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PRESENTATION

Operator

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

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

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

Thank you, Keith. Good morning, and welcome to Criteo's Second Quarter 2019 Earnings Call. With us today are co-founder and CEO, JB Rudelle; and CFO, Benoit Fouilland.

During this call, management will make forward-looking statements. These may include projected financial results or operating metrics, business strategies, anticipated future products and services, anticipated investment and expansion plans, anticipated market demand or opportunities and other forward-looking statements. As always, such statements are subject to various risks, uncertainties and assumptions.

Actual results and the timing of certain events may differ materially from the results or timing predicted or implied by such forward-looking statements. We do not undertake any obligation to update any forward-looking statements contained herein, except as required by law. In addition, reported results should not be considered as an indication of future performance.

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

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

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

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

Thank you, Ed, and good morning, everyone. On today's call, I'd like to discuss 3 main topics: first, our Q2 performance; second, our strategic initiatives; and third, our priorities for the next 18 months.

Starting with the Q2 performance. We had several positive developments this quarter. I'm aware that in the last 2 years, the market questioned our ability to execute on our plans. In Q2, we once again exceeded our guidance for both revenue ex TAC and adjusted EBITDA. While transformation takes time, we are making important progress and feel good about our strategy.

Among the Q2 highlights, our quarterly net client additions turned positive and with 360 net new clients, reached the highest level since Q2 2018. This reflects improvements in our mid-market sales productivity. Nevertheless, our long-term ambitions are much higher in this area. As our demand-generation programs ramp up over the coming quarters, we expect this new client acquisition channel to significantly accelerate net client additions in 2020.

In Q2, our new solutions, which includes all solutions outside of our targeting, grew 61% on a revenue ex TAC basis to 10% of total, up from 6% a year ago. This exciting milestone is a great reward for all our teams who have been working so hard to develop them. All our new solutions leverage one of our most valuable assets, our user graph of 2 billion Criteo IDs. As you may recall, this unique user graph links highly granular shopping data with robust persistent IDs across multiple devices and user environments. This provides the ability to develop highly attractive marketing scenarios in a flexible way. We believe we have only scratched the surface with our new solutions, and there remains a huge potential to sustain strong growth in the years to come.

Within new solutions, we are pleased to see that our new leadership in -- for Retail Media has already started to produce positive results. In Q2, our Retail Media business enjoyed reacceleration compared to prior quarters with growth now back to north of 20% on a revenue ex TAC basis. This reacceleration is happening in a fast-changing environment. Retail clients are asking more and more for a turnkey platform that combines both performance and branding products. To meet these requirements, we are unifying our former Sponsored Products and Commerce Display products into a single solution. As a reminder, Commerce Display is our solution acquired from the former Storetail.

The market is also increasingly demanding full transparency both in terms of pricing and inventory. We adapted rapidly to this change by offering large retailers an innovative transactional SaaS model. This SaaS model is growing triple digits on a pro forma basis and already represents over 30% of our Retail Media business.

Our app business grew 21%. While solid again, this is not on par with our ambitions yet. Even if mobile apps continue to gain more and more share of user time, we are witnessing that a lot of retailers still don't invest in apps to fully capture the growing usage. However, we believe it's just a matter of time before mobile apps eventually become a must-have channel for virtually all large and medium retailers. As a result, we continue to invest significantly in this strategic channel. In particular, we are shipping a new beta version of our app install product as of Q3 with significant improvements around bidding compared to the product we acquired from Manage last year. We are also implementing more client-friendly integration protocols to ease the rollout of the product across all our different geos. We're excited to test this new enhanced version with our clients in the fall. If those tests are satisfactory, app install could contribute more materially to our overall business in 2020.

Looking now at our retargeting business. We saw a low single-digit decline at constant currency. This slight contraction was expected and is mainly driven by the erosion of web browser usage as users tend to shift more of their online time to mobile apps. Two factors make us confident we will be able to reverse this trend in the midterm: first, as just discussed, even if many retailers have not yet shifted gears toward mobile apps, we expect them to catch up at some point, and we believe our current investment will pay off; second, while our retargeting business with large clients is quite mature, we are still largely underpenetrated in the lower torso and are not addressing the tail of the market yet. These segments represent a very significant greenfield opportunity for us. Thanks to our strong ongoing commitment to self-service, we are confident we will be able to penetrate these in the years to come.

Finally, on the supply side, we further expanded our network of direct publisher relationships. In addition to the 3,800 publishers using our Direct Bidder on web inventory, we are now directly connected to 200 app developers, about 50% more than in Q1. Further, the Trustworthy Accountability

Group certified our inventory quality and fraud prevention, recognizing our best-in-class practices in promoting a brand-safe environment for our clients.

I would now like to turn to some of the strategic initiatives we have implemented recently. While these have no direct impact on our Q2 financials, they are key to the way we are managing our business going forward.

Starting with self-service. As you are aware, we are working hard to implement self-service capabilities on our platform. Beyond the obvious productivity benefits those tools provide us, we strongly believe that the ability to have their hands on the keyboards is critically important for our clients and their agencies. Overall, giving marketers control and transparency is a key element of our strategy.

Speaking of this, we are pleased that the recent Forrester report on Omnichannel Media Management recognized the important investment we are making into our platform. In this survey of the demand-side platform market, Forrester included Criteo as the only pure tech player in the large vendor category, alongside the giant hybrid players, Amazon, Facebook and Google.

Recently, we reached a particularly important milestone in the rollout of our self-service platform. I'm very pleased to share that starting with the U.S., U.K. and Australia, our self-registration feature for new clients is now live. As indicated earlier, self-registration is a must-have to further scale the addition of new small and medium clients.

We also continued to make good progress with other self-service features ranging from campaign creation and dynamic creatives to analytics. For example, in Q2, 70% of campaigns targeting commerce audiences were created entirely in self-service mode, and almost 100% of our clients' price coupons were fully managed in self-service, up from 75% in the prior quarter. These achievements are very encouraging for the upcoming rollout of our next features.

Shifting now to ongoing transformation. As you may recall, one of my key areas of focus over the past year has been to address the execution issues slowing down our growth. One of the important levers to improve execution is to ensure we have the right talents in place. Compared to a year ago, I have a completely new executive team, with the exception of Benoit, my great CFO with who I've been working with closely since 2012. The General Counsel and leaders of corporate communication, People, Retail Media and the APAC region were brought in from the outside. For R&D, operations, web and app product lines, EMEA and Americas regions, we recently promoted strong talents from the inside. I'm very excited with this leadership team and can already feel the commitment, drive and energy these new leaders bring to the long-term success of Criteo.

We have also taken advantage of this management change to strengthen our go-to-market and improve execution. First, recognizing that we are now a truly multiproduct company with its own specificities, we now have 3 product units with dedicated product and go-to-market resources: one focuses on web, another focuses on app and store, and the third focuses on Retail Media. We believe this new customer-centric organization should allow faster and more effective iterations on our product road map and go-to-market. Second, we took this opportunity to regroup our previously fragmented operations into 1 single global team to support our product units with a transversal platform, marketing and operation team dedicated to best-in-class services for our clients. Third, we are bringing the large customers and mid-market organizations in each of our 3 regions under a single regional leadership to share best practices and maximize execution. And fourth, we simplified our management layers and increased span of control. The immediate benefits are faster communication and decision-making.

Overall, we are confident this new organization will bring additional momentum for our ongoing transformation.

Looking ahead, we reiterate our 2019 guidance for both the top line growth and profitability margin. We also remain focused on executing on our key priorities for the next 18 months, which are: grow adoption of self-service at scale to add new clients; grow full funnel solutions, including app install and web awareness and consideration; continue to invest in Retail Media and accelerate our transition towards transactional SaaS; reinforce identity solution leveraging our key assets in data management; and effectively manage our expense base to pave the way for incremental gains in profitability margin in the future.

In closing, despite the challenges we discussed, we feel good about our strategic direction and about our ability to deliver on our plans. As a matter of fact, to underline our confidence in the future of Criteo, I am pleased to announce a new $80 million share buyback program.

With that, I will turn the call over to Benoit who will walk you through our financials and provide more color on our outlook.

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

Thank you, JB, and good morning, everyone, from my side as well. As always, I will walk you through our quarterly performance and share our guidance for Q3 and fiscal year 2019.

Revenue was up 1% at constant currency to $528 million. Revenue ex TAC, our key metric to monitor the business, increased 0.3% at constant currency to $224 million. New client business drove our growth this quarter, especially in the mid-market, offsetting a limited decline in our existing client business despite continued adoption of our new solutions across the client base.

Using currency assumptions supporting our guidance, revenue ex TAC reached $225 million before a $1.5 million negative foreign exchange impact. Compared to Q2 2018, the foreign exchange negative impact was $7 million or 3 points of growth.

Revenue ex TAC margin declined 50 basis points compared to last year to 42%, in line with our expectation for the margin to normalize from its peaks in the first half of 2018.

We grew the number of clients by 4% year-over-year to close to 20,000 clients and maintained client retention at close to 90% for all solutions combined.

From an existing client standpoint, same-client revenue decreased slightly less than 2% at constant currency despite higher adoption of our new products driven by the slight decline in retargeting because of continued softness in the web. Same-client revenue ex TAC decreased slightly less than 3% at constant currency.

Turning to the regional performance. In the Americas, revenue ex TAC declined about 3% at constant currency, including minus 2% in the U.S. On a revenue basis, Americas actually grew plus 1% at constant currency driven by the continued progress of Retail Media and our growing mid-market revenue, offset by limited softness in our large client business. EMEA revenue ex TAC growth turned positive, improving by 6 points from Q1 and reaching 4% at constant currency. This was driven by double-digit growth in mid-market and high double- or triple-digit growth in new solutions as well as the anniversary of GDPR. And in APAC, revenue ex TAC declined less than 2% at constant currency as slower business with large clients in Japan and Southeast Asia offset double-digit growth in mid-market and continued positive momentum in Korea.

Shifting to expenses. Other cost of revenues decreased 3% driven by a change in our server amortization period, saving in power consumption in our data centers and lower expenses for third-party data. Offsetting this were increased hosting costs and the provision for the French digital tax on revenue. We now anticipate that the digital tax in Italy and Spain will not apply before 2020, representing a favorable variance of approximately $2 million on a full year basis compared to prior expectations. On a non-GAAP basis, other cost of revenue increased 22%.

GAAP operating expenses are flat year-over-year, with higher headcount costs fully offsetting a lower equity awards compensation expense due to the lower stock price over the period. In connection with our company transformation, we incurred restructuring costs of $0.7 million, including $2 million related to cash payroll and facilities expenses that were added back to adjusted EBITDA and $1 million of facilities-related depreciation and amortization expense, partially offset by noncash forfeitures of equity awards. We anticipate this restructuring to generate saving of about $6 million on an annualized cash expense basis.

Headcount-related expenses represented 72% of GAAP OpEx, down about 300 basis points compared to Q2 last year. We ended the quarter with close to 2,900 employees, an increase of 7% year-over-year, thanks to stronger hiring and continued decrease in employee attrition.

On a non-GAAP basis, OpEx grew 2% to $149 million. Looking at this by function: R&D decreased 6%, largely driven by an increase in our research tax credit despite a 6% growth in headcount to over 720 R&D and product engineers. Sales and operation increased 7% driven by a 7% increase in headcount to 1,640 and a $5 million exceptional charge related to an invoicing dispute. Excluding this exceptional charge, sales and operation were flat. Sales and account strategists, our so-called quota-carrying employees, grew 5% to over 740. And G&A was largely driven by severance charges that were incurred in Q2 last year and despite a 10% increase in headcount to 515 employees, including headcount transfers from other functions.

As indicated last quarter, we are effectively managing the cost base and expect non-GAAP expenses for the remainder of 2019 to grow slower than originally planned across all functions.

On the profitability side, adjusted EBITDA was over $56 million, 7% above the high end of our guidance at comparable FX and 16% below Q2 2018 at constant currency. This drove our adjusted EBITDA margin to 25% of revenue ex TAC, down 470 basis points. As you may recall, adjusted EBITDA was particularly high in Q2 last year as we were significantly behind our hiring plan at that time. Excluding the $5 million exceptional charge mentioned earlier, adjusted EBITDA was $62 million, 17% above the high end of our guidance and driving a margin of 28% of revenue ex TAC, down only 230 basis points year-over-year.

Depreciation and amortization expenses decreased 10% mainly driven by the change in the useful life of our servers from 3 to 5 years, represented approximately $10 million.

Equity awards compensation expense decreased 29% due to the lower stock price and equity forfeitures over the period.

Financial expense increased 35% due to the impact of ForEx changes on our hedging positions.

And our effective tax rate was 31%, in line with our projected tax rate of 30% for 2019. In Q2 2018, the effective tax rate was 37%, translating into a 34% decrease in the provision for income tax year-on-year. The difference between the annual estimated tax rate and the effective tax rate relates to the tax impact of discrete item such as share-based compensation in the United States. Discrete items were immaterial as of Q2 2018, resulting in no difference between the annualized estimated tax rate and the effective tax rate.

Net income decreased 15% to $13 million driven by a 20% decrease in income from operation and higher financial expense despite the lower tax expense. On a non-GAAP basis, earnings per diluted share were $0.47.

Cash flow from operation increased 31% to $53 million, largely driven by positive changes in working capital and lower taxes paid. Our transformation of adjusted EBITDA into operating cash flow remained very strong at 94%.

CapEx increased 84% to $33 million, representing 6% of revenue but only grew 12% on a year-to-date basis, reflecting a catch-up from Q1 in Q2. As a result, free cash flow decreased 10% to $20 million, reaching 36% of adjusted EBITDA, up from 33% in Q2 2018.

And cash and cash equivalents increased $58 million in the first half to $422 million.

With respect to capital allocation, our last shareholder meeting provided us, as requested, with increased flexibility around share buybacks. I'm, therefore, pleased to confirm that our Board of Directors has authorized a new $80 million buyback program. We intend to execute the program over the next several quarters.

I will now provide our guidance for the first -- for the third quarter and fiscal year 2019. The following forward-looking statements reflect our expectation as of today, July 31, 2019.

For Q3, we expect revenue ex TAC between $219 million and $223 million. This implies constant currency growth of approximately minus 2% to 0%. We expect year-over-year ForEx changes to be neutral to the reported growth.

For the full year 2019, we maintain our expectation to grow revenue ex TAC between 0% and plus 2% at constant currency. Using current ForEx assumption, this means revenue ex TAC of about $947 million to $967 million. Compared to 2018, we expect ForEx changes to negatively impact reported numbers by about $19 million or 190 basis points of growth.

We expect Q3 2019 adjusted EBITDA between $57 million and $61 million. As for 2019, we maintain our expectation of an adjusted EBITDA margin of approximately 30% of revenue ex TAC, demonstrating our commitment to profitability.

As indicated last quarter, we continue to focus on effectively managing the cost base to ensure we deliver on our profitability goals for 2019 and beyond. As usual, the FX assumption supporting our guidance for the quarter and the year are included in our earnings release.

In closing, we feel good about our strategic direction, remain focused on execution and are committed to delivering -- to leveraging our effective financial model to deliver healthy profitability over time.

With that, we will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And today's first question comes from Nick Jones with Citi.

Nicholas Freeman Jones - *Citigroup Inc, Research Division - Assistant VP & Senior Associate*

Do you have any insight or color into how these self-registration feature is being received in the U.S., U.K. and Australia? And then maybe more broadly, just how self-serve is being received by its users?

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

This is JB. Thank you for your -- for the question. So the self-registration feature is very new. So it's probably a little too early to draw any conclusion. We had our first clients going through the end-to-end process with 0 touch from our sales teams, so just by itself. This was pretty exciting achievement to see our first clients validating the whole process on its own.

Obviously, to scale this and for this to become a material contribution, we're going to have -- not only to have, I would say, the technical implementation of this new module, but also the demand generation programs. So we can now -- we can fill the pipeline with that. And as we discussed before, this will come -- this will ramp up in the coming 2 quarters, so it can have a material impact in 2020.

Regarding other features that -- in terms of self-service, as we -- as I shared during the -- during my first introduction, we already have a number of features that -- with a very high level of adoption, which is validating our analysis that there is a strong appetite from the market, from clients to have their hands on the keyboards. The market now is more mature than it was a few years ago. And something which was probably a bit intimidating for them a few years ago, now they are much more engaged and they want to turn the dials themselves.

Operator

And the next question comes from Heath Terry of Goldman Sachs.

Heath Patrick Terry - *Goldman Sachs Group Inc., Research Division - MD*

I was just wondering if you could give us a sense of -- with the changes that have been made at Google within Chrome, to what degree you're seeing that or that the numbers that we've seen this quarter sort of reflect that being fully implemented. I know the general sense to the outcome was better than expected. Just curious if that was the case in terms of what you're actually seeing.

And then as we look at the profitability in the quarter and the profitability guidance for the rest of the year, if you can just give us a sense for sort of what you're seeing in terms of the cost of inventory or just sort of the underlying cost of being able to -- whether it's on a CPM basis or a cost per conversion basis, sort of what's happening at the publisher end of the equation.

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

Sure. Thank you. So on Google Chrome, there is no material impact that Google has done in the previous weeks, so there is no impact on our business so to speak. This is something we discussed at length a quarter ago. I know there was a lot of concern in the beginning of the year about Google making, this spring, some change that could be negative for our business. And this had put our stock price under pressure in -- during the springtime. This did not happen, and our Q2 numbers don't include any particular Chrome impact.

Regarding the cost of inventory. So that's always a hard question because not all inventory has the same value. And what really matters for us is not the cost of a particular impression, but the cost of the impression relative to its value. And one of the strength of our engine is this ability to predict the value of every impression and to pay the right cost.

So to look at the inventory, what we focus on is mostly what we call the win rates, which is, as you know, we are doing a real-time bidding for each impression, and we are bidding against other bidders for a particular impression. And we monitor our win rates to ensure that we keep bidding and winning a stable fraction of the impression, which has been the case. In the last quarter, we didn't see any significant change in our win rates. So overall, I mean the cost of the inventory has been quite stable. But once more, there is no real average in the space. Every impression has its own value. And the ability of each player to determine this value is absolutely key in the performance.

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

Just maybe one thing that I would add, as you know, we report even if the average is not really meaningful as just explained by JB. We report in our Q every quarter what's the trend, and we will confirm in the Q that will be filed in the next coming days that we have seen a slight decrease in average CPM over the period, which is consistent with what we've seen in prior periods. A slight decrease, meaning mid-single digits.

Operator

And the next question comes from Tom White with D.A. Davidson.

Thomas Cauthorn White - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

On the -- on your mobile app business, I think you said it grew 21%. I was hoping you could just give a bit more detail about your key inventory sources for mobile app inventory. Just I'm specifically interested in which large app publishers or networks might be garnering the bulk of that spend or whether there might be specific large app publishers or networks that you don't currently tap into.

And then just a follow-up on Retail Media. You mentioned that retail clients are asking for kind of a turnkey platform that factors in or incorporates brand-related spend, too. Just at a high level, curious to hear how you think you guys are positioned for that kind of brand -- more branding-type campaigns both from a technology and maybe personnel-wise.

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

Sure. Thanks very much. So mobile app, I mean we are applying the same strategy at the high level that what we applied on the web. We are -- we want to help our clients to buy mobile inventory across the whole open Internet. So we are completely agnostic and so applying our usual playbook. We started with the exchanges, and we are connected and buying at scale on all the major exchanges.

On top of that, we are making very exciting progress on buying directly from the mobile app developers. As you know, when you buy from an exchange, you get kind of 15% fee from the exchange, the middle man, which doesn't necessarily add a lot of value. And by buying direct with the -- to the publisher, it's win-win. It's better performance for the advertiser and more money in the pocket of the publisher. So this is why this is a very attractive value proposition.

And as a matter of fact, now we are working, as we said, with more than 200 app developers, including more than 420 of the largest global apps that are not connected to a direct bidder. So it's great to see that our strategy to go direct is paying off the same way in-app than in web. We still have a lot of value to capture because we still have a very early in-app, while web, obviously, we've been pursuing this -- the web inventory direct for many years, so we had a much higher level of penetration. But in-app, we're still relatively early, and there is a lot of room to grow.

Speaking of Retail Media, so that's a very important trend that retailers, they want a partner capability to offer the full suite of product, and this is something we recognized more than a year ago. And it's true that, historically, Criteo was focused more on performance than on branding. That's the reason why we acquired this French company called Storetail. They were doing the equivalent of the Sponsored Product but on the branding side with branding formats. And we acquired this company last August, so exactly a year ago. And we've been very busy integrating the 2 offers under the same umbrella and into a single solution. And as a matter of fact, we see a lot of excitement from the market. We've been already signing, one, first very big clients in the U.S. on this new single platform, and something we're going to accelerate in 2020. And we feel we have a product, which is really unique. We've been winning against very big players in this area. And people recognize across the industry that our offer is way ahead of the rest of the market.

Operator

And the next question comes from Tom Champion with Cowen.

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

JB, I'm wondering if you could talk about the pace of growth in new products. Clearly, a strong result at 60%, but I think a little below last quarter's level. And how do you think about continuing to ramp and accelerate that growth?

And then second, maybe you could just talk a little bit about the hiring process in the sales organization now that you're taking a more consultative approach.

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

Sure. So new product is -- we have several initiatives in the space, some are more mature than others. I would say, we -- to simplify with kind of 3 buckets. We have Retail Media that we discussed quite a lot, and we are excited to see that -- particularly in this area, there is reacceleration of our business and -- which is happening in a market, which itself is changing a lot in a direction we like a lot because favoring technical solution, which is our strength. So this is very exciting.

The 2 other key initiatives we have is upper funnel, this awareness and consideration product. So we're still quite early there. But potentially, this is a huge market. As a matter of fact, it's a market which is growing faster than the lower funnel today and something where it's almost a greenfield opportunity for us. So if we execute well on that, there is a huge potential. And I feel we're already -- we're still very, very early there.

The third one, as I discussed is App Install where it's a lot about performance, App Install, costs to install, something we're very good at, performance. So we've been putting a lot of effort upgrading the product. We acquired 9 months ago from Manage, this app install company. And as we discussed, we are shipping a new version, including enhanced bidding capability, which is really the strength of Criteo, this machine learning, highly sophisticated engine. And we believe combining the go-to-market expertise of Manage with our machine learning expertise, we have the best of the 2 worlds and really a good job to make a dent into this very large app install market where, today, we are very, very small. But there is a lot there.

We have other opportunities, which are more, I would say, early, like store, a physical store, where we have exciting early success with our alpha clients, but this is still early and not very material yet. So we spend less time on this, but it's something that can be promising midterm.

So all in, it's a very robust portfolio of new products. And this is why when all combined, it's enjoying a very healthy double-digit growth.

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

Hiring process for the go-to-market?

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

Can you repeat the second question?

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

Yes. I was just curious if you could update us on your progress in transforming the sales organization now that a process includes a more consultative approach. I think that was a barrier in the past.

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

Yes. Absolutely. So this is something we are working on. As we are selling, we need 2 type of profiles. Some of them, we can train from the inside, and we have a lot of great talents that we are training from the inside. We're also bringing talents from the outside. We need experts in specific areas. I was discussing about App Install, which requires a different pitch than our traditional web solution, and we are hiring very aggressively app specialists there.

We also need to hire people with more, exactly what you said, a consultant -- strategic consulting mindset because as we are now engaging at a much higher level in the organization with the CMOs on the strategy of our clients, we need people capable to conduct this high-level discussion with a 360 view on the needs and the strategy of our clients. So -- and we're executing this with a good mix of training our teams on the ground and bringing new talents from the outside.

Operator

And the next question comes from Lloyd Walmsley with Deutsche Bank.

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

Just wondering if you can talk a little bit about the potential to shift more of your revenue potentially to a licensing model where you maybe provide access to tools and things like underlying shopper graph and other data sets in a fee model. You've talked about getting some inbound request along these lines. The CSP business has transitioned kind of towards this. How much of your business do you think you could move to a model like this? And how are you guys thinking about that given the market values -- those revenue streams much higher than kind of risk-taking revenue streams? Any thoughts there would be great.

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

Sure. Absolutely. So as we discussed, specifically for Retail Media, we are shifting very rapidly, as a matter of fact, much faster than what we expected 6 months ago to a transactional SaaS model, which is already representing 30% of our Retail Media business. And I wouldn't be surprised if very quickly it will be the majority of our business. This is just the way the market is going, and there is no point resisting this. As a matter of fact, we're doing exactly the opposite. We are proactively pitching our clients and switching as quickly as possible from the old model to the new model with them, having discussion one by one with every client of ours.

Regarding our marketing solution, we have interesting ideas there that are still early stage, but there is a very big appetite for what I would call data insights and more generally for our shopper graph. And it's still too early to discuss this in detail. Right now, we are experimenting a few things, but there are some very promising things happening there.

The market also is getting more mature. Other player has been educating the market in this area, which is also helpful for us because rather than reinventing the wheel, we can get inspired by the best performance model and apply the uniqueness of the Criteo data assets and Criteo user graph to combine the best together.

Operator

And the next question comes from Doug Anmuth with JPMorgan.

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

Just hoping you could elaborate a little bit more just on the drivers of the lighter Q3 outlook and then your confidence in recovering more in Q4. And I know there's obviously some more favorable seasonality there, too, as well, but just given that you're maintaining the full year outlook.

And then on self-registration, can you just talk about some of the key benefits there? And then when you talk about increasing your client base and significantly more client adds in 2020, is self-registration the key driver?

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

So regarding -- this is Benoit speaking. Regarding Q3, we expect a quarter, which would be very consistent with the performance that we've seen in Q2 where, ultimately, we expect to see our new solutions continuing to show good traction but impacted by a slow decline in the retargeting business. As commented on the call earlier, we see that decline primarily driven by the web usage. And we see opportunities in -- through the take-up of apps over time as well as the take-up of our self-service channel, automated channel that would show results at scale in 2020 as the 2 factors that could allow us to offset that decline and stabilize the decline on the retargeting side. So we expect very, very similar type of dynamics in Q3 than what we've observed in Q2.

And with respect to the strategic initiatives that we have discussed in more detail on the call, those strategic initiatives are expected to producing more results in 2020.

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

So regarding self-registration, the key benefits, there are several benefits. This is what makes me so excited about self-registration. The first one, which is the most obvious, is productivity of our onboarding. When clients engage on their own with the platform and they have the setting on their own and start the campaign on their own, you need less people to turn the dials behind the scene. So it has an immediate improvement on productivity and allow our own teams to engage more strategically with our clients, more into up-selling them and rather than just turning the dial. So that's the first benefit of self-registration.

The second one, which is more, I would say, less known but very important is that surprisingly, some clients trust more machines than human beings in a way that they can find it intimidating to speak to a sales rep. While going on their own and doing their own thing in front of the screen, some of them are just more comfortable to do this. They are used to do this on many other platform. And this is something some are very comfortable to do, and we've seen this in many aspects.

The third one, which is equally important, is that as we are working more and more with agencies, agencies are really adding a lot of value for their own clients, for the ones that don't have the expertise to turn the dials on their own. And they are getting trained on our own tools, and they can operate on behalf of the clients the Criteo platform. And this is really a win-win value proposition that we're having with agencies, and it's part of our agency strategy.

So all in, this self-registration is really exciting because not only it's targeting the lower torso and the tail of the market but you can see there are benefits that apply across all type of clients, big and small. And as we shared, we are confident that this should have a material impact next year on our net adds.

For this -- to fully leverage this momentum, we're going to, at the same time, have to ramp up our marketing and acquisition channels to make sure we have enough prospects engaging with our self-registration modules. And this is something we are working very hard on.

Operator

And the next question comes from Dan Salmon with BMO Capital Markets.

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

JB, I want to ask a little bit -- of course, the manner in which major Internet technology platforms operate is always an important issue for Criteo as your business lives on top of those platforms oftentimes, and we've talked a lot about Chrome and the changes going on at Google's ecosystem lately. But I want to ask a little bit about Apple. I don't really want to dwell on the initial impacts of ITP, which are now, of course, sort of ancient history. But more look forward as sort of public comments on consumer marketing from Apple continue to focus on differentiating through privacy (inaudible). Could you speak sort of just high level about the company's relationship with Apple, and more importantly, sort of how you see that ecosystem evolving and what that means for your business in the years ahead?

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

Sure. So as you said, the ITP impact is fully in our numbers. It's been there for a while.

Speaking more generally about privacy, it's a major trend in the market and a very good one. And we are very supportive about having an open Internet, which is privacy friendly. Because, ultimately, if you want to do targeted advertising, you need to do it in a transparent way, otherwise, the users, they lose trust.

And just as a reminder, we pay for the inventory no matter what, and we get paid only when the users engage with our ads. So we have absolutely no incentive to show an ad to a user who's not fully comfortable to see this. So we've always been very proactive to ensure that every user had the right level of control, and they can decide on their own when and how they want to see targeted ads.

That's probably the difference we have with Apple that is deciding on behalf of their own clients what is -- what they can see or not. We want the end user to have the choice and to make their choice. And we see in reality and we're not afraid of that because we've seen in the reality that when you give the 2 choices to the user, the vast majority of them, they'd rather see relevant ads than to see random ads because the user, they perfectly understand that no matter what, they're going to see ads. That's just the way the Internet need to -- economy works. But seeing ads, you'd rather see ads that are of some interest rather than things that are just visual pollution.

And I think this is our big vision, something which we share with the vast majority of the market. There are some players that are -- want to decide on their own. It's their choice. We believe in the open Internet and letting the end user ultimately in control.

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

Well, thank you, JB and Benoit. This concludes our call today. We thank, everyone, for attending. The IR team is available for any follow-up you may have. We wish you a very good day. Thank you, and goodbye.

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

Thank you.

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

Thank you.

Operator

Thank you. The conference call has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.