

1 Criteo Q3 2022 Earnings Call | Prepared Remarks

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

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

4 Joining us on the call today, Chief Executive Officer Megan Clarcken and Chief Financial Officer
5 Sarah Glickman are going to share some prepared remarks. You will find our prepared remarks and
6 transcript on our IR website 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.

21 We're intentionally keeping today's prepared remarks relatively brief as we look forward to sharing
22 more with you at our upcoming Investor Day on Monday. We also look forward to meeting with many
23 of you in person over the coming weeks.

24 Our investor day will be the opportunity for us to discuss the substantial progress we've made on
25 our transformation journey to reposition Criteo from a pure play retargeting business to a platform
26 play focused on Commerce Media. A platform that is self-service and not reliant on third-party
27 signals. We'll show you how our Commerce Media Platform is coming to life, how we plan to unlock
28 its growth potential with our integrated go-to-market strategy, and why we believe we'll win in Retail
29 Media and more broadly in Commerce Media. We'll also discuss our mid-term financial outlook and
30 our plans to drive profitable growth and long-term shareholder value.

31 Turning to our third quarter highlights... We reached several important milestones this quarter,
32 including the closing of our Iponweb acquisition and the soft launch of Commerce Max, our self-
33 service and first-of-its-kind Demand Side Platform, or DSP.

34 Starting with Iponweb, it's only been three months since we closed this strategic acquisition, and
35 we're pleased with the progress of our integration and Iponweb's business performance. Our teams
36 are coming together, and we are very energized by the unique opportunities to shape the future of
37 Commerce Media together. Iponweb enhances our scale and brings complementary capabilities on
38 both the demand and the supply sides to accelerate the execution of our Commerce Media Platform
39 strategy.

40 The recent launch of Commerce Max demonstrates the progress of our integration. Commerce Max
41 combines the power of our Retail Media tech and Iponweb's DSP capabilities. Commerce Max
42 empowers brands and agencies to find valuable commerce audiences on retailer websites and
43 activate on-site sponsored and display ads. It extends to commerce audiences that exist off-site
44 across the open internet leveraging multiple channels including video and CTV. Our Commerce
45 Max DSP also provides closed-loop measurement capabilities to help marketers understand what
46 performs, why and how in near-real-time. Our value proposition is unique, and our clients, including
47 some of the largest brands, agencies and retailers worldwide, have been enthusiastic about what
48 we're bringing to market. We expect Commerce Max to be instrumental in the growth of offsite for
49 Retail Media in future years.

50 Moving to our third quarter performance, we delivered constant currency Contribution ex-TAC
51 growth of 14%, in line with our expectations.

52 In Retail Media, our highly differentiated technology and superior offering continue to drive our
53 momentum with existing and new clients. We have a solid pipeline. In head-to-head testing, retailers
54 are shifting from competitors to Criteo. We recently announced a three-year exclusive partnership
55 with MediaMarktSaturn, Europe's leading consumer electronic retailer, across 13 countries. We won
56 after delivering the best performance in a competitive RFP.

57 In the Americas, we signed new deals with large retailers including Giant Eagle and Metro Canada,
58 and we're seeing traction in upselling Retail Media Offsite and Display with existing clients. We also
59 expanded our Retail Media footprint in APAC with the addition of iStyle Ad, Askul Japan and
60 Chemist Warehouse Australia. In addition, we onboarded close to 100 brands this quarter. In a
61 tough macro-environment, brands want to get as close to the point of sale as they possibly can, and
62 there's nothing closer than advertising on a retailer's site.

63 In Marketing Solutions, we experienced mixed trends with more moderate or more targeted
64 spending from several clients across regions. In this environment, we benefit from a diversified client
65 base.

66 As we approach the holiday season, our clients are facing challenges related to high inflation and
67 macro-economic uncertainties. While we experienced an early start to the holiday season last year,
68 we're seeing several marketers and brands slow down their spend while they continue to prioritize
69 performance and rely on our solutions to drive sales and return on ad spend for them.

70 A perfect example of this is that we've recently joined the Shopify Plus Certified App Program, which
71 simplifies and automates Shopify Merchants' ability to leverage our acquisition and retention
72 solutions. While still early days, we saw a 30% increase in the number of new Shopify merchants
73 using Criteo this quarter, compared to the number of merchants we added in the second quarter.
74 These merchants come to us for performance as they typically benefit from three times more traffic
75 and five times more sales when using our solutions.

76 Lastly, we're excited to explore new ways to extend our commerce value proposition to social
77 platforms. We're now actually testing new use cases for brands, marketers and retailers who would
78 like to access Meta's Ad Inventory on Facebook and Instagram globally. We look forward to sharing
79 more in the coming months.

80 As we enter the fourth quarter and prepare for 2023, we remain laser-focused on execution to
81 capitalize on the significant opportunities ahead of us, and we remain committed to cost discipline.

82 We believe that we have laid the groundwork for long-term sustainable growth, and we're pleased
83 to see that our vision resonates with the industry at large. I also want to express my sincere gratitude
84 to all Criteos globally, including those who joined us from Iponweb, for their tremendous commitment
85 and hard work to deliver exceptional service to our clients and realize our vision.

86 With that, I will now turn the call over to Sarah, who will provide more details on our financial results
87 and our outlook.

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

89 Thank you, Megan, and good morning, everyone.

90 **Starting with our financial highlights for Q3 2022.** Revenue was \$447 million and Contribution
91 ex-TAC was \$213 million. Reported Contribution ex-TAC reflects significant foreign exchange
92 headwinds. The weakening of currencies against the U.S. dollar resulted in a year-over-year \$28
93 million unfavorable forex impact.

94 At constant currency, Q3 Contribution ex-TAC grew 14%, on top of a tough comp with 14% growth
95 in Q3 2021. This includes organic growth of 5% and growth from Iponweb of 9%. Our organic growth
96 was driven by Retail Media up 32% and Commerce Audiences, which we previously referred to as
97 Audience Targeting, up 29% as part of Marketing Solutions, up 1%.

98 The growth of Retail Media and Commerce Audiences combined with the addition of Iponweb
99 accelerated the shift of our top-line mix with Non-Retargeting solutions representing **41% of**
100 **Contribution ex-TAC in our third quarter, up from 33% in Q2** and up from 28% a year ago. Client
101 retention remained high at close to 90%.

102 **Turning to our business segments, in Retail Media,** revenue was \$41 million and Contribution
103 ex-TAC grew 32% at constant currency to \$37 million. As a reminder, we had 65% growth in Q3
104 last year, including our Mabaya acquisition for online marketplaces. Our growth this quarter was
105 primarily driven by our U.S. client base and CPG, our largest and fastest-growing vertical. This was
106 partially offset by lower online traffic on certain retailer sites and softness in France. Growth from
107 existing clients remains strong with same-retailer Contribution ex-TAC retention at 133%. We are
108 excited about our new retailer wins which we expect to fuel our growth in 2023 and beyond.

109 **In Marketing Solutions,** revenue was \$387 million, and Contribution ex-TAC was up 1% at
110 constant currency to \$158 million with growth in Commerce Audiences partially offset by lower
111 retargeting. Retargeting was down 5% year-over-year, or up 4% when excluding the impact of the
112 suspension of our Russia operations earlier this year and the impact from the loss of signals. This

113 quarter, we saw a \$14 million signal loss impact, including iOS as expected and a faster than
114 expected rollout of explicit consent in Europe. Our underlying growth in Retargeting was primarily
115 driven by continued momentum in travel, including client win backs, solid performance in APAC and
116 most markets in EMEA, partially offset by softer trends in France and for certain large clients in the
117 U.S.

118 Overall, our full funnel value proposition allows us to capture incremental budgets with an increasing
119 number of clients transitioning to always-on audience strategies to acquire and retain customers.
120 33% of our live clients use more than one Criteo product today, compared to 29% a year ago. We
121 expect to continue to benefit from more upselling and cross-selling activities with our integrated go-
122 to-market strategy.

123 Lastly, Iponweb delivered mid-teens growth for its two months of contribution this quarter, in line
124 with our Q3 guidance.

125 We delivered an Adjusted EBITDA of \$50 million in Q3 2022. As expected, non-GAAP operating
126 expenses increased 15%, including investments in Sales, R&D and Product talent.

127 Moving down the P&L, Depreciation and Amortization decreased 14% in Q3 2022 and share-based
128 compensation expense increased 59%. Our income from operations was \$4 million and our net
129 income was \$7 million in Q3 2022. As you recall, last quarter we accrued 60 million euros as a
130 provision for loss contingency related to the CNIL regulatory matter. We are now in the process of
131 submitting our response. This is an accrual and will be reviewed each quarter as we move through
132 the administrative process. We anticipate resolution of this matter in 2023. Our weighted average
133 diluted share count was 63.2 million. This resulted in diluted earnings per share of \$0.10 and
134 adjusted diluted EPS of \$0.53 in Q3 2022.

135 In a difficult macro environment, we benefit from a strong financial position with **solid cash**
136 **generation and no long-term debt**, including **about \$744 million in total liquidity as of the end**
137 **of September**, and **financial flexibility to execute on our growth and capital allocation**
138 **strategy** following the acquisition of Iponweb. We entered into a new and expanded five-year
139 revolving credit facility of €407 million in September, which replaces our former €294 million facility.
140 This underscores the confidence of our global banking partners in our balance sheet and our
141 business outlook. The primary goal of our capital allocation is to invest in high ROI organic
142 investments and value-enhancing acquisitions and to return capital to shareholders via our share
143 buy-back program. Since the beginning of 2022 we have repurchased 2.2 million shares at an
144 average cost of \$26.7 per share. We have accelerated our share repurchases since the completion
145 of our Iponweb acquisition and have \$121 million left on our share buy-back authorization.

146 **Turning to our financial outlook**, which reflects our expectations as of today, October 28th. We
147 remain prudent given the persisting uncertainties in the macroenvironment. For 2022, we now
148 expect Contribution ex-TAC to range between 10% and 11% at **constant currency**. This comprises
149 organic growth of approximately 5% and inorganic growth from Iponweb contributing approximately
150 5% to 6%. Organically, we now expect Contribution ex-TAC growth of approximately 35% for Retail
151 Media given softer online traffic, lower brand spend and a slower integration of some of our newly
152 signed retailers, and Contribution ex-TAC growth of approximately 20% to 25% for Commerce
153 Audiences. We now expect our 2022 **Adjusted EBITDA margin to be approximately 28% to 29%**,
154 reflecting the lower Contribution ex-TAC in Q4, which is our largest quarter, and the lower EBITDA
155 profile of Iponweb.

156 As we communicated at the start of 2022, with our focus on sustainable growth and our continued
157 transformation to a commerce media platform, we have invested in high ROI projects including new
158 skillsets. Clearly, we also have initiatives to enable productivity and efficiency. Given the tougher
159 macro and the Iponweb integration this is a heavy focus area.

160 Given the further weakening of the Euro and Yen against the U.S. dollar, we now estimate the
161 impact of forex to lower Contribution ex-TAC by \$90 million for 2022 or approximately 10 percentage
162 points, compared to our previous forecast of \$60 million. This includes \$10 million in Q1, \$21 million
163 in Q2, \$28 million in Q3 and an estimated \$31 million impact in Q4. As a reminder, close to 30% of
164 our Contribution ex-TAC is exposed to the Euro and approximately 10% of our Contribution ex-TAC
165 is exposed to the Japanese Yen.

166 There is no change to our capital expenditures, and we continue to expect free cash flow conversion
167 of about 45% of Adjusted EBITDA.

168 For Q4 2022, we are cautious given the impact of a slower macro environment on consumers, our
169 clients and the expectation of lower budgets, especially in Retail. We expect Q4 **Contribution ex-**
170 **TAC of \$275 million to \$280 million, growing by 11% to 13% at constant currency**. This
171 assumes flat organic growth and Iponweb inorganic growth. Importantly, we expect Retail Media to
172 continue to show strong growth despite the challenging macro environment. We assume a signal
173 loss impact of approximately \$9 million. We expect **Adjusted EBITDA of \$90 million to \$95 million**
174 reflecting the lower top-line.

175 Looking ahead to 2023, while there is macroeconomic uncertainty, we expect to continue to deliver
176 growth, healthy profitability, and solid cash generation. We expect our broad and diversified client
177 base and our performance-driven offering to contribute to the relative resilience of our business. We
178 are disciplined in managing our headcount and our expenses and we have a clear plan for

179 integration of Iponweb. We expect our adjusted EBITDA margin to remain in line with 2022 levels
180 given the full year impact of the Iponweb business. Over time, we have a plan to drive operating
181 leverage from scaling and transitioning to more self-service solutions, as well as synergies.

182 As I've said before and as with any transformation, our path won't be linear but we remain focused
183 on the execution of our strategy to create the world's leading Commerce Media Platform to drive
184 long-term sustainable growth and shareholder value. We look forward to sharing more at our
185 Investor Day on Monday.

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

187 [...Q&A...]

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

189 Thank you Megan and Sarah. This now concludes our call for today. We look forward to seeing
190 many of you at our investor day in New York on Monday, and we will also webcast the event live.

191 Have a great day.

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