CRITEO

Criteo Q2 2024 Earnings Call | Prepared Remarks

Melanie Dambre – VP, Investor Relations

Good morning, everyone and welcome to Criteo's second quarter 2024 earnings call.

Joining us on the call today, Chief Executive Officer Megan Clarken and Chief Financial Officer Sarah Glickman are going to share some prepared remarks. Todd Parsons, our Chief Product Officer, will join us for the Q&A session. As usual, you will find our investor presentation on our IR website now, as well as our prepared remarks and transcript after the call.

Before we get started, I'd like to remind you that our remarks will include forward-looking statements, which reflect Criteo's judgment, assumptions and analysis only as of today. Our actual results may differ materially from current expectations based on a number of factors affecting Criteo's business. Except as required by law, we do not undertake any obligation to update any forward-looking statements discussed today. For more information, please refer to the risk factors discussed in our earnings release, as well as our most recent Forms 10-K and 10-Q filed with the SEC.

We'll also discuss non-GAAP measures of our performance. Definitions and reconciliations to the most directly comparable GAAP metrics are included in our earnings release published today.

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

With that, let me now hand it over to Megan.

Megan Clarken – Chief Executive Officer

Thanks Melanie and good morning, everyone. Thank you for joining us for our second quarter earnings call. What a quarter it's been for Criteo! I'm excited to share that we delivered another strong performance with double-digit organic growth for the third consecutive quarter. Notably, we achieved record top line and adjusted EBITDA margin for Q2. These results reflect the outstanding work of our teams who are driving momentum across our business.

Before delving into this quarter's performance, I'd like to address Google's recent announcement to move away from their original plan to fully deprecate third-party cookies on Chrome. They are now proposing a new framework to continue to support third-party cookies with user choice. This means that we expect to benefit from ongoing access to third-party signals for opted-in users, and that Google will continue to support Privacy Sandbox for opted-out users. As a result, we expect that any given scenario would lead to a smaller signal loss impact than previously anticipated. We look forward to our continued collaboration with Google to shape this new framework.

Although it's premature to pinpoint the timeline and precise impact of this change, we welcome this good news, which provides more clarity and publisher stability, ultimately benefiting the entire advertising landscape. Our next generation addressability strategy remains unchanged with additional strength coming with the news of more third-party signals. We remain confident in our ability to provide scalability and run-time interoperability of privacy-safe solutions for a more open, unified, and efficient ecosystem that supports multiple addressability options.

Our vision is quickly coming to life as we continue to transform our company into a Commerce Media powerhouse. We continue to build out capabilities that focus on reaching consumers throughout their buyer journey, from discovery to purchase, leveraging our unique commerce data assets, best-in-class AI and our supply and demand side relationships creating a flywheel effect and making us the perfect platform for a unified Commerce Media ecosystem.

Partnerships are vital when scaling our value for all marketers and media owners. Over the past few years, we've worked closely with Microsoft to bring commerce audiences to the high-quality native advertising we deliver on Microsoft properties, and we're now excited to extend our long-standing partnership with Microsoft to our Retail Media suite.

Our most recent announcement reinforces the belief that the world of Retail Media is converging, and together, Criteo and Microsoft can play a more central role in unlocking its full potential for partners and clients.

The collaboration with Microsoft is twofold:

First, we're excited to bring Microsoft Advertising's extensive demand to our global network of 225 retailers. This first-of-its kind integration will enable retailers to tap into new budgets from Microsoft's 500,000+ advertisers, expanding the value and reach of their inventories in the process. Integration design and planning are underway, and we look forward to capitalizing on this opportunity together as more budgets shift to Retail Media.

Second, Microsoft chose Criteo as their preferred onsite partner, and we're working to consolidate their Retail Media supply into our platform. The transition of these retailers from Microsoft Advertising to the Criteo platform is expected to start in 2025. We expect this to further strengthen our position as the leading AdTech player in Retail Media, while creating an even more unified access for all media buyers.

Our shared focus on AI innovation is a unifying force behind our expanded partnership. Together, we aim to elevate retailer monetization and advertiser outcomes across the consumer journey, tapping into world-class strengths in predictive modelling to drive privacy-enhancing targeting, product recommendation, campaign workflows and creative formats. We're incredibly excited with this work and the opportunities that working with Microsoft on AI unlocks.

On top of this exciting development with Microsoft, we continued to gain market share in Retail Media in the second quarter with 30% year-over-year growth in Retail Media activated media spend, outpacing the market. We have a leading market footprint, including 65% of the top 30 retailers in the Americas and 50% of the top 30 in EMEA, and we believe we've become the hub of Retail Media to complement Amazon. We had notable retailer wins across all regions over the past few months. In the U.S., we're excited to partner with new large retailers including Dollar General, QVC and Belk. In Europe, we're proud to work with Euronics, a global leader in the distribution of home appliances and electronics, and we expanded our relationship with MyTheresa, a global luxury e-commerce retailer that is now using both our Performance Marketing and Retail Media capabilities. We're also partnering with luxury department store Selfridges to power the online Retail Media advertising technology on their e-commerce website. Lastly, we broadened our Retail Media presence in APAC and LATAM, including new retailers in Peru and Brazil. These retailers are coming to us for our global presence, ability to scale quickly, our end-to-end capabilities, simple-to-use products, AI-driven performance and world-leading sales and product expertise.

Our momentum carries into adjacent verticals such as tech-enabled services. For instance, we added Grab, a leading app in Southeast Asia, providing everyday services such as mobility, deliveries and digital financial services to over 38 million users. We've also seen strong demand

and revenue growth for Uber Eats since we expanded our partnership to the spirits and beverages category across various regions earlier this year.

Importantly, we continue to experience strong client retention and expansion. Our multi-year and often exclusive contracts with deep technical integration contribute to the stickiness of our Retail Media business. We're also very encouraged to see that over half of our retailers in the Americas and EMEA are leveraging multiple ad formats for their Retail Media network, building out their advertising offering. A recent example is the expansion of our DocMorris partnership with the launch of native video ads. This activity drives scale.

We added about 200 new brands in Q2, and we're pleased to see agencies lean in with our Commerce Max Demand Side Platform, or DSP, as we give them a single entry point to reach our valuable network of retailers. In the U.S., agency spend accelerated sequentially and we saw the major holding companies grow more than 50% year-over-year. As a result, agencies now account for two-thirds of Commerce Max spend in the U.S.

This quarter we launched further capability on Commerce Max with our new SKU-based planning tool. This further enables brands and agencies to buy sponsored product ads across our 225 Retail Media networks, within one simple consolidated workflow. Instead of executing campaigns on multiple Retail Media networks individually, brands and agencies can leverage our DSP to promote their products on any retailer in our network where their product is sold – all in one streamlined campaign activation with management and optimization workflow and closed-loop measurement. This allows marketers to focus on what really matters – selling products. In turn, it's expected to bring more demand for a larger number of retailers, enabling brands to reach the majority of the world's retail supply outside of Amazon.

Commerce Max also brings demand to offsite campaigns, meaning using retailer's data assets to extend their reach across open internet inventory. French toy giant JoueClub is a recent addition to the offsite campaigns that we run with our DSP in Europe, and we're currently bringing one of the biggest U.S. retailers on board.

Turning to Performance Media which encompasses our targeting capabilities, including Retargeting, Commerce Audiences, and our supply and AdTech services. We're seeing continued strong momentum for Commerce Audiences, up 41%. We're leveraging the largest set of commerce data and shopping intent signals on the open internet to reach valuable audiences across the entire shopping journey to drive more sales and grow customer lifetime value.

Similar to prior quarters, we benefited from the accelerated adoption of first-party data driven solutions, successful cross-selling efforts, AI-driven performance enhancements and incremental third-party demand through our Commerce Grid SSP. Today, 80% of our Performance Media revenue, excluding supply and AdTech services, comes from clients using Commerce Audiences in addition to Retargeting. This was always our goal, and we're continuously innovating to appeal to a larger pool of potential clients.

Our Retargeting solution has returned to growth for the second quarter in a row, including the growing activation of Meta's large-scale inventory in combination with open internet inventory. We're pleased to see continued success across our Facebook and Instagram campaigns adding reach with performance. For example, Reed.co.uk, one of the UK's leading careers marketplaces, partnered with Criteo to access authenticated social environments and effectively link open web candidate intent to social channels. Our integration with Meta enabled them to generate thousands of additional applications while reducing the cost per application by approximately 8%.

We launched our Commerce Grid Supply Side Platform, or SSP, a year ago, and we're pleased with our progress to date. Commerce Grid gives agencies and brands access to our Commerce Audiences packaged with publisher inventory for highly targeted campaigns through third-party DSPs like Google's Display & Video 360. It represents another path for us to capture incremental Commerce Media budgets and leverage the power of Commerce Media at scale. We continue to grow our premium roster of publishers and most recently added top names like The New York Times. We also introduced new commerce formats with Klarna, which is the first payment app to launch advertising with Commerce Grid, and we're already seeing high demand for its high shopping intent environments from our large base of performance clients.

The strength of our data assets combined with our best-in-class AI put us in a unique position to pioneer the future of performance advertising. As a reminder, the objective of our comprehensive addressability strategy is to add value throughout the consumer buying journey with relevant, personalized and trusted advertising while meeting our clients' performance expectations. We leverage our deep learning models at the intersection of proprietary interest groups, commerce data and media data across retailer sites, social media platforms and the open internet. This work sits as the foundation of Criteo's Commerce Media Platform serving both sides of our business with advanced targeting capabilities that set a new performance paradigm and ensure consumer privacy and control.

To conclude, we're right where we said we'd be as we progress through our transformation to be a world leading Commerce Media Platform. We have strong conviction towards our business strategy, and we're well positioned to drive sustainable, profitable growth in 2024 and beyond. We recently announced the promotion of key leaders to further propel growth and continue building momentum in Retail Media and Performance Media. We're ready to seize the exciting opportunities ahead, and we remain committed to delivering shareholder value.

Please save the date for our upcoming Retail Media investor update that will be a live webcast on November 18th. You will get a chance to hear from our leadership team who will provide an update on our Retail Media business and opportunities ahead.

With that, I'll hand the call over to Sarah, who will provide more details on our financial results and our outlook.

Sarah Glickman – Chief Financial Officer

Thank you, Megan, and good morning, everyone. We delivered record Q2 results with strong operating leverage enabled by top-line growth and disciplined cost management.

Revenue was $471 million and Contribution ex-TAC increased to $267 million, including year-over-year headwinds from foreign currencies of $6 million.

At constant currency, Q2 Contribution ex-TAC grew by 14%, with strong performance across the board.

We continue to shift and rebalance our top line mix with our new solutions representing 52% of our business in Q2. Client retention remains high at close to 90%.

Our two segments, Retail Media and Performance Media delivered double-digit growth in Q2.

Starting with **Retail Media**, revenue was $55 million and Contribution ex-TAC grew 24% at constant currency to $54 million, in line with our expectations. As previously communicated, our Q2 results include the expected transition of our largest retailer client to their direct sales model. Our Q2 growth was primarily driven by our client base in the U.S., Germany and the UK. Growth from existing clients remains strong with same-retailer Contribution ex-TAC retention at 131%, and we benefited from the ramp up of newly signed retailers.

We have unmatched scale and continue to experience strong client retention in Retail Media. We are also excited to transition Microsoft Advertising onsite retailers to our monetization technology stack starting in 2025 to further scale our footprint.

On the demand side, we now partner with 2,900 global brands and have onboarded about 200 new brands this quarter. Our activated media spend in Q2 grew 30% year-over-year, above market, demonstrating that we continue to gain share. We saw strong growth from our agency partners and robust brand bookings, mainly in CPG categories like beauty. We are pleased to see that agencies and brands prioritize Retail Media as an impactful closed-loop marketing investment, tying advertising directly to a sale. We are also excited about our upcoming demand integration with Microsoft Advertising, which we expect will give us access to new performance budgets from thousands of advertisers.

In Performance Media, revenue was $417 million and Contribution ex-TAC was $213 million, up 11% at constant currency. We saw continued impressive growth in Commerce Audiences targeting, up 41% year-on-year, on top of 41% growth in the same quarter last year, as we leverage our large-scale commerce data and AI-powered audience modelling technology to find in-market shoppers. Retargeting grew 4%, and supply and AdTech services was up 3%.

Our platform leverages cutting-edge AI and our Criteo AI Lab keeps innovating to offer leading performance for our clients. Our latest AI-driven performance optimization drove a Contribution ex-TAC uplift in the double digit million range again this quarter, and unlocked additional budgets with valued clients like Coupang, in South Korea.

We delivered solid growth in the U.S. and Europe. Travel remains our fastest growing vertical, up 31%, followed by Classified and Retail. In Retail, which is our largest vertical, spend from department stores and marketplaces grew double-digit year-over-year in Q2, while we saw lower demand for fashion.

We delivered Adjusted EBITDA of $93 million in Q2 2024, up 67% year-over-year. Our double-digit top-line growth and a lower cost run-rate resulted in strong operating leverage. We also benefited from the timing of some investments that moved into the second half of the year, as well as a reduction in bad debt expense due to lower DSO for Retail Media and a milestone payment related to one of our large partnerships.

Non-GAAP operating expenses decreased 6% year-over-year, reflecting continued rigor on resource allocation. We are driving our transformation by investing in growth areas and optimizing our operating model for scalability and efficiency. We are also enhancing our operational effectiveness with streamlined processes and the deployment of AI-powered productivity tools.

Moving down the P&L, Depreciation and Amortization was $16 million in Q2 2024. Share-based compensation expense decreased 21% to $22 million, as expected, which includes $4 million related to shares granted to Iponweb's founder as part of the acquisition. Our income from operations increased to $37 million and our net income grew to $28 million in Q2 2024. Our weighted average diluted share count was 59.0 million, which resulted in diluted earnings per share of $0.46. Our adjusted diluted EPS was $1.08 in Q2 2024, up 104% year-over-year.

We continue to benefit from a strong financial position and robust balance sheet with solid cash generation and no long-term debt. We had about $675 million in total liquidity at the end of June, which gives us significant financial flexibility to execute our growth strategy and disciplined and balanced capital allocation. As expected, Operating Cash Flow was $17 million and Free Cash Flow was negative by $4 million in Q2, reflecting seasonality partially offset by lower capex. Our trailing 12-month Free Cash Flow was $142 million.

We are confident in our business strategy and financial strength, and we are fully committed to driving shareholder value. Our key priority is to continue to invest in our Commerce Media Platform to enable sustainable organic growth alongside value-enhancing acquisitions, and to continue to return capital to shareholders via our share buy-back program. We have a longstanding record of returning significant capital to our shareholders, and we are on track to repurchase $150 million of stock in 2024, including $40 million deployed in Q2. This included 1.1 million shares repurchased at an average cost of $36.70 per share. We also cancelled 2 million shares in early Q2. At the end of June, we had $166 million remaining in our Board share buyback authorization.

Turning to our financial outlook, we have raised our guidance for the year based on our expectations as of today, August 1, 2024. Despite macro uncertainties, we enter the second half of the year in a position of strength and confidence to deliver double-digit growth with continued margin expansion.

For 2024, we now expect Contribution ex-TAC to grow 10% to 12% year-over-year at constant currency with growth in both segments. This is an increase from our prior guidance of high-single-digit growth and is a meaningful acceleration compared to our organic growth of 4% in 2023. As a reminder, comparisons to the prior year become tougher as we progress through the year.

In Retail Media, given our year-to-date performance, we are confident in our ability to deliver Contribution ex-TAC growth of 20% to 22% at constant currency in 2024. This is an increase from our initial guidance of approximately 20% and includes the impact of our largest client transitioning demand to a direct sales model, as previously communicated. As a reminder, we have tougher comparisons for Q3 and Q4, with Q4 being our largest quarter. We do not expect our strategic collaboration with Microsoft Advertising to have a material impact in 2024.

In Performance Media, given our strong performance in the first half of the year, we raised our guidance to high-single-digit growth for 2024.

We have raised our Adjusted EBITDA margin from 31% to 32% for 2024. This reflects our confidence in operating leverage from top-line growth, strong expense management, and the transformation of our operating model as we continue to invest in areas of growth.

For 2024, we expect a normalized tax rate of 25% to 30%.

Our overall capex is expected to be slightly below $100 million as we continue to invest and optimize our leading AI infrastructure.

Lastly, we expect a free cash flow conversion rate of approximately 45% of Adjusted EBITDA before any non-recurring items.

For Q3 2024, we expect **Contribution ex-TAC of $264 million to $268 million, growing by 8% to 10% at constant currency**, as we continue to drive superior performance for advertisers across our product portfolio. We estimate forex changes to drive a negative year-over-year impact of about $1 million to $3 million on Contribution ex-TAC in Q3.

We expect **Adjusted EBITDA between $72 million and $76 million**. As previously mentioned, this includes the timing shift of certain investments from the second quarter to the third quarter.

Looking ahead, Google's favorable announcement brings clarity to one of the pillars of our next generation addressability strategy. While this is recent news, we expect to retain more third-party signals and we continue to advance our addressability strategy including Privacy Sandbox APIs. As a result, the potential loss of signal in Chrome would have a smaller financial impact than previously communicated.

In closing, we have strong conviction in our strategy and resilient business model. We are well-positioned for continued success, and we are committed to maximizing shareholder value. The future is wide open for Criteo.

With that, I'll turn it over to the operator to begin the Q&A session.

[…Q&A…]

Melanie Dambre – VP, Investor Relations

Thank you, Megan, Sarah and Todd. This now concludes our call for today. Thanks everyone for joining. The IR team is available for any additional requests. We wish you all a good day.