



1 **Q3 2017 Earnings Call – Prepared Remarks – November 1, 2017**

2 **Eric Eichmann – CEO**

3 Thank you Edouard, and good morning everyone. I am pleased to report another strong quarter
4 for Criteo. We continue to deliver high growth while increasing profits and cash flow.

5
6 Before we walk through the quarterly results, let me say a few words about the large emerging
7 opportunity our Commerce Marketing Ecosystem opens up for us to serve retailers and brands in
8 a fast evolving market. The battleground has shifted for commerce players and, today, success
9 increasingly depends on the ability to **know your customers** and **serve them intelligently**. This
10 comes with multiple challenges for marketers:

- 11 • The seamless understanding of the shopper journey requires gathering **granular shopper data**
12 in real time, both online and offline, and on a mass scale.
- 13 • And, two, even more important, the **activation of this dataset** for commerce requires predictive
14 technology, consumer reach at scale, and real-time advertising optimization to drive sales.

15
16 **Commerce Marketing** is quickly emerging as the next big marketing category after Search and
17 Social. It focuses on inspiring people to buy things and is measured by performance, directly driving
18 sales and profits for marketers. And, unlike Search and Social, it is not limited to digital, as close
19 to 90% of commerce still happens offline.

20 To help marketers take advantage of these trends, we are building the **highest performing and**
21 **open commerce marketing ecosystem** that delivers performance at scale to retailers and
22 brands.

23
24 The **Criteo Commerce Marketing Ecosystem** is powered by over \$550 billion of online sales and
25 associated intent data, state-of-the-art machine learning and unrivaled consumer reach across
26 thousands of publishers. The **Criteo Shopper Graph**, built through data sharing among ecosystem
27 participants, is made of three trusted data collectives:

- 28 • One, the Identity Graph, allowing us to match user identities across devices and environments;
- 29 • Two, the Interest Map, collecting and organizing user intent and purchasing data across
30 retailers;
- 31 • And three, the Measurement Network, providing sales attribution for brands across retailers.

32 Every participant gets **much more than they contribute**:

- 33 • Brands and retailers get measurable sales and profits, as they acquire, convert and re-engage
34 customers online and in stores;



- 35 • And retailers get advertising revenue from brands on their site inventory.

36

37 Our Commerce Marketing Ecosystem resonates well with chief marketing officers worldwide. A
38 Forbes Insights study recently found that 71% of retailers are willing to contribute data to a pool.
39 This provides them with the opportunity to level the playing field with the largest ecommerce players
40 when it comes to online data, technology and scale. We believe to be **the ideal commerce**
41 **marketing partner in this fast-evolving environment.**

42

43 Turning now to **Q3 results**. For 16 quarters in a row, we have exceeded Revenue ex-TAC and
44 Adjusted EBITDA guidance. At constant currency, we grew Revenue ex-TAC 32% to \$234 million
45 and Adjusted EBITDA 45% to \$79 million.

46

47 We grew **same-client Revenue ex-TAC** strongly again to 14% at constant currency. Better
48 technology and inventory access drove increased client spending. This elastic demand comes from
49 the 78% of our Revenue ex-TAC with clients that have uncapped budgets.

50

51 We performed well **across the entire business**:

- 52 • We delivered strong innovation across existing and new products;
- 53 • We broadened and improved our access to inventory;
- 54 • And we added new clients across all regions and products.

55

56 Starting with **innovation**, I want to highlight three areas: **the Engine, Criteo Shopper Graph** and
57 **increased transparency** for clients.

58 1. Our various features in the **Engine**, that better align our prediction with client's gross margin
59 objectives, have been rolled out to clients representing 13% of Revenue ex-TAC, 2.5 times our
60 Q1 rate.

61

62 2. Our three data collectives that make up the **Criteo Shopper Graph**, grew further in scale and
63 efficiency. Our world-class Identity Graph provides as good or better CRM onboarding rates
64 than the largest Internet players. In addition, we are making strong progress in building the
65 Interest Map that supplies user intent and purchasing data across retailers in our ecosystem.
66 Many of our clients are now sharing more comprehensive product-level information, such as
67 brand name, category and a universal product ID, which helps us build our Universal Catalog

68 across retailers. The Criteo Shopper Graph is a solid foundation to build compelling new
69 products.

70

71 3. We are significantly increasing **transparency** by providing clients with customized reports
72 showing detailed impression-level information. These include publisher domains where their
73 ads are shown, time stamp of displayed ads, encrypted user IDs and the price clients are
74 paying for each impression. We believe that more transparency will further increase the
75 confidence clients have in our platform without changing the dynamics of our core business.
76 We have been building standardized reports for the Criteo interface which will be made
77 available in the coming quarters.

78

79 Moving to the **supply side** of the business.

80 We continued to roll out **Criteo Direct Bidder**, our header-bidder technology, now connected to
81 950 large publishers globally. Recent partner additions include eBay, Baidu, United Internet, Axel
82 Springer and the LA Times. We also developed a solution specifically for the APAC ecosystem,
83 which is gaining good traction. In each market, we are focusing on signing the largest publishers
84 first. The additional publisher yield from Criteo Direct Bidder is 20% to 40%, of which about 50% is
85 incremental to our overall business. And we have several more optimization opportunities for this
86 year and next, such as strengthening our bidding strategies for first price auction environments.

87

88 On the **Criteo Sponsored Products** side, we broadened our inventory supply, signing large
89 retailers like Jet and Saks Off 5th in the U.S., and mySupermarket in the U.K.

90

91 Finally, we strengthened our **brand safety** initiatives to ensure that the brand equity of our clients
92 is preserved at all times. We improved our many internal systems and processes to filter out
93 inventory in real time, including the list of suspect IP addresses from the *Trustworthy Accountability*
94 *Group* and the lists of invalid traffic from three specialized external vendors. We are also part of the
95 *Coalition for Better Ads* supported by Google, and are compliant with their recommendations for the
96 most user-friendly ad formats.

97

98 Switching to **client expansion**.

99 We added **930 net new clients** across all regions, products and sizes while maintaining client
100 retention at 90% for the core product. We closed the quarter with over 17,000 retailer and brand



101 clients, a 34% increase year-over-year. The midmarket continued its fast trajectory, with Revenue
102 ex-TAC growing close to 60% faster than the group and representing 34% of our total business.

103

104 From a **regional performance** perspective, we executed in line with plans as our core business
105 continued to grow well across all three regions:

- 106 • **The Americas** Revenue ex-TAC grew 35% at constant currency. Within the region, our U.S.
107 business grew 43% at constant currency, driven by the continued high pace of new business
108 and additions in both Tier-1 and midmarket clients.
- 109 • **EMEA** Revenue ex-TAC increased 24% at constant currency, largely driven by growth in
110 existing clients' spend across verticals and client sizes, in particular in our large markets. We
111 expanded Criteo Sponsored Products with large European retailers and incurred exceptional
112 publisher costs to seed the future growth of the product in the region.
- 113 • **APAC** Revenue ex-TAC growth accelerated to 40% at constant currency, led by existing Tier
114 1 clients in Japan and Korea, and new midmarket clients across the region.

115

116 I will now update you on **Criteo Predictive Search**. Given the exciting prospects of the Criteo
117 Commerce Marketing Ecosystem and its associated products, we have decided to discontinue the
118 market testing of Criteo Predictive Search and redeploy its associated R&D resources to other
119 projects. Every time we launch a new product, we mean to create a disruptive proposition. With
120 search, though we created performance for customers and had good market traction, the
121 measurement of the performance uplift over the competition has proven to be very volatile, making
122 it difficult to build a scalable performance-based product. The retirement of Criteo Predictive Search
123 will depend on client and country-specific circumstances. **Innovation is at the heart of what we**
124 **do** and, as we add new products to our portfolio, we will continue to evaluate all products with strict
125 performance and scalability expectations.

126

127 Speaking of innovation, we launched two **new exciting beta products** on October 10:

- 128 1. **Criteo Customer Acquisition** helps retailers acquire new customers by using intent
129 information across a pool of retailers. With this product, New Look, a U.K.-based fashion
130 retailer, was able to generate 4 times more orders at a 74% lower Cost Per Order compared to
131 their other display prospecting acquisition partners. After a successful test in the U.K, we are
132 now extending the beta version of Criteo Customer Acquisition to the U.S., France and
133 Germany.

134 2. **Criteo Audience Match** allows retailers to accurately target and re-engage customers that are
135 already in their CRM system in order to drive more sales. With this product, La Redoute, a
136 French fashion and homeware retailer, was able to match 70% of their lapsed shoppers online
137 and saw a 50% increase in sales from their lapsed shoppers. The beta version of Criteo
138 Audience Match is currently rolled out across all markets except Japan.

139 These two products leverage the capabilities of the Criteo Shopper Graph. With these additional
140 products we will be able to cover the entire consumer journey for retailers and brands.

141

142 Let me now say a few words about **Apple's Intelligent Tracking Prevention, or ITP**. ITP makes
143 it more difficult for third-party providers to access data on Safari users and is enabled by default on
144 mobile and desktop. We have always been strong advocates of user privacy and will continue to
145 actively champion user choice on their online experience. For many years, we have provided
146 consumers with privacy-friendly controls in Apple environments and we have done it again for the
147 ITP environment. Our ITP solution is be able to collect anonymized commerce data across sites,
148 and works well on advertiser websites and with most publishers. We will continue to adapt our
149 solution to potential new changes in the Apple environment. We believe that a data-driven, privacy-
150 friendly advertising environment is beneficial to consumers, publishers and advertisers alike.

151

152 Our solution for Safari users currently allows us to mitigate about half of the potential impact from
153 ITP. Given ITP was released on September 19, 2017, it had a minimal net negative impact on our
154 Revenue ex-TAC in Q3 of less than \$1 million. Based on our expectations for the iOS 11 rollout
155 and our coverage of Safari users, we expect ITP to have a net negative impact on our Revenue
156 ex-TAC in Q4 between 8% and 10% relative to our base case projections for the quarter. We will
157 continue to improve and deploy our solution for Safari users over the coming quarters.

158

159 Looking into the fourth quarter, we are focused on **four key priorities**:

- 160 • First, **execute successfully during the U.S. Holiday Season** across the core product and
161 Criteo Sponsored Products.
- 162 • Second, **improve and roll out our solution for Apple users** and mitigate the impact of ITP
163 on the core business.
- 164 • Third, **build and leverage Criteo Shopper Graph** – based on our three data collectives
165 Identity Graph, Interest Map and Measurement Network – to further strengthen our product
166 portfolio and benefit the entire ecosystem.



- 167 • And fourth, **further develop and scale our latest products, Criteo Customer Acquisition**
168 **and Criteo Audience Match**, and build new capabilities, such as lookalikes, app installs and
169 omnichannel.

170

171 In closing, I'm pleased with our solid results. We executed well across the business and delivered
172 sustained high growth, while increasing profitability and cash. I look forward to updating you as we
173 continue to build the Criteo Commerce Marketing Ecosystem to drive sales and profits for retailers
174 and brands.

175

176 With that, I will now have Benoit Fouilland, our CFO, walk you through our financial results and
177 guidance in detail.

178 **Benoit Fouillard – Chief Financial Officer**

179 Thank you Eric, and good morning everyone. I am also pleased with our Q3 performance. We
180 continue to deliver high growth, coupled with increased profits and Free Cash Flow, while investing
181 in the business. This attractive combination remains a key differentiator of our strong model.

182

183 I will walk you through the quarterly performance and share our guidance for Q4 and 2017.

184

185 Q3 **Revenue** was \$564 million, up 32% at constant currency.

186

187 **Revenue ex-TAC**, the key metric we use to monitor business performance, grew 32% at constant
188 currency to \$234 million, driven by a 14% growth in same-client Revenue ex-TAC and the addition
189 of 930 net new clients across regions, sizes and products. **Revenue ex-TAC margin** was 42%, in
190 line with expectations and the prior-year level.

191

192 In the core business, both Tier-1 and midmarket clients continued to show healthy growth in
193 **Revenue ex-TAC per client** at constant currency.

194

195 Compared with our guidance assumptions, **changes in forex** had an approximately \$3.5 million
196 positive impact on Revenue ex-TAC, driven by the stronger euro and Japanese Yen. In addition,
197 compared with the prior year, changes in forex represented a tailwind of approximately 70 basis
198 points to Revenue ex-TAC growth.

199

200 Moving to **expenses, other cost of revenue**, comprised of hosting and data costs, grew 34% to
201 \$30 million, driven by increased hosting capacity across data centers, as well as additional third-
202 party data to complement our Identity Graph.

203

204 **Operating expenses** increased 31% to \$171 million. Headcount-related expenses represented
205 75% of GAAP opex. Global headcount grew 23%, closing the quarter with over 2,700 employees.
206 Non-GAAP operating expenses grew 26% to \$140 million. On a Non-GAAP basis by function:

- 207 • **R&D** expenses grew 42% to \$35 million, in line with our investment plans, largely driven by a
208 37% increase in headcount to 650 employees.
- 209 • **Sales & Operations** expenses grew 31% to \$80 million, also in line with our operating plans.
210 This was largely driven by a 18% increase in headcount to 1,600 employees, including 110

211 employees focused on Criteo Sponsored Products. Quota-carrying headcount also grew 18%
212 to 755, with over 70% of the growth coming from midmarket.

213 • And **G&A** expenses decreased 2% to \$25 million, despite a 21% increase in headcount to 460
214 employees. Excluding exceptional legal fees incurred in Q3 2016, in connection with the
215 HookLogic acquisition and a litigation, G&A Non-GAAP opex grew 11%.

216

217 Switching to profitability, **Adjusted EBITDA** grew 45% at constant currency to \$79 million, driven
218 by the strong growth in Revenue ex-TAC and sustained operating leverage across the organization.
219 Adjusted EBITDA margin was 34% of Revenue ex-TAC, up over 340 basis points, or over 170
220 basis points after excluding exceptional legal fees incurred in Q3 2016. In line with expected
221 seasonality, Criteo Sponsored Products had a negative contribution to Adjusted EBITDA in the
222 quarter. Excluding the impact of Criteo Sponsored Products, Adjusted EBITDA margin was over
223 36% of Revenue ex-TAC, an increase of 550 basis points compared to Q3 2016. Our Adjusted
224 EBITDA margin for the first nine months of 2017 puts us ahead of our plans for the full year.

225

226 **Equity awards compensation** expense increased 58%, largely driven by the \$2.9 million one-
227 time equity grant in connection with the HookLogic acquisition in November 2016, which represents
228 36% of the growth. We continue to expect equity awards compensation to represent approximately
229 6% of Revenue ex-TAC in fiscal 2017.

230

231 **Depreciation and amortization** expense increased 61%, including \$3.9 million, or 44% of the
232 increase, in amortization of intangible assets relating to the HookLogic purchase price accounting.

233

234 **Financial expense** was \$3 million, primarily driven by hedging costs on the euro/dollar exchange
235 rate and interest expense related to the funding of the HookLogic acquisition.

236

237 The effective **tax rate** was 26%, based on our estimated effective tax rate of 30% for fiscal 2017.

238

239 **Net income** increased 51% to \$22 million, driven by a 44% increase in income from operations
240 and partially offset by higher financial expense and marginally higher provisions for income taxes.
241 Excluding non-cash accounting impacts from the HookLogic acquisition on equity awards
242 compensation and amortization of intangibles, net income increased 98% to \$29 million.

243 **Adjusted Net Income per diluted share** increased 37% to 65 cents.

244



245 **Cash flow from operations** grew 41% to \$62 million, driven by strong operating growth and
246 profitability in the quarter, offset by a negative contribution from changes in working capital. This
247 represented a conversion rate of Adjusted EBITDA into cash flow from operations of 78% in the
248 quarter and 88% over the first nine months of 2017.

249 **Capex** increased 40% to \$28 million, driven by continued investments in data center equipment,
250 leasehold improvements and capitalization of IT projects, in line with our projections.

251 As a result, **Free Cash Flow** increased 43% to \$34 million, driven by the stronger cash flow from
252 operations and slower growth in capex over the period.

253 Finally, **cash** and cash equivalents increased by \$88 million in the first nine months to \$358 million.

254

255 I will now provide our **guidance** for Q4 and fiscal year 2017. The following forward-looking
256 statements reflect our expectations as of today, November 1, 2017.

257

258 Based on our expectations for the pace of the iOS11 rollout and our own coverage of Apple users,
259 we expect ITP to have a net negative impact in Q4 of between 8% and 10% on our Revenue ex-
260 TAC relative to the base case of our projections for the quarter. In addition, compared to Q3 growth,
261 Q4 comes with a tougher comparable as HookLogic was included for 8 weeks in Q4 last year.
262 These two factors provide a more challenging backdrop for the year-over-year growth in Q4.

263 As a result, we expect Q4 2017 Revenue ex-TAC to be **between \$260 million and \$263 million**.
264 This implies constant currency growth of 13% to 15%. The inclusion of HookLogic in the fourth
265 quarter 2016 base drives a 7-point sequential decrease in the year-over-year growth compared to
266 prior quarters. We assume year-over-year changes in forex will have a positive impact of
267 approximately 230 basis points on our reported growth in Q4.

268 And we expect Q4 2017 Adjusted EBITDA to be **between \$106 million and \$109 million**, driving
269 a year-over-year improvement in the Adjusted EBITDA margin for Q4 of approximately 390 basis
270 points to 450 basis points.

271

272 For fiscal 2017, we are adjusting our Revenue ex-TAC growth expectation to **between 26% and**
273 **27% at constant currency** to reflect the impact from ITP in Q4. We assume changes in forex to
274 have a positive impact of 30 basis points on our reported growth for the full year.

275 In parallel, we are **increasing our guidance for Adjusted EBITDA margin** for fiscal 2017. We
276 now expect our Adjusted EBITDA margin to improve by **100 to 120 basis points** in fiscal 2017, as
277 measured against the 30.8% Adjusted EBITDA margin we reported in fiscal 2016.



278 In addition, we believe we will continue to see a **strong transformation of Adjusted EBITDA into**
279 **cash flow from operations in excess of 70%** for fiscal 2017.

280 Finally, we expect our capex program for 2017 to be **approximately 5% of revenue.**

281

282 As usual, the forex assumptions underlying our guidance for the fourth quarter are included in the
283 earnings release that was published earlier this morning.

284

285 Separately, we anticipate that **retiring Criteo Predictive Search** will result in cash restructuring
286 costs of approximately \$2.5 million, to be accrued across Q4 2017 and Q1 next year. These cash
287 restructuring costs will be adjusted from Adjusted EBITDA. In addition, we expect the retirement to
288 generate savings of approximately \$5 million of operating expenses on an annual run rate, starting
289 in Q1 2018, after redeploying some of the associated resources to new projects.

290

291 Looking at **2018**, we currently expect that Apple's ITP could have a **net negative impact on our**
292 **Revenue ex-TAC of 9% to 13%** next year relative to our base case projections for the year. This
293 assumes that the roll-out rate of iOS11 increases to 90% of addressable Apple users by the end
294 of the summer 2018. This also assumes that our ability to mitigate the ITP impact continues to
295 improve over time. In parallel, we are confident that ITP should not drive a significant impact on
296 our Adjusted EBITDA margin next year.

297

298 In closing, I am pleased with our strong performance in Q3, which delivered sustained profitable
299 growth and strong cash flow generation. These results highlight the strengths of our business and
300 our confidence in our position and growth prospects. We remain focused on executing on our plans
301 in the fourth quarter and building the Criteo Commerce Marketing Ecosystem for continued growth
302 in 2018 and beyond.

303

304 With that, I will now turn the call back to the operator to take your questions.

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306 [...]

307

308 **Edouard Lassalle, VP, IR**

309 Thank you [Eric/Benoit]. This concludes our Q&A session. We thank everyone for attending the
310 Criteo call today. Friederike and myself will be available if you have any follow-up question. Good
311 bye and have a great rest of the day!