Company Name: Criteo S.A. (CRTO)
Event: Stifel 2021 Virtual Cross Sector Insight Conference
Date: June 8, 2021

<<John Egbert, Analyst, Stifel>>

Great. Well, I'm John Egbert and I cover digital media and internet here at Stifel, and really pleased to have Sarah Glickman, who is Criteo's Chief Financial Officer with us today. Thanks for joining us, Sarah.

<<Sarah Glickman, Chief Financial Officer>>

Thank you. You are welcome. Great to be here.

<<John Egbert, Analyst, Stifel>>

So, Sarah has over 30 years of global finance and transformation experience. Before she joined Criteo, she was most recently at XPO Logistics as an Acting Chief Financial Officer for 20 months and Senior Vice President of Corporate Finance and Transformation there. And then prior to XPO, Sarah held operational Chief Financial Officer roles at Novartis and Honeywell International.

So, Sarah we're approaching your first anniversary as Criteo's CFO and Principal Accounting Officer in September. You clearly brought a wealth of global finance and business transformation experience to the company when you joined. At a high level, could you discuss what made the opportunity to help lead Criteo's transformation so exciting? And maybe for those in the audience newer to the Criteo's story, could you walk us through the details of the transformation from a point solution to a full-fledged Commerce Media Platform?

<<Sarah Glickman, Chief Financial Officer>>

Yes, absolutely. So, when I was looking for a role, I was very keen on looking for a role in technology and the right culture. And Criteo obviously meets both of those criteria. What I loved about Criteo was first of all, that it's global, and that it is in transformation. So, I've kind of been known, throughout my career, to have gone, kind of moved into roles where there's a lot to get done and there is a big change. And so, I enjoy big change. It was very clear when I first came in that that was on our agenda, that we wanted to become a new Criteo and awesome to actually have this event this week, because you just heard all about that last week in the Investor Day.

What we bring to the table are just massive assets, much richer, I think, than any of us really expected when we put them all together for the Commerce Media Platform: a deep focus on technology, on machine learning, a real kind of great way of doing things, very focused on customers - and my understanding is that's been kind of a change over the period - but hugely focused on customers, hugely focused on our employees, hugely focused on shareholder value. And that's what appealed to me. And I would say, first of all, I'm thrilled to be here. It's gone

incredibly quickly. I can't believe it's ten months, not quite a year, but, I think, I've now up to meeting six people in person. So, looking forward to getting back into the offices with the teams, but we we've all jelled as a leadership team. So, it's obviously been quite a new leadership team. And that has been, I think, you saw that on display last week as well that's been huge.

So, it's been a great journey for the last ten months. We definitely have a clear strategy, which for me is – especially as a CFO, you want to make sure you've not only got the results which we have and the performance, the strong position, a clear strategy and a focus on execution. And yes, I feel good every day we come in, we're busy from morning to evening and we're moving forward, so good place to be.

<<John Egbert, Analyst, Stifel>>

Yes, great. And so, the event last week for those who missed it, I highly recommend catching the replay and going through the comprehensive presentation your team walked through, because I thought it was really interesting. During the presentation, your CEO, Megan Clarken, walked through some myths she believes investors have about the company, or have had in the past. Could you maybe walk us through some of those misconceptions that you see? And from your conversations with investors more recently, do you think more folks are starting to see the company's true potential?

<<Sarah Glickman, Chief Financial Officer>>

Well, based on reading some recent analyst reports, I would say yes, I think, that is our strong view and I have to give us real credit to Edouard and Clemence for the role that they played in Investor Day. We get the same questions and again and again, over the last few years, so we really wanted to be very clear on our strategy, but also on who we're not. So, the first myth was really around being so dependent, really dependent on third-party cookies. And I think we did a great job of showing our future-proofing here in two areas. One is just first-party media network, it's one of our top three priorities for this year. So, growth, execution, and first-party first data. And that is a huge change for the company, even just acknowledging and understanding the importance of that in the focus on how do we ensure that we future-proof. From the Retail Media side, that's one business that's just booming and we're thrilled with that business and with positioning. That's all first-party data.

And then our transition into, I would say, first-party data kind of targeting and audience targeting focus. So of course, we and the rest of the internet are, I would say dependent, but rely heavily on third-party cookies because they are the best that we have. And they've been around for a long, long time and we all know how to use them. But what we bring is the richness of being able to connect the marketers, the publishers are putting that together, having a huge kind of massive asset of the first-party data we already have. And how do we then kind of use that in the future, to future-proof the largest business, which is retargeting. And right now, retargeting is very dependent, so to speak, on the third-party cookie and us having to transform that. So, our transformation is transforming that into a future-proof, first-party business.

And to quote Todd Parsons, he says that whoever owns first-party data and knows how to use it, both for the marketer and for the publisher side are really, we think, will own kind of the ad tech space for the next 15 years. So, we're excited, it's a journey, but we feel very, very good about where we are today, about our strategy and about continuing to kind of get our customers both from the marketing and monetization side, really moving towards this post-cookie world that we are going to leave in relatively soon.

<<John Egbert, Analyst, Stifel>>

Great. And I think that's a good segue into some of the other data that you talked about during the Investor Day, which was how you think this transformation opens up a wider TAM for the company much, much broader than core retargeting. Could you walk us through the components of that market opportunity that you've talked about last week, how Criteo's product suite addresses those dollar pools? And maybe any interesting views on how quickly you think some of those opportunities can grow in the years ahead?

<<Sarah Glickman, Chief Financial Officer>>

Yes, no, sure. I mean, yes, we see it as a $100 billion opportunity, which is massive. And that's really two things. One is expanding kind of from the classic retailers into other areas, which are all focused on how do they monetize their own websites? So that would include like the financial sector, auto, et cetera, et cetera, like many other segments. We've dipped our toe in the water, but we know that we can be much broader, not only in retail, but also in other areas.

The other focus is around Retail Media. So, the Retail Media space, there's a 32 – sorry, the targeting space is a $32 billion TAM. Retail Media, we see we're going to grow kind of double the 22% CAGR and we really see that these are just areas that we have, huge assets. We have really anchor clients, especially in retail and especially in Retail Media. They are growing, they are growing fast. We're growing fast with them. And we're also expanding that to kind of one success story builds another, builds another. So, we're very excited about the TAM.

We actually did some recent work earlier this year in preparation for Investor Day to understand this very, very quick, I would say, changing market, and our positioning. And some of those areas are like "no-brainers" because we are the leader in that space. And some of those we've got some heavy lifting to do, but we feel very good about being able to kind of apply what we've done in retail into these other spaces as well. So yes, very exciting times.

<<John Egbert, Analyst, Stifel>>

Yes, great. And so, I'll maybe jump into the individual product segments after this question. But I guess it's hard to talk about e-commerce without talking about COVID-19. It obviously had a dramatic impact on online shopping behavior. Some third-parties have estimated we saw a few years of worth of online shopping adoption pulled forward into just a few months. So, an incredible trend, I mean the positive aspects of it, for e-commerce.

At a high level, can you talk about what types of trends you're seeing in demand across various verticals and geographies, or any of the hot sources of demand showing any signs of cooling, any of the slower to recover verticals like Travel and Classifieds, seeing a bit more improvement. And then anything specific on highly impacted geographies because, I think, sometimes we forget seeing people walk around without masks everywhere that that kind of shape that the U.S. is in. But a lot of countries are still a bit further behind the curve. So, anything interesting in any of those areas?

<<Sarah Glickman, Chief Financial Officer>>

I mean, I would say we've seen a lot of interesting trends. It was clearly I mean, just devastating, last year for many reasons the secular trend that has continued is of course, online shopping behavior. And we have seen that continue. And we see retail continuing to be robust. So that is, I think, just a change that, even when people are going back to the shops, they are still coming back to their computers on kind of a Monday, Tuesday and doing their online shopping. So that's definitely been a change there.

What we've seen very recently and I think part of it is sunshine and being able to get back out. And part of it is just changing, I would say more normalized behavior as you do see the traffic is kind of a different trend towards last year, last year, you were just online the whole time. Now, we actually see people going out. So, you kind of see these weekends. And then by then you do see the Sunday evening and the Monday. So, just a change in the pattern. We're expecting that to obviously continue, but still robust for online retail, as well as for going back to the stores, we're seeing big budgets coming in for getting back into the high street. But that's a different experience. And most of our customers are really merging, of course, that online kind of in-store experience. And so, we're helping them with that as well. I think that will be a trend that will continue and actually it's a pretty exciting area.

The other trend, I think, we're seeing is that large and I just read an article this morning, large players like Target, and Walmart and others are kind of taking on those prime day-like days, so that the kind of China shopping behavior with the festivals and the focus we're seeing more of that across the board and we're obviously hoping to leverage that one on definitely focused on kind of to understand what does that mean for us.

Travel, the budgets are growing week by week, but they come from zero. So, for the last five weeks, we've literally seen doubling of budgets across our travel clients. However, it's not where we were in 2019. Some of them are moving out, but they've got ways to go. So, we definitely see that. But we do still see the regional differences. We see kind of stop-start, certainly in Asia. I would say that's a little bit more of an open close, open close. We've seen a bit of that. And so, we don't know how that will play out, obviously, long-term, but we definitely see the lockdowns and the, I would say, also just the economies are kind of, not struggling, but just flattening as opposed to booming. Europe we definitely see now, things are reopening. It's a shift in that kind of online, offline behavior, which helps us too, because even though online might be slightly different in terms of pattern, we still see it's there. And then the "on the street" is starting to come back.

Classifieds is starting to move up too. So, some of those classified segments are actually almost back to where they were in 2019 and others, have ways to go. So, I think all the trends are very positive. We're definitely focused on what the second half looks like largely because that was a very different behavior in 2020. So, we're kind of looking at how does this pattern kind of continue. But we feel very good and certainly it's here to stay. There's no question that those trade-marketing budgets as well are starting to move to digital as well, which is, we think good for us.

<<John Egbert, Analyst, Stifel>>

Great. A lot of detail there. So, I mean, digging into your product segments as exciting as your growth in new solutions has been in recent quarters, and we'll get into that next. The majority of Criteo's revenue still comes from core retargeting solutions. And that segment is obviously been facing some secular privacy headwinds for years, starting with Apple's ITP changes a few years ago, or more recently, regulatory headwinds like GDPR in Europe and CCPA in California. And now we had Apple's ATT changes in late April. And we have a Google's looming deprecation of third-party cookies sometime in 2022. So, I mean, a lot to unpack there, but I guess just stepping back, I mean, can you – and you alluded to it earlier in comments like future proofing business. Can you talk through Criteo's efforts to navigate these headwinds and future-proof the business from the reliance on third-party data?

<<Sarah Glickman, Chief Financial Officer>>

Yes, sure. I mean, this is front and center. And I mean, it is a huge impact for the industry. So, we are along with everyone else and we were very clear on this. We definitely rely on third-party cookies for our retargeting business, as in, it's better than anything else that we have. So first-party data we've talked about, but that's clearly a huge area of focus of how do we ensure that we have the right first-party data network of both marketers and kind of publishers and that's a massive focus for us for DSP and the SSP kind of side, going forward.

The second area is really around what we do with the data. So, we believe that we have a real competitive advantage in terms of our kind of 15 years of machine-learning and AI. And that's a massive focus we are going to continue to focus on. And it will change, as consents and as data kind of changes we need to kind of build on, but also recreate in some ways how that all flows. And that's a huge focus for us as well.

Another focus is on the regulatory side. So, we are partnering with the regulators across the globe, especially in the U.S. and in Europe, as well as being at the table on thought leadership. So, there's kind of been – that will continue to be the shift from how do we move forward. And so, Todd Parsons has been on, for example, the pre-bid committee is a big commitment there. And we are really, I would say, leading from a thought leadership standpoint, especially with the publishers. So that's another area of focus and that comes right back to first-party data. But how do we ensure adoption of first-party data kind of in the shorter to longer term. And it's one of those areas that sometimes people have to see it coming and looming. And the question is, how far does it loom until you actually kind of move things forward?

And then the other area is around our own cohorts. So, we just launched the first of its kind contextual products. This is kind of brand new, it's having six or seven weeks now. But we see that as being a huge area of focus for us in the future. So, we're not just relying on what we expect to come out of Google for the FLoC and the FLEDGE solutions. We're also building our own. And we're pretty excited about that. Yes, there's a journey here. I mean, I think, we were clear on our Investor Day and it's going to take a lot of heavy lifting between now and 2022 to kind of get there, where we need to get to, but that's the focus.

<<John Egbert, Analyst, Stifel>>

Great. Yes, that's a good transition into some of the new and exciting products. You mentioned the cohort-based product, which I think, is pretty new. Maybe just kind of a bit of an overview on the new solutions overall, because it's a pretty broad portfolio. And I think some solutions have been around for a couple of years, and some are really just emerging now, and some I think are in development and not yet released, I think, if we look at like the cohort-based solution.

So, maybe just briefly hit on some of the solutions, the major ones individually, which you think have demonstrated particularly strong product market fit that are in the market and then maybe the time for the ones in the pipeline?

<<Sarah Glickman, Chief Financial Officer>>

Sure. Well, I mean, Retail Media right now is the kind of jewel in the crown, right? I mean, it's just pretty unbelievable how that whole space is just exploding. And we are at the forefront of that. So, we felt really good about the positioning there. So that grew 122% in Q1. And that really is all first-party data. And that is a trend that is, right at the forefront of digital advertising. So, we have a terrific client base there. And I would say that's, that we obviously have the strong hold from our M&A a few years back. We've now kind of got that to, really good, really on a good flow and leading kind of front and center.

The other focus areas, I would say, is in our audience targeting. So that is taking the lion's share of that kind of retargeting and performance marketing activity and kind of moving that forward. And what we're doing there is, we're looking at, for example, on the targeting:audience targeting space, that's really looking more broadly with our customers, with our key customers at how do we, not only drive demand and take more share, but also that we kind of expand that to capture, and really understanding the brand too. Omni[channel] is growing 160%. So, Omni is really ensuring that we get kind of the first-party data from our customers, and we're able to use that to drive the right performance for those customers and working with the brands as well.

So, I would say the other area on the first-party, sorry, the first-of-its-kind contextual, our daily active users are actually higher than, for example, the Facebook in the U.S. We actually have more users, that we have more data on kind of in a broader, I would say, demographic than say, the Facebook demographic. And so that's something that we're focused on and how do we ensure that we can market to the broad population, which is one thing that we do, which is a little bit different, other than maybe say an Amazon, a little bit different to the other walled gardens is

that we're able to take data, not only across kind of their own interests, but also just really understanding that broad kind of shopper graph.

So those are the areas of focus. They all come together. I mean, they all ultimately it's all about first-party data, it's about knowing who your audiences are. It's also about knowing which advertising we can focus on in the right format. So, video is a format, it's another area of focus for us, so making sure that we drive that. And then of course, how do we get the customer – many of our customers are still offline if you will, or online, offline, like recognition of brands for the high street, how do we drive that as well…

<<John Egbert, Analyst, Stifel>>

Yes, great. Yes, Retail Media in particular seems like just such a compelling way for retailers to generate incremental, high margin revenue from their customer data. I think as a company Criteo has been focused on unlocking the value of first-party data for a couple of years now, and now it's become such a big focus, because of the looming changes to third-party cookies, and retailers seeing the success that the Amazons have had, and you see Walmart pushing deeper here. Actually, I have a panel with Mark Astrachan, who covers Walmart later during this conference, it should be really interesting, almost all about Retail Media.

But with all these changes and retailers seeing the importance of leveraging their data more than ever, have the conversation has gotten a lot easier to, basically, get those big retailers to work with you? You have some great partners in the Retail Media business with, I believe, Target and Costco and Macy's and a few others. So just anything interesting to talk about there, how that may be the conversations are changing in the last year?

<<Sarah Glickman, Chief Financial Officer>>

Well, I mean, I'm actually really interested to hear the Walmart discussion, but it's the same discussion across the board, I would say for all our retailers. There is this, as we talked about in the beginning, this big secular kind of shift to online marketing and on monetization of their websites. And people are really realizing, how valuable that kind of digital storefront is. And it's not just the large retailers, it's also, kind of, I mean, everyone has a website. So, we've even had some discussions with financial institutions and others, that have, they all have kind of real estate on their websites.

The conversations are fantastic. We bring real specialists to the team and it's a very front and center kind of thought leadership discussion. And that's what people are asking from us. The reason they choose us is not only kind of the performance which we really can demonstrate performance to them. And that's what it's all about at the end of the day, is how do we drive more traffic to their website and how do we drive sales for them?

So, our ROI, and especially in the Retail Media space are very strong, and we feel very good about that. They're good conversations, because we're also able to bring the suite of solutions to them. And that's the shift, I would say, and a change. We get to know them better. They're getting to understand their own shifts that many of our customers have in their own

transformation. We're all in the transformation on digital marketing. So, we're able to then give them a more holistic approach.

But it's a focus on how do they drive their retail strategy, their online digital marketing strategy? There still what we see is a big shift, needed from where they were advertising in the past, where they need to advertise kind of in the future and where the best bank for their buck is. And we were able to show success stories that we can then, deliver to other customers. They're fantastic conversations, it's always really exciting to talk to the Retail Media team.

And then with the Commerce Media Platform, we're bringing in, the newer ways of being able to do performance marketing too. So, they're actually joint conversations now, which is also a very exciting dynamic that we are sure will continue and move more. So, how do we bring that more holistic Commerce Media Platform to those large retailers?

<<John Egbert, Analyst, Stifel>>

Okay, great. And I saw at your Investor Day last week, looking more towards the financials, you highlighted a slightly more optimistic outlook for growth in 2021, and a little more specific guidance on potential growth among some of the new solutions products over the mid-term. So, I guess, can you walk us through how you arrived at that outlook? What's driving the short-term optimism that you are seeing in the business right now? And then what are some of the trends that give you confidence that Criteo can grow some of these new solutions at what you estimate to be double to triple the market growth in some of those categories?

<<Sarah Glickman, Chief Financial Officer>>

Yes, absolutely. So, I mean, just to start with the obvious Q2 is trending well. So, we had given guidance of $208 million. We feel very comfortable that we are moving in the right direction for Q2. So, all the dynamics that we've seen have continued although, with some of the regional discussion we had earlier. What we've also seen is that continued trend line helping and enabling, the full year. So, we do expect Q3 and Q4 to be tough with their tougher comps. So, we do anticipate that we're going to have to really look at where the growth is and understand what that trend line looks like.

But as of now, things are looking very positive and we are seeing good traction. I would say our forecast is more aggressive. So, in some ways we didn't know what Q1, Q2 would look like as much as we do kind of 2H and then of course, we are expecting the privacy headwinds to kick in too. So that will have more of an impact in Q3, Q4, but all in the range of where we expected. And then I would say it's really the retail trend that is shifting that kind of growth profile that we're expecting. So, we feel very, very good about that.

In terms of the future, I mean, that comes back to the addressable market is huge, and it's growing and it's growing fast. And we spent a lot of time, internally and partnering with, for example, McKinsey to really understand those markets. And we dug deep. I mean, so we feel pretty good about where we see the growth and where our customer base is. And we feel very, very positive and quite bullish, especially in the Retail Media space where clearly there is a

highly growing market. And we have, I would say, a pole position both in the U.S. and in Europe. And we're able to bring the full suite of the Commerce Media Platform. That's where we see, we're bullish, because we have the big clients. Those big clients are growing fast. And we are some ways at the beginning. So, for example, Carrefour we just signed. So, we have to then grow adoption there and then these other customers. And back to Walmart and others, so it will be interesting to just see that trend line everyone is kind of focused on how do we kind of move forward fast.

<<John Egbert, Analyst, Stifel>>

Great. And clearly you spend a lot of your time thinking through investment back into the business. So, I was wondering if you could walk us through some of your core areas in investment over the near-term and mid-term? How do you prioritize product and engineering investment against developing your go-to-market strategy and hiring across global sales teams. Any shift in geographic prioritization playing out now or expected to in the coming years?

<<Sarah Glickman, Chief Financial Officer>>

Yes, so the biggest shift is, I mean, a couple of areas, one is on go-to-market and sales and marketing talent, and especially on solution selling. So that was a huge focus for us coming into the year. And so, that is a big area of investment for us. In the R&D space there is some incremental investment, but most of that is more shifting our R&D resources to kind of the newer areas. So that's more of a shift versus a change. And then on go-to-market, we need resources to understand how to price and contracts, especially these longer-term contracts to kind of build stickiness as well as building really more holistic solutions for our customers. So those are the key areas of kind of internal investment. The other area is, I would say, the systems around that.

So, as we move forward and as we get into new segments, as we focus more on agency, there are different requirements, for example, for user experience or for just the tools and the way that they work. So those are all the areas of internal investment.

The other focus is that we do have some tuck-in investments as well. So, for example, Mabaya was a recent tuck-in that we did, and that really is to add, quickly very good assets around the marketplace, which we know are needed for our broader Retail Media. And that's another reason why we were pretty bullish on those longer-term growth rates, because we are adding to our existing kind of, I would say, technology as well as know-how, of how to service our customers.

<<John Egbert, Analyst, Stifel>>

Okay, great. And so, your mid-term adjusted EBITDA outlook, cluster margins between 28% and 32% after balancing around 30% target margins in 2021 and also, I think in kind of recent periods. Can you talk about how you went about kind of thinking through that range, the scenarios that might lead to the lower end of that guidance playing out or to a higher? And then speak to the unknowns around Google Chrome and those changes next year.

<<Sarah Glickman, Chief Financial Officer>>

So, we did say this, I think, we didn't say quite well, I'm going to say it now, but we're not fortune tellers. So, we were very clear that we weren't giving a long-term outlook. And I mean the reason for that is obvious. I mean Chrome is going to impact the entire industry and us. And the timing of that, whether it's a sharp cliff or more gradual, we just don't know. We don't have insight into that. What we do know is that we have a scalable business. So, we have about 2,600 employees. We can see when RexT is robust, that we're able to scale. In Q1 we have, for example, 36% EBITDA margin. We're not anticipating that to be the long-term. That was kind of more really the differential between not having done the hiring up as well as some other cost savings and having a very robust top-line.

So, what we're planning on doing is continuing to invest for the long-term. We're a long-term view. We're not a short-term, quarter to quarter, what is our EBITDA margin? We don't model that way and we don't run our business that way. But what we do expect is overtime, two things are going to happen. One is the new solutions. Some of those do have lower take rates. That's the industry standard. And while we believe that we have, I would say, good reasons to have maybe let's say higher than average in terms of the AI and machine learning that we bring to the table, we also recognize we're in say, obviously have a lower take rate than the retargeting space as well. The other focus would be just on timing.

So, the 28% to 32% is trying to give us latitude for two things. One is the transformation of our top-line over time. And two is to ensure that we continue to invest in what is a relatively scaled-up business today? So, we feel good about the geographical footprint that we have probably more focused in the U.S., and the larger European and larger Asian markets, as opposed to the smaller markets, but being able to take advantage of the hubs that we've already built as well as being able to really invest where we need to invest.
So, you'll kind of see a switch there as well. But we feel comfortable with that range. It may be slightly some quarters. So, I don't think this is one that when we model should be kind of quarter-by-quarter, but it is the long-term view. And we feel very good about scaling in sustainable profitable growth. That's really the focus.

<<John Egbert, Analyst, Stifel>>

Okay, great. Well, I think that's all the time we have. But thanks so much for joining us, Sarah.

<<Sarah Glickman, Chief Financial Officer>>

Thank you. Have a great day. Bye-Bye.