

Criteo SA

NASDAQ: CRTO

Analyst: Mitchell Rager

Sector: Technology

BUY

Price Target: \$49.69

Key Statistics as of 4/21/15

Market Price:	\$43.59
Industry:	eCommerce
Market Cap:	\$2.66 B
52-Week Range:	\$25.16-\$46.50
Beta:	N/A

Thesis Points:

- Further Expansion in Americas
- Expansion in to eCommerce Sub-Sectors
- Solid Financials & Revenue Growth
- Differentiated Business Model
- Accomplished Management Team

Company Description:

Criteo SA is a web advertising company that focuses on personalized retargeting based on end user data mining collection. Criteo was founded by Jean-Baptiste Rudelle, Franck Le Ouay and Romain Niccoli in 2005. The company is based out of Paris, France but has offices spanning from New York to Tokyo, with office locations most concentrated in California, New York, Spain, France, and Japan. Criteo's main product is a form of online-marketing display advertising as well as a data analysis engine. Specifically, Criteo identifies end user retail browsing preferences by tracking customer activity while viewing particular products on a retailer's website. If the customer does not end up buying the product on said website, Criteo then places personalized banner advertisements on additional websites that the customer visits. Retail companies pay Criteo for this information as well as the subsequent banner advertisements that are displayed on additional websites. Criteo does this through a product called the "Criteo Engine." The data analysis engine provides algorithms which "predict the probability and nature of a user's engagement with a given advertisement and recommends algorithms that create and tailor advertisements to specific user interest through modifying the advertisement's creative content and presentation, and determining the specific products and services to include in the advertisement."

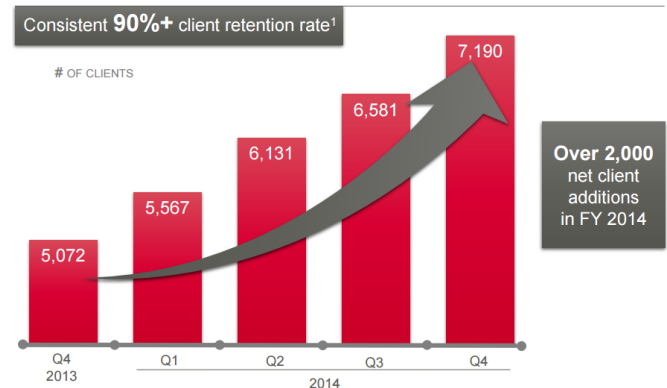


Thesis & Recommendation

Criteo SA has tremendous upside potential within the online global advertising markets. The company is extremely attractive compared to its competitors and is continuing to actively positioning itself in to a pivotal location within its sector. The company is continuing to expand all over the globe, but still has huge room for growth in the retail giant, the United States. As the company continues to expand and become partners with some of the world's largest retail companies, it also has been expanding its avenues of wealth creation. That being, not only online website display advertising, but mobile web browsing, in-app advertisements, social media advertisements, and E-mail advertisements. By doing this, the company continues to shift its business model to one of digital and programmatic advertising, differentiating it from the majority of similar online marketing firms. The company is headed by a very strong management team of accomplished innovators who will surely continue to provide resourceful insight and business techniques which will in turn stimulate expansion and financial growth. Based upon these key points, I feel Criteo is a strong Buy, with a very conservative target price range in the area of \$50.00.

Differentiated Business Model

Criteo has been continuously shifting its business model based upon new technology that they continue to build upon and improve. The world of marketing has been continuing to shift from traditional forms of advertising to digital and now, programmatic advertising. Criteo has positioned itself right in the epicenter of programmatic advertising with its new Criteo Engine data analysis software. The Criteo Engine is best-in-class based upon similar data mining engines. They have an extremely high level of confidence in the predictive intelligence of its engine, which can be seen through Criteo's very strong sales growth as well as customer retention rates. Criteo has received an astounding 90% retention rate from customers. This data represents an annual average of quarterly retention, defined as percentage of live clients during the previous quarter that continued to be live clients during the current quarter.

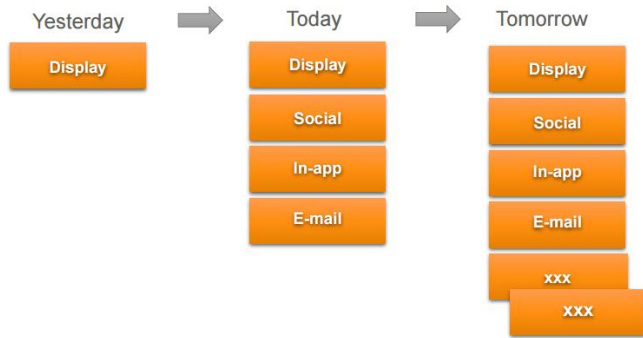


Criteo has consistently grown its number of clients each quarter while continuing to provide superior service to its current customers in order to achieve the 90% overall retention from its client base. The catalyst for their repeat customers is their differentiated business model of "performance-based Cost-Per-Click, or CPC." Criteo differentiates itself from its competitors by throwing a twist on the common payment method of Cost-Per-Click. CPC is a method in which advertising companies are paid for their services based upon how many people actually end up clicking on the advertisement on a website. Criteo prides itself on its extremely well-developed and predictive algorithm software Engine to create top of the line advertising experiences for end users. As a result, their incentivized policy states they are paid for a "click" only if that click is attributed to a sale. Criteo receives the click-rate if a sale is made within 30 days of the initial click of the advertisement. As a result of this performance-based business model, Criteo charges a higher click-rate than its competitors. The differentiated business model that Criteo provides to the retail market ensures a low initial resistance of potential clients as well as persuading them away from competitors who their client will need to pay regardless if the advertisement results in a sale or not. This differentiated business model also assures clients that Criteo is providing a top-notch service in order to receive as many sales for the client as possible so that they themselves get paid the click-rate.

Expansion in to eCommerce Sub-Sectors

Criteo began its life through online display advertisements. This includes website banners, block advertising, and similar web display methods. Currently, Criteo not only provides predictive algorithm based

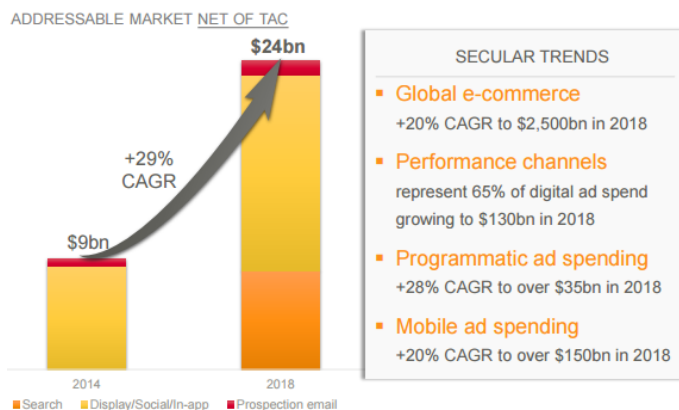
display advertisements, but they also now provide mobile, E-mail, social media, in-app, and video interaction advertising methods.



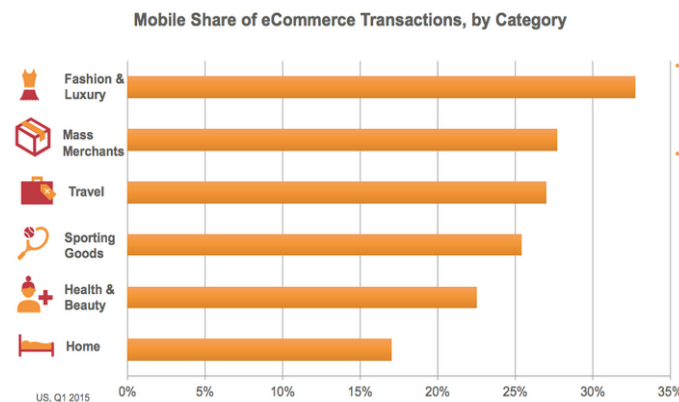
Criteo continues to seek the future of additional marketing channels which will provide the most end-user interaction and traffic. That shift is most concentrated in the mobile and in-app marketing channels. Mobile is now 29% of eCommerce transactions in the U.S. and 34% globally. By the end of 2015, this is forecasted to be 33% and 40%, respectively. This information comes from Criteo's latest public report, the "State of Mobile Commerce."

Facebook's enormous in-app inventory which is untapped with ads and customer data. "People spend more time on Facebook's mobile app than on any other single app, so it is a critical place for retailers to reach their customers," said Jonathan Wolf, chief product officer of Criteo. "With dynamic product ads, Criteo delivers relevant and timely messages to these users, and so generates post click sales and strong return on ad spend for our clients." This partnership alone will be a significant driver of 2015-2016 sales growth for the company in to the now largest and fastest growing marketing channel. Criteo's Chairman and CEO recently stated, "we delivered our first in-app inventory on Facebook in the fourth quarter [of 2014]. In 2015, we aim to access Facebook in-app inventory on a much larger scale and bring out clients the same performance in this important count of mobile traffic. This will be one of our key areas of focus in 2015." The partnership will also be a key factor of continued development in the growing Social Media marketing channel as well.

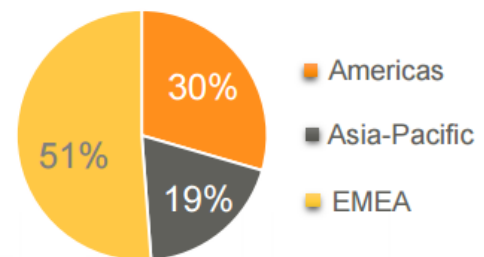
Further Expansion in to Americas



Criteo truly has a global presence. Currently, they have 23 offices in 69 different national markets spanning from New York to Tokyo. They started the company servicing mostly Europe, but have expanded greatly in the past few years, with a huge amount of untapped potential still in the Americas. Criteo's 2014 revenue was made up of 51% from Europe, 19% of Asia-Pacific countries, and 30% from the Americas.



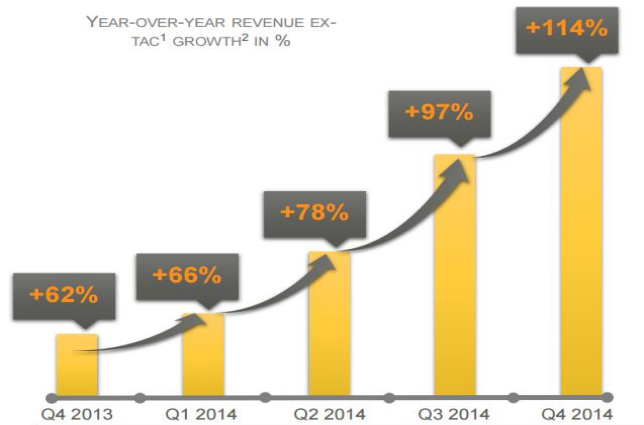
2014 REVENUE EX-TAC MIX (%)



In 2014, Criteo collaborated with Facebook to create effective solutions to mobile advertising. As a result, Criteo now has access to a significant amount of

Criteo currently has over 7,100 clients. Growth has consistently accelerated in the Americas over the recent quarters and is expected to continue that growth while the U.S. economy is also expanding. Criteo added over 2,000 new clients in 2014 predominantly due to U.S economic growth. In Quarter 4 of 2014, Criteo added 600 new clients alone, the largest quarterly increase in Criteo's history. Starting with Q4 2013, revenue from the Americas increased 62%, in Q1 of 2014 it had increased

66%, in Q2 it has increased 78%, in Q3 it had increased 97%, and in Q4 it had increased 114%. We expect this to continue in to the summer as consumers start spending the money saved at the gas pump.



Accomplished Management Team

Criteo has an extremely distinguishable and experienced management team, Board of Directors, and Board of Advisors in the eCommerce marketing sector.

CEO and Co-Founder of Criteo is Jean-Baptiste Rudelle. “Rudelle previously founded K-mobile and Kiwee, which quickly became one of leaders in emerging mobile content market in the 2000s. The companies were acquired by American Greetings in 2004.”

Eric Eichmann is the President and Chief Operating Officer. “Prior to Criteo, Eric served as Living Social’s COO and President International and chief operating officer at Rosetta Stone. Eric also previously served as senior vice president of Ad Operations and Technology at AOL, and as senior engagement manager at McKinsey & Company.”

Kathleen Schneider is the Senior Vice President of Marketing and Communications. “Prior to joining Criteo, Schneider was Executive Director for Global Channel Marketing and Programs at Dell based in London, leading a global team responsible for the development and execution of marketing programs to and through the company’s more than 160,000 resellers, distributors, SI, and OEM partners worldwide. Schneider also has held brand manager positions at Kraft Foods Mexico, based in Mexico City.”

Mollie Spilman is Chief Revenue Officer. “Prior to this, she was CMO at Yahoo! and served as Chief Sales & Marketing Officer of Advertising.com. Her experience also includes the roles of CEO at two ad tech start-ups as well as senior executive positions at other large media companies including Time Warner, Meredith Corporation and Discovery Networks.”

Notable Board of Directors includes Dominique Vidal. Dominique was the CEO of Yahoo! Europe from 2004 to 2007. Notable Board of Advisors includes Greg Coleman and John Costello. “Coleman was formerly the president and Chief Revenue Officer at the Huffington Post and the EVP of global sales at Yahoo. He also served as President of Platform-A at AOL from February to April of 2009. Coleman was previously senior vice president of Reader’s Digest Association and president of U.S. Magazine Publishing.”

“John Costello is President, Global Marketing and innovation at Dunkin’ Brands, Inc. and the current Global Chairman of the Mobile Marketing Association. At Dunkin, John has global responsibility for Dunkin’ Donuts and Baskin-Robbins advertising, marketing, consumer engagement, digital, mobile and social marketing, consumer and business intelligence, multi-cultural marketing and oversees research and product development, the culinary team and retail channel development efforts for both brands globally. One of the early pioneers of omni-channel marketing, John has served as the EVP of Merchandising and Marketing at The Home Depot, Senior EVP of Sears, Chief Global Marketing Officer of Yahoo and President and COO of Nielsen Marketing Research U.S. John began his career at Procter & Gamble, where he held a number of senior marketing and brand management positions and served as Senior VP of Marketing and Sales at Pepsi-Cola, USA. John was named one of the 30 Most Influential People in Marketing.”

(via Criteo website “about us”)

As you can see, Criteo’s management is full of extremely professional and skilled innovators. Many of the individuals listed have a great deal of experience in the marketing and advertising sector with some of the biggest companies in that industry, such as AOL, Yahoo, Kraft foods, Dunkin, and Baskin-Robbins. Similarly, many of management members also come from a strong background of information technology companies

including Dell, Time Warner Cable, and Alcatel. Lastly and most importantly for the future plans of Criteo, many management and advisories come from the mobile sector background. As stated earlier, the mobile advertising sector will be one of the most important areas of growth for Criteo in 2015. With the tremendous amount of background knowledge and experience of each of these individuals it will ensure Criteo continues to make the correct expansion and marketing decisions within the coming years.

Solid Financials & Revenue Growth

As a % of Revenue	FY 2012	FY 2013	FY 2014	LT Model
Revenue	100%	100%	100%	100%
Revenue ex-TAC	42.0%	40.3%	40.8%	39-41%
Cost of sales	3.3%	3.2%	2.7%	3-4%
Gross Margin	38.7%	37.1%	38.1%	35-38%
R&D	5.0%	6.0%	5.1%	5-6%
S&O	20.4%	17.6%	16.3%	11-12%
G&A	6.9%	6.5%	6.1%	3-4%
Adjusted EBITDA	6.4%	7.1%	10.7%	15-17%

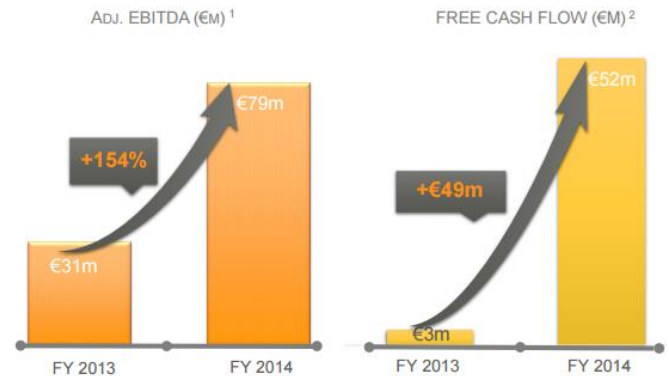
Criteo's financials have been very favorable over the past few quarters, specifically fiscal year 2014. This past year, Criteo has delivered record profitable growth, especially in Quarter 4. In Quarter 4, Criteo grew total revenues by 71%, and 69% at constant currency exchange rates (233M€). Similarly, over 2014 total revenue grew 68% and 70 % at constant currency exchange rates (745M€).

REVENUE EX-TAC¹ (€M) AND YEAR-OVER-YEAR GROWTH² (%)



Criteo grew Q4 adjusted EBITDA by 120%, or 121% constant currency exchange rates, to 32M€. Adjusted EBITDA margin improved 3 percentage points, as a percentage of revenue. For overall fiscal year 2014, adjusted EBITDA grew by 154%, or 156% at constant

currency exchange rates, to over 79M€. Adjusted EBITDA margin increased by 3.6 percentage points, as a percentage of revenue. For fiscal 2014, free cash flow increased by 49M€ to over 52M€, or 66% of our adjusted EBITDA for the year.



Criteo expects to make significant investments in R&D in 2015. Fiscal year 2015 is expected to produce 44% reported growth compared to 2014. There will be expected changes in currency exchange rates due to a strong U.S. dollar which is estimated to lower this to 39% growth. Criteo will be increasing their capex as a result of expanding their hosting capabilities in many regions of the world and updating their internal Information Technology and facilities in New York and London. This also includes investing in to using DataPop's technology, which was acquired in February and will be used to improve the Criteo Engine and the mobile-ad sector. This will greatly increase their capacity for additional clients as well as mobile advertisements in the U.S. Overall 2015 will be a year of increasing client base to sustain continuous profitable growth.

CENTER FOR GLOBAL FINANCIAL STUDIES										
Criteo SA	CRTO	Analyst Mitchell Rager	Current Price \$43.59	Intrinsic Value \$43.57	Target Value \$49.69	Dividend Yield 0%	Target Return 1-yr Return: 13.99%	NEUTRAL		
General Info		Peers		Market Cap.		Management				
Sector	Information Technology	Conversant, Inc.				Title		Comp. FY2012	Comp. FY2013	Comp. FY2014
Industry	Internet Software and Services	Google Inc.	\$367,502.49			Rudelle, Jean-Baptiste	Co-Founder, Chairman, Chief	\$0	\$0	\$0
Last Guidance	Feb-18-2015	Yahoo! Inc.	\$41,802.48			Niccoli, Romain	Co-Founder, Deputy Chief Ex	\$0	\$0	\$0
Next earnings date	NM	ADL Inc.	\$3,126.11			Foulland, Benoit	Chief Financial Officer	\$0	\$0	\$0
Market Data		Current Capital Structure		Historical Median Performance						
Enterprise value	\$2,251.29	Total debt/market cap	0.47%	Growth	CRTO	Peers	Industry	All U.S. firms		
Market Capitalization	\$2,032.29	Cost of Borrowing	0.14%	ROE	41.9%	17.3%	13.8%	7.4%		
Daily volume	0.25	Interest Coverage	6.4x	Net Profit Margin	10.5%	14.0%	10.1%	9.9%		
Shares outstanding	61.01	Altman Z	6.40	Revenue/Common Equity	7.6%	22.8%	5.4%	6.9%		
Diluted shares outstanding	62.65	Debt Rating	AAA	Excess Cash/Rev.	1.37	0.61	1.88	1.45		
% shares held by institutions	99.58%	Levered Beta	1.13	Total Cash /Rev.	N/A	92.3%	13.5%	12.9%		
% shares held by insiders	13.99%	WACC (based on market value we	8.91%	Unlevered Beta	38.9%	92.3%	12.3%	15.2%		
Short interest	1.29%									
Days to cover short interest	1.45									
52 week high	\$46.50									
52-week low	\$25.16									
5y Beta	0.00									
6-month volatility	45.25%									
Past Earning Surprises										
	Revenue	EBITDA	Norm. EPS							
Last Quarter	6.2%	18.0%	54.2%							
Last Quarter-1	6.8%	64.2%	285.7%							
Last Quarter -2	5.9%	72.5%	80.0%							
Last Quarter -3	10.8%	20.1%	50.0%							
Last Quarter -4	6.2%	32.3%	44.4%							
Proforma Assumptions					Forecast					
Money market rate as of today	0.54%	Period	Rev. Growth	Adj. Op. Cost/Rev	Common Equity	Net Margin	ROE	Ke		
Annual increase (decrease) in interest	0.1%	LTM	47.5%	89.8%	\$718.78	8%	9.6%	8.9%		
Yield Spread acceleration	1.2	NTM	43.2%	87.3%	\$873.05	10%	17.2%	8.9%		
Marginal Tax Rate	37.5%	NTM-1	38.8%	86.0%	\$1,082.16	11%	21.8%	9.2%		
Risk-Free rate	2.6%	NTM-2	34.5%	84.2%	\$1,373.22	12%	26.1%	9.4%		
Tobin's Q	0.80	NTM-3	30.1%	82.3%	\$1,771.31	13%	29.3%	9.6%		
Op. Cash/Rev.	7%	NTM-4	25.8%	80.4%	\$2,302.13	14%	31.2%	9.7%		
Growth in PPE	NPPE Growth follows Revenue Growth	NTM-5	21.4%	78.5%	\$2,988.44	15%	31.6%	9.9%		
Long term Growth	4.0%	NTM-6	17.1%	76.6%	\$3,845.54	16%	30.8%	10.0%		
Base Year Unlevered Beta	is equal to 1.07	NTM-7	12.7%	74.8%	\$4,876.61	18%	29.0%	10.1%		
Long term Unlevered Beta	1.07	NTM-8	8.4%	72.9%	\$6,070.16	19%	26.6%	10.2%		
		Continuing Period	4.0%	71.0%	\$6,312.96	12%	10.0%	10.3%		
Valuation					Pricing Model					
Period	Common Equity z (ROE-Ke)	Total Debt	ier non-interest bearing clai	Shares Outstanding	DCF (Weight = 100%)	Relative (Weight = Distress (Weight = Weighted Average Price P				
LTM	\$0.00	\$14.74	\$205.22	61.01	\$44.53	\$34.90	\$5.16	\$44.53		
NTM	\$50.48	\$14.74	\$207.45	61.01	\$50.44	\$59.41	\$6.45	\$50.44		
NTM-1	\$97.72	\$14.74	\$210.98	61.01	\$56.59	\$84.58	\$8.48	\$56.59		
NTM-2	\$170.08	\$14.74	\$215.89	61.01	\$63.65	\$119.54	\$11.72	\$63.65		
NTM-3	\$268.95	\$14.74	\$222.21	61.01	\$72.25	\$165.92	\$16.58	\$72.25		
NTM-4	\$393.02	\$14.74	\$48.88	61.01	\$82.70	\$227.66	\$23.57	\$82.70		
NTM-5	\$535.27	\$14.74	\$59.34	61.01	\$90.78	\$298.57	\$32.97	\$90.78		
NTM-6	\$683.13	\$14.74	\$69.46	61.01	\$98.96	\$379.81	\$45.16	\$98.96		
NTM-7	\$818.12	\$14.74	\$78.28	61.01	\$106.66	\$467.67	\$60.40	\$106.66		
NTM-8	\$917.75	\$14.74	\$84.82	61.01	\$111.72	\$556.87	\$78.48	\$111.72		
Continuing Value	-\$415.68									
Monte Carlo Simulation Assumptions					Monte Carlo Simulation Results					
	Base	Stdev	Min	Max	Distribution	Intrinsic Value		Iq-Target		
Revenue Variation	0	10%	N/A	N/A	Normal	Mean est.	\$44.53	\$50.44		
Op. Costs Variation	0	10%	N/A	N/A	Normal	σ(ε)	\$0.32	\$0.25		
Country Risk Premium	6%	N/A	5%	7%	Triangular	σ(ε) adjusted price	\$43.57	\$49.69		
Long term Growth	4%	N/A	3%	42%	Triangular	Current Price	\$43.59			
Analysts' median est.							\$53.53			