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PRESENTATION

Matthew Francis Bombassei - *Morgan Stanley, Research Division - Research Associate*

Welcome to the Morgan Stanley TMT Conference. My name is Matt Bombassei, and I'm Brian Nowak's Internet team here at Morgan Stanley. Today, we are pleased to be joined by Megan Clarken, CEO of Criteo. Prior to joining Criteo as CEO, she most recently held the position of Chief Commercial Officer at Nielsen. So Megan, thanks for joining us.

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

It's a pleasure. Thank you for having me.

Matthew Francis Bombassei - *Morgan Stanley, Research Division - Research Associate*

Absolutely. So before we jump into things, I just have to run through the mandatory disclosure.

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Now if you have any questions, you can submit them through the portal, and we will try to get to as many as we can at the end of the webcast. But first, I just wanted to start off with some high level questions.

Megan, for those in the audience who are a bit newer to the Criteo story, can you give us a quick overview of Criteo? And where it fits in with the ad ecosystem?

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

Yes. So at the highest point, we're an ad tech company that's focused on serving e-commerce. And that's our newest -- that's our new strategy. Our clients -- are commerce players, the retailers and the brands. You could see us as sort of the Amazon of the open -- Amazon advertising of the open Internet. If you want to just sort of round out what I'm saying here. We focus on providing a full suite of services for buying and selling services across e-commerce, buying and selling advertising and product placement across e-commerce. And we're focused on making sure that we get outcomes for our clients, that we get reach - we get to as many people as possible, if that's the objective that our clients have. And that, of course, we round that out by providing measurement on the other side, making sure that we give them insights into what we've done.

We are in a great position right now, whereby the sweet spot that we're going after is something that only Criteo can do. And we'll probably talk about that as we go here. But again, we're about offering e-commerce, buying and selling services across the open Internet focused on e-commerce.

Matthew Francis Bombassei - Morgan Stanley, Research Division - Research Associate

That's a great overview. And I know we'll dive a bit more into the nitty-gritty of that. But just one more high-level one. You've served your first year as CEO during a global pandemic. I'm sure there are significant challenges that come with that. What are some of the important lessons you've learned and you've taken away during this time?

Megan Clarken - Criteo S.A. - CEO & Director

It's incredible. You and I were talking before we got on camera about the pandemic and it's been unbelievable. So first-time CEO and here I was a couple of months into it, and here came the pandemic and the Chrome announcement, by the way. So we have 2,700 people now all working from home, at an average age of 31 years old. So it is really sort of a unique position to find myself. And on top of that, we needed to go through a deep, deep transformation, not just a little transformation, but a deep, deep turnaround and transformation to return ourselves to a sustainable growth.

So where we are today, I would describe as a new Criteo. Not the Criteo you've seen in the past, but a new Criteo. We are -- some of the things we've done is we are now client-focused. So believe it or not, clients are at the center of our business as opposed to technology being at the center. We have a new company vision, company values so all starting from scratch. We now have this deep focus and investment on e-commerce as part of our new strategy.

I brought in almost entire new leadership team and C-suite, I should say. And some of the original focal part of that, that roles like Chief Marketing Officer, Chief Product Officer, Chief Commercial Officer. So some of those basics, we have a new C-suite of world-class talent in there. We're focused on extending our competitive moat as part of our strategy, using the assets that we have. We have a new approach to industry partnerships. The company wasn't focused on partnerships in the past. And so you've seen us announce partnerships, a lot of them in the last year.

We've returned to a culture of innovation, which I'm incredibly proud of. We're French-based. We have some amazing talent across France and based in Paris. And look, we're moving in the right direction. So the transformation is proving to be the right one. It's coming along really well with the backdrop of a pandemic. So it's a terrific story.

QUESTIONS AND ANSWERS

Matthew Francis Bombassei - Morgan Stanley, Research Division - Research Associate

Absolutely. And hopefully, we navigate our way out of this pandemic shortly. But diving a bit more into the business, you mentioned the business has transformed quite a bit over the last 1 to 2 years. And previously, it was a business that was a bit more retargeting-focused. Can you talk a little bit about how the composition of the business has changed and the strategy going forward?

Megan Clarken - Criteo S.A. - CEO & Director

Yes. So a little bit retargeting. I would say it's all retargeting. And so the idea here when I came in was to take a business that was in decline because it was just focused on retargeting. And turned it around to sustainable growth. And where we are right now through our new strategy is we see ourselves at the center, the intersection, if you like, between marketing and commerce. And for us, it's been about building up new capabilities to supplement the retargeting business. Not to replace but to supplement. So that we have the ability to serve marketers all the way up the funnel. So not just retargeting at the bottom, but audience-based buying and brand reach capabilities and contextual advertising. Those things as you move up the marketing funnel.

And also focus on what has been a terrific product for us in retail media to focus there on e-commerce. And to build out that solution to be much more powerful as we move forward with the strategy. So all of those new products, if you like, on top of retargeting to build out suite has been

what we refer to as new solutions, and you'll hear us talk a lot about new solutions as we move forward. We've been measuring the impact of new solutions, one of the changing dynamic of our business.

So our business is not just retargeting. It is the sum of the parts. The new solutions is growing at 50%. So we like the speed of growth. The acceleration there. And we like what the new solutions bring back to the retargeting business so that we can actually turn the retargeting businesses around. So it's gone from 1 product and our black box to everything else on top of that, with a focus on e-commerce, and that's us starting to execute against the new strategy of the new Criteo.

Matthew Francis Bombassei - Morgan Stanley, Research Division - Research Associate

That's great insight. And you talked about e-commerce a bit there, and you've discussed more broadly commerce media being at the center of your long-term growth strategy. How do you think about the size of the e-com TAM that Criteo is attacking? And how is Criteo better positioned now than it was maybe a couple of years ago to attack opportunities in this e-commerce space?

Megan Clarken - Criteo S.A. - CEO & Director

Yes. Well, this one is exciting. This one is something that's unfolded for us during the course of our transformation. And we just see this sort of pathway now into this massive TAM. So when you think about the size of e-commerce globally, it is pictured through to 2023 as being around about a \$7 trillion marketplace. Now the big chunk of -- or I should say, sort of 60% of that or more is made up of the big giants, the Chinese giants, of course, and then Amazon is up there as well. And then some smaller but important retailers that are in that space as well.

There's this whole piece at the bottom of that pie that makes up about 40%, which is the open Internet. It is a bunch of retailers that are trying to create a marketplace, as you like. And when we see the possibilities for Criteo inside of that 40%, we think it's about a \$60 billion TAM. We also see us being uniquely placed to take a huge share of that TAM because of the assets that we have, and there are assets that were sitting there all along. That's the beauty of them. There were assets that were there through retail media and also through our retargeting business. Just by virtue of bringing them together, we create this ability to ship at the buying and selling between the retailers and the brands across that open Internet.

The size of our first-party data sets, the amount of publishers that we have access to their inventory, our relationships enable us to join these pieces together like nobody else on the planet. So we've just seen the light of the day. And with the COVID environment, we also expect that, that TAM will grow. That the e-commerce budgets will grow. And we also believe that, that growth through the fact that trade marketing is coming across to digital. And it's not necessarily now going to go to advertising, pure media advertising. It's more likely to go to something that is performance-based. And that is the e-commerce space. So it's a big story...

Matthew Francis Bombassei - Morgan Stanley, Research Division - Research Associate

And you talked about -- no, absolutely. And we'll dig a bit more into that. You talked about e-commerce and the expanding TAM. And certainly, we've seen a pull forward in e-commerce growth and e-commerce advertising has driven the ad market. When we have discussions with investors all the time about what e-commerce growth could look like in 2021? And how do you think about the potential impact of slowing e-com growth on Criteo's business?

Megan Clarken - Criteo S.A. - CEO & Director

Yes. Look, clearly, we've watched it over the last 12 months, and we see sort of a mixed impact here. For instance, depending on the verticals, what we saw in 2020 was a net negative of about \$106 million. And so we -- that came -- what we observed out of here was some of the verticals that had been strong for us in the past have all but gone away. And so the obvious suspects, the travel industry and the classifieds industry was hit really, really hard but what we did see was an increase and strong performance in retail, which is a really, really hot sweet spot for us. And we saw

a strong performance in our clients that were based on e-commerce. Pure e-commerce. So not bricks-and-mortar had a good year, but e-commerce had a really good year 2020.

And so we continue to expect that we're going to see that same dynamic through 2021. If we see a return in travel, for instance. You and I talked about the fact that maybe we get back to normal at some point in time in the travel industry, all of a sudden becomes what it was before or that's all a really good tailwind for us because we have expected that it will stay low for 2021. And we do expect, too, that -- firstly, I will say that I'll remind everybody that we guided to low to mid single-digit growth for 2021. Based on all of these dynamics that I've talked through.

But we do see this -- all of this dynamic actually reinvigorating our retargeting business, which is such a big part of our business. And we do suspect that we have a new normal coming at us, and that new normal is that we will continue to shop online rather than going to stores. It becomes convenient for us, for all people who have never done it before. And logistics are getting better, products, we know our products. And the data says that we tend to stick to those products as well, even if we've tried new brands.

So for us, the signs are really good for our entire strategy and our product set across the board.

Matthew Francis Bombassei - Morgan Stanley, Research Division - Research Associate

That's very helpful detail. And you mentioned briefly the new solutions business and the accelerating nature of that business. And it's really seen strong growth across the board. Can you speak about some of the products driving the growth within new solutions? And how that fits in with the strategy of maybe diversifying away from pure retargeting?

Megan Clarken - Criteo S.A. - CEO & Director

Yes. So there's a number there. You've got it right. It's about not necessarily diversifying away, but building out around and making sure that retargeting is part of a very important story for us.

I talked about retail media, which again, is about making sure or supplying a service for product placement, if you like, in retail. And the ability for us to build out that solution now and over time. And that's -- that grew by 50% in 2020. We are very bullish about that. But so that is a product that, as you said, is in the center of our strategy going forward.

So that one, we think is only just the beginning. We've talked about at the moment, we have about 50% of the top 25 retailers in the U.S. that are using retail media in some shape or form, some of just the pieces inside of there. And about 50% of the top 20 retailers in Europe using that service as well. So it's a really good grounding, really good starting base to build on top of. We -- through retail media, we've built this entire database of first-party data, which we know is going to serve us well as we move past the third-party cookie apocalypse, if you like. And some of the services I was talking about before that build up our ability to go from retargeting to contextual advertising or buying based on a contextual basis, things like, Matt, we've watched you. We know that you like this and this, and therefore, we're going to show you something -- we're going to predict what it is that perhaps you might like. So some nice contextual work there.

Audience-based targeting. So no longer just one-to-one, but being able to provide cohorts or large sets of audiences that said I want to get to new moms. Criteo, can you get me into new moms. So those sorts of services that we haven't stacked up before. And all of those supplement the product set that we have to build out the entire suite of services. And those, once again, and the new solutions that we see growing very, very nicely and supplementing not just the retargeting business, but becoming part of that full stack solution.

Matthew Francis Bombassei - Morgan Stanley, Research Division - Research Associate

Piggybacking off that for a second. You mentioned 50% of the top 25 retailers are customers of the retail media product in the U.S., 50% of the top 20 in Europe. When you think about growing this product, is it about increasing penetration of the top 25? Is it increasing monetization of the existing customers? Or is there a long tail of retailers still yet to be brought on to the platform as customers? Any detail there would be great.

Megan Clarcken - Criteo S.A. - CEO & Director

Yes. So firstly, there's sort of acceleration that we continue to see in this growing of what we think will be about 50% in 2021. So it is an acceleration of the product base. And it is almost the more it grows, the more intelligence that we have about it because of the first-party data set and now machine learning, artificial intelligence and all of the things that we just keep piling into our ability to not just create a better and better and better service, but build capabilities on top of that.

So there's multiple levers that drive that growth for our top clients. So number one is, you're right, where we have a growing number of clients from a long-tail perspective, all over the globe, and we'll continue to go long tail with build self-service platforms inside of there, and we'll continue to build out the ability for somebody to very quickly create their own presence and capability.

We're focused on deepening the share of wallet. So as you know, the top clients and that they take some and not all of the services at times is expanding the services that they take, both through just bringing in new solutions that we already have, but building out solutions to just expand their experience and build out our capabilities there, build out our client base there.

We're also looking towards accelerating our geo expansion, so growing to new countries. And focused on the APAC region at the moment. And then there's capabilities that we don't have yet that are sort of no brainer in terms of being able to offer placement off sites of our retailer sites onto other sites with publishers and also to provide insights to those retailers as well.

Long story short. Long tail, share of voice, new product development, building out a solution, a broader solution set for existing and new clients.

Matthew Francis Bombassei - Morgan Stanley, Research Division - Research Associate

That's very helpful. And pivoting a bit here to the client side of things. You added about 900 net new clients in 4Q. I believe the highest net adds in 13 quarters. Talk us about those clients. Are you seeing concentration in any specific vertical? I'm sure e-commerce is there, but anything else on that front? And then how are you approaching retention of those new clients going forward?

Megan Clarcken - Criteo S.A. - CEO & Director

Yes. So a lot of the 900s, again, the focus being on e-commerce saw a lot of that game coming from retail. And this is great because it validates the strategy that we're after is a retailer looking for the services that we have today. And obviously, with the client at the center, we're building use cases to service them into the future. To build out this capability that I'll sort of remind you is the focus for us is the Amazon advertising for the open Internet. So in other words, what have they got that we need? What are our clients looking for? It's not rocket science and then putting those sorts of things together to build out that solution.

So retail has mainly been the source of the new clients that we've we've got. I talked about travel and classifieds. And the exciting thing is that at some stage, they will come back. And we have forecasted that, that will be incredibly slow. But when they come back, then we think that that's exciting for them, but it's exciting for our business as well. We -- in terms of retention, we were more strategic than what we were before. Certainly, we're building out a team that are experts in areas that speak the language of the client as opposed to the language of the solution of the service or the product that we offer.

We're building out a capability on both sides to make sure that we build more strategic relationships with our clients. We want to build stronger, long-term relationships with our clients. And we want to build in multiyear contracts. So where in the past, we've been very much CPC or cost per performance-based. We want to build-out for the bigger clients more stickiness, more predictability for them in terms of their spend. And more sort of -- I'm going to say, leverage, but not really, just more of an ability for us that we know we've got lot clients that are very loyal to us as we are to them, and we have more predictability about our revenue in order to build long-term sustainable growth.

Again, this comes on the underpinning of a transformation that's underway and it will continue. And that's all about many things, but bringing in world best talent to make sure that we are -- reimagine a sales organization and the service organization to build this much, much stronger relationships with our clients and build retention from there.

Matthew Francis Bombassei - Morgan Stanley, Research Division - Research Associate

Absolutely, absolutely. And let's pivot a little bit to the topic that is on everyone's mind as of late and that is privacy. And I know we have a bunch of questions in the queue about this as well. But you guided to a \$60 million of incremental identity and privacy related impacts in 2021. Can you talk about the progress you have made in detaching yourself from things like third party cookies? And should we expect these privacy-related impacts to decline going forward? Or is it just a bit unpredictable based on exogenous factors?

Megan Clarken - Criteo S.A. - CEO & Director

Well, I'm always going to say it's unpredictable, and we've guided to a place that we've put our best foot forward and try to make some assumptions around what we think is happening. And we've certainly made assumptions around what we've been told as opposed to what sort of our gut feel might tell us is going to happen, particularly in the case of -- sorry, others have said might happen, particularly in the case of Chrome.

But we've had 18 months of this. I mean, we've been sort of hassled as a company for 18 months, which may not have been a bad thing because we've got a head start, I think, on most others, in getting in front of this.

The first thing that we have, which nobody else has, is this massive first-party data set, which will continue to be built out to our first-party network. And while others have it, there's a couple of things that are unique about ours. One is the sheer size of it, over 2 billion, 2.5 billion first-party, so user IDs, if you like. And inside of that is, more importantly, what they -- where they shop or what they buy, they spend, even down to the SKU level of the products that they purchased. Now nobody else, I mean, I come from Nielsen. So I know the data sets that are out there in the market. I've never seen anything like this. So having that sort of first-party data set is a ground to move off third-party data reliance is a very powerful place to start.

The second one is, you will have heard around the UID, the universal ID work that we've done with the Trade Desk, with LiveRamp, with Nielsen to build out the ability to have a consent form in front of you, whether that be on your PC or on your mobile app that you control as a consumer, your own privacy. It gets rid of first third-party cookies. It gives us access to you across the industry. And we think that's a powerful model, and we think that's going to be very successful with the likes of all 4 of us behind it and a growing number of ad tech companies behind it.

And then we have solutions like audience-based buying, which is based on, as I said, all new moms or contexture or different things like that, to, again, build-out the capability to just leapfrog the third-party data issue, jump over-the-top of it, get in front of everybody else. And I think at that point, every impression counts. And I think that's a very, very good place to be. I would almost say winner takes all, and we're after that.

Matthew Francis Bombassei - Morgan Stanley, Research Division - Research Associate

That makes sense. And just one more question on this privacy topic. We've seen the advertising industry trying to make sense of and prepare for the upcoming iOS 14 changes, particularly around IDFA, how do Criteo approach quantifying the impact of IDFA that would have on the business. How should we think about that in the context of the \$60 million in your guidance? Any context there would be great as well.

Megan Clarken - Criteo S.A. - CEO & Director

So IDFA, for us, it's all about our assumptions around opt-in, opt-out rates. And we've seen it before. At the end of the day, you make -- you put your science around it, and you make your best guess, but we've seen it from GDPR, from explicit consent, in other places where there's been an opt-in/opt-out model put in place, and so we use that data. Where we put sort of a \$60 million identity impact in our plan going forward. About

40% of that is related to IDFA. And so again, if this goes better, then great. If it goes worse, then we'll make up for it. Our job is to make up for it for a long-term sustainable growth. But let me say the Apple implementation or the way that Apple has gone about it, has been very disruptive. And it's not just us saying that. We've managed to push them back a quarter. We might push them - not just us, but the industry bodies, push them back another quarter or whatever we can do to try to have the ecosystem ready. But we have forecasted for our 2021 numbers.

Matthew Francis Bombassei - *Morgan Stanley, Research Division - Research Associate*

That makes sense. That's very helpful. And we're running short on time, so I'll end with my last question here. But you announced the collaboration with Trade Desk, and you mentioned it briefly for a moment earlier, on the Unified ID initiative. For those who are may be less familiar, can you talk about the progress you have made on this initiative to this point and your long-term vision for what this can become?

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

Yes. So very quickly, the Trade Desk and us have talked this through. We were both building something at the same time. We went together, I spoke to Jeff and said, what are we doing? Why don't we build 1 thing, and then get others on board. They have Reach through their agency relationships, their relationships with publishers. We have enormous reach through our relationships with advertisers and also through publishers. What we're doing right now is we're building the tech. So we're building the single sign-on engine and what we call the transparency portal. And just very quickly, that's the portal that's going to hit you, the page that's going to hit you as a consumer.

That takes time because it has to be right. Otherwise, you'll go -- so that's what's going to take most of the time. And then for us, because our clients are asking us to help, what's going to happen when this goes away. It -- we hope that it's an easier sort of like "this is what's going to help". As part of the service, you're going to get the single sign-on capability and transparency portal or that page. And they'll do the same thing as LiveRamp, as with Nielsen. So we think during this year, we're going to try and push for as much reach as we can for that solution. And if that, all things go well there, the entire industry is in much, much better shape.

Matthew Francis Bombassei - *Morgan Stanley, Research Division - Research Associate*

Great. Well, thank you very much. I could do this all day, but we really appreciate your time. And unfortunately, we were running out of time. So Megan, I just want to thank you again for taking the time to be with us, and thank you, everyone, for joining in on this webcast. We appreciate you being at the Morgan Stanley TMT conference, and we hope everyone has a great rest of your day.

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

Good to see you, Matt. Take care.

Matthew Francis Bombassei - *Morgan Stanley, Research Division - Research Associate*

Absolutely. Good to see you too.

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