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CRTO - Q3 2019 Criteo SA Earnings Call

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PRESENTATION

Operator

Good morning and welcome to the Criteo Third Quarter 2019 Earnings Call. (Operator Instructions)

Please note this event is being recorded.

I would now like to turn the conference over to Edouard Lassalle, VP of IR. Please go ahead.

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

Thanks, Nicole. Good morning, everyone, and welcome to Criteo's third quarter 2019 earnings call. With us today are co-founder and CEO, JB Rudelle; and CFO, Benoit Fouilland.

During the 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 the call are against the same period in the prior year.

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

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

A: Thank you, Ed, and good morning, everyone. On today's call I will discuss 3 main topics: first, our Q3 operating performance; second, our priorities and business outlook; and third, our new governance with the arrival of Megan.

Before I start, I want to say a few words about today's announcement outside of earnings. As you may have seen in our separate release, I have decided, with the full support of our board of directors, to bring in a new chief executive officer. I will remain Chairman of the Board, while day-to-day operations will be in the hands of the new CEO. I will talk more about this transition at the end of my prepared remarks.

Starting now with our Q3 results. We continued to make progress in our operating priorities and our transformation. We achieved the top end of our guidance on revenues ex-TAC and exceeded our adjusted EBITDA target. Our performance was particularly strong in the mid-market, where we saw solid momentum and accelerating growth in the double digits.

Among the Q3 highlights, our quarterly net client additions were again positive, with 240 net new clients, in line with our expectations. As in the prior quarter, this was again driven by focused execution and productivity improvements in our mid-market sales teams. One of the most exciting results for Q3 is the momentum of our new solutions, which, as a reminder, include all our solutions outside of retargeting. They grew 57% on a revenue ex-TAC basis and now account for 11% of our total business, up from 7% a year ago.

Over the past year our identity graph has also grown both in size, we have over 2 billion unique Criteo IDs, and in density. Over 95% of our Criteo IDs now contain long-term, persistent identifiers rather than just basic cookies.

Furthermore, in Q3 we announced a new partnership with LiveRamp on IdentityLink. By combining LiveRamp's identity solution with ours, we offer marketers additional capabilities to reach their customers in a privacy-by-design manner. We believe this enhanced identity solution is quite unique in the industry and very competitive compared to walled gardens' own proprietary approach. This combination also broadens our reach by providing access to additional cookie-less inventory, including connected TV.

Among the key benefits of our dense identity graph is the ability to offer new marketing scenarios to our clients. From this perspective, I am particularly pleased with the early traction of our Web Consideration product that we launched in Q3. Rather than our usual cost-per-click model, we decided to price this upper-funnel product on a cost-per-impression, or CPM, basis. While revenue contribution was still modest, we already had 400 live accounts using Web Consideration and received very encouraging client feedback on its performance.

Also within new solutions, Retail Media further accelerated in Q3, growing 25% on a revenue ex-TAC basis and performing well across all 3 regions. This business, which was designed to be largely immune against third-party cookie restrictions, is enjoying very good market traction.

As discussed on previous earnings calls, our Retail Media business is also increasingly marketed with a transactional SaaS model. This model applies to both our Sponsored Products and our Commerce Display products. Enabling more control and transparency for clients turns out to be very popular among large retailers.

As a result, it has continued to grow very quickly in our Retail Media revenue mix. This good momentum reinforces our conviction that offering clients the ability to consume our assets as a programmatic platform allows us to build stronger and a more strategic relationship with them. More on this topic later.

On the supply side, we continued to expand our direct publisher network. Over 4,200 publishers now connect to our Direct Bidder, both on web and app inventory, including recent additions such as T-Online and the LA Times. Working directly with a large number of high-quality publishers allows for more reach, while eliminating the middleman tax from ad exchanges.

Regarding our legacy retargeting business, we saw a decline in the mid-single-digit range on a revenue ex-TAC basis. The softness was mainly concentrated in the large customer segments and is driven by 2 main factors: first, the much higher penetration we have reached here compared to mid-market; and second, their delayed investment in mobile app marketing that doesn't fully compensate the slow erosion of browser usage yet.

Moving now to our outlook and priorities for the future. We expect the softness we saw in large accounts in Q3 to continue in Q4, in particular in our app business, which is highly concentrated around our large accounts. Given the important contribution of large clients to the holiday season, we are taking a more moderate approach to our Q4 revenue outlook.

Despite this more moderate top line, we expect to see a year-over-year improvement in our profitability margin in Q4. This illustrates that even if our transformation does not generate top line growth yet, it is already showing early signs of positive impact on our bottom line.

Looking beyond just Q4, one of our key priorities is to make our revenue model more resilient. This will involve broadening our value proposition beyond pure return on ad spend.

As discussed about Retail Media, we are seeing some of my most sophisticated retailers seek more control over their ad tech stack. Sometimes this appetite for control becomes even more important than campaign performance itself. We are seeing an opportunity to proactively embrace this new trend and engage more strategically with those large clients. This might involve adapting our pricing model from traditional cost-per-click to a transactional SaaS model for a fraction of our high-end Marketing Solution clients, quite similar to what we already started doing successfully with Retail Media.

We believe that having a transactional SaaS offering dedicated to specific client needs will allow us to capture a bigger share of the market opportunity. It will also make us more resilient in a world where access to cookies has been made more difficult.

Looking back over the past 18 months, we have made important progress along 4 key dimensions. First, we have greatly broadened our product portfolio from what was almost just retargeting to a set of new solutions. Those new solutions are still relatively early in their development but, as we've seen, already generating substantial growth.

Second, to evolve from what was perceived as a narrow point solution to an actual tech platform we made huge efforts migrating our managed services into self-service tools that can be operated directly by our clients, large and small, and their agencies.

Third, thanks to a bigger, more diversified identity graph and a growing number of products that are cookie-less by design we have significantly reduced our dependency on third-party cookies.

And fourth, to steer our ambitious transformation we have appointed a whole new generation of highly talented and passionate executives.

Despite the significant headwinds we have faced during those 18 months, it is worth noting that we were able to implement these key changes while maintaining a healthy financial profile, as evidenced by our strong balance sheet and cash flow.

Now with a clear direction set for Criteo, it is time to move to the next stage of our transformation. This phase will come with more changes to the way we operate and will require tight execution. I believe that adding someone who has already led teams through similar types of transformation programs will maximize our success.

This is why we are all very excited about Megan joining us as our new CEO. From my multiple conversations with her, I think Megan is a fantastic leader with the right skills for the job. She combines very strong industry expertise and a global profile with a proven track record in driving complex transformations. Her addition is a great opportunity for Criteo and all its employees as well as for our clients and partners.

I am personally very happy to work with Megan on the next phase of our transformative journey. As Chairman, I will remain a public face of the company, especially in European public affairs. I will also ensure that the board fully supports Megan and the executive team to maximize Criteo's success.

Megan's appointment will be effective November 25th. To ensure a smooth transition, I will support her operationally until we report our fiscal year 2019 results. As usual, we will then provide our guidance for the coming year.

In closing, I'd like to say that given our plan and achievements so far I am very confident that Criteo is on the right path to succeed as the leading advertising platform for the open internet.

With that, I'll turn the call to Benoit.

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

Thank you, JB, and good morning from my side. As usual, I will walk you through our quarterly performance and share our guidance for Q4 and fiscal year 2019.

Revenue was flat at constant currency, at $523 million. Revenue ex-TAC, our key metric to monitor the business, was also flat at constant currency, at $221 million. New client business drove our performance, 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 over $223 million before a $2.5 million negative FX impact. Compared to Q3 2018, the FX negative impact was approximately $3 million, or more than 1 point of growth.

Revenue ex-TAC margin was essentially flat, at 42%, in line with our expectations.

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

From an existing client standpoint, same-client revenue decreased just a bit less than 3% at constant currency, despite higher adoption of our new products, driven by the slight decline in retargeting, in particular, with large customers. As a result, same-client revenue ex-TAC decreased 4% at constant currency.

Turning to the regional performance. In the Americas, revenue ex-TAC growth was slightly positive at constant currency, improving from the prior quarter, including notable improvement in the U.S., growing plus 3%. This was driven by continued traction of our new solutions, including Retail Media, and a marked recovery in the mid-market business, offset by softness with large clients.

EMEA revenue ex-TAC grew 1% at constant currency. This was also driven by double-digit growth in mid-market and continued strong traction of our new solutions in the region, including Retail Media; offset by a softer business with large customers, in particular, in the U.K.

And in APAC, revenue ex-TAC declined 2% at constant currency, similar to the prior quarter. A typhoon hurting our Tokyo data center cost us approximately $0.5 million in lost opportunity, which combined with slower business with large clients in Japan and Australia offset continued strong momentum with large customers in Korea and solid growth in mid-market across the region. Excluding the impact of our Japanese data center outage, our growth was close to flat in APAC.

Shifting to expenses. Other cost of revenue decreased 6%, driven by the change in our server amortization period, savings in power consumption in our data centers and lower expenses for third-party data, offset by the provision for the French digital tax on revenue. On a non-GAAP basis, other cost of revenues increased 16%.

GAAP operating expenses declined 3% year-over-year, driven by our disciplined expense management and lower equity awards compensation expense due to the lower stock price over the period.

Headcount-related expenses represented 74% of GAAP OpEx, up about 260 basis points. We ended the quarter with 2,800 employees, an increase of 2% year-over-year but a 3% sequential decline.

On a non-GAAP basis OpEx were flat, at $138 million, down about $12 million compared to the prior quarter. Looking at these by function, R&D decreased 1%, partly driven by an increase in our research tax credit and despite a 1% growth in headcount, to 680 R&D and product engineers.

Sales and operations decreased 2%, despite a 2% increase in headcount, to 1,620. Sales and account strategists, our so-called quota-carrying employees, grew 1%, to 730.

And G&A increased 9%, driven by a 2% increase in headcount, to 500 employees, after internal transfers from other functions as well as one-time consulting fees, including for tax advisory and HR-related, third-party providers.

As indicated last quarter, we continue to effectively manage the cost base and expect non-GAAP expenses for 2019 to grow slower across all functions compared to our original plans.

On the profitability side, adjusted EBITDA was over $64 million, or 5% above the high end of our guidance at comparable FX and 3% below Q3 2018 at constant currency. This drove our adjusted EBITDA margin to slightly over 29% of revenue ex-TAC, down only 80 basis points at constant currency.

Depreciation and amortization expenses decreased 13%, driven by the change in the useful life of our servers from 3 to 5 years, representing approximately $10 million in Q3.

Equity awards compensation expense decreased 32%, due to the lower stock price over the period and, to a lower extent, to equity forfeitures.

Financial expense decreased 11%, due to higher income from cash equivalents and lower interest charges on debt, more than offsetting the impact of ForEx changes on our hedging positions.

And our effective tax rate was 28%, in line with our 30% projected tax rate for 2019. In Q3 2018, the effective tax rate was 27%, translating into a 16% increase in the provision for income taxes.

Net income increased 15%, to $21 million, driven by a 14% increase in income from operations and lower financial expenses, despite the slightly higher tax expense.

And earnings per diluted share increased 14%, to $0.28.

Cash from operations decreased 14%, to $43 million, driven by a lower adjusted EBITDA and negative changes in working capital over the period, partly offset by lower income tax paid. Our transformation of adjusted EBITDA into operating cash flow remained strong, at 67% in Q3 and 86% for the first nine months of the year.

CapEx decreased 19%, to $24 million, representing only 4.6% of revenue, but were essentially flat on a year-to-date basis, at 5% of revenue.

As a result, free cash flow only decreased 6%, to $19 million, reaching 30% of adjusted EBITDA in Q3 and 44% for the first nine months of the year.

And cash and cash equivalents increased $45 million in the first nine months, to $409 million.

With respect to capital allocation, we started executing our new $80 million buyback program in early August. In the quarter, we purchased approximately 915,000 shares, for a total cash amount of about $18 million, at an average price of $19.24 per share. We have not canceled any repurchased share at this point but may consider doing so in the future. We intend to continue executing our buyback program over the next few quarters, including in Q4.

I will now provide our guidance for the fourth quarter and fiscal year 2019. As usual, the following forward-looking statements reflect our expectations as of today, October 30, 2019.

As explained by JB, we are taking a more moderate approach to our Q4 revenue ex-TAC outlook to reflect the softer trend in our business with large customers. As a result, we expect revenue ex-TAC for Q4 to be between $255 million and $261 million. Using the currency assumptions used in our Q3 guidance, this means between approximately $261 million and $267 million. The Q4 guidance implies constant currency growth of approximately minus 5% to minus 3%. We expect year-over-year ForEx changes to negatively impact reported numbers by about $3 million, or 120 basis points of growth.

With this more moderate outlook for Q4, we now expect to land at the bottom end of our revenue ex-TAC guidance for fiscal year 2019 as communicated on July 30, 2019. This means we now expect approximately flat revenue ex-TAC growth at constant currency for the full year 2019.

Using our current ForEx assumptions, this means revenue ex-TAC of about $942 million. Based on FX assumptions used for the Q3 guidance, this means approximately $949 million. Compared to 2018, ForEx changes are expected to negatively impact reported numbers by about $24 million, or 250 basis points of growth.

Now on the profitability side, we expect Q4 2019 adjusted EBITDA between $99 million and $105 million. At the midpoint this means an adjusted EBITDA margin of 39.5%, driving a 100-basis-point improvement in our margin in Q4 compared to prior year. This margin improvement demonstrates both the strength of our financial model and the early positive impacts our company transformation is having on our bottom line.

And for 2019, we maintain our expectation of an adjusted EBITDA margin of approximately 30% of revenue ex-TAC, demonstrating once more our commitment to profitability. As indicated in the past, we are committed to proactively manage our cost base in order to generate healthy profitability and free cash flow in 2019 and beyond.

As usual, the FX assumptions supporting our guidance for the quarter and the fiscal year are included in our earnings release.

In closing, we feel good about our strategic direction and remain focused on accelerating our transformation. In doing so, we are committed to making our business more resilient and driving efficiency across the entire company.

With that, we'll now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Matt Thornton, of SunTrust.

Matthew Corey Thornton - *SunTrust Robinson Humphrey, Inc., Research Division - VP*

A couple of quick ones, if I could, and I apologize if I missed this. I know you talked a little bit about the Retail Media growth. Just wondering if we can get an update on the web upper-funnel product's growth as well as the App Install growth.

Secondly, self-serve. Just wondering if you can give us a little more color on just how that platform is ramping and how some of the demand-generation programs are ramping there in parallel.

And then, just finally here, just wondering if there was any impact that you would call out from Google's transition to the first-price auction dynamic there. Any color there would be helpful.

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

Thank you. Okay. I'll try to take this in order. There's a lot of questions here. So first you mentioned web upper funnel. This is what I refer in my script as Web Consideration. So as I mentioned, this is still relatively early, because we launched formally our offer in Q3, but the early results are very encouraging. Actually, we've done significantly better than our own internal targets on this. We have now 400 clients live and, more important, most of them are very happy with the performance.

And we start to see very significant orders coming in, and sometimes those orders are bigger than the lower funnel, the retargeting. So it's really exciting because this is something we always monitor very closely, is what the share of voice of a new product compared to our legacy retargeting. And we've seen recently, for instance, mid-market clients in retargeting that were asking us an insertion order that was more like a large accounts one for Web Consideration. So this is, over all, very encouraging.

You mentioned also App Install. So this product is still relatively early. We are, as you know, transitioning the Manage platform to the Criteo stack, and this is an ongoing process. So right now we are still in the building phase and haven't fully scaled this globally. But we're still learning from this Manage acquisition to make sure we had the right product for the market.

Self-service is also progressing. As we mentioned last time, we are testing a new self-registration platform across 3 test markets: the U.S., Australia and the U.K. And we're going to get a lot of insights during the holiday season, and this is going to give us a lot of good knowledge and expertise for rollout next year.

Last thing is Google first-price. So this is important. Google was the last large exchange/SSP to move from second-price to first-price. And we were very well equipped for this transition because we've been developing first-price bidding engines for a long time now. And as a result, the overall impact was slightly positive for us because as we believe our first-price bidder is, all things equal, relatively speaking better than competition, we could take advantage of this change of Google to first-price to increase our bidding competitiveness. So all in, it's been a positive change for us.

Operator

Our next question comes from Lloyd Walmsley, of Deutsche Bank.

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

Two questions, if I can. First, presumably mobile app marketing is growing faster than web or desktop. So is it right to think you're losing share here from these large clients? And can you just elaborate on why you think that is? Is it performance-related? Is it just intense competition? Anything you can give there would be helpful.

And then, secondly, if you can elaborate a bit on the identifier partnership with LiveRamp. You called out getting access to video inventory. So just wondering how do you feel about your positioning to go after that more aggressively and kind of what is the go-to-market plan to take advantage of that.

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

Sure. So mobile app marketing. If you look at it as a whole it's a growing market. But if you look more specifically to the retail segments, it's a more mixed picture. And we have a very good view on these retail segments, obviously, because we have close to 20,000 clients in this area. So this is a sub-market we know very well.

And basically you have 3 buckets of clients. You have what I would call the early adopters, who aggressively develop a mobile app. And those retailers are clearly leading the pack in terms of growth and momentum. And with those ones, we do a very good mobile app business with them and they are, represent, I would say, the lion's share of our app business.

Then you have a second bucket, which they do have an app but, clearly, their app is not great and they know about that, because it takes a lot of effort and investment to have a really best-in-class app experience, the same way that you have web. You have to do Android, iOS. It's a lot of different techs. And those guys are less keen to spend in app marketing budgets the same level that they spend in the web, because they know that their app experience needs to get improved. They are working on it, but you can see that there is kind of a delay between what they do in app and what they've been doing in web.

And you have a third category, and it's especially among mid-market clients. Most of them, they just don't have an app. Full stop. And they know that -- well, they were hoping for a long time that they would not need an app. We are showing them with compelling case studies that it's not something they can afford in the long run. They will have to have an app, one way or another. But they've been clearly delaying this investment in app because it's a much bigger effort for them, relatively speaking, than the bigger guys. So for those mid-market segments, basically we're doing only web with them, and it's going to take a while before they develop an app.

So all in, all our client base is not migrating at the same speed. And when you see the lion's investment in the mobile app industry as a whole, you have a lot of gaming or messaging, things like food delivery, but not as much in retail, in retail, travel and classified, which are our core verticals.

So regarding our partnership with LiveRamp, it's one of those exciting cases where 1 plus 1 equals more than 2. And I think it's highly beneficial for both of us.

They do have the capability to expand identity in a number of cookie-less inventories, including connected TV, which is still a small business, connected TV, but it's a fast-growing, promising one where the walled gardens have a lower position. And we've been doing a few tests there in partnership with LiveRamp, and these are very encouraging.

So this is very early. So I don't want you guys to get overly excited about that because we're just at testing phase. But it's an interesting additional opportunity for us in the midterm.

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

So just to follow up on the mobile app stuff, clearly it sounds like that the clients that you have that have kind of a weak mobile app themselves aren't spending to drive traffic to their own apps. But if you think about your performance buying inventory within apps, driving traffic to web, is that holding up well? Do you feel good about your performance there and kind of the growth in that side?

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

Yes. So this piece is going really well. Actually, this is the area where, over all, our media buying is growing the most. We discussed our Criteo Direct Bidder with ability to buy inventory directly from publishers. And for a long time this was focused on web inventory. And in the past 3 quarters we've been focusing more and more on in app inventory, and this is where we see most of the increase of our media buying.

Operator

Our next question comes from Mark Kelley, of Nomura.

Mark Patrick Kelley - *Nomura Securities Co. Ltd., Research Division - Executive Director and Lead Analyst of U.S. Technology, Internet, Media & Telecom*

Can you just talk a little bit more about the softness with your large customers? Any verticals or geographies that were most impacted?

And I want to go back to the -- my second question is I want to go back to the CTV comment you made about that the walled gardens have a diminished position there. I think YouTube TV, Google is putting some emphasis there. I'm curious to get your thoughts on Roku. Do you see them becoming a walled garden, especially after the Dataxu acquisition?

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

Okay. So the softness on large accounts has been across all geos, because the trend I was describing regarding the shift of investment from web to app is something which is kind of global, happening everywhere. So there are some nuances in different geos depending on the maturity of mobile. Some countries, like Korea, we are today super heavily into mobile apps. But some other markets, it's still early in this transition.

So again we believe that this is not a long-term issue, but more a relatively short-term one. It's just that there is a delay in this transition in terms of migrating advertising budget from the web to app, again mostly because the app experience of a large number of our clients is not on par with their web experience. So they are reluctant to put the same amount of money in app, despite the fact that users are more and more spending time in app rather than on the web. And we are not -- we are trying our best to convince our clients to go there more aggressively. Eventually, it's going to happen. But this is creating some short-term headwinds.

Regarding CTV, it's an early market. So it's probably a little early to speculate. But what is pretty obvious for everyone, that it's a very fragmented market today. And it's a bit like the web, I would say, 15 years ago. So eventually, one day it might consolidate into a handful of super strong walled gardens. But again you should look at where was the web landscape 15 years ago. You had no walled gardens at all. You had a bunch of publishers that are all trying to better monetize inventory.

And you mentioned Roku and others. They're all looking to increase the value of their inventory and maximize the opportunities to monetize their inventory. And this is high-quality inventory, where you don't have the typical fraud that you have on the web. So this is why it's promising.

Right now it's a small market compared to the web. So again we are testing the waters there. But I mention that as a midterm area of interest for us.

Operator

Our next question comes from Tom White, of D.A. Davidson.

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

One clarifying question for JB and then one for Benoit. JB, you made a comment in the prepared remarks about seeing some large retailers kind of increasingly favor control over performance when it came to kind of their ad tech stack. I was hoping you could just elaborate there.

And then on expense growth this year, I think you guys said that non-GAAP operating expenses are going to grow slower across all functions relative to your prior plan. Just curious if you can kind of help us understand how much of that is just a function of slower revenue growth versus your decision to maybe hold back some spend. Or are you finding just pockets of investment or expense where you can be more efficient? Just trying to understand what's happening there.

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

Thank you. So I'll take the first one and then will let Benoit answer the second one. So that's very interesting, this whole control conversation we're having. It's relatively new with our clients. And again it's mostly concentrated on our more sophisticated clients.

For a long time -- we are a tech-driven company and our big focus was let's let the machine take the decision instead of human beings, because there are a lot of cases where the machine is smarter and capable to do things that humans in front of a screen are less good at. So we automated a lot of things. So the good impact is that we've been able to develop, like, super impressive performance, and this is how we've been growing very effectively in the market, by having best-in-class performance for our advertising products.

The flip side of that is that we have been seen as a black box, where everything was happening in a completely automated fashion and without any control from the clients on what they can do. And for most clients it's okay because the one thing they look at is performance. They don't really care how the algorithm works behind the scenes.

But for the more sophisticated ones, they want to have more control because they want to have the ability to influence their bidding tactics depending on specific circumstances. For instance, they want to have -- they have an excess of inventory in a specific type of product and they want to put high bids on those ones, or they have a special promotion week. So they want to be able to influence the bidding tactics in a more granular way. So we have to kind of open the platform and let them -- and do some control.

So the first reaction of engineers saying, "Whoa. If you do this you're going to degrade the performance, because the machine is always smarter than human beings." And sometimes our clients are saying, "We know that, but we still want -- we'd rather have control, even if it's to the expense of performance." And I think it's important that we recognize that and sometimes give the trade-off of providing more control to our clients rather than the maximum performance.

And again this doesn't concern all of our clients. It's a small fraction, but it's also the most sophisticated ones and typically very large clients. And I think it's a very interesting trend and an opportunity for us to develop a different type of relationship with them, where they will buy more tech than just ROI.

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

Okay. So moving on to your question regarding expenses and to be very clear. We've indicated at the end of -- when we reported our first quarter results this year that we would increase our focus on expense management and profitability. And that's exactly what we've done. So this is due to proactive management of our expense base.

So the current spending trends that you see are not a result of delaying expenses. They are as a result of proactive actions taken in our cost base. We've done some significant reorganization of our go-to-market as well as reorganization at the leadership level last quarter that have been highlighted to you. But we've also taken proactive action as reviewing our portfolio of real estate and reviewing efficiency projects across the company.

And that's not an effort that is behind us. We are going to continue in that effort to, as I said in my prepared remarks, continue to proactively manage to look for efficiency across the business. And that would translate in lower-single-digit growth in expense for the full year. We are following this trend as we speak, which is much lower than what we had initially in mind when we started the year.

Operator

Our next question comes from Andy Hargreaves, of KeyBanc.

Andrew Rex Hargreaves - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

I just have a broad question sort of on retargeting and the slow erosion that we're seeing, because at one point I think we were fairly hopeful we would get back to something close to double-digit growth in the second half and it seems like the gap is almost entirely the retargeting business. And it doesn't seem like there's been any sort of new external impacts that we didn't know of. So is it just that people are moving away from individualized targeting? Is it the ROIs declining? What's driving that erosion?

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

So over all, we have this, as we said in our prepared remarks, we have this small contraction into the retargeting business. But you're absolutely right: given the size of this in our overall mix, it has a big impact on the overall picture.

But when you look one step more granular, it's a more mixed picture and there is a disconnection between mid-markets and large accounts. Mid-markets is growing very nicely, double-digit in some geos, especially in Europe and in Americas. So it keeps growing very nicely. This shows that there is nothing that is overly concerning about retargeting.

There is a specific softness within the large accounts, and this is explained very simply by the fact, what we discussed previously, that most of the investments in large accounts is in -- well, most of the investment in mobile apps is in large accounts. So as we didn't see the growth we were expecting in mobile app, this had a much bigger impact on large accounts than on mid-market.

Andrew Rex Hargreaves - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

And then in the new products, just if we're looking at them collectively, the comparisons are getting a little bit more difficult. So should we expect the year-over-year growth to start slowing? Or is there enough momentum in those businesses to keep the growth rate sort of consistent with where they have been?

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

Well, clearly, today there is a very high momentum. We are talking very high double digits. We mentioned 57% for Q3. So we're not providing, as of today, guidance for the future specifically on new products, but we expect this high velocity to maintain for quite some time.

This is really only scratching the surface of those new products. They are addressing very deep and large markets that are significantly different from retargeting. A significant number of those markets are immune to any third-party cookie restrictions, and not by chance; it's also why we precisely picked those new products, because they would balance the risk. So those new products won't face the traditional headwinds we've seen in our legacy retargeting business.

Operator

Our next question comes from Doug Anmuth, of J.P. Morgan.

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

JB, you talked about moving from a CPC- to a SaaS-based model. I was just hoping that you can update us on your progress here, over what time frame do you think this can take place, and how are your conversations with advertisers on that front.

And then, just secondly, just curious if you're seeing anything impacting in terms of iOS 13 or anything new in terms of mobile platforms, specifically.

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

So again the idea is we want to be able to address the maximum potential scenarios in terms of our clients, and not all our clients are consuming advertising technology the same way. And the one-fits-all model that is the same for everyone is today restricting our ability to go after the full market.

And so by diversifying our pricing models we bring the ability to expand our market opportunity and also to deepen our relationship with some of our legacy clients that, as we discussed earlier, want not only performance but also control and transparency and they want us to be much more as strategic partners than just a point solution providing the best return on ad spend.

So this is a general trend, and it has a lot of positive momentum for us. It creates more sticky relationship in the long term. It allows us also to open conversations with a whole new lot of clients. So it's an exciting move. It's relatively early. But with all the experience we gain in Retail Media, because we've been doing this in Retail Media for quite some time now and in a very successful way, we are getting this experience to expand this now to a fraction of our Marketing Solution business.

Regarding iOS 13, so far -- again when we provide guidance we always include any headwinds we can have from ITP or other cookie restriction things. I think it's no secret that Apple put some restrictions on the ability to access cookies in the Safari browser. This has been going on for 2 years. As we said, we make a big effort on 2 fronts: one is to have identity graph relying on multiple data points, including a lot that are not relating to cookies, on one side; and two, to favor products that were not dependent on cookies in the first place.

And by doing this, we mitigate in our outlook any future impact that we can have from third parties. This is something we learned from the past, is we want to reduce our dependency on things which are out of our control, like the policy of an Apple or someone else on how they manage the access to cookies in their browser.

Operator

Our next question comes from Dan Salmon, of BMO Capital Markets.

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

JB, I'd like to return to the partnership with LiveRamp. Rubicon Project also announced an extended partnership with them recently. And their CEO penned a really interesting op-ed recently talking about more of an era emerging in independent ad tech of collaboration and open source. I'm curious. Do you see that sort of era emerging, whether that is sort of everybody using identity link more, whether that's things like pre-bid, which you're involved in? I'd be curious to hear your thoughts on collaboration amongst independent players.

And then, second, I'm also fairly interested in your new CEO. You mentioned a little bit in your prepared remarks about Megan's background turning around and evolving the media business at Nielsen, which she certainly did. But maybe a few other key characteristics you saw in her to have her replace you in the CEO seat.

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

Sure. So this partnership. I think when you look at the big picture one of the biggest trends happening in the market is the walled garden restricting the ability for advertisers to track their campaigns and manage their own identity behind the walled gardens. And every quarter you see new announcements from walled gardens that intend to put further restrictions, which is something which makes the whole ecosystem very uncomfortable, because I think it's very important for all advertisers to keep control on their destiny and be able to choose whatever measurement and tracking system that they want and not having this imposed by "x" or "y."

So recognizing there's concern from advertisers, I think independent players have a very important role to play. So each of us are obviously much smaller than the walled gardens, but when we act collectively and join forces we become extremely powerful. As you know, Criteo has a super large identity graph. LiveRamp has a very good one, also. So combining our forces there makes tons of sense and makes this independent alternative very unique and attractive compared to the walled garden's own solutions.

So we think this is going to have a very positive impact in the market. And actually, the feedback we got from advertisers was very encouraging. And they all want this independent solution to strive in the market, because the last thing they want is to have their hands tied to only a handful of proprietary walled garden solutions.

Which is a good segue to the arrival of Megan. As you know, she's coming from Nielsen. Nielsen is an expert in measurements, an area where we believe it's important for players like Criteo to work, to have more partnerships with measurement companies. We feel it's very important for advertisers to have different measurement partners than the one executing the advertising tech so there is no conflict of interest. And that's also one of the issues with walled gardens, is they are doing both things, both measurement and the media execution, which creates a conflict of interest. So we like the idea.

And I think Megan is going to help us in building the right partnership with the measurement ecosystem, and I think that's going to be super useful. And on top, obviously, as you mentioned, she has a lot of experience in transformation, and we are in a transformation journey at Criteo. So I think she's going to be a very valuable addition to the executive team to manage this transition.

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

Thank you, JB. This now concludes our call for today. The IR team will be available for any follow-up. We'd like to thank everyone for attending and wish you all a good end of your day. Thank you.

Operator

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