Good morning and welcome to Criteo’s second quarter 2018 earnings call.

With us today are co-founder & CEO JB Rudelle and CFO Benoit Fouilland.

During the course of 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. 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.

Also, we will discuss non-GAAP measures of our performance. Definitions 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 now turn the call over to JB Rudelle, CEO of Criteo. JB…
Thank you, Edouard, and good morning everyone. As you've seen, we closed Q2 with a combination of modest growth, increasing profitability and cash generation. Despite the headwinds we have been facing, we think these solid results highlight the strength and resilience of our model.

During the call today, I’d like to cover four important topics:

• First, I’d like to discuss ITP and GDPR.
• Second, I’d like to share some learnings on my first 90 days back as CEO;
• Third, I will explain our revised guidance for 2018 and our related plan to reaccelerate;
• Fourth, I’d like to give you some highlights on Criteo’s strategy for the future;

First, let’s discuss ITP. The reason I’m starting with this topic is that it has affected our business over the past year and it’s important our investors have full clarity on this matter.

As you probably recall, in September 2017, Apple launched iOS 11. This release included a feature referred as “ITP” in their Safari browser. The impact was that we were no longer able to deliver value-added advertising to users when they were browsing the web on Safari, even when users had consented to see those ads. Initially, we believed we could address this with a simple work-around that would mitigate a large part of the issue, and put the user back in control to decide whether they want to see value-added advertising or not. As you know, we got this wrong. Our approach was invalidated last December with iOS 11.2 that followed. As a result, we realized we had to absorb a much bigger revenue impact than we had originally anticipated. I’m keenly aware that the significant adjustment of our financial forecast over a relatively short timeframe was frustrating to investors. We have since listened to our shareholders on this, heard them loud and clear, and we will redouble our efforts in this regard.

In hindsight, we should have done three things differently on ITP:

• First, we should have understood much faster the reasons why Apple did this. Apple’s actions came as a surprise as they stand in contrast to the overall industry trend to let users have control of what they want to see and what they don’t. It appears now that Apple’s objective seems mainly to drive users to spend more time within apps, an environment not impacted by ITP and where they receive favorable economics as compared to the browser. To that point, in-app advertising is today one of our top priorities and the fastest growth area for Criteo.
Second, as part of our business strategy, we should have better anticipated how quickly Apple would react to our ITP work-around. If we had, we would not have had to update the market mid-December when iOS 11.2 was released.

And third, we should have accelerated our roadmap sooner to make our user graph less dependent on the decisions of any one browser manufacturer. In order to deliver value-added advertising to users who have expressed consent, we now rely on a variety of technologies including hashed emails, log-in data, multi-browser cookies and app IDs, instead of simply relying on standard cookies. Although, for competitive reasons, I will not go into details of our various technologies, we feel our platform has now become increasingly resilient to face similar type of changes in browser settings.

Moving on to GDPR, overall things are unfolding as we expected. Since the implementation on May 25, we have received further comfort that our long-standing position is aligned with the French Data Protection Authority, one of Europe’s most influential privacy agencies. That is, as long as users are properly informed and given the choice on how their data is used, they will effectively give consent by browsing the website they’re on. This clear doctrine ensures limited friction when collecting consent, while offering solid protection for the user against any abuse.

This said, the responsibility to obtain user consent rests not with us, but with our clients and publisher partners. Today, a small fraction of these publishers have taken what we consider to be an excessively rigid approach to consent that could negatively affect their businesses in the short-term. This is the reason why, in our prior guidance for 2018, we took a prudent stance on the potential for some near-term revenue headwinds. So far, the actual impact of this on our business has been quite limited and lower than what we expected. For the remainder of the year, we remain cautiously optimistic that the overall impact to our business will remain limited and within our expectations.

To summarize our position on ITP and GDPR, we firmly believe that these are not existential threats. As I explained, we have a plan to address those challenges and are executing to it.

Turning now to what I’ve learned in the 90 days I’ve been back as the CEO, and the impact these learnings have had on my view of Criteo’s strategic vision going forward. During the past quarter, I’ve spent significant time with our clients and publisher partners. From those interactions, I’ve heard many positive comments about Criteo. Our clients confirm they
get real value from our solutions, which you can see in our strong client retention figures. As a starting point, it was important for me to confirm our solid market position.

In the conversations I’ve had with our clients, I have also noticed a real change. In the past two years, our clients have watched Amazon be increasingly successful leveraging its data and audiences to create a large new revenue stream with brands. Our retail clients have always suspected that their data had tremendous value. With Amazon’s success in plain sight, they can now see a clear path to a tangible way to monetize this gold.

The challenge is that competing effectively in this new game requires sophisticated technology that is very difficult for most retailers to develop in-house. As a result, we see our clients engaging with us as they seek this hard-to-build and complex technology. Given the performance Criteo has demonstrated consistently over the years, we are seen as a natural partner for this new play. By providing highly effective solutions to acquire, convert and reengage their customers, we have enabled retailers to better compete against Amazon. By providing retailers with a platform to monetize their data and inventory, we can now enable them to get their fair share of brand budgets.

Furthermore, clients have shared with us that search and social are massive media channels for them. Most of them have expressed to me a growing concern about their extreme dependency on Google and Facebook. For all their other media buying, our clients insisted that it’s key for them to keep control of their direct relationship with end users. For that, they want their media buying to be powered by an independent technology partner that is strong but at the same time will never become an existential threat to them. These multiple feedbacks suggest we are today in the right place at the right time. Outside of Google’s and Facebook’s owned and operated inventory, we have the opportunity to be the third pillar of any advertiser playbook, the ad platform of choice for the open Internet. In these new market dynamics, there is a tremendous opportunity for Criteo to morph from a tactical solution to become a truly strategic partner for our clients.

I’ll go into more detail over how we will pursue these exciting opportunities. Before that, I’d like first to provide some color on the elephant in the room – that is our revised guidance for 2018. We are working hard towards returning to double-digit growth in the coming years. However, our return to strong growth will take one step backwards before taking several steps forward. The reason is that, in order to capture the new opportunities I mentioned before, we need to deeply transform our company. In particular, our move from a single product to a multi-product platform has been, so far, way too slow. Furthermore, in the past two years, our
decision-making processes regarding product roadmap priorities have not always been fast enough. Overall, for our business to function at optimal speed, we need some reengineering that will take some time to produce its effects.

As a result, we are adjusting our guidance for the 2018 Revenue ex-TAC growth to between -1% and +1% at constant currency. I understand this significant deceleration in the short term can be disappointing for investors. However, I believe the right operational changes that we are marking are necessary to pave the way of a future healthy growth. In any case, we’ll ensure that this business transformation is achieved with the right level of cost discipline. As a result, we are raising our 2018 Adjusted EBITDA margin guidance to between 30% and 32% of Revenue ex-TAC.

Our slow pace in transforming ourselves so far, and the steps we’re taking to correct this in the coming quarters are in fact the primary reasons for us to lower the Revenue ex-TAC outlook for the second-half of the year.

Let me now share a few concrete first steps we are taking to conduct our business transformation.

First, as we evolve into a platform company, we need to adapt our go to market strategy. Our multi-product solutions require a more granular segmentation of clients, which itself requires to reshuffle our resource allocation to best serve each segment. This transformation also involves a different hiring plan that will include bringing on some people with complementary skill sets than we currently have. So far, our new headcount has been behind plan and we intend to accelerate hiring in the second half of the year, though we do not expect to catch up on our hiring delay by year end. The adjustments we’ve made to our sales teams, coupled with our delayed hiring pace, represent a large driver of our reduced growth in the second half of the year. For large clients, not having enough of the right salespeople capable of selling our strategic platform is restraining our growth. For midmarket, making sure we have enough inside sales people in seats is also critical to achieving our goals. We’ve recently made a leadership change on our staffing group that we expect will accelerate our ability to efficiently onboard salespeople so that we can achieve these goals. Additionally, we expect that the sales team realignments we’ve made will begin to bear fruit in early of next year.
The second element of our transformation involves our product roadmap. To accelerate on this front, I’ve stepped into the role of Chief Product Officer in addition to my CEO role. With this, I should be able to help the organization iterate much faster to seize the new market opportunities in front of us. For instance, although Criteo has historically sold its products exclusively on a cost per click basis, we have begun to receive client requests to price some of our new products on a cost per impression or other types of variable fees. There is no sacred cow at Criteo. Nothing is forcing us to have all our products sold exclusively on a cost per click basis. So we’ve included this feedback into our roadmap and should be able to offer much more flexible pricing options for our new products to our clients by the beginning of next year. This delay in adjusting to how our clients want to consume our solutions is a second driver behind the lowering of our near-term outlook.

Our company-wide transformation will not be completed overnight and we anticipate it will last approximately 6 to 12 months. I will of course share more details with you as we progress in the coming quarters, and I’m confident it sets us up well to achieve our strategic goals over time.

Speaking of which, I’d now to say a few words on the future of Criteo. Our vision is to be the advertising platform of choice for the open Internet. Through this vision, we will create value for advertisers, consumers and publishers alike. For advertisers, that means driving enhanced advertising performance across the full funnel, combined with transparency, monetization and self-service capabilities as a platform. For consumers, this means relevant product recommendations with engaging creatives, while benefiting from user-friendly consent management capabilities. And for publishers, this means reaping the benefits of direct access to advertiser demand at scale to effectively control the monetization of their inventory, while not getting trapped into walled gardens.

We will execute on our platform vision with a combination of organic investments and targeted acquisitions. On the organic front, as you may have heard, we recently announced a €20 million investment in the Criteo Artificial Intelligence Lab in Paris to define the advertising technologies of the future. This ambitious multi-year plan in next generation deep learning will not yield immediate results. However, we expect it will become a core component of our future performance in the coming years.

On the acquisition front, today, we just signed a small-sized acquisition called Storetail to further accelerate the roll-out of our new monetization platform. With this 60 people France-based
startup, we will now enable retailers to tap into very significant trade marketing budgets from brands by monetizing native media placements on their ecommerce sites on a cost per impression basis and expanding this across the internet. While having no material revenue contribution at closing, the addition of Storetail’s solution will expand very significantly our opportunity for data monetization. Based on feedback from large retailers, we are hearing that the market for audience selling to brands on a cost per impression basis is several times bigger than the market for our existing cost-per-click sponsored product. Storetail also bring us a strong footprint with large food retailers in France, a sector complementary to our existing verticals. We expect the deal to close in the third quarter of this year.

Looking forward, with our multi-product platform, we believe we can grow our non-retargeting business from the current 6% of Revenue ex-TAC to 30% over three years.

Before I let Benoit go into the details of our Q2 results and discuss our guidance in more detail, I want to reiterate that my top priorities as CEO are to ensure that the steps we are taking now and the adjustments we are making are paving the way to reaccelerate revenues in the coming years.

With that, I will now turn the call over to Benoit.

Benoit Fouilland – CFO

Thank you, JB, and good morning everyone.

I will walk you through our Q2 performance and share our guidance for Q3 and 2018.

Revenue was $537 million.

Revenue ex-TAC, our key metric to monitor performance, grew 2% at constant currency to $230 million. This growth was primarily driven by new clients, both large and midmarket, and was achieved despite the significant headwind the user reach limitations in Safari had on our business with existing clients, in line with our expectations. Using the forex assumptions implied in our Q2 outlook, Revenue ex-TAC was $234 million, or $4 million above the higher end of our guidance.
Compared with Q2 2017, changes in forex represented a tailwind of over 200 basis points to Revenue ex-TAC growth, about half of what was assumed in our guidance.

Looking at our operating highlights:

- We added over 400 net new clients, in line with our plans, bringing total client count to 19,000 while maintaining retention at close to 90% for all products. Before the impact of discontinuing prior products, this represented 500 new clients net of churn, an acceleration compared to Q1. We are making progress building our self-service platform for midmarket, which we expect to be live in the first half of 2019. By then, we expect to return to higher growth in client additions.

- Same-client Revenue ex-TAC decreased 3%, compared to flat growth in Q1, entirely driven by the user reach limitations in Safari. Excluding the impact of these limitations, we estimate that same-client Revenue ex-TAC increased by 11%.

- Revenue ex-TAC from all non-retargeting products altogether, including Criteo Customer Acquisition, Criteo Audience Match and Criteo Sponsored Products increased 72% year-over-year.

- We accelerated our business in apps, a strategic area for us where we do not rely on cookies to access user data. We significantly reduced the time to integrate app retargeting and are now “on par” with the best players in the industry. This led to accelerated deployment of app retargeting, with our in-app business growing 38% on a Revenue ex-TAC basis.

- Last, we continued to increase our direct access to publishers, as the number of partners deploying Criteo Direct Bidder increased to over 2,300 publishers, up from 2,000 last quarter.

Turning now to the regional performance.

- In the Americas, we grew Revenue ex-TAC 4% at constant currency, including 8% in the U.S., driven by strength with both large and midmarket clients and the continued ramp up of our newest products in the region.

- EMEA Revenue ex-TAC decreased 1% at constant currency, in line with expectations, driven by external headwinds on our business with existing clients, and short-term disturbance related to the implementation of our new go-to-market model across the region.

- In APAC, we grew Revenue ex-TAC 6% at constant currency. The strong business in Korea and India, particularly in apps, offset weaker than expected performance in Japan. For the second half of the year, we are taking a more prudent stance on our APAC growth. Two
factors explain the slowdown. We are having a change of senior leadership in the region and the Japanese midmarket business is performing below our expectations, in part due to higher attrition in the sales team.

**Revenue ex-TAC margin** improved 230 basis points to 42.9%. Similar to Q1, the margin improvement was largely driven by the increased share of mobile app supply, a large portion of which we purchased at a lower cost than expected. We view this margin level as high and expect it to normalize over time.

Moving to expenses, **other cost of revenue** decreased 9%. Excluding the one-time charge in Q2 2017, related to the restructuring of our domestic business in China, other cost of revenue decreased 1%.

**Operating expenses** grew 1%, reflecting a stable headcount over the period. In line with prior quarters, headcount-related expenses represented 76% of GAAP opex. We ended the quarter with close to 2,700 employees – somewhat lower than expected. The slower headcount growth can be attributed to three factors:

1. The sale of HookLogic Travel, combined with the restructuring of Criteo Predictive Search, accounting for a reduction of about 50 employees.
2. The transformation of our go-to-market model, coming with a reshuffling of resources and a need for adding different profiles.
3. And continued hiring delays, in particular in the midmarket.

We are working on accelerating the hiring process across the organization, in particular in our Boston and Barcelona midmarket hubs, and believe hiring will pick up in the second half. On a Non-GAAP basis, operating expenses decreased 1% to $147 million. In 2018, we did not hold our Global Employee Summit and, on an apple-to-apple basis, non-GAAP opex grew 4%.

On a Non-GAAP basis by function now:

- **R&D** expenses grew 7%, in line with investment plans and largely driven by the 6% increase in headcount to over 680 employees. We expect to grow R&D expenses in H2 2018.
- **Sales & Operations** opex decreased 8%, slightly below our plans. This was driven by a 4% decrease in employee headcount to over 1,500, including 700 quota-carrying employees.
after the sale of HookLogic business and the Search restructuring. We expect our Sales & Operations headcount to increase in the second half.

- And G&A expenses grew 8%, driven by a 4% increase in headcount to 470 employees. Excluding a one-time expense related to the change of CEO, G&A expenses grew 4%.

While the trend in expense growth shows effective expense management, we did incur about $5 million of temporary savings compared to our expectations. The majority of these savings relates to delayed hiring, which we expect to partially reverse in the second half. However, we do not expect to have fully caught up with our hiring delay by the end of the year.

Moving to profitability. We grew Adjusted EBITDA 20% at constant currency to $69 million. Adjusted EBITDA margin improved 530 basis points to 30% of Revenue ex-TAC.

As in Q1, the reported effective tax rate was 37%, based on a conservative 37% projected income tax rate for fiscal year 2018. However, pending clarification of interpretations of the U.S. tax reform, as well as the impact of our ongoing tax structuring plans, we believe the projected tax rate for the year could go down by 3 to 5 percentage points.

Net income increased 96% to $15 million and Adjusted Net Income per diluted share increased 36% to 53 cents.

Cash flow from operations decreased 33%, due to one-time negative changes in working capital, after a favorable timing of accounts payable in Q1 for approximately $23 million. This momentarily drove transformation of Adjusted EBITDA into cash flow from operations to 59%, compared to a normalized 80%.

Capex decreased 34% driven by delayed cash out of investments committed in Q2. Going forward, we continue to expect capex to represent slightly less than 5% of revenue in 2018.

Free Cash Flow decreased 33% to $22 million. For the first six months, Free Cash Flow increased 51% to $74 million, representing 51% of Adjusted EBITDA, or about 10 points above the historical average.
Finally, **cash** and cash equivalents increased $66 million from the end of 2017 to $480 million, despite a $14 million negative forex impact on our cash position.

I will now provide our **guidance** for the third quarter and fiscal year 2018. The following forward-looking statements reflect our expectations as of today, August 1, 2018.

In Q3 2018, we expect Revenue ex-TAC to be **between $218 million and $223 million**. This implies constant currency growth of -5% to -3%, and assumes that year-over-year forex changes will positively impact reported growth by about 160 basis points.

And, we expect Q3 2018 Adjusted EBITDA to be **between $61 million and $66 million**.

In light of the lower revenue outlook for 2018, we have adjusted our variable people expense assumptions for the year. This translates into $4 million lower expenses in Q3 compared to Q2.

For 2018, we are adjusting our Revenue ex-TAC growth outlook to **between -1% and +1% at constant currency**. We expect forex changes to impact positively the 2018 reported growth by about 160 basis points.

In parallel, we are increasing our guidance for the **Adjusted EBITDA margin** in 2018 to **between 30% and 32% of Revenue ex-TAC**. This translates into an increase in implied Adjusted EBITDA of about $4 million as compared to the prior guidance, despite a reduction in Revenue ex-TAC of about $50 million, suggesting disciplined expense management despite a continued hiring delay.

Our guidance for both the third quarter and fiscal 2018 does not include any contribution from the acquisition of Storetail. The forex rates assumed in our guidance for the third quarter and fiscal 2018 are included in the earnings release that we published earlier today.

With that, we will now take your questions.

[...]

**Edouard Lassalle** – VP, IR

Thank you [JB/Benoit]. This now concludes our earnings call. We thank everyone for attending today. The IR team is available for any follow-up questions you may have. Have a good end-of-the-day. Good bye everyone!