CRITEO

May 2, 2024

Criteo Q1 2024 Earnings Call | Prepared Remarks

Melanie Dambre – VP, Investor Relations

Good morning, everyone and welcome to Criteo's first quarter 2024 earnings call.

Joining us on the call today, Chief Executive Officer Megan Clarken and Chief Financial Officer Sarah Glickman are going to share some prepared remarks. Todd Parsons, our Chief Product Officer, will join us for the Q&A session. As usual, you will find our investor presentation on our IR website now, as well as our prepared remarks and transcript after the call.

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

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

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

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

Megan Clarken – Chief Executive Officer

Thanks Melanie and good morning, everyone. Thank you all for joining us today. We're off to a great start in 2024. We continue to transform our company into a Commerce Media powerhouse, and we're gaining more and more momentum. We delivered double-digit organic growth for the second consecutive quarter and achieved record top line results in Q1 while nearly doubling our adjusted EBITDA from the same period last year. I'm very proud of the incredible work from our teams. These results are testament to our laser focus and steadfast execution.

As we continue to make progress on our plan, we're even more excited about our future and confident that we have the right strategy to capitalize on the next wave of digital advertising and deliver value for our shareholders. We've built the only unified platform that directly connects advertisers with retailers and publishers, and we believe we've repositioned our business to be the leading AdTech player in Retail Media and the platform of choice for performance-based advertising.

Starting with Retail Media, we continue to gain market share with 38% year-over-year growth in activated media spend, outpacing the market. We have a leading and growing market footprint with close to 225 retailers and 2,700 brands globally. This is now miles ahead of any competitor with our scaled network of retailers becoming the obvious complement to Amazon when buying Retail Media. Our global presence, ability to scale quickly, our end-to-end capabilities, simple-to-use products, AI-driven performance and world-leading sales and product expertise remain key differentiators.

We continue to expand our coverage. We're delighted to have extended our partnership with Walmart Connect in Guatemala, Costa Rica, Nicaragua, Honduras, and El Salvador, further broadening our Retail Media presence in LATAM. In the U.S., we're proud to add new retail partners including a leading retail department store chain and a TV and online shopping platform. We also continue to win new retailers in APAC, including David Jones in Australia and drugstore chain Welcia in Japan. We're quickly ramping up our newly signed partnerships, including Albertsons, and expanding our reach into adjacent commerce verticals as exemplified by the recent addition of Ticketmaster to our platform, the world's leading ticket marketplace. We also look forward to expanding our partnership with Uber Eats, as we work with them to go into new categories and add new ad formats.

With our relentless focus on driving demand, or said differently, attracting advertising spend to our retailers' sites, our access to unique and premium Retail Media inventory at scale has been instrumental in achieving this. We added over 100 new brands in Q1, and saw continued strong growth through our agency partners, by making Retail Media easily accessible to them via

Commerce Max. In the U.S. alone, agency spend reached about $100 million for the first time this quarter, with 40% coming from three agency Holdcos growing by triple digits in Q1. We expect sustained momentum as our multi-year partnerships with leading agencies and brands represent hundreds of millions of dollars of spend anticipated to come through our platform in 2024 and beyond. Evidence of this can be seen with our largest brands who are now advertising on 50% more retailer sites than they were last year.

Commerce Max drives demand to both retailers' own inventory and to offsite campaigns using retailer data assets to extend their reach across open internet inventory. Fresh Direct is one of the latest retailers to participate in offsite campaigns with our Commerce Max DSP. Further to enabling demand through direct channels via Commerce Max, we're also focused on indirect demand channels. While still early days, opening more channels creates further opportunities to scale. Our Commerce Grid SSP gives brands a further way to access our retailer audiences for offsite campaigns run through third-party DSPs. This means more channels for retailers to attract additional demand and more revenue opportunities. Nobody else offers such flexibility and optionality to reach the most valuable audiences and connect supply so efficiently with demand.

In advertising, results are supported by measurement. Measurement is critical to buying and selling and helping brands and agencies understand the effectiveness of their Retail Media spend. In February, we gained our first MRC accreditation for Retail Media measurement. This is an important step forward as we help to unify the ecosystem. MRC accreditation of our Retail Media measurement means that the data provided by Criteo, is certified to the level of the currency data used in buying and selling traditional media, and digital display, and therefore is comparable. Our measurement can be used to make decisions across platforms and media buys. This accreditation underscores our reliable and advanced measurement capabilities for both onsite sponsored products and onsite display ads, and represents a significant step forward to drive larger brand investments in Retail Media. We're also working with key third-party verification leaders like Integral Ad Science and DoubleVerify to enable viewability and invalid traffic measurement across our network of retailers.

Overall, we expect significantly more dollars to continue to shift to Retail Media because it helps brands take advantage of retailers' increasingly valuable first-party data to connect with consumers. 83% of agencies rate the performance of Retail Media spend as more effective than other channels in terms of sales impact, according to our recent ecosystem survey. Today, more than half of brands and agencies in all regions are investing in Retail Media both onsite and offsite.

Lastly, we remain at the forefront of Retail Media innovation by integrating Generative AI into our global platform. We're testing sponsored ads into conversational environments as consumers progressively use chatbots on retailer websites as part of their shopping experience.

Turning to Performance Media which encompasses our targeting capabilities, including Commerce Audiences, and our supply and AdTech services from our Iponweb acquisition. Again this quarter, our growth was led by Commerce Audiences, up an impressive 54% year-over-year. Commerce Audiences are a set of precision targeting tactics that leverage the largest commerce dataset on the open internet and best-in-class AI to help advertisers acquire and retain customers. Our strong momentum is driven by the accelerated adoption of first-party data driven solutions, successful cross-selling efforts, incremental third-party demand through our Commerce Grid SSP and AI-driven performance enhancements.

First, we're seeing notable success with our first-party data-driven commerce audiences, as we capture both new budgets and budget shifts from Retargeting. With privileged access to first-party data, our various targeting tactics enable advertisers to reach relevant consumers everywhere. For example, we're activating advertisers' first-party audiences through integrations with about 40 customer data and data collaboration platforms to reengage existing customers and turn them into loyal shoppers.

Second, we're actively capitalizing on cross-selling opportunities as our clients value having one partner to help them engage with consumers across their buying journey. Almost all of our top clients in each region buy Commerce Audiences. In fact, 75% of our Performance Media revenue, excluding supply and AdTech services, comes from clients using Commerce Audiences in addition to Retargeting.

Third, we're attracting more demand via our Commerce Grid SSP. Our SSP gives agencies and brands access to our Commerce Audiences packaged with publisher inventory to run highly targeted campaigns through third-party DSPs, including Google's Display & Video 360. This means distribution at scale.

Finally, AI-driven performance enhancements drove an increase in Contribution ex-TAC in the double-digit million range in Q1. Our cutting-edge AI is front and center in our ability to differentiate through superior performance. Just two weeks ago, we received the 2024 SBR Technology Excellence Award in the AI - Advertising category for our DeepKNN technology. This acknowledges the ground-breaking innovation we're bringing to market, transforming the way marketers engage consumers through personalized and impactful advertising.

In addition, Retargeting remains an important tactic valued by marketers. Retargeting grew slightly in Q1, including the activation of Meta's large-scale inventory in combination with open internet inventory. We saw a meaningful increase in the number of Facebook and Instagram campaigns in Q1 compared to last quarter, and we expect continued traction as we progress through the year. This is part of our Next Generation addressability strategy, and is one of our addressability pillars bringing resilience to our Retargeting business going forward.

As you know, Google announced that they won't deprecate third-party cookies until early 2025. This is just a few months delay, and we continue to advance our comprehensive, multi-pronged addressability strategy to future-proof our clients' advertising performance. This delay means upside to our business in 2024.

Regardless of any scenario, we believe our Next Gen addressability strategy gives us an edge in the market. We already bring AI-driven performance to our clients in cookieless environments today, and we continue to expand our capabilities to drive the best outcomes for our clients without third-party identifiers. Our stable testing of the Privacy Sandbox APIs involving 1 % of Chrome's traffic without third-party cookies is still ongoing, and we'll report back to the UK's CMA when completed.

Building on our differentiation, we continue to innovate and prove that our commerce-focused AI helps advertisers engage privacy-first commerce audiences throughout each step of the consumer journey as user signals disappear. By leveraging our deep learning models at the intersection of proprietary interest groups, commerce data and media data across retailer sites, social media platforms and the open internet, we're pioneering the future of post-cookie advertising.

We're confident in continuing our positive momentum, and our recently announced investor update in the fall will be an opportunity to provide a broader update on our Retail Media business and opportunities. Stay tuned for more details on that.

To conclude, I'd like to take a moment to thank all of our shareholders for their valued feedback over the past couple of months. We remain open and will continue to consider all opportunities to create further value for shareholders. We're confident in our business strategy and financial strength, and we're laser-focused on execution of our Commerce Media powerhouse vision.

We believe we're best positioned to lead the market with Retail Media being the fastest growing segment of advertising, and Performance Media bringing the most valuable commerce audiences to global advertisers.

With that, I'll hand the call over to Sarah, who will provide more details on our financial results and our outlook.

Sarah Glickman – Chief Financial Officer

Thank you, Megan, and good morning, everyone. Our first quarter performance reflects outstanding execution and strong cost discipline.

Revenue was $450 million and Contribution ex-TAC increased to $254 million. This includes a year-over-year headwind from foreign currencies of $4 million.

At constant currency, Q1 Contribution ex-TAC grew by 17%, up sequentially compared to our growth of 10% in Q4, with strong performance across the board.

As part of our transformation, we continue to shift and rebalance our top line mix and our new solutions represented slightly more than half of our business in Q1.

Client retention remains high at close to 90% and about 40% of our clients are using more than one of our solutions. Clients who engage with multiple products, more typically our largest clients, have a seven times higher Customer Lifetime Value than those who only use one product.

As previously communicated, we updated our segment reporting structure beginning in Q1 2024, and we now have two segments: Retail Media and Performance Media. Both segments delivered strong growth in Q1. Our Retail Media segment encompasses revenue generated from brands, agencies and retailers for the purchase and sale of retail media inventory, audiences, and services. Our Performance Media segment encompasses revenue generated from our targeting capabilities and supply and AdTech services.

Starting with **Retail Media**, revenue was $51 million and Contribution ex-TAC grew 34% at constant currency to $50 million. Our growth was primarily driven by our client base in the U.S., Germany and the UK, and our retailer marketplaces. We benefited from the contribution of newly signed retailers, and growth from existing clients remains strong with same-retailer Contribution ex-TAC retention at 136%.

During the first quarter, we also benefited from new licensing and services fees with our largest retailer client while they started to transition to their direct sales model, and an earlier Easter compared to last year.

It’s important to highlight that we benefit from a robust and expanding base of clients in Retail Media, and that we continue to experience strong client retention. Many of our retailer partners, including our largest client, have been successfully growing with us for many years. At the same time, we have been expanding our client roster, and we are seeing growth in every annual retailer cohort. Notably, in our recent cohorts, Contribution ex-TAC for our retailers in their second year doubled year-over-year in Q1, and our cohort of retailers in their third year grew over 50% in the same period. Remember, this growth comes from retailers already selling directly to their largest brands, which we call retailer-sold demand.

On the demand side, we continue to see significant expansion with CPG brands, and we onboarded 100 brands again this quarter. We have momentum with our agency partners, and we are pleased to see our 2,700 global brands prioritize Retail Media as a key channel for their investments. This is a trend we expect to continue as first-party data becomes increasingly valuable and brands are looking to reach large, global audiences of shoppers.

In Performance Media, revenue was $399 million and Contribution ex-TAC was $204 million, up 13% at constant currency. Again this quarter, we saw impressive growth in Commerce Audiences targeting, up 54% year-on-year and representing 20% of our overall Contribution ex-TAC, as we leverage our large-scale commerce data and AI-powered audience modelling technology to find in-market shoppers. Retargeting was up 4%, and supply and AdTech services was up 8%.

We benefitted from our latest AI-driven performance optimization. Our platform is built on best-in-class AI and our Criteo AI Lab has 140 R&D and Product experts who drive continuous innovation to deliver unparalleled performance for our clients.

We delivered solid growth across all regions and had tailwinds in all our verticals. Travel remains robust, and we saw improving Retail and Classified trends compared to last quarter.

We delivered Adjusted EBITDA of $71 million in Q1 2024, up 83% year-over-year, largely driven by operational leverage from top-line growth and cost discipline. Non-GAAP operating expenses were flat year-over-year, reflecting continued rigor on resource allocation. We invest in our growth areas and enable our transformation through realigning our organization and optimizing our operating model to enable scale and operational efficiencies. We continue to streamline our processes to work better and faster, and we continue to enable efficiency by investing in AI-driven tools this year.

Moving down the P&L, Depreciation and Amortization decreased by 2% in Q1 2024 to $25 million. Share-based compensation expense was $27 million, including $10 million related to shares granted to Iponweb's founder as part of the acquisition. Our income from operations was $10 million and our net income was $9 million in Q1 2024. Our weighted average diluted share count was 59.3 million, which resulted in diluted earnings per share of $0.12. Our adjusted diluted EPS was $0.80 in Q1 2024, up 60% year-over-year.

We continue to benefit from a strong financial position and robust balance sheet with solid cash generation and no long-term debt. We had about $805 million in total liquidity as of the end of March, which gives us significant financial flexibility to execute our growth strategy and disciplined and balanced capital allocation. As expected, Operating Cash Flow was $14 million and Free Cash Flow was $1 million in Q1, reflecting seasonality and lower capex.

Our priorities are to invest in high ROI organic investments and value-enhancing acquisitions and to return capital to shareholders via our share buy-back program. We are confident in our business strategy, and we are committed to driving shareholder value. We have a longstanding track record of returning significant capital to shareholders, and intend to repurchase $150 million of stock in 2024, including $62 million already deployed in Q1. This included 2.0 million shares repurchased at an average cost of $31.1 per share. We also cancelled 2 million shares in early Q2.

Turning to our financial outlook, we have updated our guidance for the year based on our expectations as of today, May 2, 2024.

For 2024, we now expect Contribution ex-TAC to grow high-single-digits year-over-year at constant currency with growth in both segments. This is an acceleration compared to our organic growth of 4% in 2023. Our updated full-year guidance reflects our Q1 outperformance and Google's delay of third-party cookie deprecation until early next year. As a reminder, comparisons to the prior year become tougher as we progress through the year.

In Retail Media, while we are still early in the year, given our Q1 performance, we are confident in our ability to deliver Contribution ex-TAC growth of 20% at constant currency in 2024. This is from a scaled $200+ million revenue base, and with the impact of our largest client transitioning demand for large brands to a direct sales model, as previously communicated. As a reminder, we also have tougher comparisons for Q3 and Q4, with Q4 being our largest quarter. Importantly, we continue to expect our activated media spend to grow above 30% year-over-year, faster than GroupM's estimated market growth of 12%, as we anticipate sustained momentum across our client base and further share gains. In the fall, we intend to provide an update on the exciting opportunities we believe we have to drive profitable growth and enhance our position as the leading Retail Media AdTech provider.

In Performance Media, given our strong performance in Q1, we now expect to grow mid-to-high single digits in 2024. Our outlook assumes no material signal loss impact this year.

We now anticipate an Adjusted EBITDA margin of approximately 31% for 2024. This reflects our operational leverage and the transformation and optimization of our operating model while investing in areas of growth.

For 2024, we now expect a normalized tax rate of 26% to 30%. We expect capex to be slightly below $100 million, and we expect free cash flow conversion rate of about 45% of Adjusted EBITDA before any non-recurring items.

For Q2 2024, we expect **Contribution ex-TAC of $261 million to $265 million, growing by 10% to 12% at constant currency**.

We estimate forex changes to drive a negative year-over-year impact of about $2 million to $4 million on Contribution ex-TAC in Q2. We expect **Adjusted EBITDA between $70 million and $74 million,** reflecting year-over-year margin improvement in a seasonally low quarter.

In closing, we have strong conviction in our strategy and business model. We are well-positioned for continued success and we are committed to maximizing shareholder value. The future is wide open for Criteo.

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

[…Q&A…]

Melanie Dambre – VP, Investor Relations

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