



Criteo - 40th Nasdaq Investor Conference

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Welcome and Introduction

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Welcome

My name is Isabella Schidrich. I am the Nasdaq relationship manager for Criteo. Criteo is a leading and global commerce marketing company. It has an amazing growth story driven by its proprietary technology, machine learning technology, data rich solutions for 19,000 clients and an inspirational leadership team.

Introduction

It's a great pleasure to introduce Benoit Fouilland, CFO at Criteo since 2012. Benoit transformed Criteo from a private to a public company and led an extremely successful IPO six years ago. Prior to his current role, Benoit was CFO at SAP and Business Objects. It's an honor and great pleasure and wonderful to have you here Benoit. And it's great to have you present Criteo to us. Thank you.

Performance Summary

Benoit Fouilland

CFO, Criteo

Thank you. Thank you, Isabella, thanks for having us today. Very pleased to update you on the company. Today, I will try to keep the presentation to around 20 minutes so that we have time for some questions.

I will save you the safe harbor statements. You are all very used to this.

About Us

So, who are we as a company and what's our vision? Criteo has a vision to be the leading advertising platform for the open Internet and in doing so to offer advertisers choice and control among many other benefits. Advertisers, our clients, are primarily e-commerce companies selling products and services online, and we are here to help them, maximizing their potential.

Open Internet Benefits

How do we define the open Internet? Our vision is to be the leading platform – advertising platform in the open internet. The open Internet is a space outside of the walled gardens. And we are often asked about – about the – we are often asked – sorry – we are often asked about why is the open Internet offering benefits to the advertisers when there are dominant world players – walled gardens out there?

In fact, our clients are valuing having choice. They want to be able to be free to choose who they work with. And they are increasingly dependent on two primary players out there. So, they value having choice – having an alternative complementary to those players.

They also value working with an independent partner bringing neutrality with no conflict of interest. Our clients are also increasingly – want to be in control of their data and in control of how their data is being used. And as you know, data is being used across multiple solutions within the walled gardens. Our client ultimately wants to be able to decide how they transparently measure success, and they want to have access to the data to enable the measurement.

So, these are the reasons why we believe there is a massive opportunity for us to build on our existing position to become the leading advertising platform in the open Internet.

Criteo Platform

So, how our platform is delivering those benefits and it is enabling advertisers to ultimately monetize within their space. We have a single platform with two types of solutions. Criteo Marketing Solution on one hand and Criteo Retail Media on the other hand. Our Marketing Solution delivers full-funnel display solutions to drive results through the web, the app and the store channels. On the other hand, Retail Media is a technology solution that enables retailers to generate themselves advertising revenues on their platform; to unlock, in fact, the advertising revenue potential by tapping into the incremental budget of the brands.

Commerce data

The Criteo platform across those two families of solutions is powered by our unique commerce data. We have a massive commerce data set. We call that ‘shopper graph’ that we’ve built along the years through the partnership with our clients through data collectives that we’ve built with our clients. And it’s powered beyond our ‘shopper graph’ by our artificial intelligence engine that has been developed over the years by 700 engineers in R&D and product teams that are located primarily in Paris, but also in the US.

So, our ‘shopper graph’ in fact, includes data collectives that cover both identity across devices and environment but also shopper interests – commerce data with the interest of our shoppers – across all of our clients participating in the ecosystem. And among our clients, we’ve got more than 80% now of our clients participating into this commerce – into this ‘shopper graph.’

AI Engine

Our AI engine, on the other hand, is made of algorithms that enable advanced audience creation, product recommendation, creative optimization as well as predictive bidding. So, it’s a complete set of technology.

Company Transformation

Our company has been going through a very significant transformation over the recent years – over the last two years – accelerating over the last year. And that transformation supports our strategic goal of becoming the leading advertising platform of the open Internet. And we’ve been transforming through three dimensions.

First, the product expansion along the two families of solutions I just mentioned in order for us to cover many more use cases than what we’ve been covering historically. The second dimension of the transformation is the self-service adoption. So, we are developing a self-service platform – now – adopting self-service feature in the core of our product platform to provide more control and more transparency to all of our clients. This is what they want, as I

was explaining in introduction through the open Internet. Finally, the third facet of our transformation is the adaptation of our go-to-market to best serve those clients across all segments with now a much richer product portfolio.

Product expansion – Marketing Solution

Let's dive into each one of these dimensions of our transformation. If we start by the product part, on the Marketing Solution side, we have full-funnel capabilities addressing the entire customer journey. Starting from the awareness – so awareness goals are addressed by driving brand awareness and video views with a focus on maximizing reach and delivering views. For consideration, which is a second step into the consumer journey, we can drive traffic to clients through website or apps, optimizing for visits or app installs in order to help our clients to get people to consider their products and services. Finally, conversion, which is the last part of the consumer journey, which is historically where we come from, our technology can drive sales across the web and the app by targeting visitors that have expressed already intent for those products and services.

So, those various solutions across the funnels are obviously addressing different objectives and needs for our clients. And these campaigns are being priced based on different metrics. While the awareness of – awareness – solution addressing the awareness objective would be priced primarily on CPM. The solution addressing the consideration objective would be priced by a mix of CPM or cost per install. And conversion, which is a traditional use case that we've been addressing, is priced primarily on cost per click.

Product expansion – Retail Media

If we move to the second family of solutions – Retail Media. Retail Media is a technology solution to enable retailers to generate advertising revenue on their own digital properties through ultimately monetizing their traffic, monetizing the data that they have on their platform with the brands. And our technologies, support the creation of campaigns across the full-funnel, and it's a way for the advertisers to compete effectively in a space where the market has been largely educated by Amazon that has created a massive advertising business, that made our clients – retailers realize the opportunities they have themselves to leverage the traffic on their digital properties to generate high-margin revenues and being far more competitive in front of Amazon.

Self-service adoption

Let's dive in the second dimension of our transformation, which is the adoption – within our product, the adoption of the enhanced self-services capabilities. We have integrated within our platform in order to address the need for our clients to have more control on their advertising. We have adopted self-service in the core of our platform with three core components of self-service features in our platform. The first component is the client sign-up and onboarding. So, we have – we are in the process of finalizing the development of a full set of functionality in our platform to enable our clients to independently and autonomously sign up on the platform and onboard on the platform.

The second step of the self-service capabilities that we brought in our platform is campaign management to allow our clients themselves to control their campaigns, select the type of audience that they want to target within their campaigns. Ultimately, select the type of supply or where they want to see their ads and be in control of the overall campaigns.

The third dimension of self-service capabilities we brought in in our platform is the analytics to provide more transparency and insight on the performance of the campaigns, thus enabling our clients to be fully in control and enabling to create a completely new self-service channel for the smaller clients as part of this self-service strategy.

Go-to-market approach

From a go-to-market standpoint, I've highlighted that this is a significant dimension of our transformation. We have a go-to-market approach that we have developed to best serve our clients with this much richer set of products now. And this go-to-market approach has the objective of first, adapt our sales organization to be able to position effectively what is now a multi-solution offering. The second objective is to be able to provide the right and the best level of service which is – suits the needs of each one of the segments. And the third objective is obviously to be able to scale operation and enhance our profitability.

In order to do so, we have redefined the tiering our clients across six main – six sub-segments; two sub-segments for the large clients; two for the upper mid-market; and two for the lower mid-market. Each sales channel has a different motion with a very consultative sales approach for the large clients, telesales approach for the top of the mid-market, and we are in the process of enabling a self-service model that would be ready from a platform standpoint by the beginning of Q3 and would become fully productive by the end of the year.

Good Progress

We are making good progress with several of our priorities. If we look at the most recent results, we've been generating high growth in our new solutions addressing objectives and use cases outside of our historical use case of conversion, with a growth of 74% of those revenue ex-TAC from the new solutions, which represent now close to 10% of our total business.

We've also been showing growth in our same client revenue, which is an important metric for us to assess whether our clients are growing their spend with us. And what we've seen is that our clients have been growing their spend through in particular the adoption of the new solutions. We've been growing our client base, which is now close to 20,000 – 19,000 clients at the end of Q1, always keeping a very high retention rate at close to 90%, which is one of the key attributes of our business.

Our app business has been growing fast at 32% in Q1, and we continue to make a significant impact in terms of direct publisher relationships through leveraging our Direct Bidder technology in the market, including increasingly in the app space.

Execution Delays

At the same time, we've been facing execution – some execution delays that we've highlighted at the time of the Q1 earnings calls that has led us to take a slightly more modest view for the growth for the full year. Those execution delays are really focused in two well identified areas. We need to accelerate the sales growth of our new solutions. What we've experienced is that the transformation from a sales execution standpoint is quite profound from selling a single solution addressing one use case to selling now a multi-product solution as a platform addressing multiple use case. So, we've got a clear set of actions to address these execution gaps in terms of scaling the new solutions.

And the second aspect on which we've experienced delay is around the acceleration of our demand-generation programs for the new self-serve channels that is going to be ready from a product standpoint by the end of Q2. We still have work to do in terms of creating the new capabilities to create generation of demand on our platform now in the self-serve platform by enabling lead generation through direct marketing. So, we are going to use now direct marketing for ourselves, which is something completely new for Criteo, as well as creating the ecosystem of third-party partners, as well as partnerships with e-commerce platform in order to create the demand on this new channel.

We are very excited by the opportunity that this new channel is going to bring to us. We have low penetration in the mid-market today, and through this new self-serve channel, we expect to address a significant portion of the mid-market that we don't address today.

Transition Year in 2019

So, 2019 is another year of transition for Criteo, with an increased focus on profitability. While we took a more modest view for the growth for the full year, we have reiterated our profitability objective of 30% EBITDA – adjusted EBITDA margin for the year. Which will mean that we are going to have a stronger focus on profitability management, ensuring that we deliver efficiency in our core model in order to invest – continue to invest at the same time in the new solutions and create the conditions and pave the way to increase our margin from 2020.

Investment Thesis

As a conclusion, our strategy of becoming the leading advertising platform for the open Internet addressing many more use cases that we've been addressing in the past allows us to tap into much larger market opportunities – 3X what was the initial market opportunity for retargeting. We have a clear vision. We have very strong competitive moats that we've built along the years.

Looking at the size of our customer base, the stickiness of this customer base, the trends of our technology platform – our AI platform, as well as the 'shopper graph' strength that we've built over the years, we have a proven track record of execution, of commercial success across a very large customer base, which creates a unique opportunity for us to bring more value to those customers. And even after having taken a most modest view for the year, we have a very attractive financial profile with a cash generative profile, a strong margin and the potential to increase those margins from 2020.

Closing Remarks

Thank you very much. That's what I wanted to give you as an introduction, I will say, before taking your Q&A in the five – ten minutes that remain.

Q&A

Benoit Fouillard: Any questions from the room?

Speaker: Hi. So, I was wondering whether you could potentially talk about the threat of Google removing the cookie and introducing maybe like a device ID and how that might impact parts of your business?

Benoit Fouillard: Thanks for the question. It's right that there has been significant, I would say, fear built in the market that has impacted our stock as to what Google would do around Chrome. And one of the – I would say – “bear” scenarios that seem to be factored into the mind of investors over the last few months was around Google adopting in Chrome by default settings that would prevent tracking cross-site in the same, I would say, spirit than what was done by Apple. So, that was the fear out there. What's good is that, over the last few weeks, there was some good clarification from Google as to what were their intentions with respect to Chrome. I think what they've been very clear about is that there is no intention to change the by-default settings in Chrome with respect to third-party cookies. I think what has been also confirmed by Google is that any change that they would make – you know, in order to give more control to the users on their experience with Chrome would be done in a manner that would be the least disruptive for the overall ecosystem, being the advertising ecosystem and the publisher ecosystem.

There has been no announcement from Google with respect to introducing – stopping to use cookies or introducing a separate ID. And I'll come back to that, because that's not necessarily bad news if they were to consider that at some point.

So, within the last few weeks, there has been a clarification that, in fact, the bear case that seemed to be built in the mind of many investors is not going to happen. However, there are still things that are unknown. We don't know exactly when from a timing standpoint Google is going to implement the changes. We expect that this is not going to take place before the end of this year. And we don't know yet – we have not seen how the user interface is going to look like – so, what the user is going to be offered in terms of choices. So, there are still things that we don't know, but clearly the scenario which was a very negative scenario is off the table.

With respect to impact with what we know today, we believe that with what we know today the impact on our business of changes in Chrome should be neutral to very minimal negative impact at this point.

Now, with respect to the second part of your question on implementation of an ID within Chrome, that would not be necessarily bad news if Google had considered. Apparently, they don't consider that at this point. But that would not be necessarily bad news, simply because if you look at cookies, cookies have been – have not been designed for advertising day one, which is very different from what happened in the apps ecosystem. In the apps ecosystem, there are some IDs for advertising that have been defined from day one for advertising and are much more – I would say – smooth to use than cookies. So, it would not be necessarily bad news to have an ID introduced by Google, assuming especially in the current climate that – where Google is under very strict scrutiny from regulators around any anti-competitive position. And it would be in the interest of Google to – if they were to bring in new IDs for this ID to be widely open to the ecosystem. So, it would not be necessarily bad news. But that's not what they've decided at this point.

Any other questions. We still have five minutes.

Speaker: So, you talk about your 9% of sales. Can you talk about your core business? What are you seeing in terms of trends for the 90% of sales of your core business?

Benoit Fouillard: Yeah, obviously. The reason why we talk – just to be clear – the reason why we talk a lot about the new products is because they support our strategy and we are excited by the momentum that we see and the opportunity around those new products. I'm just reminding that our ambition is that this 10% becomes over three years something really meaningful – around 30%.

With respect to our core business, or the use case of conversion – re-targeting, what we've seen is a business in Q1 that overall in retargeting was just slightly negative – low single-digit negative with a mix of dynamics within the core business. It's a business that is maturing, but still offers significant opportunity for growth, particularly in the mid-market. As I said, we just launched – we're in the process of launching a new self-serve channel, and this self-serve channel will allow us to go and address a portion of the market we don't address today in a mid-market where our penetration in number of accounts is only around 30%.

So, if we look at the dynamics, there is still opportunity to grow our client base in the mid-market; and what we see is a dynamic within the environment which is quite different. If you look at – you know our business started – you've got the web and the app, which are two different environments. Within the web, the desktop is clearly an environment where there is no more growth at this point, simply because the usage is – has been shifting to mobile. In mobile web, we see some modest growth there. And what we see in the app is – because the use of the app is increasing quite significantly, we see growth in the mid-teens. So, if you combine all of that, the dynamics has been flat to slightly negative and that's what we would expect to see for the rest of the year.

Speaker: Just going back to Google and your relationship with Google, you said at the beginning that your clients like to have the open market Internet. What is the key technology that you have that Google doesn't have in terms of your core business? I mean, why couldn't they not just shut you out altogether?

Benoit Fouillard: Oh, I mean, they have not over the last seven-eight years. As you know, Google has launched exactly a competing product, I think eight years ago. And if you look at the core retargeting marketing today, we're number one with we estimate are around one-third of the market and Google is number two. So, from a technology standpoint, our technology, the performance of our solution, is very well-recognized and is recognized to be better from a pure performance standpoint as Google on the core use case.

What we are offering today on the top of this core use case is now addressing more use cases for our clients. This is what they want. And they want it because simply our clients don't want to be solely dependent on Google and Facebook. That's very important to understand. You know, we don't have the ambition to displace Google from – our clients are going to continue to use Google. But they value the fact of having a partner that brings the neutrality that we bring, that brings a choice for them.

But what we need in order to execute on this opportunity of being this natural partner and being the leading advertising platform for the open Internet is we need to execute fast on addressing those new use cases through our strategy. Simply because our clients, what do they want? They want to have an additional partner. But they don't want to have multiple

partners. They want to have other partners that can address all of their core use case across the customer journey from the awareness to the conversion, and that's what we are doing. So, it's really a matter for us – the opportunity is there – it's a matter for us to execute fast. And we don't see a scenario – certainly not in the current climate from a regulatory standpoint on the top – where suddenly the ecosystem would be shut down and there will be only as alternative Google and Facebook.

I think we have to close here. Thank you very much.

[END OF TRANSCRIPT]