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CRTO - Criteo SA at Goldman Sachs Technology & Internet Conference

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CORPORATE PARTICIPANTS

Megan Clarken *Criteo S.A. - CEO*

CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

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

My name is Heath Terry. I cover the Internet sector for Goldman Sachs. Really happy to have with us today, Megan Clarken, Chief Executive Officer at Criteo.

Megan, thanks so much for taking the time to be here with us. I know it's an incredibly busy time for the company. You've been with Criteo for just over 3 months now after 15 years at Nielsen. What are your priorities for the company. What drew you to join Criteo?

Megan Clarken - *Criteo S.A. - CEO*

Yes. Well, after 15 years at Nielsen, it was time to leave. And what I was looking for was a challenge, and I love the notion of doing a turnaround or a complete restructuring, taking something on that I think is -- that I believe is achievable. So when I looked at Criteo, what I did notice was a hard time in the marketplace, plenty of assets, really strong assets, 3,000 people, good balance sheet, technology, which I've never seen before. And a sort of a clear path to growth from what I could see in terms of what was missing in the marketplace.

Coming into the company, I was delighted because some of the things that make it hard to do a transformation are the people. And if you've got a disillusioned organization that aren't motivated, it's very hard to do a transformation. But the people, 3,000 people that are just looking for direction, that are passionate about the company, that are loyal, that are young and hungry and extremely tech savvy is a fantastic foundation to start. So that's why I came and what I saw when I came in. The other thing I saw when I came in is just a company that had lost direction, that had run into trouble through the things that hit them through the Apple changes and needed to be put back on course again. And that's what I do. So the focus for me was to set a new vision, set a new plan, set priorities, organize the company around execution against that plan, make sure that we grew a profile with the market, that we were very clear with our investors about what our priorities were and what our strategy was, be honest about it, how long it would take to turn this around and execute against the plan. So I have a clear vision of stopping the bleed on the core of the business, the retargeting side of the business, to explore adjacent businesses that use those technologies and foundational products to build on top of, and Retail Media is a perfect example of that, to explore game changers in terms of partnerships, potential acquisitions or something that absolutely is adjacent to the business and gives the business longevity. And then focusing on continuing to strengthen and invest in the tech and operations. And that's what we're laser-focused on achieving.

QUESTIONS AND ANSWERS

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

And so for an investor that's maybe new to the company or taking a look at Criteo for the first time, is there a way that you would describe sort of what the company is that you're trying to build? What your strategy is from here?



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Megan Clarcken - Criteo S.A. - CEO

Yes. So we're an ad tech company that serves marketers and brings them powerful results on their advertising dollars. We have been -- I guess, stuck on a product base, which is one product, a retargeting product. And in order to fulfill that vision, we have to build out more products on top of that and build out a full DSP stack. And again, that's our product priority. And so we -- well, we serve the entire marketplace, we're agnostic to the entire marketplace. We want to make sure that we are servicing also the important publishers, and marketers outside of the walled gardens and bringing independence in terms of fulfilling their marketing needs and bringing them return on that investment. And that's what we're all about.

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

Yes. You just announced earnings earlier this week, would you like to share some of the highlights on what you saw coming out of the fourth quarter and what you're expecting as you go into 2020?

Megan Clarcken - Criteo S.A. - CEO

Yes. So I guess the highlights out of the fourth quarter. We had a very good fourth quarter. The Cyber 6 and Black Friday was -- were good performance for us. Our new solutions grew by 44% to 16% of our portfolio now in terms of revenue. We were tight on our spending or prudent on our spending. So EBITDA was at 41%. So really good results across the business. We come into 2020 with 2 challenges: one is the pressure on us that's coming out of the Google Chrome announcement, which I guess, everybody is kind of curious about how we feel about that, and the work that we have to do around that; and then the second challenge is the softness in our core business, so the decline of our core business and the fact that our new solutions are not able to fill that decline just yet. So that -- those 2 things are the things that we're laser-focused on getting in front of for 2020, and we come off of a very good year.

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

Okay. And so when you look at the major part of the strategy that you announced with results, was for Criteo to move away from the reliance on third-party cookies. Could you talk about the decision-making behind that strategy, and how you think that these particular changes will impact the business?

Megan Clarcken - Criteo S.A. - CEO

Yes. The decision-making was easy, you have to. So we looked at the assets that we have. And our perspective on this one is, regardless of what happens in terms of the sandbox decisions, with regards to Google or anything else that is being done around the browsers, we want to make sure that we're not held captive to browsers or third-party cookies. We have assets that enable that for us. And we think that, again, we have a differentiation point when it comes to not being captive to third-party cookies or to browsers and that is -- that's 4 things. I'll call out the 4 things. The first one is our relationships with the publishers and the advertisers, and our ability to use first-party data. They need us in their workflows, so we're a partner of this as opposed to what I might call a necessary evil. And so they integrate us into their systems, into their stacks in order to pass us information as opposed to us having to collect that through a third-party means. The second thing is that we have a -- what we call an ID graph or a Shopper Graph, which is 2 billion strong, 2 billion users or Criteo IDs, which have information, shopping information, which is huge. What people buy, where they shop, everything is in there. And so that -- well, we -- well, there's third-party cookies that are used inside of that today, that's not necessary. So we can take that piece out. And for the rest of our business to move it on to the Shopper Graph plus the first-party data to get us off relying at all on third-party cookies.

So our job is to do that as fast as possible. The other 2 things I'll highlight around our dependence or -- over a short-term, non-dependence on third-party cookies is our product strategy, and our product strategy takes us up the stack from just being a retargeting business to playing in the middle and the top of the stack full-blown DSP. And as you move up the stack, you move away from any dependence on third-party cookies. It moves us across the stack, not just working with retailers, but across other verticals and into agencies as well. And the third part it does is it moves



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us across platform. So as we move off wwb browsers or display in browsers, as we move across to mobile devices, and ultimately, into CTV, which we would do, we move off the need for third-party independent cookies. So if you put all of those things together, we're not a company that relies on third-party cookies, and we have all of the technology to move off them as fast as we want to move off them.

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

That first-party ID graph, what -- I guess, where does that data come from? How proprietary is that to Criteo? And relative to -- you mentioned sort of the power that, that is, shopping data, how valuable does that end up being in terms of the ability to produce an ROI to do the kind of retargeting that you've been able to do in past?

Megan Clarken - Criteo S.A. - CEO

Yes. So the data comes off the clients. And the bulk of the clients that we service are retailers. Retailers want us to do the job that we do. They want targeting and retargeting. They want us fulfill their marketing needs. So they pass us through that data. Think about it as an ad network, as a consortium, if you like, of which everybody wants to be able to work with each other inside of that consortium. So it is proprietary to us. We're able to use it. And clearly, we value -- we highly value those players inside the consortium. So as they feel like they're also being cornered into somewhere where they might feel like, they're unable to play in the larger scheme of things by the walled gardens, they will find it even more valuable to be part of that ad network. So I think anybody would say that having first-party relationships and having direct relationships with both the marketers, the advertisers and the publishers, is a really powerful place to be. And as that's needed more and more and more because of the restrictions that are being put on everybody, we believe that, that just becomes really valuable, and I say that I can't stress enough, coming in from Nielsen and seeing that asset. I want to take the time to really think through how we're going to leverage that going forward.

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

Yes. Do you feel like that hasn't -- I mean, when you look at sort of Criteo's monetization of advertising inventory to this point, do you feel like that hasn't been fully utilized?

Megan Clarken - Criteo S.A. - CEO

Yes, I know it hasn't been fully utilized. I mean, I look at it and go, well, where is the Eastern side of our product base, it's limited. What does it mean to the future? There's 100 different options there. And again, coming in from Nielsen, I think Criteo, to be honest with you, is the world's best kept secret. I mean, we didn't tap Criteo for a retailer data. And both on the buy side with a connect side of the business and the media side of the business. Retailer data is gold. And we would -- we've made partnerships and acquisitions around trying to get some access to retailer data. And while I'm always cautious about the way to leverage it because it's -- it is precious in terms of our relationships with the retailers themselves. For us, as long as it's of benefit to those that are contributing to it, we want to be able to use it in a way that makes them stronger because it is so valuable to them - and to us.

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

A big part of your guidance referenced, not just the issues with third-party cookies, but also some of the platform and browser initiatives at Microsoft and Firefox. For people who might not be as familiar with those, what are those platforms doing? And how are they impacting your business?

Megan Clarken - Criteo S.A. - CEO

Well, it's very -- I mean, if I keep it really simple, it's very, very similar to what we see coming out of Chrome. The Chrome piece is larger than life because it's such a big market share, 60% or 65%. And so we have been working around ways to make sure that we can continue to work on the



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browsers outside of Chrome and have been successful. But still, we know there's always headwinds there as those browsers become sort of more and more restricted. Hence, why the idea to be safer -- as safe as possible and go down the road, what is -- where not dependent whatsoever is the right thing to do.

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

GDPR is another headwind that you called out, now that we're a few years into this, and obviously, you saw some of the GDPR issues at Nielsen as well. How do you feel like GDPR is achieving the goals that it had when it was first initiated or first implemented? And how do you see GDPR sort of continuing to impact the advertising and not just necessarily GDPR, the GDPR-like initiatives like CCPA here in California?

Megan Clarken - Criteo S.A. - CEO

So my experience of GDPR is that it came at us like a bit of a tidal wave when it came through. And it was something that really required the publishers and those that were -- now I'll just speak again for measurement, to do a lot of work from a technical perspective, to continue to do what they did, but in a privacy safe way. And well, that took some time. For the most part, it's settled down. So that work has been done. And let me say, I support anything that's around protecting the consumer and what's needed from a privacy perspective. GDPR doesn't stop with what it has done in the past. And the thing that we're seeing right now is a set of guidelines that are coming out from a French industry body called CNIL through the DPA. And this is really important because it is likely to be enforced. And enforcement through Europe, I'm so worried about picking that up because of what -- enforcement through Europe means fines, but these are real. And what's coming through is something called explicit consent. And explicit consent, if I try to make this really simple, is you know how today, if you go to a website, it says do you accept cookies, yes? And if you don't want to, it says something like do you want to learn more? And then it takes you through 15 pages, and it makes it very difficult. And sometimes, if you say no, where you don't accept, then you don't get through to the site. What explicit consent will do is it will raise the prominence of the no. So while sometimes today, you don't even see a no. So it's a yes and a no. The yes and the no will explain what that means, and it will make it just as easy for you to hit no. And if you hit no, then dropping cookies or getting any information from you as a consumer that you don't want to give that is unhelpful, will go away. So it won't do things like stop you from caching your log-ons or anything that helps your experience. Again, it's all tend to about making the consumer -- protecting the consumer. It will stop some of your information or a lot of your private information or any of it coming through to anybody. And so we look at that with caution because it's -- while it's a different thing to the Chrome restrictions on cookies, it is -- it should be troubling to everybody in terms of the supply. So you're going to get less information from consumers, and so we're facing that right now and getting in front of that. We won't let that get in the way, but we're getting in front of that. And I think because digital companies are global companies, it's going to hit and folks should watch out for it. And I don't hear it enough being talked about in the U.S. I think one of the benefits of Criteo being a French company, is that we see these things first. What I have seen since I left the U.S. is that some of the other industry bodies that are popping up with privacy constraints like California, is that I believe these things are starting to pop up in state by state by state. And I think that becomes extremely difficult for a folk to implement. And the last thing I'll say about this one is, as the biggest ad tech -- independent ad tech company in the world. Having a seat at the table and actually making sure that those that are putting restrictions on, really understand the implications of those restrictions to consumers, to the Internet ecosystem at large, and to marketers is critically important so that it's thought through before it's just implemented.

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

Yes. No, that's obviously incredibly important. One of the things that you did say on your call earlier this week was that you were targeting maintaining a 30% EBITDA margin over the course of the year. How do you think about the trade-off between that near-term profitability target and your longer-term growth goals?

Megan Clarken - Criteo S.A. - CEO

Yes. So the idea is to maintain it. Of course, it's my job to maintain it. And yet, there's a trade-off to investment and where we put our dollars and how do we do that while maintain that margin, the EBITDA target. Coming in from outside, I look at an organization that is ready to be moved into



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a structure that is focused on implementing against the plan, and when you do that, you put people in the right place and you bring the right skill sets in, and it might mean that others -- there is a rightsizing of the organization, not just from a people perspective from -- but from an infrastructure, real estate perspective, all of these things are right for review to make sure that everything is geared towards executing against the plan. Everybody has a job that they have to do. They know what they need to do. And when that happens, you create throughput so the first thing that I want to do is use the technology and the structure to create throughput and be more effective and get things done before we have to look outside into the margins to try to fund something. And I believe the strength of the company, the 3,000 people there and the way that it's structured at the moment gives us plenty of opportunity to make savings internally for investment before we have to look elsewhere. And that's my job to do. So the focus is to rightsize.

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

Criteo had varying relationships with Facebook, Google, the other large ad platforms. How do you think about the way they want to work, if at all, with those platforms, maybe even you include Amazon in the conversation there as they become a bigger advertising platform?

Megan Clarken - Criteo S.A. - CEO

Yes. Well, we want to work with everybody. And Google and Facebook are clients and partners of ours today. I mean, we buy our supply, for instance, from Google today, every day. So it's not about working against them. It's about how do we work with them and how do we maintain the right relationship with them, both as a partner, but as a client of theirs as well. And they're huge. They're competitive. We -- again, our philosophy is to create an even playing field and be an independent supplier of powerful advertising to those that don't -- they have a spend that goes on Facebook and Google, but they have a spend that they want to get reached elsewhere, all over the place. And we believe that our job is to provide them with those options and to do it in a way that drives the greatest return on their investments, but we are agnostic to the entire marketplace.

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

So we do have time for questions from the audience. There are some. Just raise your hand, we'll get a mic to you. There's one right behind you.

Unidentified Analyst

Question about the ID graph, it seems like a super valuable asset as you're moving into full stack and creating a DSP. You thought about licensing that as additional monetization stream?

Megan Clarken - Criteo S.A. - CEO

I don't want to be -- let me be fully transparent. If everything -- every option is open. It is -- again, it is an incredibly powerful asset that -- 3 months into the job, I look at it and go, wow. Again, I will reiterate, I want to be very, very careful and respectful of those who are supplying data into it, our clients that are supplying data into it. And I don't want to do anything that compromises the fact that they are a consortium, and that they want us to do a job for them. And as part of that, they provide the data. So within the realms of making sure that it continues to be useful and powerful for them, anything's possible. So they're the restrictions but anything's possible in terms of how we use it to -- for our growth story, and how we use it for the greater purposes of the ecosystem.

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

Coming up front.



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Unidentified Analyst

Maybe you can talk about LiveRamp. Why didn't LiveRamp give you their ID graph? Can you talk about their partnership.

Megan Clarken - Criteo S.A. - CEO

The partnership. So the partnership is one of their -- they onboard data. They onboard data to us. They extend our ID graph by about 20%.

(inaudible)

Pardon? He's my police officer, by the way. I'm new to the game. He's like wooh.

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

We've got another question right there?

Megan Clarken - Criteo S.A. - CEO

No -- So I finish this question, sorry.

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

Okay. Did you get that?

Megan Clarken - Criteo S.A. - CEO

20% in the U.S. So they extend the Shopper Graph, ID graph, 20% in the U.S. So the bottom line is, we always want to extend the shopper graph. Well, it's \$2 billion today, another 20% adds on to it, and it just becomes more and more powerful. We're not beholden to LiveRamp. They're a partner of ours, and we'll look for -- always look for more partners to extend that ID graph, but pretty -- it's pretty huge today.

Unidentified Analyst

But their graph is based on cookies as well so maybe they won't be able to extend your graph by 20% up.

Megan Clarken - Criteo S.A. - CEO

And maybe they won't. And if -- it's a partnership is one that isn't conducive to a longer-term partnership, then we'll review other partners, but today, they're a partner of ours and a good partner of ours.

Unidentified Analyst

So historically, the Criteo ad network and the direct relationships with publishers has been a very powerful asset that you guys have had. And so as the first-party cookie -- the third party cookies' destroyed, it seems like a lot of those publishers are going to be impaired in terms of their ability to monetize some of that traffic because of the -- understandably. How do you look at the opportunity to rebuild that asset and to strengthen it, using the data that you have going forward? How are you thinking about that plan because it seems like a big opportunity, but like it's going to be complicated.

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Megan Clarken - Criteo S.A. - CEO

We build the asset of the Shopper Graph?

Unidentified Analyst

No, your ad network, your direct relationship with publishers and using your Shopper Graph against -- directly with publishers in that process.

Megan Clarken - Criteo S.A. - CEO

Yes. I mean, if I understand the question, I think publishers, those outside of the walled gardens are going to become impaired and are going to look for a supplier or a partner that can help them sort of break away from where they might be stuck because they don't get access to advertisers, marketers and they're unable to provide them with scale or reach. And again, you guys are all identifying the power of the Shopper Graph, which is great because what it always tells me is that there's an asset there that clients need. And so the question about how do you keep it -- how do you keep it the size that it is, and how you continue to add to it is -- becomes an easier one to answer when you talk about -- when you think about the value of what it provides to -- I don't want to call it an open Internet, and I don't care what you call it, but to everybody else, as they try to compete.

Unidentified Analyst

But I guess, is that an area of investment for you -- to your ad network, your direct relation with publishers? Is that like a focus of your investment going forward?

Megan Clarken - Criteo S.A. - CEO

Yes, absolutely. I think that's a powerful part of our story.

Unidentified Analyst

On your call, you had some stance about cookies. I'm just curious how you actually quantified it? Like is it literally a dataset with 100 inputs and 50 of them are cookies? So that's how you got the 50%? Or how do you actually quantify?

Megan Clarken - Criteo S.A. - CEO

So yesterday, we talked about cookies in terms of it supporting 50% of the business today, is that what you're responding to?

Unidentified Analyst

Yes.

Megan Clarken - Criteo S.A. - CEO

Yes. So how do we quantify it? Its revenue from the parts of the product set that are using third-party cookies today. So that's 50% of the revenue is tied to products that are reliant on cookies today. Let me just give some color around that. If you look at the biggest part of our portfolio, which is our retargeting business, which is 95% of our revenue then it also tells you that, if you do the math, not 50% of that, there is a chunk of that, that

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doesn't rely on third-party cookies, if you do that math. So that's evidence, if you want evidence, that the retargeting business as a whole can be shifted across to be non third-party dependent. So I think that's the numbers that you were talking about. I wasn't counting cookies in the cookie jar.

Unidentified Analyst

You articulated the strategy around building a full-spectrum DSP. I think the DSP market is fairly mature in some ways and advertisers and agencies are consolidating down to fewer DSPs and maybe they worked with in the past. How do you think you'll, I guess, compete effectively as you brought in the product set?

Megan Clarken - Criteo S.A. - CEO

Well, we start on a great foundation in terms of the assets that we've got and the strength of how we cover the bottom of the funnel, which arguably could be the hardest piece. And then we use that to build up. So they're not coming down, we're building up, which I think, certainly from my experience, is the best way to build this out. We think the marketplace for DSPs will be consolidated. We think our balance sheet of 700 engineers, our global footprint of 104 countries are not well-known. So again, Criteo is, in some places, the best kept secret on this planet. And so our job is to be stronger when it comes to go-to-market, and to turn the product set into one that is modular as opposed to a black box of just we do retargeting. And provide flexibility to the marketplace, be that the agencies who just want an API to get to a data set or they want segments, and they want a bit of retargeting, or they want the bidding engine, the recommendation engine to even being just a mid-third-party measurement provider, which can be done somewhat through ourselves or with our partnerships with some obvious players. So we think we're in a fantastic position, the size of the company to go up the stack and do a really good job of it.

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

Great. Megan, thanks so much for taking the time to join us. We really appreciate it.

Megan Clarken - Criteo S.A. - CEO

Thanks for the question. Thank you.

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