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CRTO - Criteo SA at Morgan Stanley TMT Conference

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Jean-Baptiste Rudelle *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

CONFERENCE CALL PARTICIPANTS

Sean Diffley *Morgan Stanley - Internet, Media and Telecom Sector Specialist*

PRESENTATION

Sean Diffley - *Morgan Stanley - Internet, Media and Telecom Sector Specialist*

All right. Good morning. My name is Sean Diffley, I'm the Internet, Media and Telecom Sector Specialist at Morgan Stanley based in New York. I'd like to welcome everyone to our 19th Annual TMT Conference in Barcelona, and we're going to kick it off with Criteo. Very happy to have the CEO, Chairman and Co-Founder, JB Rudelle. Welcome.

QUESTIONS AND ANSWERS

Sean Diffley - *Morgan Stanley - Internet, Media and Telecom Sector Specialist*

So with no further ado, we're going to kick it off. Can you talk about the transformation that the company started about 18 months ago? How pleased are you with the progress? And then the big news this quarter was that you announced a new CEO for the organization. So maybe talk us through what the decision-making was around that.

Jean-Baptiste Rudelle - *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

Sure. Welcome, everyone. Thanks for joining today. I mean this track was difficult to find, so. Yes, double thank you, for being here. It's a cozy room. I guess, if you are in this room, it's that you are interested in the Criteo stock. I know your [colleagues] are high-end investors. And it's interesting to discuss where we are today and what we can -- where we are in our -- in this transformation journey.

You will know that our profile changed quite a lot in the last 2, 3 years. We used to be a growth company. And now, we haven't been growing in the last 2 years. But the profile of the company has been changing a lot. We used to be a 1-product company, and we made a lot of investment to diversify the portfolio of products. As we were starting from a very big base on 1 product, it takes time for this product mix to start to be meaningful in the grand scheme of things. We were quite last quarter to announce that our, what we call new solutions, which is anything except our historical product, is now accounting for 11% of our overall revenue. So 11% sounds modest but net revenue is close to \$1 billion. So think about something between \$100 million and \$150 million in revenue, growing 50% year-on-year. So a relatively small base but with high velocity. And this gets us exciting because it's been -- it's a multiyear investment, and it's starting to show a nice heat.

So overall, as we had headwinds on our historical business, when you combine the high velocity of the new business with the softness of the historical business, the combination of the 2 is -- it looks flat.

But one other thing, which is very important, I guess, we would get back to that, is that we've been conducting this transformation while maintaining our profitability. And there was a lot of speculation that our profitability will -- would go under pressure. And I think we've proved repeatedly quarter after quarter that we were very disciplined. I'm a shareholder myself, a meaningful one. And I know in the long term, if you want to create shareholder value, you have to be disciplined on the profitability side.



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Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

Great. And we hit on a new CEO, just announced with the earnings report, Megan Clarken joining from Nielsen. Maybe for those less familiar with her, you can tell us a little bit about her, her background and why you think she's a good fit for the company.

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Sure. So Megan is coming from an industry which is slightly different than ours, which is the measurement industry. But it's an industry different than ours but has a lot of influence on our own business because, ultimately, the way clients measure things, will decide if they want to invest more or less with us. And it's always an area where we hadn't really probably put enough attention in the past. And as -- especially, we expand the type of marketing scenario, we are covering for our clients, including what we call branding scenario, upper funnel scenario, those measurements from independent third parties becoming more and more important.

And yesterday, I was discussing with the team some video campaigns that we're doing for some clients and the fact that our clients want to have independent measurements. And along the different names of independent measurement that could apply to the entire campaign came the name of Nielsen. So long story short, again, she knows very well the ecosystem as a whole, and she's providing this expertise, which is very complementary to ours. We need to build stronger ties with measurement companies. So our new marketing scenarios we are covering can be well recognized by our clients.

Beyond that, she is a very strong operator. And she's proved many times at Nielsen that she's been going through also very complex transformations at Nielsen, probably even more complex than the Criteo one, and bringing this talent onboard is very exciting. I always feel as one of the key things as the founder of this company in the last 15 years, always having to try to find the best possible talents for the company all the time, and I'm always obsessed about attracting great talent for the company. And I -- when I crossed paths with Megan and started the discussion with her, I realized that both culturally and in terms of business knowledge and drive, she would be a perfect fit. So yes, I'm very excited.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

And you're going to obviously remain Chairman of the board.

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Absolutely.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

I guess, in terms of why now? Why did you see the need for a change?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So yes, a lot of people are asking me about is it the right timing? And it's always the right timing to bring great talent. And when you have an opportunity to bring someone of the caliber of Megan, I think you take the opportunity.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

Great. Excellent. So given your client exposure to the e-commerce and retail space, maybe you could talk about how your customers are viewing the upcoming holiday season? And how your clients' priorities have changed maybe this year versus last year?

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Jean-Baptiste Rudelle - *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

So yes, holiday season. For us, it's the most exciting important quarter of the year. Always in Q4, you can see this kind of a special energy across all teams because a lot is happening. And we've been preparing for this Q4, and especially for the Black Friday, for months and months. This is something that used to be very U.S. focused a few years back. In the last 3 years, we've seen a dramatic expansion of the Black Friday thing across the whole world, especially in Europe. And not every year is getting stronger in Europe. And 3 years ago, it was some small blip. 2 years -- last year, it's been growing, growing, and we anticipate this year is going to be even bigger than last year so -- in Europe, yes.

Sean Diffley - *Morgan Stanley - Internet, Media and Telecom Sector Specialist*

Interesting. And in terms of your clients' priorities, how have you seen them shift? And any differences beyond just kind of Europe being a little bit stronger, seeing more kind of geographic diversification? What solutions are your clients looking for?

Jean-Baptiste Rudelle - *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

So I think what's important for our clients is to be able to activate as many marketing channels as possible. For instance, something that we've been promoting is what we call multi-channel marketing, combining in-store marketing with online marketing because the consumer -- you don't have like a consumer going online and consumer going off-line. It's the same person going on and off and back and forth. And you need to be able to continue this conversation off-line and online. And this is still a very small business for us, but it's one of our fast-growing areas, what we call store, this ability to market both online and fee in physical stores.

Sean Diffley - *Morgan Stanley - Internet, Media and Telecom Sector Specialist*

Great. And you talked about the 11% of the business in new solutions. Maybe if you could further elaborate maybe 1 or 2 products that you're most excited about? How do you see -- they've obviously -- you're seeing nice growth in this -- in these new segments. Maybe talk about kind of bring home for us what those solutions are and how they're resonating?

Jean-Baptiste Rudelle - *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

Sure. So basically, we have 2 initiatives when we talk about new solutions. One is expansion to the full funnel of our ad tech stack, which was covering the lower funnel, we were doing purely retargeting and now we are offering the full funnel, which is nice because we are leveraging an existing platform to upsell our clients. So in terms of our efficiency of go-to-market, it's very straightforward. So that's the first piece.

The second piece is a whole new division that we've built in the last 3 years for Retail Media, which is very exciting. It's towards replicating what Amazon has been doing for their own property, where they are now monetizing their audience to brands in a very, very successful way. It's more than a \$10 billion business for Amazon. And all of the other retailers are like, "I want my share of this big pie." And those brands, they are very eager to communicate with shoppers when they are in the mood, and when they are shopping, they are really in the mood to have this conversation with brands. This is why all the retailers now put this as a top priority.

Now they need a technical partner for that, that, usually they don't have the R&D capability of an Amazon, so they cannot build everything inside -- in-house. And we are this technology provider. We are providing a technology platform for them, and this is growing very, very nicely.

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Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

Excellent. So talking about the core retargeting business, you are seeing the business still slightly in decline. You have cited headwinds from the web to app transition, I think, some larger customers are maybe a little bit slower. Maybe you could kind of walk through what the headwinds have been and how you see those kind of changing as we move forward?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Sure. So our traditional retargeting business is indeed facing headwinds, it's no secret. And that's the reason why we've seen a relatively modest decline there, but still something that we are -we were hoping the decline will be less modest this year, thanks to the growth of in-app. In-app hasn't been growing as quickly as we were hoping for, mainly because it's a difficult transition for e-commerce players to move from web to app. So when you combine web and app, you don't have enough of a growth there. So it's a mature business. The idea and what we're working on is to stabilize this business. So rather than declining, it will stay flat, which is happening in some areas. In some countries, we're already achieving this overall. We have to fix a few countries where we still have this decline. And once we are capable to achieve this, with the growth happening in the new solutions, you will see a global picture that's going to be much better. And I guess it's (inaudible) for investors is to -- yes, it's to bet on the fact that we're going to be able to stabilize our core business. And at the same time, the high velocity of the new solutions, which is quite straightforward, should help the overall mix.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

Maybe you could talk about large versus kind of middle market. It seems like you've had some real success in kind of the mid-market space. Just talk about the differences between those client groupings.

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So the mid-market, we've been applying a lot of productivity improvements. So this is an area where -- and we're still fairly under-penetrated in the mid-market. So in a way, the market is less mature. So we've been compensating those headwinds that we've been facing by adding new clients. In the large segment, where we are more penetrated, it's harder to compensate with new clients the headwind we've been facing. So this is why I would say most of the -- well, not most, all of the contraction has been happening in large accounts.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

And then there's been a number of platform privacy changes implemented over the last few years.

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

And again, it's not that our clients are going away. We are maintaining a retention rate which is very high, and for me that's the key thing, is that they cannot spend as much as they wish because just the amount of traffic that we can target has been a bit smaller.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

That makes sense. And then just turning to platform privacy changes over the last few years. How have those kind of impacted your business? What were your learnings from these ecosystem changes? And anything kind of on the horizon that you're focused on from a platform privacy perspective?

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Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So there's been a trend from several players to restrict access to cross-domain IDs, especially cookies, which is the way people do most of the time, cross-domain ID, and they have had a huge impact on our business because we rely on this cross-domain ID on those cookies. And the fact that some players like Apple or Firefox restricted this access, clearly has been adverse to the whole ecosystem, and probably us more than others, because our system is so optimized and the performance is so good, that any change is probably more visible than for others. When your performance is not great and if there was a change in the tracking system, you don't really notice it. When the performance is super, super good, any change is much more visible. So it's been more visible for us. And this started 2 years ago. And we learned really tough lessons there that we need to control our destiny. We need to have our own ID system and not rely on third parties, on their technology because if, overnight, they decide they want to change their technological setup, this is going to have a big impact on our business. So one of the key focus over the last 2 years has been to build our own identification graph so we would rely less and less on those players. It's a huge effort. This -- it's an ongoing one. We are progressing step-by-step every quarter on this and feeling better and better that we are in more control of our destiny. And this is absolutely key in our ability to stabilize our historical business. Because again, this historical business rely on those -- on this cross-domain identification, and we need absolutely to have this backbone work. And so this has been a big focus.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

Great. And there have been some recent changes to Google, Firefox and also new Apple OS?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Yes. Oh yes.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

I mean, anything associated with those new kind of versions that could be (inaudible) .

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

For every -- now it's becoming almost a routine now. Every 6 -- 3, 6 months, they have a new release and they're putting new constraints. But I think the first time we were caught off guard, we were -- we didn't really thought this would be a risk. Now it's part of our business. So we are, I think, much better into anticipating those changes and integrating into our own operations. It was very different than 2 years ago, where we were a bit in panic mode, to be honest, because, like, wow, I mean, those guys overnight can press a button and hurt us a lot. I think today, we are in a very different situation, where with own graph, we know exactly what we can do and we know exactly how to control our destiny.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

Great. And then talking about the regulatory backdrop, there's a new ePrivacy law in California that comes into effect early next year. GDPR, you've obviously worked through. Maybe talk through how you're thinking about those 2 pieces.

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Absolutely. So GDPR was -- this is something we gained a lot of experience also, something we've been promoting because we like the philosophy that you have to ask the end user if they want to see targeted ads. Remember, our business model, we pay for the advertising inventory, no matter what. We get paid only if user engage with the ads. So we always try not to show ads to people who are not comfortable to see them because they're just -- they're not going to engage anyway with the ads. And in a way, GDPR was a way to filter user who don't want to see a targeted ad. And so we could buy ad only for the one that matters, which happen to be the vast majority of the users, because they are -- there is a vocal minority

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of people who don't want, no matter what, to see targeted ads, and you have to respect them. But the vast majority, when they have the choice to see visual pollution or to see something that matters for them, they prefer to see something that matters. So long story short, we've been implementing the GDPR. There is always ways to implement GDPR that can be adverse to the ecosystem and some players push to the extreme the recommendation of the privacy agencies, which creates some short-term friction. I think we're over that now, and we are in a kind of a steady mode on GDPR.

California law is a bit of the U.S. version of GDPR. It's -- there are less constraints because the fines are much smaller. It's an opt out system versus an opt in system for GDPR. So in a way, it's -- that's how the law is written. Now you might add some players who implement this in a very strict fashion, and they will require some education to -- so they realize that it's against their own interest. But we're confident that for the vast majority of the players in the ecosystem, it should be a lighter version of GDPR.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

That's helpful. And then talking about the self-service platform, that's obviously been a big push for you. I think you've rolled it out in 3 markets, U.S., U.K. and Australia. Maybe you can talk about some of the early findings there? And then kind of the go-to-market as you plan to roll it out more broadly.

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So self-service is something very vast, covering all our business, which is the ability for our clients and agencies to have their own hands on the keyboard and operate the platform themselves, which - we love it because when they turn the dice on their own, usually they trust more the system, they are more engaged, and we see this happening across the board for our big, medium and small clients. What you're referring to is something specific to the long tail, which is self-registration, the ability of people to go on the website and directly register on the website. So this is something we've implemented indeed in 3 countries; U.S., U.K. and Australia. It's exciting because we see a lot of -- even with that marketing, we see hundreds and hundreds of clients who are registering there. Most of them are not necessarily relevant for our business. So we need to filter the right one. We are learning how to this. This is an add-on for the long term. But I want to stress that self-service is something much further than just this self-registration thing.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

Okay, that's helpful. And then turning to partnerships. You announced a new partnership with LiveRamp on Identity Link in the third quarter, maybe walk us through what the rationale was for doing that? Where you are currently and how the partnership is working?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So again, the whole industry relies on robust ID solutions, so you can target users across several domains. Traditionally, it was cookies. We all know that cookies are going away. So basically, you have 2 options. Either you can rely purely on the walled gardens for identity, which is very uncomfortable for advertisers because the walled garden are -- have closed ecosystem by definition and they are not sharing this identity with the advertisers. Or you can rely on open Internet solutions like Criteo. So it's not only us in the open Internet, there are several other players, including LiveRamp. And we all have this same strategic interest that we want to offer a strong alternative to the walled garden in terms of identity. So by joining forces together, we can offer something, which is even more robust and competitive compared to the walled garden, I think. And when we have identity cooperation with [our] walled garden, we performed really well. So today, our identity solution is really good compared to Facebook, Google Solution.

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Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

And then connected TV is something that we've talked about increasingly with the company. Maybe where are we? What is it? How big is the opportunity?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So connectTV, it's kind of an emerging solutions. As we are doing more video campaigns, clients are asking for connected TV. So we started to do a few campaigns there. It's still very early so I don't want you guys to get too excited, but the first results are encouraging. It's still a small market compared to the display one, but a one growing very quickly, a very clean inventory also in terms of advertising space, there is no fraud, it's much easier to measure. So it's something attractive potentially for us in the midterm.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

And Roku is a company that a lot of U.S. investors are focused on that's becoming more international. They just bought Data Zoo. Is that -- how do you think about that deal? Does that impact your business at all? And then just consolidation more broadly, we've seen some ad tech consolidation, but maybe not quite as much as some might have forecasted. How are you going to think about the M&A backdrop in the sector?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So these are 2 different --

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

2 different questions.

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Different question. I think this connected TV space is still very early, think about the Internet 15 years ago. So very fragmented, there are a lot of early-stage player and building more tech in this space is going to be beneficial. So there can be more programmatic buys, and I think that's the spirit of the local dealer.

M&A is happening in this space. Obviously, we see, actually, a lot of companies getting more attractive, people banging on their door because they want to be acquired. So we are very -- we've been very disciplined there. We don't want to spend our cash acquiring companies just for the sake of adding new stuff. We are looking things that can be only very synergistic and where we can create real value. And I think the best illustration of this was Retail Media. Again, this new business, which is fast-growing for us and a very strategic one, has been built on the back of 2 acquisitions, 1 in Europe and 1 in the U.S. And it would have been probably much harder to build this from scratch.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

Okay. And then when you think about other potential partnerships like the LiveRamp deal, do you see the potential to partner with other companies, whether it's agencies or other kind of data providers? How do you think about the possibility of other partnerships?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

I think there is a strong appetite in the open Internet to do cross collaboration. We all want this open Internet to thrive, so that the world does not become just a handful of walled gardens, I think it's the interest of no one for that. So as a result, I think there is a very good spirit across the industry

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for those collaborations. And this is why you see more and more partnerships. We are -- our philosophy is to be open. We work with a lot of third parties. Whenever it's DNP, measurement solutions, DSPs and data providers, absolutely.

Sean Diffley - *Morgan Stanley - Internet, Media and Telecom Sector Specialist*

And I think we'll turn to the audience to see if we have any questions in the room.

Unidentified Analyst

Maybe just why not choosing an internal candidate to replace you as the CEO in order to speed up the transition?

Jean-Baptiste Rudelle - *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

Again, I'm always trying to find the best talent for the company. I have a great executive team internally now. They are ramping up really nicely in a different area. I think Megan brings a level of seniority, which is going to be very complementary to our existing executive team. So I think the combination of the 2 is going to be the winning formula.

Unidentified Analyst

In terms of connected TV, is it your view that, that becomes primarily a programmatic market? Because really if you do some programmatic, but frankly not a lot today, [we've] historically talked it down, where do you think market goes?

Jean-Baptiste Rudelle - *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

Well, programmatic has proven to be the driver of success for display. And there are a lot of trends pushing to, replicate this in connected TV. Again, 15 years ago, nobody was really talking about programmatic or people thought it would be very small in display. But at the end of the day, the one who is deciding is the advertiser. They are the one voting with their dollars. If they want connected TV to be programmatic, it will be programmatic. And I don't think it's one of the other at the end, it's going to be always a mix of the 2. And you have the same thing happening in display, where you still have guaranteed buys versus auction buys. And I think both are complementary and fill different needs. And if you want to maximize the value of the inventory, which eventually is the agenda of any media owner, you need both offers.

Unidentified Analyst

Google right now is allowing third-party cookie that (inaudible).

Jean-Baptiste Rudelle - *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

So I think you refer to Chrome, which is owned by Google. So yes, you could say Chrome equals Google very much. Google, there was a lot of rumor last spring about Google killing all third-party cookies in Chrome which would be hurting the whole ecosystem, starting with Google, obviously. You can see that they are much, much more mature than Apple when it comes to advertising. Obviously, it's their core business, so then they are really experts in that. And they made it loud and clear that they're going to maintain cookies in Chrome. They want to improve, which I think it's a good thing and goes into the GDPR mindset, they want to improve the ability of end users to make educated choices about how their data is used. And again, this is something we're very favorable of. So it's going into the right direction. But they make very clear they're not going to replicate what Apple been doing in ITP.



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Unidentified Analyst

The decline in the retargeting business purely result of your ability to target users? Or is there also a bigger picture trend of more dollars being spent in walled garden? If you could just talk about that.

Jean-Baptiste Rudelle - *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

So they are more dollars spent in walled gardens because when you see the growth of the top line of the walled gardens compared to the time spent online, the amount of advertising dollars spent in walled gardens far exceed. So in other words, walled gardens are much better at monetizing their own inventory than the open Internet. So if you look at the flip side, you could say that the open Internet has an ability and an opportunity to better monetize and kind to catch up with the -- those walled gardens. For that, you need the right technology and you need the right identity solution. This is why we've been working on that a lot to provide the same level of experience. I think people are saying that retargeting is going to go away, they don't know what they talk about. That's the most -- with search, probably, these are the 2 most sustainable, stable marketing solution that you see in the industry with a super high ROI for advertisers. And it's been proven to be remarkably stable over time. And we've been managing this to prove that. So I think people who are speculating on the end of retargeting, which is probably the case why some people have been becoming bearish on Criteo, they say, yes, retargeting is going away so I'm going to short Criteo. I think it's a wrong bet, and we're proving this every day. And 5 years down the road, you still have a lot of retargeting as -- in the marketing mix. They're not all new retargeting, there are other things. But it's like, if you go on saying search is over, people will stop to do search, and there are always going to be a mix of different things in marketing campaigns and retargeting is a key component of it.

Unidentified Analyst

Could you walk through regarding the revenue opportunity of the new solutions within your existing client? I mean, what could be the revenue run rate 5 years down the road without talking about new clients.

Jean-Baptiste Rudelle - *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

So what's interesting is to -- we've been trying to look at our share of voice in the marketing budget of our clients. So in lower funnel, which is mostly retargeting, we have a very good share of voice. There is still room for growth, but probably relatively modest. In the upper funnel, so the rest, it's very much a greenfield opportunity. What they're spending with us is tiny compared to when they spend overall. So -- and it's a market which is at least as big as the retargeting one. How much we're going to be able to capture from this opportunity is to be seen. And what's important is that in terms of technology development, it's a relatively modest investment. We can upsell our client with this full-funnel solution by leveraging existing platform to a large extent. It's more the go-to-market and the packaging which is different, which we are working on. Doesn't mean it's easy and straightforward. We still have to do some change management in our company, in our -- train our sales team for this, and it's not happening overnight. But it's not fundamentally something radically different from what we do. And technology building blocks are, to a large extent, the same. So at the end of the day, it's going to be our ability to execute. Which is -- which will make the difference between this being a nice little add-on, but a small contributor or something that's going to become a very big part of the overall mix.

Sean Diffley - *Morgan Stanley - Internet, Media and Telecom Sector Specialist*

Maybe that's a good time to talk about the sales force and the reorg, kind of where are we in terms of headcount? There have been some challenges around hiring and talent. Can you walk us through what the plans are there?

Jean-Baptiste Rudelle - *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

Absolutely. We are both training our salespeople to sell our new solutions. We are also bringing new talent because some of those solutions require more a SaaS model, where you need different type of expertise. And we've been bringing recently new people to the company. They are capable

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to answer things like RFPs, which is something we didn't do in the past. In the past, we were working purely on IOs. And now we are entering those new processes where clients are sending RFPs and you have to answer on the specific formats and pitch among other competitors. So these are new things for us. But it's kind of exciting because it's also expanding our addressable market, and we are only at the very early stage of this.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

And how about in terms of total number of headcount? Do you see that kind of flattish or growing over time?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So again, when I look at the outlook for 2020, we are not anticipating some spectacular growth. And you know there are two ways to create shareholder value, either you grow like super aggressively and you promised in long term you're going to have profitability or you make sure you have a good profitability profile. And right now, within our transformation, we are clearly in the second option, which means that we're going to stay very disciplined on our cost in 2020 and which means discipline also in hiring. So we are changing and injecting the right talent at the right time. Then in terms of new quantitative fashion, we are not anticipating a huge increase in our workforce.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

And then, I guess, you have done a good job of kind of protecting margins and kind of keeping in line with your adjusted EBITDA margin guidance around 30%.

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

That's pretty cool.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

Yes, should we expect kind of 2020 EBITDA margins to rebound as you continue to kind of focus in on costs?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Again, I'm a big shareholder of this company, well, as an individual. I know that profitability is a key aspect in terms of long-term shareholder value. So I will ensure we stay very disciplined on the cost side in 2020 because this is our strength, and we've been proving repeatedly quarter after quarter that we were really good at this profitability process, and we're going to maintain this in the future absolutely.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

Okay. And then talking about app installs, maybe some of your priorities in the mobile app marketing space and the integration of Manage into the Criteo platform, maybe you could talk about that.

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

So yes, app install is still a very small contributor to our overall business. We will probably have completed the migration to our Criteo stack by middle of next year. This is our plan, and hopefully, a bit sooner. We are trying to accelerate this. App install is a greenfield opportunity for us. It's a huge market, it's like \$2 billion. Today, we are tiny, tiny in this market. We are kind of testing the waters. If we can -- it's a game of performance.

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App install is very simple idea. You show good performance and people buy a lot, or you not and people don't buy. Performance, it's normally a game where we're very good at. It's really in the DNA of the company. This is why we decided to do -- to go into app install. It's also a market which is relatively sophisticated today. So the bar is quite high if you want to offer better performance. And we want to make sure we start scaling only when we offer best-in-class performance, which is what we are focusing on, offering clients the best possible performance. So the next 6 months is going to be very critical to see if we can take a big chunk of this market and if this become a meaningful growth driver of Criteo for 2020 and after or if this will stay a relatively modest part of our overall business. It's a bit too early to tell.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

Okay. And then at the onset, you had mentioned how Europe had actually kind of seen some strengthening around holiday and spending more there. Maybe you could walk us through the geographies. In the third quarter, Americas was up 1% constant currency, EMEA and Asia Pac, down 1-ish percent constant currency. When you look at the globe, kind of what are you seeing?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Sure. So Q4 is always particularly strong for U.S. with a -- because of the Black (Friday) market and the holiday season, and this is where it all started and it's still leading the way. Europe is, again, as I mentioned, catching up on Black Friday. So it's getting stronger and stronger. So those 2 regions are really leading the tempo and the momentum for Q4. Black Friday has always been much more modest in APAC. It's not yet, perhaps it will be in the future, but today it's not in the tradition of APAC. And the holiday season has already been less pronounced in APAC for cultural reasons than they are in Americas and EMEA. So this is kind of setting the trends for what's going to happen in Q4.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

Right. And as you look to '20, what do you think is kind of the greatest opportunity and the greatest risk for Criteo?

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Well, I think we addressed this, the greatest risk would be if we are -- if we see more contraction of our retargeting business. And that's -- I would say the whole bet that we are -- we're going to be able to stabilize this business. The new solutions, I feel really good. The momentum is really high. It's growing very nicely. So you should expect some more good velocity in this area in 2020. This volatility is straightforward. But at the same time, we want to stabilize the core business. So the overall picture will benefit -- fully benefit from the velocity of the new solutions. Well, what's been happening in 2019 is the velocity of the new solutions has been offset by the slight decline in the traditional business.

Sean Diffley - Morgan Stanley - Internet, Media and Telecom Sector Specialist

And, any more questions in the crowd? All right. And you had implemented a buyback authorization. You guys bought back a little bit of stock in the third quarter. And maybe walk us through what your approach is to capital allocation, just more broadly, I think (inaudible).

Jean-Baptiste Rudelle - Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board

Yes, so clearly today, I see this that there is a complete disconnection between the fundamentals of the company and what is perceived by the market. And I guess, if you are in this room, you have those same questions about why there is this such a disconnection? And when you see the valuation done by the analysts, it's very hard to understand the rationale because they do a discounted cash flow and then they arrive to a very decent amount at the end and they go back to existing valuation, and there's no way to connect the 2 things. So either it's a market anomaly, and either the market is right and the company is going to collapse in 2 years. So it's one or the other and we believe, obviously, the company is here to stay. By running the business, we think we have a good understanding of what's going on. Personally, I'm very committed. And today, given



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that there is such a disconnection, it feels like a no-brainer to buy our own stock. So we're buying as much as we can. Being a French company, we have some legal constraints that we cannot buy more than a certain amount in a given period. But within these constraints, we're trying to buy as much as we can. And clearly, at the share price today, yes, we are actively into our buyback program.

Sean Diffley - *Morgan Stanley - Internet, Media and Telecom Sector Specialist*

Right. I think that's a perfect (inaudible).

Jean-Baptiste Rudelle - *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

It's a good use of our cash today.

Sean Diffley - *Morgan Stanley - Internet, Media and Telecom Sector Specialist*

Excellent. Thank you very much for joining us. We really appreciate it. Best of luck in the fourth quarter.

Jean-Baptiste Rudelle - *Criteo S.A. - Co-Founder, Executive Chairman, CEO & Member of Advisory Board*

Thank you.

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