Criteo - William Blair 2019 Growth Stock Conference

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Introduction

Ralph Schackart

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Ralph Schackart: I'll go ahead and get started. I'm Ralph Schackart, Internet Analyst at William Blair. Thanks for coming to our annual conference. Hopefully you're enjoying the new venue. Today we have Criteo here for their inaugural William Blair conference. By back - way of background, Benoit Fouilland – is that good?

Speaker: Good.

Ralph Schackart: – the company's CFO, and Friederike Edelmann are visiting us today. Just a quick background of Criteo. Historically, it was a one-product retargeting company that had about 30% market share and roughly a $7 billion TAM. And as Benoit and the team have sort of taken a look at the core business and as the web has matured, they have diversified the product offering, enabling them to potentially triple their market opportunities. I think Benoit's going to focus on today.

I have to tell you, for compliance reasons, please check our website for disclosures and, if you can, just put your phone to silent mode – that would be great. And with that, I'll turn it over to Benoit.

Overview

Benoit Fouilland

CFO, Criteo

Benoit Fouilland: Thank you. Thank you, Ralph. Thanks for having us today. Very happy to be in Chicago. I've not been in Chicago for quite a long time, so very happy to be here today. And so what I had in mind is to cover approximately 20 minutes to give you, you know, a good – a good reminder of who we are and where we stand in our – in our strategy, and particularly as we are going through important times of transformation as a company, and then we can open it for questions at the end.

So I will not go through the safe harbor. You know all of that. So what is our vision as a company? So our vision is to be the leading advertising platform for the open internet, and, in doing so, to offer advertisers choice and control, among many other benefits. So what are we talking about when we talk about the open internet?

The open internet, you know, in a space where arguably there is a, you know, significant presence of walled gardens, is to the opposite of the walled garden's, you know, world, a world where advertisers have choice, and advertisers value choice. In fact, advertisers have been asking us for a long time to cover more use cases than what we've been covering traditionally. They want to choose – to be free to choose with who they work with ultimately.

Clients want also neutrality. They value the fact that we are a neutral partner with no conflict of interest. And, advertisers want to be in control of their data and how it is being used. And finally, what we see as the one of the key attributes of the – of the open internet that the

clients are valuing is the fact that they can decide how transparently they measure success of their advertising strategies, and have access to the data to measure the success.

So these are the four, I would say, core attributes valued by our clients about the open internet, and we see a very large opportunity to build on our success as a company that has built a significant customer base with one use case to cover many more use case and become the leading platform for our clients in the open internet.

So how do we provide, you know, and deliver advertising and monetization opportunities through our platform to our clients? So we have a single platform with two type of solutions. The Criteo marketing solutions on one hand, and the Criteo retail media solution on the other hand. So if we start by marketing – marketing solution, they, you know, deliver a full funnel display solution for our clients to drive results through the web, through the app and the store, and to do that across the entire funnel – and we'll come back into more details as to what it mean for each marketing objective across the funnel.

The second family of solution are the retail media solution, and this is a, you know, technology-based solution that enables retailers to ultimately generate advertising revenues on their own digital properties by monetizing their traffic with the brands. And that's a very, you know, attractive emerging opportunity in a world of retail where, you know, retailers are directly competing with Amazon. And Amazon has been developing and ramping up a significant, you know, advertising revenue business. Our clients – retailers – have realized, through this competition with Amazon, that they have a massive opportunity for themselves as well to generate advertising revenue on their platform.

So those two family of solutions are powered by a unique commerce dataset. You know, we have a massive, you know, shopper graph, as well by the common artificial intelligence engine. And that artificial intelligence engine has been developed over time by a team of over 700 engineers today in our R&D and product team. So, over the past year, we've been transforming, going through a very significant transformation of the company from, as Ralph mentioned in the introduction, what was a very clear mono-product solution initially addressing one use case to, now, a platform.

And that transformation has engaged three core dimension. So, first, the product expansion, you know, expanding along the two families that I just mentioned before. The second dimension is adopting self-service in the core of our platform to provide ultimately more control and transparency to all of our clients. And that's what our clients have been asking from us for – now for some time. And the third aspect of the transformation is the adaptation of our go-to-market in order to best serve and position this broader offering into the customer segment.

So let's dive into each one of the – of the dimensions of this – of this transformation. So if we start by the product side, looking at the first family of product, so the marketing solution family, so we have a full funnel display capability that can ultimately address, you know, all of our clients' marketing goals.

Starting on the left side by, you know, the top of the funnel, the awareness goals that are addressed by driving brand awareness on video views, with a focus there to ultimately maximize reach for our clients. For consideration, which is the second – the second column in the middle, you know, what our solution can do for our clients is to drive traffic to their digital

properties, whether it's website or an app property. And the optimization is there done for visits or app install.

On the third column on the right, which is where we are coming from – our traditional business where we started, you know, our technology there is designed to drive sales, you know, across, you know, the web, app and store by ultimately targeting visitors of our – of the digital properties of our clients, visitors that have already expressed intent for the products and services of our clients.

Our clients have, you know, different expectation across those various, you know, dimension or stages of the funnel with respect to how they want to consume our solution, and that's the reason why those various campaigns are being priced increasingly based on different mechanisms. On the awareness path, the pricing would be primarily based on CPM. On the consideration -on the consideration, you know, the pricing is a mix of CPM or CPI (cost per install), and there is also still some pricing done on CPC, while on the conversion side all of the pricing is on CPC.

If we move to the second family of products – so, as I was saying before, I mean, this – the retail media family is – or product is ultimately a technology platform for retailers to generate advertising revenue on their own properties by monetizing this traffic and monetizing this data – their data with the brands. And there is a considerable opportunity there. It's a – it's a market where we moved initially in through the acquisition of HookLogic. But what we've seen is this market has developed very significantly and very rapidly over the last few years. The intensity in term of competition is lower, with less dominance from the large player, in this market, so we see this as a large opportunity. And we have today, you know, through the various solutions that we are unifying under our single platform, an ability to address the various stages of the funnel for our – for our clients, you know, from awareness to conversion, through the existing products that we have.

Second aspect of our – of our transformation is the – you know, the enhancement of the self-service capabilities that we brought to our – to our platform, and that's a key change. And it's a change that, comes from truly the request of our clients. Our clients want increasingly – as they became more sophisticated in their capabilities, want increasingly to be able to have more control and more transparency on the way that their advertising objective and strategy are being conducted. So how do we – do we implement self-service in our platform? That comes in three – in three facets. You know, first, to address the opportunity of the small clients, you know, we are in the process of building a full self-serve channel for the smaller – for the small clients so that those small clients can sign up – onboard themselves in a fully autonomous way, without interaction with any Criteo personnel.

So it's a new challenge for us. You know, from a product standpoint, we're on track with the delivery of the product for the end of Q2. There is still more work – we'll talk about that – with respect to the, you know, demand generation enablement around this new channel, but that's a critical part of the self-service strategy. The second portion of the self-service strategy is, you know, tools to help our clients to manage themselves their campaigns, and that's across big and small clients, so that they can optimize and manage their campaigns themselves so it gives them more control.

And the third aspect of the – of the self-service adoption within our platform is around analytics and insight, so that we provide, you know, useful analytic insight on the results of the campaign that can be consumed on the self-service basis by our clients.

And the last facet of our transformation I wanted to cover is our go-to-market approach, because obviously having a much richer set of offering, addressing more objectives and more use case to our client, we have to adapt our go-to-market in order to best serve these client at scale and to address – to be able to position this offering in the market. So we've relooked – over the last, you know, I would say, 18 months, we've relooked at our go-to-market and, you know, with the – with the client sharing – a more granular client sharing, with basically three motions to sell.

For the large clients, we have a – you know, client partners with a very consultative sales approach, and that's where we have to develop new capabilities, because that's not traditionally as we've been selling. For the upper mid-market clients, we have a tele-sales approach with hubs. We have one hub in Boston, one hub in Barcelona, and that's an approach in terms of sales that we've been scaling for now multiple years.

And for the lower mid-market, where we have a significant opportunity, we have a new self-service – fully self-service channel that we are, you know, building as we speak to be fully effective by the end of the year. So if we look at the progress with that we – that we've been making on our – on our – on our priority, I think we are making good progress with several of our priorities if you look at some of the recent achievements, and these are from the latest Q1 results.

So overall, our Revenue ex-TAC growth from new solution was, you know – was pretty high at 74%, you know, which is an acceleration versus Q4, and now close to 10% of our business comes from these new solutions. We are seeing growth in the same client revenue, which is an important metric for us – for us because it's an indication of how our clients are ultimately increasing their spend with us, so through in – particular through the adoption of the new solution, but not only; also through consumption of our core solution.

We are been growing 5% our client base on a year-over-year basis, with, you know, close to 20,000 clients, now at 19,000, and with – while maintaining a very, you know, steady retention around 90%, which has been a very stable metric for Criteo. Our app business has been growing nicely at 32%, and we are continuing to make – to making progress on the direct relationships through our Criteo direct bidder technology with large publishers, and making, you know, significant progress also on the apps supply side.

While we have – you know, we've made some good progress on several of our priorities, you know, however, you have to recognize that some elements of our transformation are taking longer than expected, and that's what we highlighted in our – in our Q1 earnings call, which took – which led us to take a slightly more modest view for the full-year outlook. But if we look at where are those reasons for these, you know, delays in the execution, they are very, very well contained in a few – in a few areas. What we need is, number one, to make our go-to-market more scalable, especially for the new solutions, you know, to unlock the full potential of the new solution. Because even if we have seen, you know, nice metrics for the growth of the new products, our internal objectives for the second part of the year are – you know, were very ambitious in our initial guidance.

And what we are seeing is that we need to accelerate the sales growth of our upper funnel product in particular, and that's by, you know, evolving our sales organization, especially how we align the sales – the sales teams of specialist sales, but by also bringing new capabilities on board, because we are missing some of the capabilities. And we have probably slightly overestimated, you know, our ability to grow people from inside into those new sales job.

And secondly, you know, the second area where we have experienced some execution delay is around the demand generation programs to fully enable our new self-serve channel that we are building. As I say, the product is going to be ready by the end of Q2, but we have, you know, some delays in building the new capabilities in order to generate demand of this new self-serve channel.

And that's what that – does it mean? It means, you know, solutions through third parties. It means integration with e-commerce platforms, as well as direct lead generation campaigns, so using direct marketing for ourselves, which is – all of those capabilities are new for Criteo, and, you know, we are taking a bit more time than initially expected at building those capabilities.

So ultimately 2019 is going to be another year of transition for Criteo, with an increased focus on profitability. As you've noticed, we've maintained our profitability outlook for the year despite taking a slightly more modest view with respect to the Revenue ex-TAC growth for the year. So we are going to further increase our focus on effective cost management to maintain this margin outlook, and what we expect is that this should create the right foundation to see a return to margin increase for next year.

So, as a conclusion, you know, we are addressing a much larger market opportunity, as it was highlighted in the introduction. Now we are addressing a TAM which is probably around 3x the size of the TAM initially we were addressing solely with the retargeting use case. We have a clear vision of becoming the leading advertising platform of the open internet. We have, over the years, developed some very strong competitive modes that we are going to leverage for our strategy. And I'm thinking about, you know, obviously our technology, our scale and our openness.

We have a very strong track record with respect to the large clients, stable retention and commercial success that we've demonstrated over the years, and, you know, we have an attractive financial profile. Even with taking a more modest view for the year with respect to the growth, we are maintaining our profitability outlook. We're paving the way for acceleration of growth next year and return to increase of margin. That's what I wanted to cover in, yes, close to 20 minutes.

Q&A

Ralph Schackart: Maybe I'll kick it off. Historically, you've talked about your non-retargeting business to grow from less than 10% today to 30% of revenues in the next few years. And you talked about today accelerating, you know, new sales initiatives. Maybe kind of walk us through what gets you from 10% to 30%, talk about sales force, and maybe give some perspective. Do you have the products in place today, or do you still have to build those out?

Benoit Fouilland: So firstly, you know, today we are – in Q1, we're at 9%, so close to 10% of, you know, non-retargeting revenues in the mix of our revenues. If we look at what's contributing to the growth – and this growth of the non-retargeting is – you know, was very well seen in Q1, we're up 74%. That's coming from, you know, retail media on one hand. And, as I said, there is a large opportunity in retail media. The intensity of competition is lower in that space, and we have to a certain extent a first mover advantage, having leveraged the acquisition of HookLogic.

So clearly, on that side, we have the components. What we need is to – the components from a product standpoint. What we need is to unify those components under a single platform, and that's the task we've given to the new GM of retail media, Geoffroy Martin, whom we hired in Q1. And I feel confident that we should see, you know, continued growth – double-digit growth that will contribute to increase that mix.

Besides retail media, you know, we have the opportunity of the – the product addressing the consideration objective, where there we have this unique capability of the shopper graph that is feeding ultimately our ability to do campaigns based on audience – audiences, leveraging on the data that we have in our shopper graph. So I would expect this to be a core contributor as well to the growth of the non-retargeting product.

What we have also is, you know, we've made a significant investment in apps. We're seeing that, you know, the shift towards app in term of usage by the – by the users – you know, the internet users overall is something that is here to stay. And we see an opportunity to help our clients to increase their footprint in the app, so there I think there is a bit more work to be done in term of, you know, integrating – and we are working on it – integrating the, you know, managed products into our platform, and we are doing this through, you know, leveraging the product development that we have done on the app side. And we should be, you know, done by the end of the year on this, which will fuel also our ability to better execute on the app side.

So if we combine all of that, you know, having an objective of increasing from, let's say, around 10% today, probably more, in the teens for the full year – increasing that to 30% on the three-year horizon seems to be a reasonable ambition. It's a stretch, but reasonable ambition – without any impact of acquisition that could help us accelerate.

Ralph Schackart: And you recently had a transition of CEO with JB, one of the previous co-founders, coming back. Can you maybe talk about, you know, him coming back and the impact it's had on the business?

Benoit Fouilland: Yes, absolutely. So JB came back a year ago, in April last year. The board asked him to come back, and I think this has been a – brought significant change within the company. You know, you've seen that the transformation I've described is quite profound in terms of, you know, enriching of our product offering, developing our product offering in a different manner, as well, because we've been traditionally, you know, more of a product-only-driven company with, you know - we brought some very disruptive solutions to the market that had immediate success that we've tuned to the nth degree for performance. But now I think, with our platform approach, we need to develop products in a – in a much more iterative manner, you know, with a feedback loop from the client side. So this is challenging some of the fundamentals on the product development side.

On the other hand, you know, this is a significant transformation as well from a go-to-market standpoint. And we're seeing that, you know, it comes with challenges as well in terms of, you know, bringing the right capabilities. So nobody else but the founder was best placed, I think, to challenge some of the fundamentals at the company – you know, reinvent itself in enlarging, you know, the opportunity.

And that's what JB has been at work on over the last – the last 12 months, focusing very much on the product first, and then, you know, putting more of the focus on go-to-market. And I think that has been very beneficial to bring new energy to the company and accelerate that transformation.

Ralph Schackart: And maybe one more. Google's recent Chrome conversations around changes there – can you maybe just educate us on what was on the table and what the impact has been for Criteo?

Benoit Fouilland: So, in fact, you know, this is one of the existential fears that there was around our – around our stock price and our equity story. Well, you've seen that we've been severely impacted when there were some, you know, articles like the *Adweek* article around potential changes coming from Chrome. We never believed that Google would introduce a similar, you know, "anti-tracking by default measure" comparable to what Apple has done. In fact, what has been announced recently is very encouraging, because it proves that what we were expecting was right. Google has announced recently that they will introduce some changes in Chrome, but those changes, you know, would not be – would not be by default anti-cross-site tracking measure, so there's, you know, this worst-case scenario that seemed to priced somehow in the market is off the table now.

What has also been confirmed is that – and further reinforced by the current climate from a regulatory scrutiny around antitrust – I mean, Google doesn't want to implement changes in a manner that would be disruptive to the ecosystem. I think it was clear through the various comments that have been made, including the Google earning calls that, you know, any change they would introduce would be respectful of the ecosystem from an advertising standpoint. They are the orchestrator and the dominant orchestrator of that – of that ecosystem.

So what we've seen recently is a set of, you know, positive confirmation of our expectation. What Google is going to most probably look at is, you know, give more transparency and control to the user in terms of how they want to configure their experience in Chrome, which is exactly in line with, you know, the approach that we've been preaching for for many years in terms of we think that giving more control and transparency to the users is beneficiary to the trust in the overall ecosystem and beneficiary to the overall business.

So we feel good about having seen those announcements, while recognizing, obviously, that there is still unknown with respect to how exactly – when exactly those changes would be implemented in Chrome, how they will look like from a user perspective, which is very important obviously – and that I think is going to be clarified over the next, you know, weeks or months.

So we don't expect – based on everything we've heard today, we don't expect any, you know, significant impact on our business. What we've said, given the uncertainty, there could be a minor impact, but nothing beyond a minor impact, based on what we know.

Ralph Schackart: Great. I think we're bumping up on time. Thanks for your time, Benoit. Thank you for your interest –

Benoit Fouilland: Thank you very much.

Ralph Schackart: – and the breakout room is in Adler, I believe, which is upstairs. Thank you.

Benoit Fouilland: Thank you.