February 7, 2024

Criteo Q4 and FY 2023 Earnings Call | Prepared Remarks

Melanie Dambre – Vice President, Investor Relations

Good morning, everyone and welcome to Criteo's fourth quarter and fiscal year 2023 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 for joining us today.

In Q4, we delivered record top line with organic growth acceleration and record adjusted EBITDA. I'm proud of our team's hard work and strong execution during the holiday season, when the entire organization leans in to support our clients throughout this peak time in advertising. Our outperformance reflects the resilience of our business and was driven by the robust strategies we've implemented with large-scale commerce data and breakthrough AI technology to deliver better predictions and outcomes for our clients.

Looking back over the years since I started with Criteo and began the transformation of the company, we have made remarkable progress. I'm so proud of the work that we've done, what we've achieved and I've never been more excited about our future. Our better-than-expected performance in 2023 further affirms our strategic direction while setting the stage for continued growth in 2024.

In 2023, we achieved double-digit growth for the second consecutive year, with a historic milestone of crossing the $1 billion in Contribution ex-TAC mark for the first time. This is a testament to the tireless efforts our Criteos have poured into executing our company turnaround. We also exceeded our adjusted EBITDA margin target for the year, demonstrating cost discipline while executing our turnaround. Retail Media surpassed $200 million in annual revenue, and Retargeting now represents less than 50% of our business. Our strategy to offset declines in our Retargeting business by offering full funnel targeting – a strategic move that we announced in 2020 – has proved successful with accelerated momentum for our Commerce Audiences targeting, up 60% in the fourth quarter.

As we continue to push forward, carving out our leadership position in Commerce Media and delivering against the vision that we've laid out, 2023 was a big year for us as we focused on tech delivery and differentiation with the launch of our Demand Side Platform called Commerce Max and the launch of our Supply Side Platform called Commerce Grid. We've built differentiated capabilities that position Criteo to offer the end-to-end platform of choice for Commerce Media, allowing data flows and access across one platform, for the frictionless data needs that our clients are looking for.

We bolstered our position as the leading Retail Media AdTech provider, gaining market share in 2023 with a remarkable 36% year-over-year growth in activated media spend, which surged to $1.2

billion now flowing through our pipes. We partner with 220 retailers globally, and they are trusting Criteo with more ad placements, more ad formats and more first-party data than ever before.

Among others, we expanded the scope of our partnership with Walgreens to now include onsite display, and we're excited to launch sponsored video with Walmart Connect Mexico and DocMorris. In addition, we expanded our global presence by tripling our retailer footprint in APAC over the past 12 months. We also broadened our ecosystem to include commerce companies like Uber which saw media budgets more than double sequentially in Q4. We're pleased to continue to expand our partnership with Uber in new markets including Japan, Columbia and Peru.

We continue to gain traction with our self-service Commerce Max DSP, which gives our 2,600 brands and agencies a single access point to buy premium Retail Media inventory on retailers' sites and across open Internet inventory offsite with closed-loop measurement. All of the major Holdco agencies are now using Commerce Max, and we're seeing increasing adoption of multi-retailer campaigns and full-funnel campaigns across onsite and offsite advertising. We ran multiple offsite campaigns in Q4, and we kicked off 2024 with 10 onboarded retailers such as Best Buy, Macy's, Rite Aid, Shipt, Asda, and a growing pipeline. We're seeing Commerce Max unlock brands' national media budgets. Along with the growth of Retail Media as a powerful new advertising vehicle, our momentum is building.

We're in pole position to capitalize on the largest market opportunity in advertising since Search and Social, and our team continues to work hard to differentiate, deliver and drive scale.

Turning to Marketing Solutions, we delivered our second consecutive quarter of growth with a successful holiday Cyber 6 period. This was driven by the fast growth of our Commerce Audiences solution which focuses on mid and upper funnel targeting using the largest commerce data set on the open internet and best-in-class AI. We see more advertisers choosing Criteo for precision targeting across the entire marketing funnel, including existing clients expanding the scope of their partnership with us. A recent example is our full-funnel activation with TUI that led to successful engagement during the holiday season and resulted in a year-over-year increase of close to 60% in their media spend which they allocated to Criteo in Q4. Our advertiser clients can move spend between performance, awareness, and broad reach tactics using shopper targets, only available with our full funnel targeting capabilities.

Our cross-selling efforts are also contributing to this success. About 70% of our media spend comes from clients that use Commerce Audiences targeting in addition to Retargeting.

We also benefited from our AI-driven performance enhancements which drove an uplift in Contribution ex-TAC in the high-single-digit million range in Q4. A real output of our AI/ML practice at work.

Furthermore, we're experiencing solid traction in our partnership with Meta, and we see further opportunities to expand into other social environments which bring access to first-party identifiers for billions of users. The work we've done over the past few quarters has started to bear fruit. We ran hundreds of campaigns on Facebook and Instagram during Q4. Our advertiser clients are seeing a 25% boost in sales on average when activating Meta's inventory in combination with the open internet. Among others, Superpharm experienced a double digit increase in Return On Ad Spend and a 69% sales boost after adding Meta's large-scale inventory to their campaigns in Q4. It's important to call out that social networks are logged-in environments which offer precision and scale for first-party data matching in a cookieless world and represent one of the pillars of our multi-pronged addressability strategy – in other words, activation of first-party data at much greater scale.

Turning to 2024, we see further opportunities for Criteo ahead as we continue to focus on delivering against our transformation. In Retail Media, our top priorities this year are centered on scaling retailers and driving more demand into our platform.

We recently expanded our roster of senior leaders to further scale our business with the appointments of industry veterans Melanie Zimmermann and Stephen Howard-Sarin. We're thrilled to have them join us at a time when we continue to gain market share. We recently won new retailers including Albertsons in the U.S. and PcComponentes in Europe, which present exciting growth opportunities and reinforce our leadership position in the space. Albertsons chose Criteo for our technical capabilities and our platform's ability to scale and perform along with our roadmap to continuously enhance our capabilities, and we're off to a great start with them.

With an expanded retailer footprint, we see exciting opportunities to drive more demand, or media spend, onto our platform. Our goal is to make Retail Media easy to buy, bringing more opportunities to our clients and driving further scale. We're proud to have recently signed multi-year global brand deals with two world-leading beauty and CPG brands. We also anticipate sustained momentum with the major Holdco agencies, as their Retail Media spend allocated to Criteo surged in 2023 by 50% in the U.S. and experienced a twofold increase in Europe and APAC. Overall, our multi-year partnerships with leading agencies and brands represent hundreds of millions of dollars of spend predicted to come through our platform in 2024 and beyond. According to GroupM, Retail Media is the fastest growing advertising channel worldwide and is predicted to exceed linear TV and Connected TV spend combined by 2028. Similarly, a recent study we conducted shows that more than two thirds of brands and agencies expect Retail Media to attract more spend in 2024, as 77% of brands and 82% of agencies globally say Retail Media spend is more effective in terms of sales impact compared to other channels. Our platform unifies supply and demand to unleash the full potential of their Retail Media activation as more and more dollars flow from legacy ad channels to Retail Media, further accelerated as advertisers increasingly value retailers' first party data in the absence of third-party cookies.

Looking at Commerce Media more broadly, we believe we have great opportunities to scale our offering and drive more innovation. We're excited to expand our Commerce Grid partnership with Google's Display & Video 360 to surface always-on supply deals, powered by Criteo commerce audiences inside their marketplace for activation across their advertiser portfolio. We're already seeing incremental demand from top agencies for our proprietary commerce audience and supply packages, which could expand to retailer audiences over time.

With Commerce Grid, we intend to bring demand from established third-party DSPs to drive more revenue for retailers. We recently completed our first Retail Media offsite campaign using retailer first-party data through Commerce Grid, and we look forward to building on that momentum.

Importantly, we continue to integrate cutting-edge AI into our platform with a focus on improving performance and user experience for our clients and optimizing our service delivery process. The use of impactful and engaging creatives is expected to become increasingly important to capture an audience's attention. This is a key component of the innovation we're bringing to market, and we've been developing and testing Generative AI-powered tools to optimize creatives and enhance performance. We're also innovating with AI-powered creative formats such as shoppable videos, in-bot sponsored products and affiliate product listing ads to bring more demand to publishers, retailers and social platforms. Meanwhile, we've already realized significant efficiencies using Copilot for development and our own AI assistant for the identification of business opportunities, and we plan on rolling out more AI-driven efficiency tools this year.

Lastly, 2024 is expected to be a dynamic year in digital advertising with the planned deprecation of third-party cookies on Chrome in the second half of the year. We've been preparing for this change for years with a comprehensive, multi-pronged addressability strategy to future-proof our clients' advertising performance.

- First, as you know, we've worked with Google since the very beginning of the Privacy Sandbox and met with them weekly on average over the last three years to ensure proposed solutions maintain advertising performance for our clients and partners. We're actively involved in the five-month testing related to cookie deprecation on 1 % of Chrome users that started in early January, and we're working tirelessly to ensure proper setups and evaluate all testing mechanisms. This testing requires a rigorous methodology and statistical significance. We expect to deliver the results to the UK's CMA by mid-June to help them determine whether third-party cookie deprecation can move forward. We'll also provide updates to the broader market along the way.

- Several AdTech players have focused their efforts solely on using a durable ID to replace third-party cookies. For us, this is just one part of our multi-pronged approach to secure continuity. We refer to it as our First-Party Media Network. We leverage hashed identifiers which are a universal privacy safe tool to bridge data sets from marketers and media owners across demand and supply, facilitating successful personalization and measurement. When looking at signals from publishers we have direct integrations with, we connect over 10 times more hashed emails than similar alternative industry IDs that lack scale. In addition, we have integrations with about 40 customer data and data collaboration platforms to activate clients' first-party audiences.
- Next, and as an extension of our first-party data strategy, we're focused on helping our clients reach consumers in more closed and authenticated environments like retailers' sites and social platforms including Facebook and Instagram. These environments facilitate first-party data matching with precision and scale.

Using best-in-class AI to marry these diverse solutions with contextual and other cookieless signals enables us to automatically determine the optimal path for driving personalized advertising that meets our clients' performance expectations.

We believe we are prepared for third-party cookie deprecation on Chrome and we already bring performance to our clients in cookieless environments today. We continue to expand our capabilities to drive the best outcomes for our clients without third-party identifiers.

To conclude, we're proud to have been recently recognized as one of the hottest AdTech companies by Insider for the second year in a row. This acknowledgment reflects our commitment to staying at the forefront of our industry with the only unified, AI-driven platform that directly connects advertisers with retailers and publishers to drive commerce on retailers' sites and the open internet.

One last but important call out, sustainability is a key focus at Criteo, and I'm pleased to report that we're the first company in our industry to have our carbon emissions reduction targets approved by the Science Based Targets initiative, meaning our climate goals are aligned with the Paris Agreement.

As we step into 2024, we are laser-focused on execution, and we look forward to harnessing the opportunities that lie ahead. We're confident in our strategy, and our commitment remains steadfast towards sustainable, profitable growth with a disciplined approach to capital allocation to drive 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 delivered strong results in 2023 with double-digit growth and margin expansion.

Starting with our financial highlights for 2023. Revenue was $1.9 billion, and Contribution ex-TAC grew by 11% at constant currency, reaching over $1 billion. This is the first time in our history and we now have more than 50% coming from new solutions. In Retail Media, revenue was $209 million and Contribution ex-TAC was $203 million, up 26% year-over-year, as we continue to expand with our retailers, brands and agency partners. In Marketing Solutions, revenue was $1.6 billion and Contribution ex-TAC was $697 million with Commerce Audiences up 42% at constant currency reflecting our clients' strong adoption of broader targeting solutions including new retention strategies. We delivered an Adjusted EBITDA margin of 30%, including over $70 million of annualized savings, while continuing to invest for growth. We delivered Free Cash Flow of $110 million, including the one-time payment to CNIL of $43 million. This represents a conversion rate of 51% from adjusted EBITDA before this payment. Our adjusted EPS was up 15% to $3.18 in 2023.

Turning to our fourth quarter performance. Revenue was $566 million and Contribution ex-TAC was $316 million. This includes a year-over-year tailwind from foreign currencies of $4 million.

At constant currency, Q4 Contribution ex-TAC grew by 10%, up sequentially compared to our organic growth of 8% in Q3. Our performance was driven by robust growth in Retail Media, up 29%. This was also driven by Marketing Solutions, up 6% year-over-year with impressive growth in Commerce Audiences targeting, up 60%, more than offsetting lower Retargeting, down 9% year-over-year.

These dynamics have contributed to rebalancing our top line mix, with our new solutions representing 56% of our business in Q4.

Turning to our business segments, in **Retail Media**, revenue was $77 million and Contribution ex-TAC grew 29% at constant currency to $74 million, on top of strong growth last year. Our growth was driven by continued strength in Retail Media onsite and new offsite campaigns. Growth from existing clients remains strong with same-retailer Contribution ex-TAC retention at 121%. We onboarded 100 more brands in Q4 and saw continued traction with our agency partners. Our 2,600 global brands are prioritizing Retail Media as a key channel for their investments, a trend we expect to continue as first-party data becomes increasingly valuable.

In Marketing Solutions, revenue was $455 million and Contribution ex-TAC was $208 million, up 6% at constant currency, marking our second consecutive quarter of growth. We had a successful holiday season around the traditional Cyber 6 peak, and we experienced continued strength in December which has carried through the beginning of this year. We saw a sequential improvement in Retail returning to growth this quarter, while Travel remained strong. We also benefitted from our latest AI-driven performance optimization.

We delivered exceptional growth in Commerce Audiences, up 60%, as more clients are embracing full funnel audience strategies to acquire and retain customers, demonstrating that our strategy is working. Notably, we doubled our revenue associated with customer retention solutions year-over-year as we increasingly leverage clients' first-party data from Customer Data Platforms and Data Management Platforms for precise targeting, and we are seeing more clients shift spend from Retargeting to this alternative tactic. Cross-selling remains an important growth driver as 40% of our clients are now using more than one Criteo solution compared to 35% a year ago. This represents 70% of our media spend from clients that use Commerce Audiences targeting in addition to Retargeting in Marketing Solutions. We also benefitted from incremental third-party demand through our Commerce Grid SSP.

Iponweb revenue was up 2% this quarter. This does not capture the contribution of our acquisition to the growth of our other solutions including Commerce Audiences.

We delivered an Adjusted EBITDA of $139 million in Q4 2023. Non-GAAP operating expenses decreased 5%, driven by our rigorous focus on cost management and efficiencies, offsetting our planned growth investments. We also benefitted from lower bad debt expense due to strong cash collections.

Moving down the P&L, Depreciation and Amortization decreased 16% in Q4 2023 and share-based compensation expense decreased 6% to $21 million, including $5 million related to treasury shares granted to Iponweb's founder as part of the acquisition. Our income from operations was $88 million and our net income was $62 million in Q4 2023. Our weighted average diluted share count was 59.7 million. This resulted in diluted earnings per share of $1.02. Our adjusted diluted EPS was $1.52 in Q4 2023, up 81% year-over-year. We canceled 2.1 million shares in 2023.

We benefit from a strong financial position with solid cash generation and no long-term debt. We had about $837 million in total liquidity as of the end of December, which gives us significant financial flexibility to execute our growth and capital allocation strategy.

Our commitment to diversity, equity and inclusion, and a sustainable planet are core to that strategy, as demonstrated by our existing $450 million five-year revolving credit facility being recently converted to a Sustainability-Linked Loan. Certain terms and conditions of the credit facility are now linked to certain sustainability targets to increase the representation of women in tech roles and reduce our GHG emissions.

We delivered Free Cash Flow of $142 million in Q4, an increase of 28% year-over-year. Our Free Cash Flow amounted to $110 million in 2023 after the CNIL payment of $43 million and $45 million for restructuring and integration costs.

We have a disciplined and balanced capital allocation strategy. 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. In 2023, we deployed $125 million of capital, or 114% of our Free Cash Flow for the year, for share repurchases. This included 4.3 million shares repurchased at an average cost of $29.3 per share. As of December 31, 2023, there was $118 million remaining under the current authorized share repurchase program. In February, our Board of Directors authorized an additional $150 million to be added to our existing share repurchase program. 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 7, 2024. Our outlook assumes third-party cookie deprecation on Chrome in the second half of the year.

For 2024, we expect Contribution ex-TAC to grow mid-single-digit year-over-year at constant currency with growth in each of our segments.

In Retail Media, we expect to continue to grow rapidly from a scaled $200+ million revenue base. We expect our activated media spend to grow above 30% year-over-year, faster than GroupM's estimated market growth of 12%, as we anticipate further share gains. We expect this will translate into Contribution ex-TAC growth of approximately 20% at constant currency, in line with consensus expectations. Our 2024 guidance includes take-rate volume-based fees for all our clients, which is effectively a percentage of their media spend. It also includes licensing and services revenues, which represent approximately 20% of our total expected Retail Media revenue. Overall, 80% of our Retail Media Contribution ex-TAC is derived from retailers that are driving more than half of the demand themselves and are limited in their ability to do more. As previously communicated, our 2024 guidance reflects our largest client moving some of their demand to a direct sales model as we progress through the year. We expect this to be more than offset by the growing momentum that we are seeing across the rest of our client base. Over time, we have an opportunity to increase the share of Criteo-sold demand as we tap into national media budgets from our agency partners and brands, and scale cross-retailer and full funnel campaigns. In addition, we expect to drive more and more demand for mid-sized and smaller retailers. Our strategy is focused on unifying the Retail Media ecosystem, and we believe new onsite ad formats, offsite and omnichannel all present exciting opportunities to drive continued strong growth going forward.

We expect Contribution ex-TAC to grow low-single digit for both Marketing Solutions and Iponweb. This reflects continued traction in AI-powered Commerce Audiences and for our Commerce Grid SSP.

Now, I'd like to address our current assumptions as it relates to the potential loss of signal in Chrome that impacts Retargeting. Our 2024 guidance assumes that Google starts phasing out third-party cookies in the latter half of Q3 resulting in an expected signal loss impact of approximately $30 million to $40 million in the second half of the year. This assumption is consistent with our previously communicated estimated impact for signal loss on Chrome, with the remainder of the signal loss impact expected in 2025. As previously communicated, we expect we would retain approximately 60% of our Retargeting Contribution ex-TAC on Chrome post third-party cookie deprecation. We intend to continue to update our assumptions as we move throughout the year.

As part of our transformation, we are disciplined in strategically allocating our resources to higher growth areas while enabling productivity and cost efficiencies. In 2024, we intend to continue to right size our organization and optimize our operating model.

Overall, **we anticipate an Adjusted EBITDA margin of approximately 29% to 30% for 2024, flat year-over-year**. This includes continued rigor on cost efficiencies to offset wage inflation while continuing investments in our multi-pronged addressability strategy, scaling Retail Media capabilities and AI-driven productivity tools.

We expect a normalized tax rate of 28% to 30%. We expect capex to be down compared to last year, or slightly below $100 million, and we expect free cash flow conversion rate of about 45% of Adjusted EBITDA before any non-recurring items. For modelling purposes, we assume a flat number of shares outstanding in 2024.

We are off to a solid start in January. For Q1 2024, we expect **Contribution ex-TAC of $243 million to $247 million, growing by 10% to 12% at constant currency**.

We estimate forex changes to drive a negative year-over-year impact of about $1 million to $3 million on Contribution ex-TAC in Q1. We expect **Adjusted EBITDA between $50 million and $54 million,** reflecting year-over-year margin improvement in a seasonally low quarter.

As a reminder, comparisons to the prior year get more difficult as we progress through the year.

Lastly, we are contemplating updating our segment reporting structure, beginning in Q1 2024. This follows the completion of the integration of our Iponweb acquisition which has contributed to the launch of several products and accelerated our Commerce Media Platform more broadly. We intend to provide you with additional information regarding this change and a recast of historical financial information reflecting the segment change in the near future.

In closing, 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 2024 and beyond.

With that, I will open up the call for questions.

[…Q&A…]

Melanie Dambre – Vice President, 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. Have a nice day.