

Criteo Q4 and FY 2022 Earnings Call | Prepared Remarks

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

Good morning, everyone and welcome to Criteo's fourth quarter and fiscal year 2022 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.

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

21 Thanks Melanie and good morning, everyone.

22 It's been a few months now since we saw many of you at our Investor Day. The event gave us the
23 opportunity to unpack our business, share more about the growth opportunity in front of us and
24 demonstrate how we've de-risked our business from the third-party cookie deprecation challenges
25 facing the industry. I want to thank everyone who attended and for those who weren't able to attend,
26 point you towards the webcast and materials available on the investor section of our website. At our
27 Investor Day, we explained the Commerce Media opportunity that we're focused on. Commerce
28 Media is the fastest growing media channel today and an opportunity that Criteo is poised to capture.
29 Today, we're recognized as a clear leader in Commerce Media, and we believe we're in a unique
30 position to lead this next wave of digital advertising. Criteo is the Commerce Media Platform for the
31 open internet and the obvious choice to complement Amazon for brands looking to advertise to
32 consumers at the digital point of sale across multiple Retail Media Networks.

33 As we explained during our Investor Day event, retailers have been early adopters to Commerce
34 Media and they refer to this as Retail Media. They are setting the scene. With their logged-in first-
35 party data, their quality shopper audiences along with our ability to provide real-time closed-loop
36 measurement, brands are moving ad budgets rapidly in their direction, and Retail Media is expected
37 to capture one in five digital ad dollars by next year. The first mover advantage we've built around
38 Retail Media, the Retail network that it creates and the scale of valuable Commerce Audiences we
39 can deliver to brands and agencies form the foundation of our strategy. Meaning – to reach
40 Commerce Audiences across the open internet is only possible with access to shopping data at
41 scale, which comes with deep integrations and trusted relationships with the retailers.

42 **Retail Media is a powerful growth engine for us and our focus now is to accelerate.** Over the
43 past year, we've grown our client footprint to 175 retailers and close to 1,800 brands. No other player
44 matches that footprint. We've only just begun. We've entered new retailer verticals, including
45 delivery services, and new geographies, particularly in APAC. We're winning new clients at a rapid
46 pace because we offer one integrated self-service platform for all ad formats and demand sources
47 allowing retailers to manage their entire Retail Media business at scale.

48 **Over the past three months alone, we've won, renewed, or expanded our partnerships with**
49 **half of the Top 10 U.S. retailers.** We continue to build long-term relationships with our retailer
50 clients, as evidenced by our multi-year partnership with Target's Roundel Retail Media network, and
51 we're proud to play an increasingly important role in their overall growth strategy. We also expanded
52 the scope of our partnership with Walmart to include multiple ad formats onsite and offsite in Mexico.

53 Importantly, several large retailers, including Lowe's, recently dropped other providers to work with
54 Criteo exclusively as they continue to scale their Retail Media networks and look to our capabilities
55 to help them accelerate. In Q4, we also won new contracts with leading U.S. and European retailers
56 in the grocery, ag retail, and health and beauty sectors. In addition, we won our fourth retailer in
57 Japan where we're actively capitalizing on cross-selling opportunities. This momentum has carried
58 into 2023, and we look forward to announcing some of our most recent exciting wins more formally
59 over the coming weeks. Our success is evidence of our superior offering, and our clients continue
60 to inform our product roadmap as we're evolving our capabilities in lockstep with their needs. Our
61 number one priority is to win with retailers, to bring the best Retail Media solutions to them, and to
62 expand our leading position in Retail Media enablement and the acquisition of Commerce
63 Audiences – the highest quality audiences on the internet.

64 With Retailers representing the large majority of our business, we have significant potential for
65 growth within our existing client base alone. We have the potential to triple our Retail Media footprint
66 by extending our Retail Media monetization solutions to our largest retailer clients that currently only
67 use us for our performance Marketing capabilities today. As those retailers extend into Retail Media,
68 our platform is there for them.

69 With our unique access to commerce data at scale, deep integration with retailers, differentiated
70 technology, world-class team, and R&D powerhouse, we've created a competitive differentiation in
71 our business. **In light of our growing momentum, we've now taken actions to accelerate our**
72 **plans** by shifting **more highly experienced engineering resources – doubling the size of the**
73 **existing team – to concentrate on the rapid deployment and scale of our Commerce Max**
74 **Demand Side Platform**, or DSP, and to continue to bring more features and capabilities to market
75 faster for our Retail Media clients. This includes leveraging our advanced commerce-focused AI,
76 our secret sauce, to drive powerful performance capabilities across Retail Media. Our goal is to help
77 retailers take further advantage of their media opportunity and to solidify our leadership position for
78 years to come. We have one of the largest concentrations of R&D talent in the AdTech industry,
79 aside from the walled garden platforms, and we're continuously focused on ensuring proper
80 resource and investment allocation to our priority growth areas. Thanks to our efforts to pivot our
81 business towards these high growth areas, we ended the year with **non-retargeting solutions**
82 **representing now close to half of our business** in Q4 compared to 32% a year ago. This is an
83 important milestone in our transformation and in line with what we said we would do. We're ready
84 to take Criteo to the next level and unlock further our massive \$110 billion market opportunity.

85 Now, let me highlight some of our 2022 achievements which put us in a favorable position to gain
86 share in 2023, and well into the future. What we've called our SAY/DO ratio remains extremely high.

87 It shows how resilient we are and how much we can accomplish despite a challenging macro-
88 economic and geopolitical backdrop.

89 First, **we're delivering on the promise of the Commerce Media Platform.** We unveiled the full
90 suite of Commerce Media Platform solutions, and we soft launched our Commerce Max DSP, where
91 our Retail Media and programmatic capabilities converge.

- 92 - Commerce Max is a game changer for brands and agencies. It gives them one entry point to
93 access premium Retail Media inventory on-site, and open internet supply off-site with closed-
94 loop measurement, while leveraging unique first-party audiences built on real shopping
95 behaviors.
- 96 - Retailers are excited to adopt Commerce Max to increase their revenue and traffic. With
97 Commerce Max, they can best monetize on-site inventory and their valuable first-party data
98 for on-site and off-site targeting, and bring more shoppers to their sites. This creates a
99 powerful flywheel between brands and retailers.

100 Our successful market tests showed that integrated onsite and offsite campaigns in Commerce Max,
101 as a true full-funnel strategy, more than doubled conversion rates compared to onsite campaigns
102 alone, and drove an increase of close to 60% in revenue per shopper targeted during the campaigns.
103 Our ambition is to become the Commerce Media DSP of choice for agencies and brands, and the
104 feedback we've received to date gives us confidence in our ability to gain share.

105 Overall, **our full funnel platform value proposition is increasingly resonating** with the market.
106 Today, 35% of our live clients use more than one Criteo solution, compared to 32% a year ago. We
107 expect to continue to benefit from our integrated go-to-market strategy and increasing traction in
108 upselling and cross-selling our solutions to existing clients.

109 This is especially true for Commerce Growth, our product line offering targeting and retargeting
110 capabilities to acquire and retain consumers. With Commerce Growth, our business is evolving to
111 capture incremental budgets and service an increasing number of clients in the easiest and most
112 effective manner. Our unique ability to reach valuable Commerce Audiences at scale makes us an
113 obvious choice for marketers looking to drive sales. Our AI engine leverages a combination of
114 consumer interests, contextual data, and trillions of purchasing events to engage in-market
115 shoppers and maximize advertising performance.

116 Among others, Skyscanner now uses our suite of always-on acquisition and retention solutions to
117 optimize how they engage with customers across the entire buying journey. Full-funnel activation
118 with Skyscanner has more than tripled their media spend with us year-over-year, with new targeting

or acquisition solutions now representing 30% of their investment. This is the Commerce Media effect.

Our strategic partnership with Shopify also exemplifies how we intend to scale our solutions. We're part of the Shopify Plus Technology Partner Program and Certified App Program, which simplifies and automates Shopify merchants' ability to leverage our acquisition and retention solutions. We saw a 36% increase in the number of new Shopify merchants using Criteo in 2022, compared to the number of merchants we added in 2021. We expect to continue to onboard more merchants and scale our partnership as we further enhance our self-service capabilities over the coming quarters. Shopify is a great partner of ours, and we continuously explore growth opportunities with them.

Second, our high SAY/DO ratio applies to **our growing agency relationships**. Agencies drove about two thirds of our growth in media spend in 2022, excluding Iponweb. 34% of our media spend is now activated through agencies, compared to 29% a year ago. In addition to our global strategic partnership with GroupM, we're excited to have signed a three-year partnership with another major holding agency in the U.S. to accelerate the demand for both Retail Media and Commerce Audiences. In addition, we are very pleased to have renewed and extended our global deal with Ascential and its world-class ecommerce businesses with a multi-year commitment. As part of our partnership, Ascential's advertising partners can now access advanced commerce insights and analytics in real-time, greatly enhancing their ability to drive performance. These agreements with major agencies reinforce our positioning as the **Commerce Media partner of choice**, and, we believe, will drive further adoption of our multiple solutions at speed and at scale. In addition, we're pleased with the traction of our independent agency program which is being rolled out. This program certifies and incentivizes independent agencies to offer our acquisition and retention solutions to their advertiser clients.

Third, **we successfully completed the acquisition of Iponweb** and we're rapidly integrating that business. On the demand side, we've fully integrated Iponweb's Bidcore DSP into Commerce MAX. On the supply side, we've quickly integrated our respective teams, centralized our product roadmap, and unified our commercial strategies. We've already merged our publisher footprints, bringing more high quality inventory for our demand partners and more value for our publishers. Combined with Iponweb, we added 150 new publishers in 2022, and we now have direct relationships with approximately 75% of the top 100 ComScore publishers in our largest markets, which, we believe, is instrumental in extending our first-party data integrations.

We're well on our way to realize our Commerce Media Platform ambitions, and we've de-risked our business away from third-party signal deprecation. We're proud that our efforts are being recognized, as we were recently named one of the hottest AdTech companies by Insider. We're also **one of the very few companies partnering closely with Google** as part of the Privacy Sandbox. We're not only collaborating with Google to improve the Sandbox APIs, but we'll also be working together to develop specific use cases that we can bring to our clients. This puts us in pole position to deliver superior performance in the market when Google deprecates third-party cookies.

As we enter 2023, we believe we're best positioned to lead the market. At the core of our strategy, Retail Media remains a non-cyclical growth spot, primarily benefiting from trade marketing budgets shifting online to address consumers at the digital point of sales. In addition, we expect Commerce Audiences to continue to outpace the market as they remain the most valuable audiences to brands. We have an exciting path ahead of us and we're **laser focused on execution to capitalize on our significant long-term growth opportunities. We have a highly experienced senior leadership team who is firing on all cylinders to achieve our ambitions.** Our team has weathered and successfully navigated various economic cycles, and I am confident in our ability to deliver on our plans.

Now let me provide a brief update on the latest trends we're seeing in the macro-economic environment and our actions to adapt to this environment.

As anticipated, we saw a more condensed holiday season in the fourth quarter compared to the prior year. As we enter 2023, our conversations with CMOs indicate delays in ad budgeting processes due to uncertainties regarding how inflation and interest rates will impact consumers this year, but marketers are not blindly cutting budgets. Ad budgets are under more scrutiny, forcing clients to optimize their spend. According to a recent survey we conducted across the U.S. and Europe, nearly two-thirds of senior media agency professionals believe newer digital channels like Retail Media will deliver a greater return on investment than search or social. Our Commerce Media platform and our focus on performance position us to meet that need. Despite overall budget tightening, we continue to benefit from robust new business trends and high client retention close to 90%.

Importantly, we're focused on profitable growth and aligning our cost structure with our top-line in a slower growth economy. We believe this will allow us to emerge even stronger once economic uncertainty subsides. As part of our ongoing transformation, we are highly focused on allocating our resources to our growth areas, and we have and we will continue to take actions to right size our cost base.

While there is lower visibility on near-term trends, the long-term opportunity for Criteo remains intact. The macro-economic environment changed significantly over the past twelve months, but our strategy has not. We've laid the foundation for the future, and we're on our path to achieve our business ambitions that we laid out at our investor day. We've built incredible momentum that we expect will only continue in 2023 and beyond to drive long-term shareholder value.

With that, I will now turn 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. We continue to execute in a choppy environment. We have a consistent track record of profitable growth and high Free Cash Flow conversion coupled with a strong balance sheet and no debt.

Starting with our financial highlights for 2022. Revenue was \$2.0 billion and Contribution ex-TAC grew by 10% at constant currency, to \$928 million. As anticipated, this included \$60 million of incremental signal loss impacts. This performance was despite significant headwinds from FX and the wind down of operations in Russia. In Retail Media, revenue was \$202 million and Contribution ex-TAC was \$161 million, up 33% year-over-year, as we continue to rapidly expand with our retailers. In Marketing Solutions, revenue was \$1.8 billion and Contribution ex-TAC was \$715 million with Commerce Audiences up 26% at constant currency offsetting lower Retargeting. We delivered an Adjusted EBITDA margin of 29%, including planned growth investments and the dilution from our Iponweb acquisition. We also delivered record Free Cash Flow of \$200 million and an adjusted EPS of \$2.76, including five months of contribution from Iponweb.

Turning to our fourth quarter performance. Revenue was \$564 million and Contribution ex-TAC was \$283 million. This includes a year-over-year headwind from weaker foreign currencies of \$21 million.

At constant currency, Q4 Contribution ex-TAC grew by 10.4%, on top of strong performance with 11% growth in Q4 2021. This includes organic Contribution ex-TAC down -2% and the contribution from Iponweb. Our organic performance was driven by Marketing Solutions down -7% year-over-year, with lower Retargeting, down -13%, and Commerce Audiences, up 22%. This was partially offset by robust growth in Retail Media, up 23%.

As expected, we continue to see a top-line shift away from legacy Retargeting. Retail Media, Commerce Audiences and Iponweb combined represented **47% of Contribution ex-TAC in our fourth quarter, up from 41% in Q3** and up from 32% in Q4 last year.

216 **Turning to our business segments**, in **Retail Media**, revenue was \$60 million and Contribution
217 ex-TAC grew 23% at constant currency to \$57 million, on top of strong growth last year. Our growth
218 was primarily driven by our client base in the U.S., the U.K. and Germany, partially offset by France.
219 Growth from existing clients remains strong with same-retailer Contribution ex-TAC retention at
220 122%, and we continue to scale by adding new retailers. We onboarded 150 more brands in Q4
221 and saw increasing traction with our agency partners. Our 1,800 global brands are prioritizing Retail
222 Media as a key channel for their investments, a trend we expect to continue. While there is caution
223 on release of budgets overall, we see strong spend in health and beauty with lower spend for
224 grocery.

225 **In Marketing Solutions**, revenue was \$471 million and Contribution ex-TAC was \$193 million with
226 strong growth in Commerce Audiences, offset by lower Retargeting. Retargeting was down 13%
227 year-over-year, or down 7% when excluding the impact of the suspension of our Russia operations
228 earlier this year and close to \$10 million impact from the loss of signals. In the U.S., we had a solid
229 holiday season around the traditional Cyber 6 peak with deceleration in December, while EMEA
230 was softer during the Black Friday weekend with improving trends in December. Across all regions,
231 Retail spend, especially fashion and department stores was soft, while Travel remained strong.

232 We delivered strong growth in Commerce Audiences as clients transition to always-on audience
233 strategies to acquire and retain customers with new business and cross-selling across our over
234 20,000 retailers and performance marketers.

235 Iponweb was flat this quarter on a stand-alone basis, reflecting strong growth for our Supply Side
236 Platform, or SSP, offset by softer media trading trends and traffic, particularly in December.

237 We delivered an Adjusted EBITDA of \$104 million in Q4 2022. Non-GAAP operating expenses
238 increased 2%, including targeted growth investments in Sales, R&D, and Product talent, partially
239 offset by cost reduction actions as we reduced discretionary spending and paused most hiring. We
240 benefitted from lower bad debt expense as a result of strong cash collections.

241 Moving down the P&L, Depreciation and Amortization increased 26% in Q4 2022 and share-based
242 compensation expense increased to \$22 million, including \$11 million related to treasury shares
243 granted to Iponweb's founder as part of the acquisition. Our income from operations was \$49 million
244 and our net income was \$16 million in Q4 2022. Our weighted average diluted share count was 61.9
245 million. This resulted in diluted earnings per share of \$0.25 and adjusted diluted EPS of \$0.84 in Q4
246 2022. We canceled a total of 2.6 million shares in 2022.

In an uncertain macro environment, we benefit from a strong financial position with **solid cash generation and no long-term debt**. We had about **\$835 million in total liquidity** as of the end of December, which gives us significant **financial flexibility to execute on our growth and capital allocation strategy**.

The primary goal of our capital allocation is to invest in high ROI organic investments and value-enhancing acquisitions and to return capital to shareholders via our share buy-back program. In 2022, we repurchased 5.1 million shares at an average cost of \$26.4 per share. In December, our Board of Directors authorized an extension of our share repurchase program from \$280 million to \$480 million. This demonstrates our confidence in our business strategy, financial strength, and our ongoing commitment to enhance shareholder value.

Turning to our financial outlook, which reflects our expectations as of today, February 8th, 2023. We remain cautious given the lower visibility on near-term trends and the volatile advertising environment. For 2023, we expect Contribution ex-TAC to grow high-single-digit to low-double-digit year-over-year at constant currency. This assumes low-single-digit organic growth and the full year impact from our acquisition of IPONWEB. We expect stronger organic growth later in the year, as we move our Commerce Max DSP to general availability and scale newly signed retailer partnerships. We expect Contribution ex-TAC growth of approximately 30% for Retail Media, as we anticipate further share gains, and higher than the anticipated industry growth rates. For Commerce Audiences, we expect Contribution ex-TAC growth of approximately 20% as advertisers continue to shift more budgets. For Iponweb, Q1 and Q2 are seasonally low quarters in terms of Contribution ex-TAC, adjusted EBITDA and cash contribution, while Q4 is the strongest quarter.

We will be closely monitoring market conditions and expect to provide updates as we progress through 2023.

As part of our ongoing transformation, we are disciplined in strategically allocating our resources to higher growth areas while enabling productivity and cost efficiencies. We are executing on and contemplating cost actions that we expect to deliver total annualized savings of approximately 10% of our total cost base, or more than \$60 million, while ensuring ROI investments for executing on our strategy. Given the slower macro environment and lower Retargeting, actions have already been taken with hiring freezes and reduction of external spend. Along with the rapid integration of Iponweb, we continue to right size our organization and optimize our operating model. This focus is to enable speed of new products to market and effective delivery for our broad client base.

Overall, we **anticipate an Adjusted EBITDA margin of approximately 28% for 2023**, in line with what we shared at our Investor Day, and including about 200 basis points of dilution from Iponweb.

This includes the increased costs due to the full year impact of the Iponweb business. We expect to realize cost efficiencies over the course of the year, largely offsetting wage inflation and the annualized impact of our 2022 growth investments.

We expect a normalized tax rate of 28% to 30%. We expect capex of about \$90 million related to the planned renewals of our data centers as we transition to a more cost and energy efficient data center architecture, and we expect free cash flow conversion rate of about 45% of Adjusted EBITDA. For modelling purposes, we assume a flat number of shares outstanding in 2023.

For Q1 2023, we continue to be cautious given the impact of a slower macro environment on consumers, our clients, and more conservative ad budgets. Spend from large retailers and brands was lower in December, and this continued through their fiscal year end in January. While early days, we're encouraged by new budget unlocks in February. Overall, we expect Q1 **Contribution ex-TAC of \$210 million to \$216 million, growing by 5% to 7% at constant currency**. This assumes a mid-single digit organic decline and Iponweb inorganic growth in a seasonally low quarter. As a reminder, this laps a tougher comparison in Q1 2022 and includes the impact of the suspension of our Russia operations in late March 2022, impacting our growth by about 2 percentage points. Importantly, we expect Retail Media to continue to show robust growth despite the challenging macro environment. We estimate forex changes to drive a negative year-over-year impact of about \$15 million to \$20 million on Contribution ex-TAC in Q1.

We expect **Adjusted EBITDA between \$30 million and \$32 million**, reflecting low Q1 seasonality exacerbated by the dilution from IPONWEB and some ongoing integration costs. The year-over-year comparison includes growth investments already taken in 2022, ahead of contemplated reductions.

In closing, as a leader in Commerce and Retail Media, we believe we are well-positioned to deliver on our plans for growth, resilient performance, healthy profitability, and strong cash generation to drive shareholder value in 2023 and beyond.

One comment before we begin Q&A. You may have seen recent speculation in the media related to a potential transaction involving Criteo. As a matter of policy we do not discuss rumors or speculation and we will not make any further comments on this. And with that, I will open up the call for questions.

[...Q&A...]

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

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