already covers four key marketing channels: display, social, in-app and
153 email. And more will come in the future.

154 ▪ **Leveraging the huge momentum in mobile commerce**, we have started to engage in
155 various exciting initiatives in this area.

156 ▪ Starting with **mobile native ads on major social platforms**. In Q4, we continued to work
157 closely with Facebook on a solution that supports performance advertising on their mobile
158 in-app inventory. We delivered our first in-app advertisements on Facebook in the fourth
159 quarter. In 2015, we aim to access Facebook in-app inventory on a much larger scale
160 and bring our clients the same performance in this important source of mobile traffic. This
161 will be one of our key areas of focus in 2015. We are also working with other major players
162 with large mobile inventory in native formats.

163 ▪ We also plan to **deploy our cross-device solution at scale**. In a world where each end-
164 customer increasingly uses multiple digital devices, it is more challenging than ever for
165 our clients to match the performance marketing dollars they spent on one device with the
166 sales they generate on another device or screen. With our cross-device matching
167 solution, we are excited to empower marketers to seamlessly solve this challenge. We
168 believe that in 2015, we will be one of very few companies in the world capable of doing

169 this at scale, based on an exact match rather than a statistical guess. In Q4, we
170 announced the release of our cross-device matching solution and rolled it out with a select
171 group of clients. We will roll this out more broadly in Q1 2015.

172 ■ Overall with our multi-channel solution, we aim to become **increasingly the strategic**
173 **partner** for our clients by delivering best-in-class performance across all key channels.

174 ● Our second priority is to **continue to innovate in products and technology**. We have always
175 been a business primarily driven by technology, and we see multiple areas where we can
176 further improve our solution. Our R&D team has grown significantly in 2014, which we believe
177 sets us up well in 2015 in several exciting areas. In particular:

178 ■ We plan to make **significant improvements around our prediction engine, the**
179 **structuring of campaigns and creative optimization**.

180 ■ The major breakthrough in our prediction engine released in 2014 focused on conversion
181 optimization. We are now also working on the **next generation of our engine**. This new
182 generation is able to predict not only the likelihood of a user to buy, but also to predict the
183 value of the basket. The first version of this new generation of the engine was released
184 in Q4 and rolled out to approximately 10% of our clients by the end of December. In 2015,
185 we will focus on further improving it and on rolling this out to a larger part of our client
186 base. With always a single goal in mind: generating more sales and revenue for our
187 clients.

188 ■ We are also excited to announce the **acquisition of DataPop**, an Los Angeles-based
189 technology company specialized in connecting the products in a retailer's catalog to
190 actual user shopping intent. As you know, predicting user shopping intent has always
191 been the cornerstone of our solution. DataPop's technology enables an advanced
192 structuring of large clients' product catalogs that allows easier and more optimized
193 recommendations to potential customers. We expect DataPop's unique technology to
194 enable further improvement in our performance offering.

195 ■ We are also working on a **new generation of our creative platform**. Real-time creative
196 optimization is critical in driving customer engagement and generating sales. Since our
197 inception, we've been at the forefront in this area. In 2015, we plan to dramatically
198 improve our creative optimization capabilities, including in-app.

199 ● Our third priority is to **further expand our geographic footprint**. We already have a broad
200 global presence, serving clients in around 70 markets worldwide. In 2015, we intend to further
201 increase our penetration in existing large markets such as the US. We also plan to further
202 penetrate early-stage markets like China, Russia and Latin America. We also have plans to

203 establish a local presence in new markets such as Canada, Dubai and Turkey. In the
204 midmarket segment, beyond the US, we will expand our APAC organization and accelerate
205 our European expansion from our recently-opened hub in Barcelona.

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207 Overall, we are more committed than ever to **our long-term vision of building a disruptive**
208 **multi-channel solution for performance marketing** that delivers measurable incremental
209 sales. We believe our focus on performance through a broader set of channels will **make our**
210 **solution ever more strategic for our clients.**

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212 In summary, **we are very pleased with our performance in 2014.** Our technology
213 improvements, our significant scale and the increasing value we deliver to clients all contributed
214 to expanding our position in performance marketing. **2015 will be another very exciting year**
215 **for Criteo.** I look forward to updating you on all our initiatives as we progress through 2015.

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217 With that, let me now turn the call over to Benoit, our CFO.

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219 BENOIT:

220 Thank you, JB. I'm also delighted to report another very strong quarter and fiscal year today. I will
221 walk you through our financial performance in detail, as well as our guidance for the first quarter
222 and fiscal year 2015. I will then open up the call to your questions.

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224 We delivered **record profitable growth** in the quarter and the fiscal year, and exceeded our
225 expectations for both revenue ex-TAC and adjusted EBITDA. In particular, we are very pleased
226 with our accelerating growth, which was not only faster in fiscal 2014 than in 2013 but also further
227 accelerated in Q4.

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229 Let me start with our **revenue:**

- 230 • In Q4, we grew total revenue by 71%, or 69% at constant currency, to 233M€.
- 231 • For fiscal 2014, we grew total revenue by 68%, or 70% at constant currency, to 745M€.

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233 As we have repeated ever since our IPO, we consider **revenue ex-TAC** as the key financial
234 measure to evaluate and monitor our business performance.

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- In Q4, our global revenue ex-TAC grew 76%, or 73% at constant currency, to 96M€, compared with 55M€ in the fourth quarter 2013. Our revenue ex-TAC margin in the quarter was 41.4%, improving by 1 percentage point compared with Q4 2013.
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- For fiscal 2014, our global revenue ex-TAC increased 70%, or 72% at constant currency, to 304M€, compared with 179M€ in fiscal 2013. As a reminder, our year-over-year growth in 2013 was 66% at constant currency. In fiscal 2014, our revenue ex-TAC margin improved 50 basis points to 40.8%, and remains well within our long-term target range of 39% to 41%.
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- In Q4, revenue ex-TAC growth in the Americas continued to accelerate to 121% or 114% at constant currency, to 33M€. In EMEA, revenue ex-TAC growth in the quarter accelerated to 58%, or 57% at constant currency, to reach 46M€. Revenue ex-TAC in Asia Pacific for the quarter grew 58%, or 61% at constant currency, to 17M€.
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- For fiscal 2014, revenue ex-TAC in the Americas increased by 88%, or 91% at constant currency, to 90M€. In EMEA, full-year revenue ex-TAC grew 59%, or 58% at constant currency, to 155M€. And in APAC, we grew revenue ex-TAC 73%, or 84% at constant currency, to 59M€ in the full year 2014.
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254 Overall, changes in **foreign exchange** rates in the fourth quarter, in particular the strengthening of the US dollar, represented a 2 percentage point tailwind to our reported growth in revenue ex-TAC. For fiscal 2014, changes in foreign currencies represented a 2 percentage point headwind to our reported growth in revenue ex-TAC.

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259 Moving on to the **profitability of our operations**,

- We grew Q4 adjusted EBITDA by 120%, or 121% at constant currency, to 32M€. As a percentage of revenue, our adjusted EBITDA margin improved by 3 percentage points to 13.7%, compared with Q4 2013. This strong increase in adjusted EBITDA in the quarter was primarily the result of our strong performance in revenue ex-TAC. While more than 50% of our over-achievement in revenue ex-TAC flowed through to Adjusted EBITDA in the quarter, we incurred some additional variable costs related to our Revenue ex-TAC over-performance, as well as some exceptional costs, primarily related to consulting fees.
- For fiscal 2014, Adjusted EBITDA grew by 154%, or 156% at constant currency, to over 79M€. Our adjusted EBITDA margin as a percentage of revenue increased by 3.6
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269 percentage points during the year to 10.7%, despite our continued focus on investing for
270 growth throughout the year.

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272 On the **expense side**:

- 273 • In the quarter, **hosting and data costs** increased by 66% to 6M€ excluding depreciation
274 and amortization, driven by continued investments in our own servers and hosting
275 equipment.
- 276 • For fiscal 2014, our hosting and data costs increased 42% to 20M€ excluding depreciation
277 and amortization. As we've said in the past, we plan to continue to invest in our own server
278 capacity to support our anticipated future growth. In 2015, we will in particular invest in
279 additional redundancy hosting capacity in order to further strengthen our infrastructure as
280 we process even larger amounts of client and publisher data.

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282 Looking now at **operating expenses**:

- 283 • In Q4, our total operating expenses grew 58% to 66M€, as we continued to scale the
284 organization to support our growing business. On a "Non-IFRS basis", Q4 operating
285 expenses increased 59% to 58M€.
- 286 • On a full year view, our total opex increased 55% to 227M€, or 53% on a Non-IFRS basis
287 to 204M€.

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289 Both in Q4 and the full year, **headcount-related** expenses represented over 75% of our total
290 operating expenses. Our recruiting efforts were very ambitious in 2014 and we are pleased with
291 the results. We closed 2014 with a **global headcount** of 1,300. We added 490 employees in
292 2014 representing an increase of 60% compared with December 2013, and 117 heads in Q4, an
293 increase of 10% compared with September 2014. In 2015, we plan to continue to grow our
294 headcount at a similar pace as in 2014.

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296 Looking at our **operating expenses by function** in the fourth quarter:

- 297 • **Research and development** expenses grew 36% on a Non-IFRS basis to 10M€, largely
298 driven by a 30% increase in headcount to a total of 250 employees at the end of the year,
299 compared with December 2013. This was partly offset by an increase in R&D tax credit
300 compared with the prior year.
- 301 • **Sales and operations** expenses increased 76% on a Non-IFRS basis in Q4 to 36M€,
302 also largely driven by a 70% increase in headcount to a total of 833 employees at the end

303 of December. Consistent with prior quarters, we continued to grow sales and account
304 management teams in all regions, in particular across our midmarket organization.

- 305 • **General and administrative** expenses grew 40% on a Non-IFRS basis in Q4 to 12M€,
306 while G&A headcount increased 71% to a total of 217 employees at the end of the year.
307 This continued to be driven by the ongoing ramp-up in our HR teams to fulfill our ambitious
308 recruitment plan, the continued strengthening of our IT infrastructure as well as increased
309 fees and expenses related to our public company status.

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311 **On a full year view:**

- 312 • **R&D** expenses grew 42% on a Non-IFRS basis to 38M€ in fiscal 2014. In 2015, we expect
313 to continue to invest **significantly** in additional R&D talent. We plan to **accelerate our**
314 **R&D recruitments** in 2015 to support our ongoing innovations. In particular, we plan to
315 focus our investments on Engine improvements and the integration of DataPop's
316 technology into our platform. We will also continue to invest in our channel expansion
317 efforts in mobile native ads and our cross-device solution.
- 318 • **Sales & operations** expenses increased 55% on a Non-IFRS basis to 121M€ in fiscal
319 2014. As a percent of revenue, sales & operations expenses decreased by 1.3 percentage
320 points in 2014 to 16.3%, despite our significant investments during the year. In 2015, we
321 will continue to grow our sales and operations teams globally, in particular in our regional
322 midmarket hubs in Boston, Barcelona and Tokyo. We will also expand into Canada, Turkey
323 and Dubai, and invest into new facilities to support our global growth.
- 324 • Finally, our **G&A expenses** grew 57% on a Non-IFRS basis to 45M€ in fiscal year 2014.
325 As a percent of revenue, G&A expenses decreased by 40 basis points in 2014. In 2015,
326 we will continue to scale our HR, IT, Finance and Legal functions to continue to support
327 our strong anticipated growth and prepare to potentially become a domestic filer in the US.

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329 **Moving on to our cash flow generation:**

- 330 • In the fourth quarter, our **cash flow from operating activities** increased by 223% to
331 40M€. This was driven primarily by strong adjusted EBITDA generation, as well as positive
332 change in working capital in the quarter.
- 333 • For fiscal 2014, cash flow from operating activities grew 255% to 88M€, driven primarily
334 by the growth in Adjusted EBITDA in the year.

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336 **Now, with regards to our capital expenditures:**

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- In Q4, our capex increased 39% to 10M€, primarily as a result of our continued investment in hosting equipment and to a lesser extent in internal IT and facilities.
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- For fiscal 2014, capex grew 61% to 35M€ or slightly below 5% of revenue. I will cover our capex expectations for 2015 later in the guidance section of our call.
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342 Moving now to **free cash flow generation**:

- In the fourth quarter, our free cash flow grew by 25M€ to 30M€, representing 93% of our adjusted EBITDA for the quarter.
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- For fiscal 2014, free cash flow increased by 49M€ to over 52M€, or 66% of our adjusted EBITDA for the year. We believe this strong conversion of EBITDA into free cash flow continues to illustrate very clearly the robustness and scalability of our financial model.
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349 Our **total cash and cash equivalents** were at 290M€ at the end of December, growing by 55M€ compared with December 31, 2013. This significant increase is primarily the result of our strong free cash flow generation over the period. We also generated 24M€ in proceeds from capital increases, including the primary portion of our follow-on offering in March, offset by 19M€ in cash consideration paid for the acquisitions of Tedemis and AdQuantic during the year.

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355 I will now wrap up with our thoughts regarding our **guidance**. I'll remind you that the following forward-looking statements reflect our expectations as of today, February 18, 2015.

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358 2015 will be **another year of continued investment** for Criteo. As I outlined earlier, we expect to make **significant investments** in 2015 in particular in R&D and hosting, as well as in sales and operations.

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362 For the first quarter 2015, revenue ex-TAC is expected to be **between 96M€ and 99M€**. At the midpoint of the range, this would imply a **55% reported growth** compared with Q1 2014, or **48% at constant currency**. In other words, we expect changes in foreign currency rates to represent a tailwind of 7 percentage points to our reported growth in Q1 2015.

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367 Also for Q1 2015, adjusted EBITDA is expected to be **between 18M€ and 21M€**, including a 2M€ negative impact from the acquisition of DataPop.

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370 For fiscal year 2015, revenue ex-TAC is expected to be **between 433M€ and 440M€**. At the
371 midpoint of the range, this would imply a **44% reported growth** compared with 2014 or **39% at**
372 **constant currency**. In other words, we expect changes in foreign currency rates, in particular the
373 stronger US dollar, to represent a tailwind of 5 percentage points to our reported growth in fiscal
374 2015.

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376 Also for fiscal year 2015, adjusted EBITDA is expected to be **between 108M€ and 115M€**,
377 including a 10M€ dilutive impact from DataPop in the full year.

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379 With regards to our **capex**, we expect our program to grow from below 5% of revenue in 2014 to
380 **approximately 6%** of revenue in 2015, as we plan to continue to build hosting capacity in all
381 regions and significantly increase our redundancy capacity to strengthen our infrastructure. We
382 will also increase our investments in internal IT and in facilities globally, including in two flagship
383 offices in New York and London.

384

385 Underlying our Q1 and fiscal year 2015 guidance, we have assumed the following exchange rates
386 for the main currencies impacting our business: a euro-USD of 1.15, a euro-Japanese yen of 145,
387 a euro-British pound of 0.79, a euro-Brazilian real of 3.1. This guidance also assumes no
388 additional acquisitions are completed during the first quarter or fiscal year 2015.

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390 We are **confident as we enter the first quarter of the year**. In the current quarter, we continue
391 to invest into our strategic initiatives to support our 2015 growth.

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393 In closing, I'm very satisfied with our **many great achievements in 2014**. We are also
394 **enthusiastic about our 2015 initiatives**. We are more focused than ever on executing on the
395 huge opportunity ahead of us, in 2015 and beyond. I look forward to continue building long-term
396 trust with our public investors and sharing our **story of profitable growth** every quarter as we
397 continue to realize our full potential.

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399 With that, I'll turn the call back to the operator now to take your questions.