

## Criteo Q2 2022 Earnings Call | Prepared Remarks

[Melanie Dambre](#) – Director, Investor Relations

Good morning, everyone and welcome to Criteo's second quarter 2022 earnings call.

Joining us on the call today, Chief Executive Officer Megan Clarken and Chief Financial Officer Sarah Glickman are going to share some prepared remarks. Todd Parsons, our Chief Product Officer, will join us for the Q&A session. As usual, you will find our investor presentation on our IR website now, as well as our prepared remarks and transcript after the call.

Before we get started, I'd like to remind you that our remarks will include forward-looking statements, which reflect Criteo's judgment, assumptions 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. Except as required by law, we do not undertake any obligation to update any forward-looking statements discussed today. 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'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](#) – Chief Executive Officer

21 Thanks Melanie and good morning, everyone. Thank you all for joining us.

22 **Today marks an important milestone in our transformation journey** as we continue to work  
23 towards the realization of our Commerce Media Platform vision. I'm very pleased to announce that  
24 we've successfully restructured and completed our acquisition of IPONWEB, which, we believe, will  
25 accelerate our plans to shape the future of Commerce Media on the open internet.

26 Over the last few months, we've diligently evaluated the impact of the geopolitical environment on  
27 IPONWEB and reviewed its business continuity plans to ensure the short-term and long-term  
28 stability of its business. We're very encouraged that IPONWEB has seen minimal disruption to its  
29 top line performance while actively transitioning resources outside of Russia. Our close  
30 collaboration during these challenging times shows the strong fit between our companies and  
31 reinforces our confidence in what we can accomplish together.

32 Importantly, we successfully renegotiated the deal to reduce the acquisition price, with an earn-out  
33 for demonstrated performance, and we restructured the transaction to exclude IPONWEB's Russian  
34 subsidiary.

35 This is a very exciting time for our company, and we're thrilled to welcome Dr. Boris Mouzykantskii  
36 and the IPONWEB team to Criteo. Dr. Boris joins us as Chief Architect and will work closely with  
37 the rest of our leadership team toward a successful integration and will contribute to the product,  
38 technical and business architecture of Criteo going forward.

39 I'd like to remind you how **this strategic acquisition is expected to accelerate our platform play**  
40 **putting us further into a market leading position as the intersection of Retail Media and**  
41 **Performance Marketing on the open internet becomes the next wave of digital advertising.**  
42 Clearly, we are no longer a point solution business like most others in ad-tech.

43 - First, IPONWEB brings leading capabilities on both the demand and supply sides of AdTech  
44 which will complement our existing technology. Specifically, its flexible self-service Demand-  
45 Side Platform or DSP, BidCore™, expands our offering into a full-funnel DSP, important to  
46 attract larger enterprise marketers and agencies. Add to this their Supply-Side Platform or  
47 SSP, the MediaGrid™, which should further expand our premium direct publisher footprint  
48 and bring sophisticated capabilities to increase publisher revenue opportunities. It should  
49 also greatly enhance our first-party data activation potential, a key element of our  
50 acceleration away from third-party cookies. Having both the DSP and the SSP capabilities in  
51 our Commerce Media Platform offers clients complete transparency and neutrality knowing

that Criteo doesn't own any media or retail business that can bias all tech alternatives. Connecting the sell-side and the buy-side also reduces workflows and tech tax, and increases the fidelity of the data.

- Secondly, the acquisition of IPONWEB should enhance our scale and the distribution of our Commerce Media Platform, adding to Criteo's reach a further \$1 billion in annual media Ad spend through BidSwitch™, its media trading marketplace. The more scale in media spend that we can drive through our pipes, the better the outcomes we can deliver with the network effects of attracting more advertising demand to our platform.
- Lastly, IPONWEB has acted as a trusted architect of the entire AdTech ecosystem over the past two decades, and its customization capabilities will be instrumental to address the needs of our growing base of enterprise and agency clients who may require bespoke deployments as they look to in-house solutions using Criteo's tech excellence and expertise. This would effectively enable us to power the growing Walled Gardens concentrated around Retail Media.

As long-standing partners with IPONWEB, we anticipate a seamless integration and are in lockstep to capitalize on the growth opportunity ahead of us.

As many of you know, **our industry is anticipating a huge change with the rise of Commerce Media**, which a McKinsey study recently indicated could create a paradigm shift in digital advertising not seen since the rise of programmatic. There is a disproportionate amount of advertising spend going to the large utility platforms of search and social – because that's where advertisers know that they can reach consumers. But the reality is 73% of consumers start their shopping journey on the open internet, including retailers' digital stores. Amazon and Walmart have tapped into this, creating their own hugely successful digital media properties to attract high margin advertising dollars. This has paved the way for the wave of retailers that we see following suit, and we're right at the heart of this movement helping them to leverage their first-party data and realize this potential. We're the trusted tech partner for over 150 global retailers, giving us access to unique premium media inventory at scale and privileged access to retailer catalogue, consented identity and commerce data that our AI can use to deliver an unprecedented array of capabilities. We're only getting started.

The latest client to enter our Retail Media client base is not a traditional retailer, it's in fact Deliveroo. Deliveroo recently announced the launch of its advertising platform powered by Criteo. Our strong agency relationships, media API partnerships and ability to scale quickly with our technology and sales team support were amongst the deciding factors in Deliveroo's decision to partner with Criteo. Complementing our presence in omnichannel retail and marketplaces, this entry into delivery services is an exciting milestone, reinforcing the significant opportunities that lie ahead. It also

86 highlights how operating both demand and supply-side solutions at scale creates powerful network  
87 effects and allows us to win.

88 **What we do in Commerce Media is not just about Retailers entering the Media mix, it's about**  
89 **all existing Media companies becoming even stronger in their ability to value their commerce**  
90 **audiences using their first party data.** A critical part of our strategy is to deliver the best commerce  
91 audiences at scale, across various channels and innovative formats, including social and video. We  
92 continue to expand our direct integrations with media owners to reach consumers where they are  
93 spending their time, and we're pleased to have added about 50 new premium publishers since the  
94 beginning of this year. This includes new relationships with Disney and Les Echos, and experimental  
95 campaigns on TikTok. As we expand our reach with new opportunities in social, we're working  
96 closely with Meta to be restored as a preferred partner. This will enable us to utilize our own buying  
97 optimization technologies and our own data to buy ad inventory on the Facebook and Instagram  
98 platforms globally.

99 As part of our direct supply strategy, we continue to strengthen our access to first-party data. The  
100 most recent example is our work with a large publisher for Retargeting, which has enabled us to  
101 drive a meaningful yield increase with first-party data, while increasing marketers' spend in  
102 environments where third-party signals are blocked, like Safari. We will continue to test in other  
103 browser environments, including Chrome. This work is groundbreaking and has the potential to  
104 profoundly shape privacy-first advertising and commerce on the open internet. This is part of our  
105 acceleration away from third-party cookies.

106 Overall, we remain at the forefront of any industry-wide initiative that aims to improve consumer  
107 privacy as it relates to commerce. Following Google's announcement of a further delay of third-party  
108 cookie deprecation to the second half of 2024, we'll continue to partner with Google and the wider  
109 industry to test and build privacy-safe solutions that promise to support a fair and open Internet. I  
110 would also like to convey our optimism about the future of the open internet, following the recent  
111 adoption of the Digital Market Act by the European Parliament which is expected to restore a level  
112 playing field in the digital economy.

113 **Turning now to our second quarter performance and current market dynamics.** Despite the  
114 challenges in the macro-economic environment, we're delivering on our plans and remain focused  
115 on the long-term.

116 In the second quarter, we delivered constant currency growth of 7%, our sixth consecutive quarter  
117 of Contribution ex-TAC growth. This was primarily driven by the continued growth of Retail Media

and Audience Targeting solutions, as well as solid performance in Retargeting. Sarah will provide additional details in a moment.

In Retail Media, we continue to experience strong momentum with our retailer clients, expanding the scope of our partnership to use the full breadth of our Commerce Media platform capabilities like Targeting and Retargeting to enable retailers to acquire and retain customers. Among others, we launched new formats with Fresh Direct and Carrefour, new inventory with Target and Walgreens, and offsite campaigns with Best Buy and Sam's Club Mexico to complement existing onsite opportunities. New business momentum remains strong with the launch of Bloomingdale's and the addition of Lowe's Canada and Deliveroo. Importantly, we are expanding our scale with our agency partnerships, including GroupM, and we've added nearly 200 new brands in Q2. Our API Partner Program continues to expand with our EMEA rollout and the addition of ChannelAdvisor as an API Partner in the U.S.

In Marketing Solutions, we continue to benefit from the travel recovery and traction in upselling and cross-selling of existing clients. Lastly, even in a softer demand environment, Retargeting is showing resilience as clients rely on our solutions to retain customers and convert to sales.

Now, I'd like to take a moment to address the uncertain macro-economic outlook and what that means for our business. We're closely monitoring commerce trends to help our clients understand how consumer demand is evolving. Our Universal Catalog provides a unified view of the 4 billion product SKUs across 3,500 product categories from our 22,000 commerce clients, allowing us to quickly identify opportunities to actively pursue advertising budgets in categories that are experiencing higher consumer demand across our client base. For example, in Retail, which is our largest vertical, 22% of product categories, including travel items, personal care, or food and beverages, saw double-digit year-over-year growth in Q2. This offsets lower demand for categories such as home improvement goods.

The macro headwinds are clearly impacting our clients and the budgets they are able to spend with us, which Sarah will comment on shortly. Despite these headwinds, they continue to look to us to deliver performance outcomes, in the form of product sales for retailers, brands and marketers - and advertising revenues for media owners. A survey from Ascential showed that 70% of marketing professionals expect brand advertising budget cuts when responding to a potential recession scenario, while performance advertising is expected to hold better. With our flexible platform, marketers can also pivot to the solutions that they need to acquire and retain customers, and reach the audiences that matter the most to them at any time. This sort of flexibility is critical during uncertain times.

We also expect Retail Media to continue to grow. A brand's ultimate goal of standing out on the digital shelf is to drive more product sales, and nearly 70% of advertisers report enhanced returns from their retail media ad spend compared with returns from other channels according to McKinsey. In a challenging economic environment, benefiting from a new high-margin revenue stream will be a key advantage for retailers monetizing their digital ad space on our platform. We've never been better positioned to help our clients navigate a challenging macro backdrop.

We're highly energized by the progress we continue to make on our transformation journey and execution of our growth strategy. The closing of our IPONWEB acquisition, our path to our restored partnership with Meta, the progress towards third-party cookie independence and the continued expansion of our Commerce Media Platform are important building blocks for long-term sustainable growth. I would like to thank all of our Criteos for their hard work, innovation and unwavering commitment to our vision.

Our people are our greatest assets, and our Diversity, Equity and Inclusion efforts have been instrumental in our ability to attract and retain the best talent in the industry. We recently held our first global company event since I joined Criteo and saw exceptional engagement from our team. I am delighted that we continue to be widely recognized with LinkedIn ranking us fourth on their list of 2022 Top Companies in Marketing & Advertising in the U.S. We were also recently named as one of the top 50 inspiring workplaces in North America, and earned Ragan's CSR and Diversity awards for our global DE&I commitment as well as our ESG engagement and communications report.

With that, I'll now turn it over to Sarah who'll take you through our Q2 performance and financial outlook. Sarah?

[Sarah Glickman](#) – Chief Financial Officer

Thank you, Megan, and good morning, everyone.

**Starting with our financial highlights for Q2 2022.** Revenue was \$495 million and Contribution ex-TAC was \$215 million. Reported Contribution ex-TAC reflects the weakening of the Euro and Yen against the U.S. dollar resulting in a year-over-year \$21 million unfavorable forex impact.

At constant currency, Q2 Contribution ex-TAC grew 7%, on top of a tough comp with 18% growth in Q2 2021. Our growth was driven by Retail Media up 42% and Audience Targeting up 33% as part of Marketing Solutions, up 2%.



We continue to shift our top-line mix with Retail Media and Audience Targeting representing **33% of Contribution ex-TAC in our second quarter, up from 29% in Q1** and up from 25% a year ago. Client retention remained high at close to 90%.

**Turning to our business segments**, in **Retail Media**, revenue was \$55 million, and Contribution ex-TAC was up 42% at constant currency to \$37 million. Growth was primarily driven by our U.S. customer base and continued traction in CPG, our largest and fastest-growing vertical. Our partnerships with agencies, including GroupM, are pacing well and we onboarded 200 new brands in Q2. As a reminder, we also lapped the acquisition of Mabaya, which we completed in May of last year to expand our Retail Media solutions for online marketplaces.

**In Marketing Solutions**, revenue was \$440 million, and Contribution ex-TAC was up 2% at constant currency to \$178 million with solid growth in Audience Targeting partially offset by lower retargeting. The 3% decline in retargeting reflects the suspension of our Russia operations and a \$16 million impact from the loss of signals, including iOS. Our underlying growth in retargeting was primarily driven by growth in travel, solid performance in EMEA, notably led by Germany, emerging markets and a rebound in the UK, and our growing Shopify partnership, while still early days. This was partially offset by softer trends in France and for certain large clients in the U.S.

Overall, our value proposition is increasingly resonating with clients, with 33% of our live clients using more than one Criteo product today, compared to 28% a year ago. For example, a European clothing retailer that previously only used retargeting increased their overall spend with Criteo by over 90% in the second quarter, leveraging our broader Audience Targeting to achieve its customer acquisition and retention objectives. We expect this trend to continue as more clients transition to always-on audience strategies to acquire and retain customers.

We delivered an Adjusted EBITDA of \$50 million in Q2 2022. As expected, non-GAAP operating expenses increased 13%, including marketing events like Cannes Lions, and our long-planned in person company-wide event. These investments were highly valuable for showcasing our strategy and capabilities for our clients and with our Criteos. We also invested in Sales, R&D and Product talent.

Moving down the P&L, Depreciation and Amortization decreased 10% in Q2 2022 and share-based compensation expense increased 3%. Our income from operations was \$9 million and our net income was \$18 million in Q2 2022. Our annual effective tax rate was 32%. Our weighted average diluted share count was 62.3 million compared to 64.7 million last year due to our share buy-back program. This resulted in diluted EPS of \$0.27 and adjusted diluted EPS of \$0.58 in Q2 2022.

We are thrilled to welcome IPONWEB to Criteo. IPONWEB delivered about \$100 million in net revenue in 2021. Year-to-date in 2022, they have had minimal disruption to their top line performance and continue to grow top-line, as planned. We expect that IPONWEB will contribute annualized low-to-mid double digit EBITDA and generate free cash flow. We have incorporated the expected contribution from IPONWEB in our Q3 and full year 2022 guidance below.

We have a strong financial position with **solid cash generation and no long-term debt**, including **over \$970 million in total liquidity as of the end of June**, and still **ample financial flexibility to execute on our growth and capital allocation strategy** following the acquisition of IPONWEB. We're pleased to have signed a mandate letter and term sheet, subject to customary conditions, for an expanded €407 million, five-year revolving credit facility, which should be formally in place by the end of September replacing our existing €294 million facility. This underscores the confidence of our banking partners in our pristine balance sheet and growth outlook. We remain shareholder-focused in our capital allocation, with the primary goal of investing in profitable growth through both organic investments and value-enhancing acquisitions, while also returning capital to shareholders via our share buy-back program. During the first half of 2022 we repurchased over 1.1 million shares at an average cost of \$26.2 per share. With \$151 million left on our share buy-back authorization and more flexibility following the completion of our IPONWEB acquisition, we intend to resume the execution of our buy-back program now that we have announced Q2 earnings.

**Turning to our financial outlook**, which reflects our expectations as of today, August 3<sup>rd</sup>. Like many other companies, we are cautious about our outlook for the remainder of the year given the uncertain macro backdrop and considering the recent announcements from certain large retailers and economists' views on the outlook for Europe. For 2022, we have updated our guidance and now anticipate **constant currency growth of 11% to 14% in Contribution ex-TAC**. This comprises organic growth of approximately 6% to 8% and inorganic growth from IPONWEB contributing approximately 5% to 6%. Organically, we now expect Contribution ex-TAC growth of approximately 45% for Retail Media, taking into account softer online traffic despite more inventory and strong bookings, and Contribution ex-TAC growth of approximately 30% to 35% for Audience Targeting. Our 2022 **Adjusted EBITDA margin with IPONWEB is expected to be approximately 30% to 31%**.

Our diligent growth investments show our confidence in Criteo's long-term strategy. We have made progress on our investments in key growth areas so far this year and anticipate continuing to invest in high-priority areas that support our growth. Clearly, given the market environment and as we integrate IPONWEB, we are moderating spend over the coming months.



Given the further weakening of the Euro and Yen against the U.S. dollar, we now estimate the impact of forex to lower Contribution ex-TAC by \$60 million or 6 percentage points, compared to our previous forecast of \$34 million. Approximately 30% of our Contribution ex-TAC is exposed to Euro and approximately 10% of our Contribution ex-TAC is exposed to the Japanese Yen.

There is no change to our capital expenditures, and we continue to expect free cash flow conversion of about 45% of Adjusted EBITDA.

For Q3 2022, we have a cautious outlook given the impact of a slower macro environment on our clients and the budgets they are able to spend with us. We expect Q3 **Contribution ex-TAC of \$223 million to \$229 million, growing by 12% to 15% at constant currency**. This includes inorganic growth from IPONWEB that closed on August 1<sup>st</sup> contributing approximately 8% to 9% growth. Our organic growth is expected to be approximately 4% to 6%. We assume a forex impact of approximately \$13 million, and approximately \$10 million for signal loss, as that part of the expected Q2 impact shifted to Q3. We expect **Adjusted EBITDA of \$48 million to \$53 million**.

Despite a challenging macro environment, we have a broad and diversified client base, and differentiated assets that give us confidence in our ability to deliver solid growth, healthy profitability, and solid cash generation again this year.

Looking ahead, we believe that our strategic acquisition of IPONWEB will accelerate our strategy of creating the world's leading Commerce Media Platform to drive long-term sustainable growth and shareholder value. Our IPONWEB acquisition combined with our growth investments, new business wins and recent partnerships are setting a strong foundation for growth in 2023.

Finally, **please save the date for our upcoming investor day that will be held in New York City on September 26<sup>th</sup>**. You will get a chance to hear from our leadership team, experience our Commerce Media Platform, and we plan on providing an update on our mid to long-term financial outlook. We hope to meet with many of you in person, and we will webcast the event live.

With that, I'll turn it over to the operator to begin the Q&A session.

[...Q&A...]

[Melanie Dambre – Director, Investor Relations](#)

Thank you Megan, Sarah and Todd. This now concludes our call for today. Thanks everyone for joining. The IR team is available for any additional requests. We wish you all a good day.