

1 Criteo Q1 2022 Earnings Call | Prepared Remarks

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

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

4 Joining us on the call are Chief Executive Officer Megan Clarcken, Chief Product Officer Todd
5 Parsons and Chief Financial Officer Sarah Glickman. As usual, you will find our investor
6 presentation on our IR website now, as well as our prepared remarks and transcript after the call.

7 Before we get started, I'd like to remind you that our remarks will include forward-looking statements,
8 which reflect Criteo's judgment, assumptions and analysis only as of today. Our actual results may
9 differ materially from current expectations based on a number of factors affecting Criteo's business.
10 Except as required by law, we do not undertake any obligation to update any forward-looking
11 statements discussed today. For more information, please refer to the risk factors discussed in our
12 earnings release, as well as our most recent Forms 10-K and 10-Q filed with the SEC.

13 We'll also discuss non-GAAP measures of our performance. Definitions and reconciliations to the
14 most directly comparable GAAP metrics are included in our earnings release published today.

15 Finally, unless otherwise stated, all growth comparisons made during this call are against the same
16 period in the prior year.

17 With that, let me now hand it over to Megan.

18

19 [Megan Clarken](#) – Chief Executive Officer

20 Thanks Melanie and good morning everyone. Thank you all for joining us today. We're off to a solid
21 start this year, and we've never been so energized about the opportunity ahead of us.

22 Let me jump straight in with an update on our proposed acquisition of IPONWEB's business. We
23 have conducted a review of IPONWEB's business continuity plans and the progress of its planned
24 relocation of its Russian-based engineering resources, and we're encouraged that IPONWEB is
25 taking appropriate steps and has seen minimal disruption to its business. We're in close discussions
26 with the IPONWEB team to restructure the proposed transaction and we look forward to providing
27 additional updates. In the meantime, we're working with IPONWEB through our existing commercial
28 arrangements to continue to execute on our Commerce Media Platform vision and deployment.

29 I want to zoom out a bit to make sure that we remind everyone of the opportunity that exists around
30 Commerce Media and what is the most attractive secular growth trend in our industry today. The
31 next wave of advertising is upon us, and like its predecessors in display, search and social, it's
32 expected to be huge. It is of course Commerce Media.

33 **Criteo has been talking about Commerce Media for some time.** Commerce Media is the
34 opportunity that comes when you connect consumers, marketers and media owners to drive
35 commerce outcomes.

36 It starts with Retail Media. Retail Media is enabling retailers to create personalized advertising
37 experiences on their owned digital assets or digital in-store content - effectively making them media
38 owners. We call this onsite advertising. They're using their own first-party data to inform that
39 experience and closed loop measurement to demonstrate outcomes. This is effectively the
40 extension of offline Shopper Marketing to online. This movement is opening a new and high margin
41 revenue stream for retailers. The Retail Media opportunity goes further when the retailer extends its
42 advertising reach offsite and across the open internet – effectively looking for more opportunities to
43 attract and retain targeted consumers beyond its own content walls. This we call offsite advertising.

44 This opens up retailers to a new revenue stream while attracting brands to boost their visibility on
45 the digital shelf and further attract and retain commerce audiences. It also attracts new dollars to
46 media owners across the open internet as ads flow offsite.

47 Commerce Media expands Retail Media to non-retail media owners - it is the broader ability to
48 monetize for commerce anywhere where consumers spend their time. It enables advertisers to
49 attract, convert and retain consumers by engaging audiences on media owners' properties across
50 the open internet, and it connects ad spend directly to commerce outcomes. The powerful

51 combination of commerce data and deep machine learning to form commerce audiences is the
52 foundation of successful commerce media strategies.

53 For Commerce Media and specifically for retailers focused on Retail Media, Criteo has been
54 providing the platform that enables Retail Media for over 5 years. We are the tech enabler for large
55 retailers including Lowe's, Best Buy and Target, who are leading the way in this rapidly growing
56 space. We're encouraged by the value that large retailers are seeing in this new advertising frontier
57 as we've heard over and over again in their earnings commentary.

58 **It stands to reason given that Commerce Media is currently estimated to reach a \$180 to \$200**
59 **billion TAM** over the next four years. The rise of Commerce Media has come about as a result of
60 the quest to monetize valuable first-party customer data which retailers and other media owners
61 have struggled to fully utilize for many years. Unlocking that data value has surfaced a valuable
62 advertising opportunity within their online stores and a data hook between offline and online
63 marketing tactics.

64 **Criteo's Commerce Media Platform is front and center in this.** Let's take a look at a recent client
65 partnership that we've formed which unlocks this opportunity.

66 The game-changing Commerce Media Platform agreement that we recently signed with Flipkart,
67 India's homegrown e-commerce marketplace, is a great example. Using our platform, brands will
68 have access to best-in-class advertising solutions with Criteo's Commerce Media technology,
69 including our offsite capabilities, and Flipkart's audience scale. As part of this partnership, the launch
70 of Product Performance Ads will enable advertisers to deliver their full-funnel marketing goals on
71 the open internet by leveraging our technology and Flipkart's audience signals for highly relevant
72 reach and higher overall campaign efficiency. This represents a truly exciting partnership for both
73 of us.

74 Similarly, we've renewed our focus on our partnership with Shopify, which enables merchants of all
75 sizes to take advantage of our platform and expansive global reach to target users across all
76 channels and devices, and there is a lot more to come there.

77 Here are the primary reasons why clients are choosing Criteo for their Commerce and Retail Media
78 needs and why we expect to continue to win their business:

79 - First, what makes our Commerce Media Platform **unique** is **bringing together onsite**
80 **advertising with offsite advertising across multiple formats**. What's important to our
81 marketer and retailer clients is the ability to engage consumers effectively throughout their
82 shopping journey. Our goal is to have one tech and one data source to never lose sight of

83 the consumer as they engage with content. We believe our Commerce Media Platform will
84 realize that single view across the buy and sell side. This creates consistency and eliminates
85 one of the biggest issues for clients of platform fatigue and tech tax – a bi-product of multiple
86 platform loads.

87
88 - Second, **operating both demand and supply side solutions at scale creates powerful**
89 **network effects** that benefit brands, agencies, retailers, publishers and also Criteo. Today,
90 we work with about 22,000 commerce clients, thousands of publishers and activate close to
91 \$3 billion in annual media spend through our platform. In Retail Media alone, we support
92 more than 100 retailers and over 1,500 brands. We are seeing increased supply attract more
93 demand to our platform and vice versa.

94
95 - Third, our **16 years of proprietary commerce-focused AI leveraging our huge commerce**
96 **data set** from approximately 725 million daily active users and unique access to over \$1
97 trillion of e-commerce sales is a differentiator. We continue to expand our reach with daily
98 active users growing 6% compared to last quarter. In the U.S. alone, our largest single market
99 and the biggest advertising market in the world, our daily active user reach is over 50% of
100 the U.S. population. The chances of us finding overlap consumers for retailers onsite and
101 offsite is huge. Adding to that our ability to find and attract new consumers through our reach
102 and combination of AI and data, this drives commerce outcomes and maximizes return on
103 ad spend for our clients. This unlocks revenue for our clients. Nobody has the same tech
104 stack and breadth of commerce data on the open internet. In a world of diminishing operating
105 system signals, data, reach, scale and AI is critical.

106 Let's turn now to our first quarter performance. We **delivered constant currency growth of 6%,**
107 **our fifth consecutive quarter of Contribution ex-TAC growth**, demonstrating continued business
108 momentum. This was driven by strength in Retail Media, growing close to 50%, Audience Targeting
109 growing over 40%, and to a lesser extent the bounce-back of Travel. This more than offset the
110 slower macro environment, and suspension of our operations in Russia. Once again, our focus on
111 growth and execution is yielding results. Sarah will take you through more detail shortly.

112 **We remain confident in our Commerce Media Platform strategy, the execution of our plan**
113 **and our growth momentum.** The media spend activated by our Commerce Media Platform is a
114 good indicator of the scale that we continue to build across our business, and increased 12% to
115 \$645 million this quarter.

116 We're thrilled to welcome Brian Gleason as our Chief Revenue Officer, and he's hit the ground
117 running. His top priority is to realize the full potential of our Commerce Media opportunity and
118 execute our go-to-market strategy to drive sustainable growth. As a media agency veteran, his
119 client-first mindset and proven track-record of scaling businesses is instrumental as we embark on
120 our next phase of growth.

121 Brian has come in at exactly the right time as we continue to sign deals with large marketplaces and
122 flagship retailers including Flipkart and Michaels. He also joins us just as we launch exciting new
123 clients including Nordstrom, and Farfetch on our platform, and expanded further adoption with eBay.

124 Brian's agency heritage brings even more firepower to our agency channel work which is really firing
125 on all cylinders, with over \$200 million in activated media spend or about 32% of our overall business
126 coming through agencies in the first quarter, compared to 30% a year ago. As the Retail Media
127 partner of choice on the open internet, we offer agencies incentives and first-to-market opportunities
128 within our Retail Media ecosystem and platform globally, and we're seeing strong traction with our
129 agency partnerships. These partnerships facilitate seamless integrations and higher volume of
130 media spend. Our global partnership with GroupM is delivering at pace and we've recently signed
131 a global agreement with Ascential and its world-class ecommerce agencies, and a U.S. deal with
132 another large agency holding company. We expect more on this front in the future.

133 Our business is no longer a point solution business like most others in AdTech. We are a platform
134 business - more specifically, a Commerce Media platform business focused on Retail Media at our
135 core. We think about servicing our clients' needs everyday as they relate to acquiring and retaining
136 customers and we use the breadth of our tech excellence to do that with efficiency. Our ability to
137 attract and retain customers for our clients does not have to rely on third-party operating system
138 signals, however, we will use them while they exist and assist our clients as they move away from
139 them - essentially embracing more privacy enabled controllable and reliable signals.

140 I might note that those signals have become high functioning infrastructure that the entire internet
141 has been developed on for measurement, context, user experience and more for a good part of 25
142 years. For the operating systems to remove them and expect the world to function just so - is not
143 fair. We commend the UK's CMA for their efforts to manage this. We in turn will help our clients
144 navigate any change - using our data, our AI, our reach and the cool and innovative work that's
145 coming out of our Product and R&D organizations. To tell you more, I'll hand it across to Todd.

146 But, before I do that, I'd like to take this opportunity to **thank all our Criteos for their hard work**
147 **and relentless dedication to our clients.** We are actively adding talent to the fast-growing areas
148 of our business and pleased to be an employer of choice in our industry. This is a reflection of our

149 values and commitment to put people first. Just recently, we **signed the LEAD Network CEO**
150 **Pledge** to strengthen our strong commitment to sustain pay equity globally and to advance career
151 paths in technology for women. Sustainability is at the core of everything that we do and we continue
152 to **enhance our ESG disclosures**. We are committed to the **United Nations' Sustainable**
153 **Development Goals** and we've adopted the Sustainable Accounting Standards Board reporting
154 framework in our recently published Corporate Social Responsibility report.

155 With that, I'm pleased to turn it over to Todd.

156 [Todd Parsons](#) – Chief Product Officer

157 Thank you, Megan. Good morning, everyone.

158 Let me start with some perspectives on our progress to date. Our priority is - and has always been
159 - to connect consumers, marketers and media owners and to drive commerce outcomes. Over the
160 years, Criteo solutions have grown to span the entire consumer commerce journey - from
161 discovering brands and products for the first time to ensuring the best opportunities for a sale, to
162 making each subsequent visit more profitable - all in privacy-safe ways. The loss of certain signals
163 starting with Apple's ITP in 2017 triggered our efforts to find innovative ways to engage with
164 consumers and diversify our approach away from retargeting for the benefits of both our clients and
165 consumers – and we've accelerated our innovation over the past two years. I'd like to walk you
166 through some tangible examples of how our Commerce Media Platform strategy is coming to life,
167 and how we are ensuring our clients can acquire and retain quality audiences.

168 **First, we are proving that we can help our marketers better engage with consumers at scale**
169 **as signals disappear**. Our clients tell us that performance advertising is a critical need, and we
170 continue to solve that problem for them. We leverage the unrivaled combination of our AI and
171 commerce data to create privacy-safe audiences over each step of the consumer commerce journey.
172 As an example, we've run hundreds of live tests for acquisition and retention specifically on iOS
173 over the past few months. I am pleased to say that we successfully helped our marketer clients
174 recover lost traffic and therefore maintain their spending in this environment during these tests.
175 While still early, these are really exciting results. We look forward to further scaling our audience
176 targeting to mitigate the impact of third-party signals going away in environments like iOS or Safari
177 today, and Chrome or Android in the future, with the added benefit of continuously improving our AI
178 decisions along the way.

179 **Second, we are building a Commerce Media Network with industry-leading scale in first-party**
180 **data**. We're continuously looking for innovative ways to solve complex problems, and ultimately, we

181 believe our First-Party Commerce Media Network will help marketers and media owners preserve
182 and increase their ability to reach relevant users and personalize campaigns by onboarding,
183 enriching, and activating first-party data. As you know, we have access to first-party data from about
184 22,000 marketer clients and approximately 60% of our daily active users on the Web are
185 addressable through media owners we have direct access to. This is a key priority for us, and we
186 continue to **expand direct supply relationships** and **add multiple new publishers**. With our
187 Commerce Media Platform strategy, we are offering new ways for media owners to get the best
188 monetization and yield out of their media. Our proposed acquisition of IPONWEB would also expand
189 our direct publisher footprint and enhance our potential to operate and activate more first-party data
190 than ever before.

191 **Third, we innovate to support new shopping experiences.** Shoppable video is a great example
192 of solutions that are at the forefront of our bringing commerce to content where consumers spend
193 their time discovering our customers brands and products across the open internet. Today, we're
194 pressing further to bring retail storefronts and other interactive commerce experiences across our
195 network, including experimentation with in-game and livestream media. This work will continue to
196 expand our customers' ability to engage audiences in all commerce friendly environments through
197 our Commerce Media Platform.

198 Lastly, we remain invested in any development related to industry-wide initiatives that may improve
199 consumer privacy as it relates to commerce. IAB's Seller Defined Audiences and Google's Privacy
200 Sandbox are two examples, and we will be participating in Google trials of TOPICS and Fledge
201 which are just about to start. As we did with FLoC beforehand, our approach will be to provide a
202 quantitative view on how these initiatives could meet marketer and media owner objectives while
203 respecting consumer privacy rights. Much more to come here and we'll update you throughout the
204 year.

205 Now, let me highlight some **wins**.

206 Starting with Retail Media, the **powerful combination of our onsite and offsite advertising**
207 **capabilities represents a unique value proposition** and key differentiator. This is why Flipkart
208 chose Criteo. We are able to extend retail media capabilities offsite to recommend brands to new
209 consumers and maximize spend from these brands. By leveraging their existing integrations for
210 onsite retail media monetization, retailers partnering with Criteo can seamlessly enable brands to
211 target audiences across the open web, as well as measure results at the SKU level. A number of
212 our onsite global consumer brands are increasingly leveraging our offsite capabilities to drive higher
213 traffic and, in many cases, also drive higher conversion. They also benefit from a holistic

214 assessment of their marketing strategies and spending. We are only getting started and we are very
215 excited about the tremendous upselling opportunities coming with offsite. We look forward to
216 showcasing our **integrated onsite and offsite self-service campaign management and**
217 **measurement capabilities** when we are at Cannes Lions next month.

218 To best address the needs of our clients, **we're evolving to always-on audience marketing**
219 **strategies** from point solutions, offering access to full-funnel capabilities and commerce audiences
220 through our Commerce Media Platform. In practice, that means that our clients can choose different
221 types of audiences, different types of targeting and engage them across web and app environments
222 to attract, convert and retain customers. With the power of our AI-driven audience modeling, we are
223 enabling our clients to expand their reach and drive successful, measurable commerce outcomes.

224 It is clear that our always-on approach is resonating with our clients who value having one partner
225 to help them engage with consumers across their entire buying journey. It is exciting to see clients
226 who traditionally have come to us for customer retention now adopt customer acquisition solutions,
227 thus increasing their total media spend with Criteo. As an example, one of our CPG customers
228 recently adopted our always-on approach and has since increased its total media spend with us by
229 44% with customer acquisition now accounting for 89% of its total spend. Another example is a
230 fashion client that previously didn't spend any upper funnel budget with Criteo and is now dedicating
231 67% of its budget to customer acquisition, increasing its overall spend with us by 20%. These are
232 only a few examples that emphasize our ability to deliver valued solutions that unlock new upper-
233 funnel budgets and enable us to operate more data. To date and on average, we're seeing the
234 spend related to acquisition audiences double and account for about half of the total media spend
235 when clients are switching to always-on strategies. These early results are exciting and, we believe,
236 will further enhance overall customer lifetime value going forward.

237 I will now turn it over to Sarah who'll take you through our Q1 performance and financial outlook.
238 Sarah?

239 [Sarah Glickman](#) – Chief Financial Officer

240 Thank you, Todd, and good morning, everyone.

241 **Starting with our financial highlights for Q1 2022.** Revenue was \$511 million and Contribution
242 ex-TAC was \$217 million. Reported Contribution ex-TAC reflects a year-over-year \$10 million
243 unfavorable forex impact.

244 Contribution ex-TAC grew 6% at constant currency with Retail Media up 48% and Audience
245 Targeting up 42%. As previously communicated, Q1 results were slightly impacted by a slow start

246 for ecommerce in the UK and France, and the suspension of our Russia operations in Q1. The
247 impact from the loss of signals represented \$20 million, including iOS, in line with our guidance.

248 We continue to shift our top-line mix with Retail Media and Audience Targeting representing 29%
249 of Contribution ex-TAC in our first quarter, up from 21% a year ago. We benefitted from continued
250 upselling and cross-selling with a third of live clients using multiple Criteo solutions. This is a key
251 performance indicator for us as a cornerstone of our Commerce Media play. Client retention
252 remained high at close to 90%.

253 **Turning to our business segments, in Retail Media**, activated media spend expanded by 58%
254 year-over-year to nearly \$165 million. Revenue was \$47 million, and Contribution ex-TAC was up
255 48% to \$31 million. Growth was primarily driven by our U.S. customer base, including being the
256 white-label platform enabler for flagship retailers and reflected strong traction in CPG, our largest
257 and fastest-growing vertical.

258 **In our Marketing Solutions segment**, we are gaining traction for our “always-on” audience
259 strategies to help our clients to attract, convert and retain customers. During the first quarter, our
260 sturdy growth in Audience Targeting more than offset lower Retargeting, impacted by Russia and a
261 slower macro, slightly offset by a rebound in travel.

262 **We delivered strong profitability while investing for future growth.** Adjusted EBITDA was \$63
263 million in Q1 2022. Non-GAAP operating expenses increased 15%, including higher personnel costs
264 related to investments in commercial and product talent.

265 Moving down the P&L, Depreciation and Amortization increased 1% in Q1 2022 and share-based
266 compensation expense increased 20%. Our income from operations was \$28 million and our net
267 income was \$21 million in Q1 2022. Our effective tax rate was 33%. Our weighted average diluted
268 share count was 63.6 million compared to 64.1 million last year. This resulted in diluted EPS of
269 \$0.32 and adjusted diluted EPS of \$0.53 in Q1 2022.

270 **Our strong cash generation and cash position provide ample financial flexibility to execute**
271 **on our growth strategy.** Free Cash Flow grew 9% to \$69 million in Q1, reflecting strong working
272 capital management. We remain disciplined, balanced and shareholder-focused in our capital
273 allocation. We invest in profitable growth through both organic investments and value-enhancing
274 acquisitions. We also continue to deploy our strong balance sheet and return capital to shareholders
275 via our share buy-back program which we resumed in early March 2022.

276 **Turning to our financial outlook**, which reflects our expectations as of today, May 4th. As a
277 reminder, our financial guidance for Q2 and fiscal year 2022 excludes the proposed acquisition of

278 IPONWEB. Like everyone else, we remain cautious about our outlook for the remainder of the year
279 given the uncertain macro backdrop with ongoing geopolitical issues, high inflation, continued
280 lockdowns in Asia and global supply chain disruptions.

281 For 2022, we have updated our guidance and now anticipate **constant currency growth of 8% to**
282 **10% in Contribution ex-TAC**. This reflects the suspension of our Russia operations and lower
283 Contribution ex-TAC for Europe due to higher traffic acquisition costs for certain global supply
284 contracts denominated in USD. Our guidance for Retail Media is unchanged, and we expect
285 activated media spend to grow to over \$1 billion, and Contribution ex-TAC growth to be
286 approximately 50%. We also expect Contribution ex-TAC growth of approximately 40% for Audience
287 Targeting. Our 2022 **Adjusted EBITDA margin guidance remains unchanged at approximately**
288 **32%.**

289 **We view 2022 as a “ramp up” year and anticipate accelerated growth in 2023.** This will be
290 driven by the diligent growth investments we are making to deliver our ambition for the Commerce
291 Media Platform and growth for our agency partners and large Enterprise clients and publishers.

292 Given the weakening of the Euro and Yen against the U.S. dollar, we now estimate forex changes
293 to lower Contribution ex-TAC by \$34 million or 4 percentage points, compared to our previous
294 forecast of \$20 million. Approximately 30% of our Contribution ex-TAC is exposed to euro. There
295 are no changes to our annual effective tax rate and capital expenditures and we continue to expect
296 free cash flow conversion of about 45% of Adjusted EBITDA.

297 For Q2 2022, we have a cautious outlook given the macro and impact of Russia suspension. We
298 expect **Contribution ex-TAC of \$220 million to \$224 million, growing by 4% to 6% at constant**
299 **currency**. We assume forex impact of \$9 million and \$20 million for signal loss, primarily iOS. We
300 expect **Adjusted EBITDA of \$49 million to \$53 million** which includes higher expenses related to
301 marketing and a company-wide internal event that are scheduled for June.

302 To conclude, we are confident in our Commerce Media Platform to deliver value to our customers
303 and enable growth and resiliency. We have the tech stack and scale to deliver better performance
304 than anyone else on the open internet. As with any transformation, our path won't be linear. We are
305 confident in our ability to deliver sustainable growth for many years to come. We are excited about
306 the launches planned for Cannes Lions. We also are planning to host an in-person investor event
307 in the third quarter to meet our team, share more on our innovation and provide a comprehensive
308 mid-term growth outlook.

309 The future is wide open for Criteo.

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

311 [...Q&A...]

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

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