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PRESENTATION

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Good afternoon, everyone. We have Benoit Fouilland from Criteo with us here today. We -- before we get started, the disclosures, we have to read every time. Please note that our important disclosures, including Personal Holdings disclosures and Morgan Stanley disclosures appear on the Morgan Stanley public website at www.morganstanley.com/researchdisclosures or they are available at the registration desk. Take one home, get into it. So Benoit, you're the CFO of Criteo. You're really responsible for everything that goes on with finance, legal, IT and even sort of the strategy side. So you have many hats that go on in the company. So we appreciate you taking the time to join us.

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

Yes. Thanks for inviting me.

QUESTIONS AND ANSWERS

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Yes. I think I wanted to start a little bit just for the audience because you say ad tech and people say, "What does that mean, how do you fit in, et cetera." So maybe just sort of give us a few minute explanation for the audience to sort of level set of how you think about kind of Criteo fitting into the overall ad tech ecosystem and really the 1 or 2 key priorities for 2019.

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

Yes. So I mean, I think the best way to describe Criteo and the value we bring to our clients, so our clients being e-commerce companies, companies selling products or services online. So we provide them with the platform to run effectively their digital advertising online and reach the outcomes that they wish to pursue through this advertising online. If you look at our roots, we started as a company with a very, I would say, narrow but very deep focus on addressing one marketing objective, which is conversion. Helping, ultimately, visitors on the properties of our client, helping our clients to turn those visitors into buyers of their product and service. On what we embarked on over the last 12 months on -- is accelerated momentum is now to address more marketing objectives for our clients, not only the conversion objective but also the consideration objective. So this is our new prospect for our clients, but also helping our retailer clients to fully grab the opportunity of monetizing their audiences online. So ultimately from a single focus, we are now having a platform able to serve multiple marketing objectives for our clients. We built very, very unique assets over the years, particularly, thanks to the scale of our customer base we built, in particular, very strong data assets through data collectives. And that, thanks to the strength of the data collectives, that we've been able to -- we now increasingly address more marketing objectives for our clients. We've been reaching outcomes, which are measurable just in the same manner than, say, historically how we reach clients through conversion.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Got it. And within the online advertising space, it sort of seems like we have these 2 larger players with Alphabet and Facebook are taking up more and more of the dollars and then Amazon is now kind of coming more and more into the space. Talk about sort of how you fit in to that equation of those 3 players. What's your relationship with each of the 3, and how has it changed over time? How do you think about it going forward?

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

First, when we -- I mean, we're often asked this question a lot. Those big walled gardens are taking over the growth in the space or virtually all of the growth in the space. I think people tend to forget that we are also participating into the growth that those walled gardens are generating, particularly through -- I mean Google is a very large partner for us. We buy on the Google Ad Exchange. In fact, a large portion of our supply is coming from the Google Ad Exchange, so we -- it's not as if we are not participating in what the walled gardens are generating. And we also have a partnership with Facebook, even if this partnership has evolved over time. I mean, we're still generating 4% of our revenue ex-TAC through the inventory that we buy on Facebook. With respect to Amazon, I think that's an interesting case because Amazon has been growing very successfully its advertising revenues over the last few years. I has been educating the market, and the brands, in particular, on the ability for the brands to spend online, that is creating a very visible opportunity for our clients retailers. And they turn to us to help them monetizing their audiences. So in fact, the pressure, which is first the competitive pressure of Amazon on our clients, that pressure has also opened up some new opportunity because our retailer clients are turning to us to help them monetize. And we have developed a very strong set of solutions to help them monetizing their audience specifically.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

The growth of Amazon has almost, sort of, brought the retailers more to you to say, " Can you help us?"

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

Yes, because I mean they need our help to generate sales, so generate conversion. But they also increasingly need our help to monetize their audiences to generate advertising revenue of their platform so that they can compete with Amazon using the same weapon.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Yes, yes. You go back to the point you made on sort of the walled garden versus the open Internet. There's still a pretty mature future business that is sort of the open Internet. I imagine it's going to get bigger over time. What do you have to sort of invest in and continue to improve from a product perspective to help close that gap between monetization of the open web and what the walled gardens are doing with all their data?

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

Yes. So it's important to remind a few statistics about open Internet versus walled garden, so if you look at the time spent by users, it's pretty much equal, 50 -- 50 between the 2 worlds. If you look at monetization, it's 70% in walled gardens, 30% on the open Internet. We are very uniquely positioned ourselves to help reach the open Internet. That's one of the key value we bring to advertisers, advertisers value the fact that we can give them access to the open Internet. They are increasingly dependent on the walled gardens for their marketing and advertising programs. They value the fact that we can bring to them a different advertising channel to the open Internet. So now it would be probably not realistic to think that we can bring the monetization at the same levels as the walled garden, but there is significant room for improving the monetization of the open Internet. And what we have on our side to invest on is, first, I think we need to continue to increase the pace of our diversification of our product portfolio so that we can address more marketing objectives for our clients, and we can ultimately use, so that our clients can use our platform to address more of their needs in the manner where, from initially we come from a DNA where our product was very much standard, with very little control left to the client. And ultimately what we discovered, through the feedback of our client, and as we address now more marketing

objectives, is that there is value in giving more control to the client. So we are going to invest significantly in self-service tools and increasingly you will see, in the core of our product portfolio, self-service tools to give more control to our client so that our clients can ultimately choose what type of audience they want to target, what kind of supply they want to use, what kind of pricing model fits best their objective, so that they have much more control of the way they can consume our solutions. That's something pretty new compared to where we are coming from. We are coming from a world where our solution was very much of a, let's say, black box to a certain extent. And progressively, we are going to adopt much more of a modular platform approach. And that's where the core of our investment in terms of products are meant to go.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

And so those products, it seems like there's a lot of different products in the hopper that are really just tailored to new offerings. One of my -- I think you've talked a little bit and made reference to the idea of almost pulling away or reducing your dependency on cookies and coming with other ways to target. So maybe, how -- what have you sort of accomplished to date in sort of improving your targeting, in sort of the groups of people that advertisers can reach using your new tools, and what are sort of the 1 or 2 next key steps you see in that area?

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

[inaudible], I mean, we're -- now you're referring to the way we manage identity and the way we target users through various identity mechanism. Obviously, given some of the decisions that were made over the last 18 months by Apple, in particular, it's -- it became very clear to us that this was absolutely critical to make it a priority within our technology road map to reduce our dependency on cookies as a way to target and identify users. So increasingly, we've made use of alternative identity mechanisms, leveraging, in particular, the power of our ID Graph. One of the reasons as well why we are focusing so much on increasing our presence in apps is that those alternative identity mechanisms are -- virtually all of the cases are also relying on apps in order to do matching. So it is now a very clear priority for us. The way we make use of those mechanisms in terms of identity is very similar from a targeting standpoint. The targeting capabilities are very much the same. But it's more a question of independence, not being so much reliant on the cookie alone, on being dependent on a browser manufacturer decision that -- so that we can have a significant impact on the user.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Got it. Got it. And the new product one, so I think most people in the room, sir, they understand the core retargeting business. If you sort of look out in 2019 and certainly into '20, what are the top 2 new products that sort of excite you the most to really pull more advertising dollars out of your existing clients?

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

I would say particularly on the back of the Q4 performance of the new products, I'm equally excited by all of the new products. But I would describe them. There are really 2 groups of new products. The first group is around what we call Retail Media. So all of the solution that allows a retailer to monetize theire audiences, generate advertising revenue on their properties. So there, now, we have a spectrum of solutions. We started only with Sponsored Product, which was an offering that we launched after the acquisition of HookLogic 2 years ago. And now, we have enriched that offering because we've seen that there was a broader opportunity in the market. We then enriched that offering with the fast type offering to respond to the demand of large retailers coming to us to use and consume our solution as a technology platform. So we are charging, for those retailers, we're charging a fee plus participation in the volume that goes through the platform. And that's an interesting trend and growing fast. We see that as a significant opportunity even if it's going to apply only to a limited number of retailers, which means retailers with a certain scale, retailers that do have a sales force to build out a team with the brand. But clearly the market has shifted there. The monetization is becoming really strategic for retailers, it's a way for them to supplement gross margin with very high margin advertising revenue. And for the one having the scale, they want to be directly in charge of their destiny on this. So that's one aspect. The second aspect is we've also done a -- we've done a small acquisition last summer in France, a small company called Storetail. And Storetail has an interesting offering of a rich format of ad that they monetize on a CPM basis and allows to improve the yield for the retailers with the product that is suitable for more for consideration objective. So that's also an

interesting complementary offering. So now we've got Sponsored Product, we've got Storetail and we've got the technology SaaS-basedoffering. So I'm excited by the opportunity in this particular segment. We want to put significant focus on this activity in 2019. We've just hired recently an executive who will lead the Retail Media business unit, which will be run as a business unit, with dedicated products [inaudible] and product specialists. So I think there is significant potential there in '19. The second type of new products we have are all of the products addressing the consideration objective. So Customer Acquisition, Audience Match, and the app install product that we acquired through Manage. And there, we've seen some very positive traction as well in Q4 and we are excited by the momentum.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

And as you've started these sort of new products and new go to market for advertisers, a couple of questions. So what can you tell us sort of about same-store sales, if you will, sort of spend per customer as you roll them our so far? And within each of the products, who's the target? Is it the large retailers, is it small SMBs, so who are the target customers for those?

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

So maybe let's start by the second question. Clearly, I mean we move from a very much a monoproduct approach to now a much richer multiproduct approach. This is applicable first to large clients more than the mid-market client. So we would see the positioning of the new product starting by the large clients. And that's what we are observing today. With respect to the impact on the same-store sales on existing client growth, as you observed, the existing client growth, which was negative for 2 quarters, has returned to flat in Q4, it's a combination of headwinds on the core business and we are still seeing some headwind on the core business and impact of new products. Because the new products are targeted very much on the existing clients and this is our -- prior strategy is to above -- bringing more value to our existing clients. So if are successful in executing our plan with respect to new products, we should see a contribution, an increase in contribution of the new products to the same-store sales. Of course, there is the impact of some of the headwinds on the core business also [there].

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Yes. As it changes, the sales strategy is kind of -- it's evolved over the years. Direct sales to self-serve and so now it's almost like an assisted self-serve, to certain extent. Where are you now in sort of the sales hiring process? You're saying to invest more in headcount this year. And how do you think about kind of go to market now to make sure that you really get more dollars out of the largest retailer?

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

So you're absolutely right. There was a significant change in our go-to-market model over the last year. I would say, the heavy lifting is probably done, but there's still some work in terms of training of the sales force. We've looked at the tiering of the accounts and we adapt to the much more granular tiering of the accounts. We have redefined the go-to-market motion for each one of the tiers, with the objective for the large clients to be able to have much more consultative multiproduct approach. While for the mid-market, it's a mix of the telesales approach for the upper the mid-market and a fully self-serve model, which is going to be live from the end of Q2, for the bottom of the mid-market. So it's a significant change that we went through. It's not fully completed, but last portion I think are being done in 2019. The key steps in '19 will be, #1, the launch of the onboarding self-serve module, which will allow to open up the self-serve approach for the bottom of the mid-market. This is a very important initiative for us, because we have a large portion of the mid-market that we are not addressing today simply because we don't have the sales capacity to address it and because it will not make economic sense to go after this part of the market with the telesales approach that we use today. So that's a very important initiative. It's certainly about the onboarding module. It's also about the marketing program and the partnerships. So all of these should be live by the end of Q2. And we should see some positive signals in H2 in terms of net adds. Our net adds figures, client adds, has been relatively low over the last few quarters. As we embrace self-service of the lower mid-market, we should see the net adds coming up. With respect to investments in sales in '19, we've indicated that we would grow our sales and operation expense by 10%, 10% to 11%. This would go primarily to quota-carrying capacity in mid-market because we are behind in terms of capacity in mid-market, irrespective of the launch of the

self-serve module, and we still need to increase our capacity to address the top of the -- on the mid-market. And in terms of product specialists, those product specialists to support in terms of the new products.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Got it. The Direct Bidder was deployed throughout the fourth quarter. I guess for people in the room, what does that mean? I think it's now up to like 3,000 publishers, maybe sort of talk us through why the Direct Bidder is an important sort of strategic asset for you long term?

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

Yes, it's a very strategic asset. If you remember, the emergence of header bidding that happened just 2 years ago and scared a lot of people in the industry as to what would be the change in dynamics around the access to supply. I think we've demonstrated once more in these circumstances that we turn what was seen by everybody as a business risk into a real opportunity for us, simply because we have a large scale. And because of our large scale, we are in a position to directly integrate with large publishers and that's what we've done. We've developed our own header bidder and we went and connected with now which is more than 3,500 premium publishers, which has a lot of advantages in terms of obviously you don't need to pay fees to any intermediary. So you share value between the publishers and our self. It's great in terms of access to data as well because you can get a much better access to data, through the direct connection. So it has become now a very strategic source of inventory for us and one of the unique assets of Criteo because there are very few companies that have developed such a scale in terms Direct Bidder.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

What's the margin differential of the dollar that kind of comes through Direct Bidder versus (inaudible).

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

So if you look purely at what the platforms are taking, we are close to 15%. So now it doesn't mean that we pocket this 15% as additional margin. We would rather reinvest it in buying more volume --and pass a large portion of that to the publisher, which creates a very sticky relationship.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

I think for this year, you guided margin to be down a few hundred basis points. Maybe just -- I know you mentioned the sales force and some investments in there. Any other sort of key strategic investments you're making? Then if we get through this investment phase, 2019, what are sort of -- what's the big key to getting better leverage in 2020 in the model?

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

Yes. So first, I mean I want to remind that we ended up '18 at a margin, which was much higher than what we had guided for, ultimately, and even what we had in our plan. I'm not saying for good reasons because, in fact, we had some significant delayed investments in '18, particularly in headcount. Our headcount was down slightly on a full year basis. So when we look at '19, we look at first, at a catch up in terms of investment. That is very selective catch up. So we talked about sales, but we want also to ensure that we grow sufficient capacity in R&D, in engineering to support the development of new products. So it's going to be very selective. We are going to grow sales and operations expenses by 10% to 11% and the same for R&D expenses. For the rest, G&A will remain very stable. So that's the reason why we guided to a decrease of margin of 300 basis points. So looking at 2020, what we've indicated in our guidance is that we were expecting an increased momentum in terms of growth during the course of the year. We also, from a Rev ex-TAC standpoint, we also indicated we'll make [inaudible], which is something we have never done before, just to give a clear sense as to what will be the velocity of the growth. So if we execute well on our plan, we believe that this momentum is going to

continue in 2020 and further accelerate in 2020, which means that even after catch-up of investment in 2019, we would expect margin to turn back up with incremental gains in 2020.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Questions for Benoit in the room? Let me ask a couple more then. The ecosystem and sort of changes: header bidding, ITP, GDPR, the mobile storage changing, it seems like there's always something that is evolving in the ecosystem. As you sit here today, is there any sort of coming where you look at you and you say, this is still 1 potential risk that could be a change we have to make? Or do you feel like you positioned yourself now or you're in a good spot with the mobile platform, kind of with the overall ecosystem from a protection perspective?

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

I mean, we are in a very fast evolving market. I mean the events, over the years, have shown this. So I would never say that we are in a stable environment. There will be always changes around us. I mean, we know that in 2019 and we factored them in our guidance, there will be some further headwinds, Mozilla, and we factored that in our guidance. So GDPR has been quite limited in term of friction but we perceived and factored that in our guidance. So we are in a fast-evolving environment. So there is nothing that seems major and that would be considered as a major threat on our business that I'm thinking about. But obviously, we've learned our lessons from what has happened over the past years and we remain very humble as to what could be the change around us.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

What have you seen in sort of publisher performance and advertiser dollar allocation as opposed to GDPR world? How have things changed in Europe?

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

Well, in fact, I mean, there was a lot of anxiety in the market before the implementation of GDPR. We always thought that this was not justified because we have been operating under GDPR-like constrains for some time already in Europe. So in fact, I mean, I would not say that the environment has changed significantly for GDPR. What we've observed is that on the supply side, certain publishers, it's a limited number of publishers but certain publishers have taken a pretty drastic approach of GDPR compliance, to a point that it's most probably hurting their business. So one of the potential scenario is that some of those publishers might wake up one day saying, "Why am I hurting my business because the rest of the market has been adopting much softer practices?" So that could be an upside, and that has not been reflected in our guidance. But overall, I would say the environment has not changed significantly because the type of GDPR compliance that is required in our space where we collect and process data, which is nonsensitive, personal but nonsensitive, the standard that has been establishing itself as to how to obtain consent from the user is relatively -- it's a soft opt-in as a standard, is relatively light and has not created massive disruption on the ecosystem.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Those publishers are -- basically got one, what I'm saying is that those publishers who are doing that, are those the larger publishers who are sort of putting more strict rules?

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

No, it's not, no. I think it's been -- I mean, I'll give you 1 example, it's a small publisher in Europe. The Los Angeles Times in Europe, they closed their site because of the GDPR. Why would they close their site? Probably the volume was so small, they say, we are not going to bother with GDPR compliance, which is very surprising when you look at the difficulty of implementing a consent management platform. In fact, it's pretty simple.

It's commodity product now. So some of those publishers, it's an extreme example, obviously, I think they took an interpretation of the law, which was far too restrictive.

Unidentified Analyst

I suspect you've got a lot of customers buy a lot of (inaudible) wondering if there's tremendous opportunity for direct to consumer, the same advertising that's on Facebook right now. Also, leverage the platform, how are you developing (inaudible)?

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

So you mean targeting direct to consumer so that they use our platform for advertising. Is that what you mean?

Unidentified Analyst

I mean Albert whoever else, somebody else, a brand like that, that has leveraged social media to develop and build its customer base and they come to you as well and...

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

So our -- I mean, today, our offering is not focused on brands. Our offering is focused first on e-commerce companies and retail is the largest segment. So we have some clients, who are brands as part of our offering of monetization of audiences for retailers. Our focus is very much on e-commerce companies.

Unidentified Analyst

Established e-commerce companies?

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

Yes, established. I mean various size, but e-commerce companies. And e-commerce has been pretty wide because you've got the pure retail, online travel, classifieds are the core of our clients.

Unidentified Analyst

Right. And then a question that Brian was asking earlier about data and reliance on cookies, since the retailers have so much of their own first party data, to what degree are you able to get in there and integrate that into your process? I suspect over time, you've been doing more and more of it. Could you give us some examples of how you're making that a core part of your data strategy?

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

It's fully part of our strategy from day one. So the data that we use is the data of our clients. If you take a retailer, the data that we use in order to predict how a user can ultimately click on an ad and convert, would be all of the data that you use for that prediction, and ultimately is the first party data of our clients.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

All right, Benoit. Any questions? All right.

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

Thank you very much.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Thank you.
