Company Name: Criteo SA (CRTO)
Event: Raymond James Technology Investors Conference
Date: December 10, 2019

<<Aaron Kessler, Analyst, Raymond James>>

All right. I think we're ready to get started. I'm ready for next presentation. I'm Aaron Kessler, Internet Analyst at Raymond James. Pleased to have with us for our next presentation Criteo, presenting them for today will be CFO, Benoit Fouilland. I hope I have pronounced all right. Okay, great.

<<Benoit Fouilland, Chief Financial Officer>>

Seriously.

<<Aaron Kessler, Analyst, Raymond James>>

So, maybe for those who are not familiar with Criteo, just may you give a brief overview and then we'll jump into some Q&A for about 20 minutes. We have a few minutes then for any questions from the audience as well.

<<Benoit Fouilland, Chief Financial Officer>>

Yeah. So maybe just a brief overview as to who we are. So we are playing in the online advertising. We help e-commerce companies at large, so retailers as well as online travel agencies and brands to maximize the impact on the performance of their advertising online.

Our vision is to be the leading platform of – advertising platform of the open internet. So what do we mean by the open internet? The open internet is everything that exists outside of the walled gardens. We believe that the open internet offers multiple benefits to advertisers and publishers. It offers obviously neutrality, it offers for control of the data, it offers choice as to which partners, advertisers and publishers wants to work with and it offers also a transparency from a measurement standpoint.

Our clients, our partners are very much dependent in the current ecosystem on the larger walled garden and they value very much what we can bring as the platform of the open internet to them in diversifying ultimately their partnership. So, we've been starting the business by providing a very disruptive solution addressing one specific marketing objective, which is a conversion of internet users that have already expressed an interest for the product of our clients.

So, an objective of conversion with a solution, a single-point solution of retargeting. And we've been extremely successful in growing the company over eight years, up to a two billion plus company, primarily focused on this unique use case of retargeting.

Over the last 18 months, we've embarked on a profound transformation with the objective of diversifying our product portfolio to address more marketing objective for our clients simply because our clients came to us, and asked us to address more than just the conversion at the bottom of the funnel. So, that's a very profound transformation. We today have an offering, covering - on the marketing solution side - covering the full funnel and we've launched now a bit more than two years ago, a retail media business.

Retail media meaning that we help our large retailers to generate themselves advertising revenue on their digital platform using the same, I would say competitive tactics that's what Amazon is using in this space. And that has received a lot of success in the market.

So if we combine today our new solutions and we look at the mix of those new solutions in our revenues, it's approximately 11% to 12% of our revenues; should be slightly more than that for the full year given the seasonality of Q4. And we are seeing some very, very rapid growth of the new solutions growing in excess of 50% over the last published results.

It's a very exciting transformation for the company and very exciting moment for the new CEO who joined just…

<<Aaron Kessler, Analyst, Raymond James>>

Yeah. Maybe on that point with the new CEO with Megan Clarken joining recently from Nielsen, can you just talk about kind of why you thought she was the right candidate and she's only been with the company for a little bit of time, but anything so far that you will call out, maybe her strategy is different from previous CEO.

<<Benoit Fouilland, Chief Financial Officer>>

So first, we are very excited to welcome Megan. She just started two weeks ago on – almost day for day. So it's still – pretty new, but she brings some pretty unique skills and unique qualities to the company, at this very moment of time of transformation. She brings a deep knowledge of the media industry on the user view, which is quite transverse to our ad tech space and she understands pretty well how brands are spending and measuring the success of their spending online in particular. So that's number one.

Number two, she brings very unique leadership and execution skills that has be proven through a track record of transformation at Nielsen, she has been at Nielsen for 15 years, and at Nielsen she's been instrumental in – ultimately the transformation of Nielsen towards the digital in the measurement, in the global measurement business. So she brings those proven skills to us at the moment where the company needs to accelerate its transformation.

Finally she brings a good mix of product on commercial experience. She started in product, she's a very much digital native because she started in – with MSN initially in

Australia and then carried that career to Nielsen. And she brings a good experience of both products, initially, and commercial, it's very important at the moment where in a very product driven company, because Criteo has been traditionally a very take on product driven company. There is an imperative for us to become much more customer-centric and do that in a manner where we continue to innovate on the product side and I think she's going to bring a lot of interesting knowledge and expertise in that respect.

<<Aaron Kessler, Analyst, Raymond James>>

Great. So maybe just starting with kind of the core retargeting business, the last couple of years we've seen obviously a number of headwinds to that business. So maybe you can discuss a couple of those, but then also may have tailwinds, what do you think are potential growth drivers as well for the core retargeting such as moving to self-service platform, continuing to further penetrate middle market, et cetera, further – as we look out over the next 24 months or so?

<<Benoit Fouilland, Chief Financial Officer>>

So, if we look at the core retargeting, now within core retargeting, you've got two primary, I would say channels, the web retargeting and the app retargeting. If you look at the overall core retargeting, it's a fact that we've seen some, some slight decline in the market and in our revenues as well, with respect to core retargeting, mid-single digit decline.

And what has been driving this decline. It seems there are a few factor on the web part first, which is where the decline is primarily coming from. On the web part, we have – overall the web usage has reached a limit on the internet, if you look at the time spent by internet users in the web, in fact it is now slightly declining and the time is increased towards the apps, the time spent in the app. So that's one factor in terms of time spent by users.

So simple aspect is that, we've reached a level of penetration within the web with large clients, which is relatively mature. So we don't see drivers for return to growth in the web at this point. So we should be prepared to see a – still a very solid business there, but with a slight decline.

With respect to app, with the increased time spent in the app, we believe that it was going to be critical for our retailers to move some of their online investment towards the app environment, because that's where the traffic is going to increase. If you look at the main competitors of our large retailers, Amazon in particular, primarily Amazon transacts primarily in the app today.

So, there is a big stretch for our retailers. We were expecting our retailers to embrace the transition towards the app, faster than what we are seeing at the moment. And there are some reasons that are linked to the ecosystem of retailers. I mean those – the traditional retailers are relatively – were relatively slow to move online in the first place, they've

done some large investment in the web, integrating with their backend system and to replicate that within the app environment is taking some time for those retailers.

So we have not seen the offset of this transition into the app, to the extent we were expecting it and that's probably one of the aspect that we underestimated during – for this year.

So with respect to the dynamics on the retargeting, from a penetration standpoint, yes, we are quite mature in the large clients, but there is significant penetration opportunities in the mid-market, because we are probably around 30% penetration in the mid-market, while we are more in the 70s or close to the 70 in the large clients in terms of number of clients.

So, in the mid-market we see opportunity to continue to grow there and obviously self-service is an important component to that increased penetration in the mid-market. And these are the core elements.

<<Aaron Kessler, Analyst, Raymond James>>

And self-service timing is that still I think you're kind of talking about the mid-2020 or in that?

<<Benoit Fouilland, Chief Financial Officer>>

So from a mid-market standpoint, we have two ways of approaching the market, today we approach it essentially by telesales. So we have telesales teams operating here in the U.S. out of Boston, in Europe out of Barcelona with very standardized process, but we still managed service even it is telesales. And for the bottom of the mid-market we've launched a new self-service approach to create a new channel which is being tested from a self-registration standpoint in three geographies today and we are planning to see that producing results from next year.

<<Aaron Kessler, Analyst, Raymond James>>

Got it. Great. And then you talked a little bit about the retail media product and kind of non-targeting around 11% of revenues today. I think about a year or so ago, you laid out kind of a 30% goal to get to over the next few years. Is that still on track do you believe and kind of whether solutions beyond retail media are you most positive on today and kind of what's your expectation maybe for additional M&A to further drive that as well?

<<Benoit Fouilland, Chief Financial Officer>>

So, if we look at all of the non-retargeting, so what we call the new solutions. Today, they represent 11% based on the Q3 results and probably slightly more for the full year if you factor the seasonality of cash flow. Out of this, retail media is accounting for approximately half. What we see for the new solutions is we see a very good and solid

momentum, growing in excess of 50% on the last published results. And we see an opportunity to continue growing and in fact potentially accelerating the growth particularly in retail media.

So retail media, which was launched on the back of an acquisition that we did now – before than two years ago, which was HookLogic, and we've used that acquisition to package a new offering for our retailers to help them generate advertising revenue on their platforms.

Initially, that offering was done through a managed end-to-end service of sponsored ads, where we were selling in a blind network. So, brands could spend in the network, in a blind network of retailers. It could be on sponsor ads, which generated on the other side revenue, advertising revenue for the retailers.

What we've observed over the last two years is that large retailers are also interested in buying our offering in components in particular for the ones that have existing sales houses internally having used to deal with brands. They're interested in buying our offering based on the technology solution.

So we've moved progressively our model toward a transactional SaaS model whereby we charge a fee, which is, obviously depends on volume going through the platform, for the use of the platform, so for access of our technology and activation of the data on our platform and that's an interesting offering that took off very quickly. Now we've got 30%, close to one-third of our business on retail media that is done based on this transactional SaaS offering. And we see a very rapid growth there.

It's an interesting trend for us because this is something that makes us reflect as to adapting pricing models to our very large clients, who drive some additional demand and allow us to ultimately access a broader opportunity. And also to build, sustainable revenue flows because through this dynamics of transactional SaaS, where you have also a significant integration of our technology on the platform of the retailer, you have a very sticky relationship. So we are probably going to draw some learning also on our core business from the success of transactional SaaS in retail media.

<<Aaron Kessler, Analyst, Raymond James>>

Great. And then would it be a session, unless we talked about privacy a little bit. It still seems to be a big concern for investors, not just for Criteo but kind of all ad tech ecosystems. I guess kind of two questions there. One, I think investors always worry that we see another ITP like issue that we saw with Apple on Safari and does that go to Chrome? I think we've – Chrome has kind of rolled out new policies that suggest we're not going to see that – but get your thoughts there. And then CCPA, which is the California regulations goes into effect, I believe January 1, thoughts on what type of impact that potentially could have and what we saw in GDPR and how you can link that to CCPA as well?

<<Benoit Fouilland, Chief Financial Officer>>

Absolutely. It's true. We have to recognize that there is – there has been lots of concern in the investor minds around potential further cookie restriction being introduced. Our reading of what Google has published through multiple ways in blogs and through various conferences, last spring around their intention within Chrome, we don't believe and Google has been quite vocal about it, that there would be a restriction by default, an anti-tracking restriction by default introduced in Chrome. But what Google has indicated is that they're going to review their privacy policy internally to give more control to the users. We think that they are going to do – our reading is that they are going to do this in a manner that would be very sensible to – very sensitive to the ecosystem.

They have to walk a very fine line between – ensuring that they address the need for more control to be given to the users, but in a manner that is not viewed as favoring them towards the rest of the ecosystem. So they have to walk this fine line because they're under high scrutiny obviously from a anti-trust competition law standpoint.

So we believe that they are doing – they are going – most probably to do this in a very respectful manner of the ecosystem. And we've view – very favorably to give more control in a transparent manner to the users of their privacy experience. What we felt was very non-productive by default restrictions that have been introduced by other players like Apple or Firefox is that the user ultimately is not provided with a transparent choice. And we feel confident that Google is going to take a route where they will give power to the users there.

So with respect to CCPA, obviously there's still lots of unknown as to exactly how it is going to be implemented, but there are a few principles that seem to be established now, contrary to GDPR, we don't see or, there is a need for providing more transparency for the users, there is no requirements to obtain prior consent for the user before placements of ads before using data. There is a specific requirement to opt-ig for data, which is going to be on which there is still debate exactly. But overall we believe that – in terms of standard – these standards are going to be slightly lower than the GDPR standard in term of constraints over the ecosystem.

So we feel that with our GDPR experience and the ways we operate today to satisfy GDPR should make us confident that CCPA should not have a meaningful impact for us.

<<Aaron Kessler, Analyst, Raymond James>>

Great. And then maybe just talk a little bit about – you spent a lot of – you spent a long gathering data and including your Shopper Graph with identities of users to be able to target better. How else can you leverage some of this data maybe on the kind of the core retargeting business as well, given it seems like it's a nice core asset for Criteo?

<<Benoit Fouilland, Chief Financial Officer>>

Yes. Maybe just a few words about the Shopper Graph itself. I mean, this is a pretty unique asset that we could build – thanks to the very sticky relationships we've established, we've built over time with our clients, with our retail clients in particular. We've got – it's a very unique set of data. Probably the biggest one – outside of walled gardens in terms of commerce and Shopper data. We've got more than two billion unique users that match into a Shopper Graph. We have access to more than four billion products across all of the catalogs of the participants. And we see through 800 billion of sales data through the – through what we observed with our participants.

So, this is definitely something very large in terms of scale and very unique in term of the data that can be accessed. It is a co-opt model, so it's being used for the direct benefit of our – of the participants of our clients. It provides a very strong basis for us to create new marketing use cases. And that is a reason why we were able to launch new products, like, web consideration, which is a product that makes use of the data in order to target some prospects for our participants in the co-op. So that's already a direct usage that we make there. I think what we – what this data could be leveraged for is to create powerful audiences that could be very of great interests and pretty unique for brands as well.

So we do that to a certain extent already within the retail media, but that could be potentially replicated on the broader scale and just on the retail media inventory and that could form a very strong basis for us to put forward upper funnel proposition, value proposition towards the brands and potentially in partnership with the agencies. So all of that is obviously being considered by us, but always keeping in mind that this asset is a co-op asset that has been built, thanks to the strong relationships that we've built with our clients, so this should benefit always to the provider of the data.

<<Aaron Kessler, Analyst, Raymond James>>

Great. And then the question we get a lot is with capital allocation, with the buck at current level around three times EBITDA. You're pretty cash flow generative, 300 million plus of EBITDA, at this point kind of how are you thinking best uses of cash or are you waiting for Megan to signal that as well?

<<Benoit Fouilland, Chief Financial Officer>>

So in terms of use of cash, we've established a policy which is a balance between return of cash to shareholders through share buyback if the conditions are favorable. And we believe the conditions were favorable hence the reason why we've launched a buyback program and we're executing currently on this buyback program. And we launched that program because we felt that at current levels, this is a very competing investment for the company to buyback our stock.

And in doing so, we still maintain to balance capacity to execute on acquisitions. So we've not committed to continue on this allocation in the future. It will depend obviously on the condition with respect to the stock price as well as to potential projects of M&A.

We believe that M&A can be powerful asset, a powerful strategy to bring some assets to accelerate our transformation. We've used M&A in the past, without M&A we would not have a retail media business today, just to keep in mind that some of those moves have been very strategy for us in the past.

So as always looking at M&A – we look at M&A in a very disciplined and selective manner. The area where we focus, are areas that could directly enable us to accelerate our transformation is product diversification, increase our footprint in solutions where dependence on cookies is not the constraint. So these are the areas where we focus from an M&A standpoint.

<<Aaron Kessler, Analyst, Raymond James>>

Got it. What do you think, if you can say on evaluations in some of the private areas of that type assets?

<<Benoit Fouilland, Chief Financial Officer>>

I mean, valuation is always a key aspect of a discussion in M&A, it's not the only aspect. We've seen situations where valuation was excessive and the – since we have a disciplined approach, if we believe the valuation is excessive compared to the potential of generating value for the company, we would not execute on those deals.

<<Aaron Kessler, Analyst, Raymond James>>

And in your view, I mean with stock at current levels three times EBITDA or so obviously some concern around investors still. What do you think maybe is misunderstood by the investors at this point about the story?

<<Benoit Fouilland, Chief Financial Officer>>

I mean it's always – I would talk with a lot of humility, because it's always difficult to draw interpretation of investor sentiment. But clearly I think we are in a space where there is – there is in investor mind and in the mind of our investor still a fear of – I would say an existential threat around the cookies. That probably is one of the key factors that is impacting the contraction of our multiples. And that's unfortunately something that we do not directly control. We can talk about it. We can explain it. I think we've done that many multiple times as ultimately this fear is probably linked to a large extent to – as a fear that Google might do something that would restrict significantly the cookies use.

As I said before, we don't believe that this scenario is a credible scenario. To the contrary, we believe that Google is going probably to change its privacy policies within Chrome but in a manner that it would be very respectful of the ecosystem. So that threat might disappear over time once we have clarity in terms. So that's one aspect.

The second aspect on which we have more control is the speed of our diversification. I think we are still at a point where our new solutions, performing very well, are only representing 10% to 12% of our mix. We have this ambition of increasing this mix significantly. We talked in the past about around 30% on the three year horizon. I think the investors probably want to see accelerated proof-points as well.

And I think with Megan on board with a very clear view on execution for what we control we are fully determined to show a real progress in that diversification using - if necessary - in a selective manner M&A. But for what we don't control, unfortunately we have to live with the fear that exists hoping that within the next quarters there will be clarification from some of the large players in the industry.

<<Aaron Kessler, Analyst, Raymond James>>

Great. We have a couple of more minutes left. Let me see, if there's any questions in the audience. Maybe one question for me. Just – while revenue growth has slowed. You've still done a very good job of kind of maintaining the 30% or so margin level. Megan has talked a little bit about some of the efficiencies you've been able to get both in kind of operating costs as well as maybe from a CapEx perspective. How I should think about CapEx perspective longer term as well in terms…

<<Benoit Fouilland, Chief Financial Officer>>

Yeah. Thanks for the question, because I think, it's an area when we talk about the areas that we control this is an area we don't control clearly. Profitability, we've committed to profitability. If you think about – early in the year when we guided for the year, we guided with the top line which was expected to grow between 3% and 6%. We've reduced that outlook during the course of the year and explained why we reduced this outlook but we maintain in fact our outlook on the margins. On the margin front we've indicated very clearly that we would commit on the profitability. And we're taking the right measures to extract more productivity from the traditional business that is showing, as I said earlier, some slight decline. So we want absolutely to maintain high-level of profitability from that business by extracting more productivity.

And we started doing so in 2019. We're certainly going to continue to do so in 2020 in a very proactive manner. This would include as well, looking at infrastructure on the CapEx side getting more efficiencies as well from the CapEx, so that we can maintain an healthy profile of cash flow generation. So we are focused on that front. And that's something on which we have a much higher level of control and while doing all of this we want to free capacity to invest and accelerate on the new solutions.

<<Aaron Kessler, Analyst, Raymond James>>

That's great. Yeah. Final questions? No, I think we're out of time, so I think we'll conclude. Thank you Benoit.

<<Benoit Fouilland, Chief Financial Officer>>

Thank you very much, Aaron. Thank you.