



Criteo Q2 2021 Earnings Call | Prepared Remarks

Edouard Lassalle – SVP, Market Relations & Capital Markets

Good morning everyone and welcome to Criteo's second quarter 2021 earnings call. We hope you're all doing well and keeping safe.

Joining us on the call, CEO Megan Clarken and CFO Sarah Glickman are going to share prepared remarks. After that, Todd Parsons our Chief Product Officer will join us for the Q&A session. As usual, you'll find our investor deck on our website now, as well as our script and transcript after the call.

Before we get started, I'd like to remind you that our remarks today will include forward-looking statements, which reflect Criteo's judgment and analysis only as of today. Our actual results may differ materially from current expectations based on a number of factors affecting Criteo's business. For more information, please refer to the risk factors discussed in our earnings release, as well as our most recent Forms 10-K and 10-Q filed with the SEC. We do not undertake any obligation to update any forward-looking statements discussed today, except as required by law.

We'll also discuss non-GAAP measures of our performance. Definitions and reconciliations to the most directly comparable GAAP metrics are included in our earnings release published today.

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

With that, let me now hand it over to Megan.



20 [Megan Clarken](#) – CEO

21 Thanks Ed and good morning everyone. Thank you all for joining us today. I hope everyone is doing
22 well and staying safe.

23 On our end, the start to 2021 has been strong, in a year of growth and momentum for Criteo. Latest
24 developments around cookies remind the industry of the criticality of first-party data and further
25 highlight the importance of our lead in this area. Thank you for attending our Investor Day, where
26 we showcased our new brand, our Commerce Media Platform strategy and our strength in
27 Commerce Media. Our teams are now firmly in place, and we continue to deliver steadily on our 3
28 priorities of: growth, execution and 1P data. And again, this quarter, I am increasingly pleased with
29 the momentum we're building around our company's transformation and our Commerce Media
30 Platform.

31 Together with Sarah, we'll discuss **four topics** today:

- 32 • First, what **Google's decision to delay the deprecation of third-party cookies** in Chrome
33 means for the industry and for Criteo,
- 34 • Second, how our **Commerce Media Platform strategy** is gearing us up for long-term success,
- 35 • Third, how our **steady delivery across growth, execution and 1P data** is driving our
36 business momentum,
- 37 • And fourth, what our Q2 performance means for our **growth outlook in the second half**.

38 **Starting with the Chrome announcement.** Google's decision to delay the deprecation of 3P
39 cookies in Chrome through 2023 is welcome news for people who rely on a vibrant and healthy
40 open internet - this means everybody. While this creates more time for our industry to prepare,
41 Google's decision does not in any way change or impact our strategy and product roadmap. Criteo's
42 goal is to become the strategic partner for global brands, marketers and media owners as they
43 navigate cookie-less advertising on the open internet. We are ahead in the race to connect first-
44 party data across our ecosystem, and in creating viable non-cookie marketing and media
45 monetization alternatives from that base. We expect to advance our lead during this extended period
46 of time and provide that much-needed safety net for businesses in a world of 1st party data.

47 While we hear collective relief from the market right now, the clock is still ticking, and unprepared
48 marketers and media owners will still wake up with a hangover when cookies finally fade. To thrive
49 in the post-cookie world, the industry needs to accelerate making first-party data fully interoperable
50 across our complex ecosystem. Marketers and brands need an "open garden" of audience and
51 media opportunities to advertise across the open Internet, including on retailers' digital properties –



all connected by 1st-Party data. This requires ensuring the collection, aggregation and interoperability of consented first-party data across all marketers and media owners – to make digital marketing as seamless and performant as possible on the open Internet – and to level the playing field with Walled Gardens. With our Commerce Media Platform operating at the core of the ecosystem, Criteo is in a unique position to cultivate this open garden. This is our strategy: To be the centerpiece of commerce media for the Open Internet.

Talking about our Commerce Media Platform strategy. During our Investor Day, I shared with you our views on the massive opportunity that Commerce Media provides. As a new approach to advertising, Commerce Media uses commerce data and machine learning to target consumers through their shopping journey – essentially putting targeting on steroids. We think Commerce Media opens up a TAM for us of about \$100B by 2024, representing annual growth of 22% compared to our current market. Executing on this huge opportunity, our plan is to not only expand our addressable market but also to continue to **gain** share across all of our existing markets.

Criteo's contribution to Commerce Media is to provide the platform and suite of solutions that activate the world's largest set of commerce data and capabilities – to help marketers and media owners reach and monetize audiences to drive commerce outcomes – whether these are leads, sales or ad revenue. In short, we're making Commerce Media work for everyone - meaning:

- Adidas, P&G and Lazada get new or repeat customers;
- CNN and The Weather Channel get new audiences and attract advertisers;
- Carrefour and Target get brands to spend on their own media properties;
- And all of us as consumers, we get more relevant, trustworthy, enjoyable experiences, with more choices across the most diverse, accessible space online – the open Internet.

Commerce Media is the future of Ad Technology – and our position here is both strong and unique in the open Internet. We have a large \$900B+ commerce dataset comparable only to Walled Gardens', we have superior AI capabilities and a unified tech platform built for 1st-party data-based marketing and monetization. Next to that, we have enormous consumer reach across our media network and 15 years of expertise in driving powerful marketing outcomes. With a strong first-mover advantage and defensible moats, we think we're poised to win in Commerce Media. It's primarily a matter of delivery.

Speaking of delivery – we're making steady progress on each of our priorities. Starting with **Growth.** Our growth accelerated to 18% in Q2, four points above guidance. Growth was well balanced across our portfolio, with Retargeting growing 10% - a nice milestone for us - and New



Solutions growing 50%. We grew double-digits across all regions as we leveraged continued growth in Retail and commerce, and drove healthy trends with our Enterprise and Core customers.

One good example of a large Enterprise customer we grow with, is a very well-known global American sportswear giant. This client has built a far-reaching direct-to-consumer strategy around content, community and customization, conceived for a consumer world where brand connections are everything. Over the past two years, we've consistently expanded our business with this client across several solutions – and we're now building a long-term partnership with them, supporting their transition from a retail-first to direct-to-consumer business across the US, South American and APAC markets. In Q2, we helped them support historical earnings growth by working in tandem to develop audience-based scenarios and drive incremental return for their ecommerce channel. With our 1P Media Network, we enabled this customer to activate its first-party audience and reach new customers in key markets, both online and in store, in line with their objectives. This helped grow the retail and clearance sale portions of their sites by 75% compared to Q1, and grew their on-site conversions by 200% compared to Q2 2020. In turn, our business with them grew 130% year-over-year and 180% compared to Q2 2019. We believe this customer values Criteo's strong performance and the diversification we help drive away from the digital ad duopoly. Helping marketers like this American sportswear giant capitalize on their own audiences through various complementary channels, positions Criteo as a strategic Enterprise partner for the largest brands and retailers worldwide.

Execution is our second priority. The team continues to execute steadily and thoughtfully across the Build, Buy and Partner layers of our execution playbook. We keep investing in talent and are thrilled with the industry heavy hitters who've recently joined Criteo as we focus on bringing more world class talent to the organization.

We saw solid momentum across the board in Q2.

- In Marketing Solutions, our new solutions grew 52%, including solid bookings for our recently launched Contextual product. We're excited to carry this momentum to untapped Agency awareness and consideration spend. When shipped this year, our new SSP will lead the way, enabling agencies to reach commerce audiences and measure outcomes using their client's 1st party data, either through Criteo's DSP, or the DSP of their choice.
- In Retail Media, we continued to strengthen our number one position and signed 10 net-new retailers in Q2. We also signed or transitioned 15 existing retailers to our Retail Media Platform. This includes the recently announced deal signed with Best Buy and the signing of our first



retailer in Japan – and new multi-year and exclusive agreements with a large high-end fashion specialty retailer in the U.S. and a very large membership-only big-box retailer also in the U.S. On the demand side, we added over 200 net new brands.

- On the Product side, we continue to make good progress with our new solutions, including Contextual, online video and CTV. To expand our First-Party Media Network on the supply side, we've started building the Criteo Supply-Side Platform, or SSP, to provide many more advertisers -working with third-party DSPs- with privileged access to buy audiences and media across **our own** large network of direct media partners. After a successful proof of concept, we already work with over 450 publishers to activate third-party demand through our direct connections, driving significant momentum over the past few months. This is just the start of Criteo deepening integrations into marketers' and media owners' first-party data assets to solve data transparency, persistence and interoperability issues for both sides of our ecosystem.
- And in Supply, we've connected directly with more publishers -for example adding a top global soccer site to our list of Direct Bidder partners ahead of the 2021 UEFA Euro tournament in Q2. Direct integrations allow us to reduce the tech tax and enhance Supply Path Optimization, in addition to increasing our business on media sources that do not rely on third-party cookies. This leads to around 60% of our Daily Active Users on the web now addressable through publishers we have a direct integration with.

On the M&A front, we acquired Mabaya in May, expanding our Commerce Media Platform into the exciting area of online marketplaces. Beyond Mabaya, we have an active M&A pipeline, focused on building capabilities to further strengthen our 1P data assets and accelerate our CMP vision.

With regards to 1st-Party Data – our third priority. We continue to advance our moat and differentiation. As we said at our Investor Day, we think the holy grail of building a sustainable first-party data solution for the industry is to serve both marketers and media owners – in essence providing a combination of a DSP and an SSP. This is what our Commerce Media Platform is about.

We know that a better first-party data solution for the supply side, will be propelled by our control of the demand side - data and spend, as it allows us to reduce multi-hop data loss along the value chain. We also know that once data no longer is transmitted via cookies, connected first-party supply will become the **ONLY** way to provide the opportunity for both marketers and media owners to effectively advertise and monetize consumer audiences on the open Internet. And this is exactly where we're going.



- We continue to partner actively with the demand and supply sides of the market, helping create the open garden I mentioned earlier. We're investing in the large-scale infrastructure needed to drive the collection, aggregation and interoperability of consented first-party data across all marketers and media owners in our open garden;
- The Criteo SSP I just talked about provides us with an even broader access to direct supply and data as we add third-party demand to our already extensive demand base;
- While small, the addition of Mabaya's all-1P data supply side customer business, not relying on 3P cookies, further strengthens our moat around 1P data;
- And we're make further progress with our open-source, interoperable single-sign on solution.

Last, as I said earlier, we feel good about what Google's delay in its upcoming changes to Chrome means for us as we continue to strengthen our 1P data assets.

In short, our team has delivered steadily, with discipline and conviction across our strategic priorities in Q2 and H1. Looking ahead, we remain laser-focused on **the same 3 priorities**.

- First, **on growth**: accelerating our momentum, focusing on commerce, delighting clients and bringing more to them, and attracting and retaining the best and brightest talent;
- Second, **on execution**: maintaining a high do/say ratio in everything that we do;
- And third, **on 1st-party data**: focusing on leapfrogging the market post-cookies, using our competitive moat of consented 1st-party data across our marketer and media network.

In closing, I feel good about the momentum we've created around our Commerce Media Platform. Our leadership team is fully committed to steady execution against our growth plan. Our solid balance sheet provides the means to invest with conviction in our transformation and our growth. And as we're uniquely positioned to win in Commerce Media, The Future is Wide Open for Criteo.

With this, I'll turn over to Sarah. I'll be back for Q&A. Sarah?

Sarah Glickman – Chief Financial Officer

Thanks Megan – and yes, we are very pleased with our business performance and the momentum on our Commerce Media Platform strategy. I will discuss the drivers of our operating and financial performance in Q2 and share our outlook for Q3 and 2021.

In Q2, we outperformed across our portfolio of retargeting and new solutions for revenue and Revenue ex-TAC – and we had a 31% adjusted EBITDA margin.



176 So let's dive into our performance. The media spend our Commerce Media Platform activated was
177 over \$2.4 billion in the last 12 months, and accelerated to over \$620M in Q2 growing 31% at constant
178 currency. As we said at our Investor Day, activated media spend is the underlying spend that our
179 Commerce Media Platform activates for marketers and media owners. Our take rate on this spend
180 reflects the value that our customers rely on us for to ensure best-in-class returns on their
181 advertising dollars.

182 Clearly we benefited from digital marketing tailwinds in Q2, in which Revenue grew 26%, or 22% at
183 constant currency to \$551 million. Our Revenue ex-TAC growth of 18% accelerated over 17 points
184 compared to Q1. This included \$8 million of incremental identity and privacy impacts, slightly lower
185 than anticipated. Our Revenue ex-TAC margin was 40% of revenue, in line with expectations. On
186 a two year comparable to Q2, 2019 Revenue ex-TAC grew 11% excluding privacy impact.

187 Our Retail business was particularly strong across all our solutions, growing 19% year-over-year
188 and 17% when compared to Q2, 2019.

189 Travel remains challenging, despite budgets increasing 360% yoy and is still down 73% vs. Q2
190 2019.

191 Our Marketing Solutions Revenue ex-TAC grew 15%, including our retargeting business growing
192 10%, driven by strong execution in all regions and continued healthy trends in commerce and Retail.
193 Our Targeting solutions grew 52%, driven by Audience Targeting growth of 31% and Omnichannel
194 accelerating to close to 200%, as stores continue to reopen.

195 Retail Media grew 49% on a Revenue ex-TAC basis, driven by existing accounts and the onboarding
196 of new customers. Prime Day was a highlight for our large retailers and brands, especially in North
197 America and we are excited by the ramp up of activity with Carrefour. Overall, our New Solutions
198 across Criteo, including Retail Media, grew 50% to 25% of our total Revenue ex-TAC.

199 We now have over 21,000 customers, with close to 40% of live clients using our new solutions. We
200 added over 700 net new clients in Q2. Same-client Revenue ex-TAC growth of 16% improved 14
201 points relative to Q1, including a 17-point improvement in Marketing Solutions.

202 All our regions grew double-digits in Q2. On a Revenue ex-TAC basis, the Americas grew 23% at
203 constant currency, improving 15 points of growth compared to Q1, driven by traction in our strategic
204 customers. In EMEA, Revenue ex-TAC grew 13% at constant currency, improving 15 points from
205 Q1, due to high ecommerce sales during extended lockdowns, offset by Travel. Revenue ex-TAC
206 in APAC grew 20% at constant currency, improving 25 points compared to Q1, largely driven by



one large marketplace restarting campaigns, offset by weak travel and the muted macro in Japan, still impacting Classifieds.

We continue to invest in growth while managing our cost base. Our adjusted EBITDA of \$67 million was up 61% at constant currency, driving a 31% margin, up 9 points year-over-year, and up 6 points compared to Q2, 2019. Our growth investments are largely funded through productivity, enabling top line leverage as we ramp up commercialization of new solutions. Key investments in Q2 included Contextual, Commerce Insights and Retail Media with terrific new hires in solution selling, product and go-to-market as well as R&D.

In Q2, non-GAAP expenses were \$153 million, up 8% at constant currency. Non-GAAP opex increased \$11 million or 9%, including 14% for R&D, and grew only 5% before the impact of our higher stock price on social charges. On that same basis, we increased employee costs by \$14 million or 15% at constant currency. We are also upgrading our back office processes and tools.

As you can see in our non-GAAP reconciliation, we incurred just shy of \$10 million of pre-tax restructuring and transformation costs in Q2, almost entirely related to downsizing our global real estate office footprint. We anticipate pre-tax restructuring and transformation expenses of around \$30 million in 2021, largely driven by our real-estate portfolio actions and to a much lesser extent, employee severance.

Moving down our P&L, Depreciation and Amortization increased 11% and share-based compensation expense increased 63%, due to our stock price over the period. Our business performance and solid cost management drove a 102% increase in income from operations and a 144% increase in net income, reflecting lower financial expenses. Due to our stronger revenue performance and regional mix, our projected 2021 tax rate is now expected to be 27%, with a Q2 effective tax rate of 22%. Our weighted average diluted share count was around 65 million, up 5% as a result of our increasing stock price. Diluted EPS was 23 cents, up 156% and adjusted diluted EPS was 63 cents, up 133%.

Our strong cash generation and cash position continue to provide ample execution flexibility.

Our Free Cash Flow was \$13 million in Q2 and we repurchased close to 800,000 shares at an average cost of \$37.6 per share. Since the \$100M buyback program commenced in early 2021, we have re-purchased \$35 million worth of Criteo shares, including \$30 million in Q2.

We closed Q2 with a strong balance sheet and \$553 million in cash and marketable securities after the Mabaya acquisition. We have total financial liquidity in excess of \$1 billion, providing strong flexibility for capital allocation. We maintain a robust capital allocation process with our primary goal



of investing in our continued organic growth and leveraging M&A to accelerate our Commerce Media Platform, including capabilities to further strengthen our 1st party data assets.

I'll now provide our guidance and business outlook for Q3 and 2021 which reflect our expectations as of today, August 4th. Our guidance reflects Retail re-openings, sustained secular trends in online commerce, and contemplates tougher comps for year-over-year growth in H2. For H2, we expect limited recovery for Travel, down over 70% from 2019 levels, and incremental identity impact of \$43 million, largely driven by Apple's ATT in iOS.

For fiscal 2021, we are increasing our guidance for **Revenue ex-TAC growth of +6% to +8%** at constant currency. We are strengthening our Commerce Media Platform with our fast-growing new solutions, expected to grow over 50% in 2021. We maintain our assumption of an incremental identity and privacy impact of about \$56 million in 2021 relative to 2020. We are also increasing our **Adjusted EBITDA margin guidance to 32% of Rev ex-TAC**, demonstrating operating leverage and our top line strength. We expect our EBITDA to FCF conversion to be about similar in 2021 to the 2020 rate, between 45%-50%.

In Q3, we're guiding for **Revenue ex-TAC between \$202 and \$205 million, or approximately +8% to +9% growth at constant currency**. We see momentum in our Commerce Media Platform, with continued strength in Retail and New Solutions, which we expect to grow around 60%. We expect our underlying growth in retargeting to be reduced by \$17 million for incremental identity and privacy impacts. On the bottom line, we expect **Q3 Adjusted EBITDA between \$47 and \$50 million** as we make higher investments in our growth areas and the higher social charges for our RSUs.

Finally, I am excited to be in our Paris Headquarters and meeting more of our amazing team. Our Criteos have been integral in delivering terrific results and have helped shape our flexible hybrid workplace that enables innovation, collaboration and team work while integrating flexibility and work/life balance.

In closing, we continue to be pleased with the momentum our business is enjoying powered through our broader platform offering and execution by our global teams. We are laser-focused on providing the world's leading Commerce Media Platform, driving sustainable profitable growth and creating long-term value for our customers and our shareholders.

With that, I'll now open up the floor to your questions.

[...Q&A...]



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271 **Edouard Lassalle** – SVP, Market Relations & Capital Markets

272 Thank you Megan, Sarah and Todd. Thanks everyone for joining. This now concludes our call today.

273 The IR team's available for any additional request. We wish you all a good day.