

Criteo S.A. is global commerce marketing technology company who specializes in building advertising platforms of the open internet. Coupled with its extensive consumer reach, Criteo uses various methods that incorporate shopping data and predictive technologies to help internet retailers meet marketing, revenue, and brand awareness goals. More specifically, Criteo is a “retargeting” company who utilizes its advanced data and tracking capabilities to display advertisements to consumers around the globe, on the behalf of their clients, based on the history of customer transactions and visits to the websites of Criteo’s diverse portfolio of clients.

Limit Buy at: \$16.00

Current Price: \$16.57

Target Price: \$25.97

Market Cap: 1.1B

Beta: 0.9

ROIC: 9.00%

WACC: 8.00%

Kd: 4.86%

Ke: 8.77%

Operating Margin: 6.34%

Gross Margin: 36.30%

ROE: 8.83%



Thesis: I view Criteo (CRTO) as a rapidly evolving online advertisement platform company whose increasingly bright financial standing, strategic acquisitions over the past 5 years, and desire for transformative growth, coupled by promising market growth, supports an incline in the success of the company’s operations and stock price over the coming quarters. Based on my valuation of the company, taking into account international risk factors, risk premiums, and future operations and earnings potentials, I am confident in a foreseeable price rebound going forward; especially taking into account the stock’s 52 Week low of \$15.90. I view CRTO as a textbook “buy low, sell high” scenario, where following a 26.2% price decline in the wake of Google ad restriction speculation, the stock has already shown signs of positive life.

Catalysts:

- Short Term (within the year): Attractive purchase price relative to my 1-year valuation.
- Mid Term (1-2 years): Growing market and industry trends.

Earnings Performance:

Since its IPO, Criteo has shown stable and consistent EBITDA numbers with increased growth since 2010. Moreover, both adjusted EBITDA and EPS are projected to grow substantially in FY 2019. Lastly, both the company's net income and gross profit margins are also forecasted to expect solid growth in the coming quarters.

Solid financial model: doubled Adj. EBITDA margin since IPO

As % of Revenue ex-TAC	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	LTM Q3 2018	LTM Q3 2019
Revenue ex-TAC	100%	100%	100%	100%	100%	100%	100%	100%
Other cost of revenue*	7.9%	6.6%	6.1%	6.4%	6.9%	6.7%	6.4%	7.6%
Gross margin	92.1%	93.4%	93.9%	93.6%	93.1%	93.3%	93.6%	92.4%
R&D*	14.9%	12.5%	13.4%	14.2%	14.7%	15.2%	15.0%	15.2%
S&O*	43.6%	39.9%	39.8%	35.3%	34.8%	33.6%	33.4%	34.4%
G&A*	16.0%	14.8%	13.8%	13.2%	10.7%	11.3%	10.6%	11.9%
Adjusted EBITDA	17.5%	26.2%	26.9%	30.8%	32.9%	33.2%	34.6%	30.9%
Revenue ex-TAC margin**	40.3%	40.8%	40.4%	40.6%	41.0%	42.0%	42.1%	41.8%

* Cost of revenue and operating expenses are expressed on a non-GAAP basis, which excludes the impact of equity awards compensation expense, pension service costs, depreciation and amortization, location-related costs, restructuring and deferred price consideration.
 ** As a % of revenue

criteo

CRTO US Equity					96) Actions	97) Export	98) Settings	Financial Analysis				
39) ADJ Criteo SA					ASC 842 ?		Periodicity	Annuals	Cur FRC (USD)			
1) Key Stats		2) I/S	3) B/S	4) C/F	5) Ratios	6) Segments	7) Addl	8) ESG	9) Custom			
11) Adj Highlights		12) GAAP Highlights		13) Earnings		14) Enterprise Value		15) EV Ex Operating Leases		16) Multiples	17) Pe...	
In Millions of USD		2015 Y		2016 Y		2017 Y		2018 Y		Current/LTM	2019 Y Est	2020 Y Est
12 Months Ending		12/31/2015	12/31/2016	12/31/2017	12/31/2018	09/30/2019	12/31/2019	12/31/2020				
Market Capitalization		2,411.7	2,628.2	1,665.4	1,538.3	1,116.2						
- Cash & Equivalents		353.5	270.3	414.1	364.4	409.2						
+ Preferred & Other		4.7	9.7	16.2	24.2	31.4						
+ Total Debt		10.4	85.6	3.7	3.5	189.0						
Enterprise Value		2,073.3	2,453.2	1,271.1	1,201.6	927.4						
Revenue, Adj		1,323.2	1,799.1	2,296.7	2,300.3	2,279.0	940.9	949.7				
Growth %, YoY		33.7	36.0	27.7	0.2	-1.1	-59.1	0.9				
Gross Profit, Adj		471.8	645.0	822.0	834.2	827.2	820.7	829.6				
Margin %		35.7	35.8	35.8	36.3	36.3	87.2	87.4				
EBITDA, Adj		164.0	180.7	236.8	251.4	280.4	291.2	295.3				
Margin %		12.4	10.0	10.3	10.9	12.3	31.0	31.1				
Net Income, Adj		56.4	85.2	98.3	89.5	89.7	162.9	162.6				
Margin %		4.3	4.7	4.3	3.9	3.9	17.3	17.1				
EPS, Adj		0.86	1.29	1.44	1.32	1.35	2.41	2.37				
Growth %, YoY		15.8	50.2	11.6	-8.4	-15.7	82.5	-1.7				
Cash from Operations		137.2	153.5	245.5	260.7	249.1	-108.3	-119.7				
Capital Expenditures		-75.6	-85.1	-122.2	-117.0	-99.4	132.7	125.6				
Free Cash Flow		61.5	68.3	123.3	143.7	149.7						

Business Model:

Criteo's overall open internet business platform consists of 4 primary segments, Criteo Shopper Graph, Criteo Platform, Criteo Solutions, and Criteo Publisher network, that cohesively work to provide the best digital advertising to its clients possible.

A breakdown of the company's model is as follows...



- 1) Criteo Shopper Graph – Comprised of three separate data collection methods, the shopper graph collects various data points and technical identifiers about individuals from their online habits, and stores and organizes that data to create ideal advertisements for CRTO's clients.
- 2) Criteo Platforms – CRTO's platform segment consists of the various AI algorithms that are used to create tailored links between users and ideal target ads as it pertains to CRTO'S clients.
- 3) Criteo Solutions – Pertaining to marketing and media features of CRTO's platform specifically, Criteo solutions allows commerce companies to address multiple marketing goals by engaging their consumers with personalized ads across the web, mobile, and offline store environments. This segment also provides retailers the ability to “generate advertising revenues from consumer brands, and/or to drive sales for themselves, by monetizing their traffic and audiences through personalized ads, either on their own digital property or on the open Internet, that addresses multiple marketing goals.”
- 4) Criteo Publisher Network – Provides extensive, real time access to advertising inventory to CRTO'S various clients, facilitates advertising exchanges, as well as creates direct relationships with thousands of publisher partners.

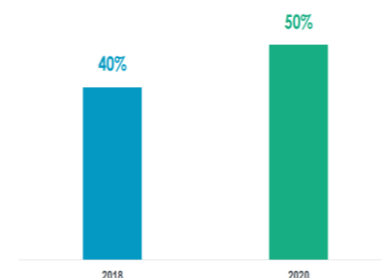
“Breaking News,” Criteo's latest Q3 Report:

According to Criteo's CEO, the company has reached “key milestones in its transformative journey,” illustrated by its Q3 earnings report. Although the third quarter saw a 1% decrease in revenues for the company overall, both Criteo's earnings per diluted shares outstanding and net income both saw healthy increases at 12% and 15% respectively, YOY. An increase in net income in the wake of a slight decrease in revenues shows that Criteo is doing a good job of being able to manage costs, especially during a time of transformation for the company; indicating that the company is standing on stable financial ground. Thus, further supporting a buy low sell high buy approach. A decline in adjusted EBITDA (-3%) was offset by a 3% decrease in operating expenses for the quarter. Operationally, revenue ex-Tac grew 56% YOY in addition to 25% retail media growth and the addition of 238 net new clients, while maintaining client retention of nearly 90% across all products. Post earnings, Criteo CFO, Benoit Fouilland stated “our solid Q3 results show continued progress on our transformation...We are committed to making our revenue more resilient and sustainable, and to drive efficiency across the company.” Criteo's latest earnings indicate that despite not showing skyrocketing results, the company is in a good place, highlighting the impact of my valuation of the stock as a primary driver for why I foresee a rise in price.

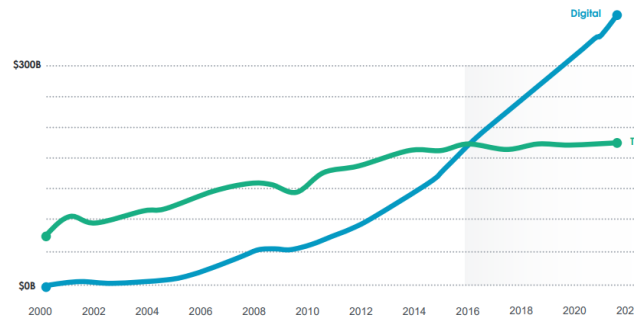
Industry Growth:

According to eMarket, global retail ecommerce sales reached \$3 trillion in 2018, almost 13% of total retail sales during the year. Moreover, global ecommerce retail sales are forecasted to grow by 20% CAGR going forward, being expected to reach the \$ 6 trillion by 2022. Obviously, the rise in ecommerce represents paralleled increases in Criteo's operations as the opportunities to profit from ad revenues also increases. Accordingly, display advertising, Criteo's bread and butter, is projected to grow by 14% CAGR through 2022, reaching \$236 billion, and outpacing the growth of search advertising, mostly driven by rises in the popularity of mobile internet use via video content and various social medias.

Digital advertising's share of global ad budgets continues to grow



Digital ad spend has long overtaken TV ad spend



Strategic Acquisitions

Over the past 4 years, Criteo has made several strategic acquisitions to help grow and diversify the company's operations. These acquisitions are as follows...

- 1) October 29, 2018 – *Manage* – App installation advertising solutions.
- 2) August 3, 2018 – *Storetail* – Retail media technology platforms.
- 3) November 9, 2016 – *Hooklogic* – Business focused on connecting ecommerce retailers with consumer brands.

4) May 31, 2016 - *Monsieur Drive* – Business centered on building advertising products for consumer goods. Each of these acquisitions aligns with Criteo's mission to diversify and grow their virtual advertising abilities to better connect their clients with individuals around the world. As noted in their 10K filing, the goal of these acquisitions is to both expand upon and complement their existing technology platforms to obtain better market position, in line with the projected growth of the industry as a whole.

Transformative Change:

Criteo is in the middle of a shift to a multiproduct platform as it looks to increase the number of attributes (segments) used to deliver digital advertising in the open internet across various devices. The company is looking to part ways with its dependence on traditional "cookies," and integrate more specialized, in-house methods of providing targeted ads into its product portfolio. (Mainly associated with growth in solution and publisher network segments)

The company is also undergoing a structural corporate governance shifts to drive the company in a new direction with the appointment of their new CEO, Megan Clarken.

We are transforming our Company

Further strengthening the leading advertising platform for the open Internet

1

Broaden our product portfolio

2

Build Self-Service Platform

3

Reduce our dependency on third-party cookies

4

Strengthen our leadership team

A new CEO to lead the second phase of the company transformation

Megan Clarken appointed as Chief Executive Officer, based in Paris, effective November 25, 2019



Megan Clarken spent fifteen years in various positions at Nielsen and was recently Chief Commercial Officer of Nielsen Global Media. Born in New Zealand, Megan brings to Criteo extensive global leadership experience and very strong industry expertise.

"This is a very exciting time for me to join Criteo. Criteo has grown into a truly impressive company, with high-quality assets and talented teams, and I'm very honored to lead the company into the next chapter of its development."

Competition:

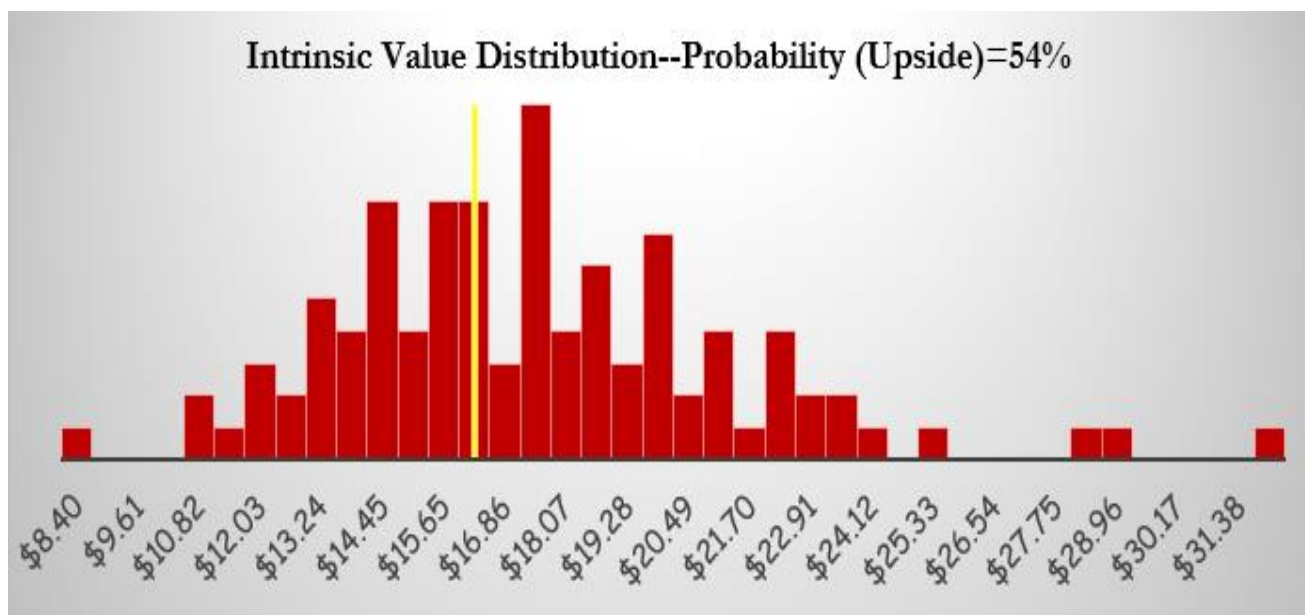
Criteo currently competes in a rapidly evolving environment. Its competition includes major players such as Amazon, Facebook, and Google, as well as smaller companies who more so represent direct peers of Criteo, including Stroer SE&Co, Publicis Groupe, JC decaux, AND 1000mercis. Nonetheless, in this competitive arena, Criteo is still able to boast multiples including an operation margin that tops 77% of its peers, a ROE that is 72% more efficient than its peers, and a gross margin and EPS growth rate that are in line with the industry.

Conclusion:

~~Skepticism Underpriced, skepticism towards about Criteo's transformation phase with model~~ as well as ~~skeptic~~ Google's, - a major player in internet searches and therefore ~~source of digital advertising - advertising~~ potential policy change towards 3rd party advertising have ~~largely a major~~ impacted ~~on~~ projections for revenue as well as the drop in the stock price over the past quarter. The stock's proximity to its 52-week low, coupled by the fact that no major red flags concerning the longevity of the company's operations appear upon a review of the company's financials, suggests that the stock is underpriced relative to my one-year target price, and where the stock was trading prior to its decline in March. Hence, the market presents an opportunity for a limit buy that will look to fuel increased returns in a long position.

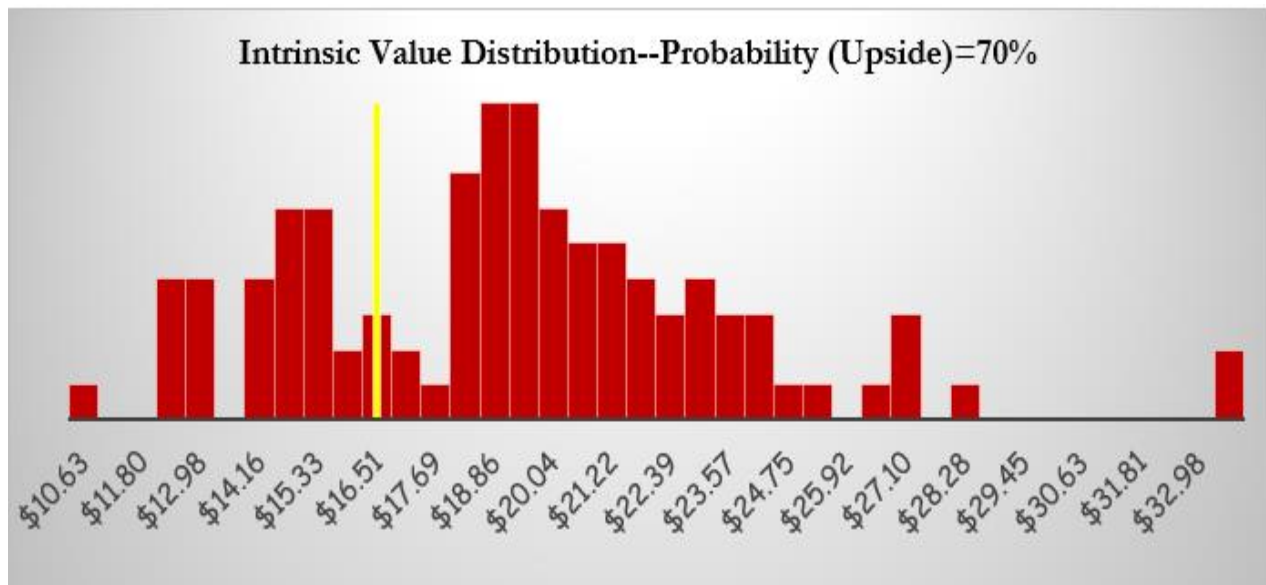
Bear Case Valuation:

My bear case valuation for this company is based on aggressive cuts to revenue growth, tapering off to 1% and then .02% growth over the next eight years, assuming stagnancy in operations. It also assumes depressed EBITDA margins and a more aggressive tax rate to compensate for an increasingly risky scenario. Even so, this valuation yields a 54% probability upside with a 1-year target price of \$21.51.



Base Case Valuation:

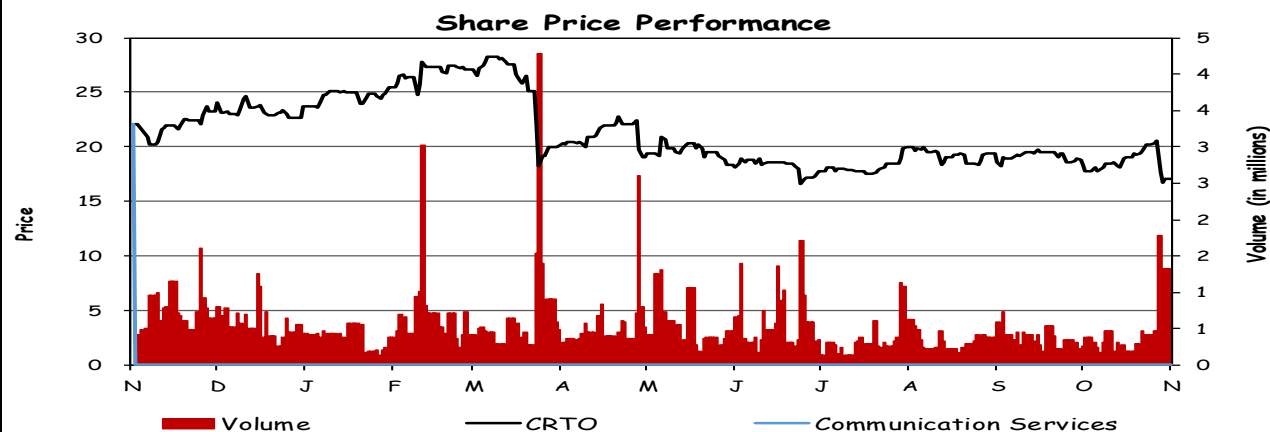
My base case valuation assumes what I have identified as being the most accurate picture of the company and its stock price going forward. As such, it is the valuation model that I have use to arrive at my 1-year target price for the stock. It assumes modest, yet realistic risk premiums, tax rates, and revenue growth based upon the current landscape facing the company as well as taking into account other top rated analysts' projections for the company in the coming year. As you can see, this base model, despite a conservative valuation, still yields a 70% upside for the stock and supports a 1-year target price in the mid-20's range.



CENTER FOR GLOBAL FINANCIAL STUDIES

CRTO

Criteo S.A.	Symbol: CRTO
Analyst	Alexander Zurlo
Buy below	\$20.78
Sell above	\$18.64
Probability of Price Increase	70%
Last Price	\$17.05
Intrinsic Value	\$14.91
Target Dividends	\$0.00
Target Price	\$25.97



Description

Criteo S.A., a technology company, provides an advertising platform for the open Internet in France and internationally.

Sector	Communication Services
Industry	Media
Last Guidance	December 11, 2018
Next earnings date	February 12, 2020

People

Rudelle, Jean-Baptiste, Co-Founder, Executive Chairman, CEO & Member of
 Fouilland, Benoit, Chief Financial Officer
 Jeanjean, Thomas, General Manager of Platform, Marketing & Operat
 Gill, Diarmuid, Chief Technology Officer
 Lassalle, Edouard, VP & Head of Investor Relations
 Damon, Ryan, Executive VP, General Counsel & Corporate Secre

Top Competitors

Ströer SE & Co. KGaA	JCDecaux SA
Hylink Digital Solution Co., Ltd.	1000mercis
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CyberAgent, Inc.	--
Publicis Groupe S.A.	--

CENTER FOR GLOBAL FINANCIAL STUDIES			CRTO		Tuesday, November 12, 2019			Page 2
Criteo S. A.	Symbol: CRTO		Cost of Capital Estimates					
Analyst	Alexander Zurlo			CGFS Credit Rating	Credit Rating Model	Probability of Default Model/Model		
Buy below	\$20.78		Implied Cost of Borrowing (CRTO)	5.6%	4.8%	6.3%		
Sell above	\$18.64		Implied Cost of Borrowing (Peers)	6.3%	5.0%	6.8%		
Probability of Price Increase	70%			Base Year	Explicit Period (15 years)	Continuing Period		
Last Price	\$17.05		Cost of New Debt Estimate	1.65%		4.00%	4.00%	
Intrinsic Value	\$14.91		Country Risk Premium Estimate	7.00%		7.00%	7.00%	
Target Dividends	\$0.00		Cost of Equity Estimate	8.65%		11.00%	11.00%	
Target Price	\$25.97		WACC Estimate	7.57%		9.82%	9.82%	
Forecast Assumptions								
Fiscal Year	Revenue Growth	EBITDA Margin	CAPEX/Revenue	DPR/CAPEX	Other			
Base Year (Actual)	3.06%	26.2%	5.1%	0.67	SBC/Revenue 2.06%			
year 1	NA	31.0%	12.0%	0.81	Constant/same as LTM			
year 2	3.20%	30.5%	12.6%	0.81	Lease term 10			
year 3	6.90%	31.6%	12.3%	0.86	Rent Expense/Revenue 4.99%			
year 4	2.95%	32.5%	12.5%	0.84	Tappers off to historical average			
year 5	0.22%	32.7%	12.4%	0.89	R&D life 10			
year 6	0.23%	33.4%	12.5%	0.89	R&D Expense/Revenue 6.94%			
year 7	0.46%	32.8%	12.4%	0.90	Constant/same as LTM			
year 8	0.67%	32.1%	12.4%	0.91	LIFO Reserve Tappers off to zero			
year 9	0.65%	31.5%	12.4%	0.92	Non-operating pension costs Tappers off to zero			
year 10	0.62%	30.8%	12.4%	0.93	Net financing pensions costs Tappers off to zero			
year 11	0.60%	30.2%	12.4%	0.94	Overfunded pension plans Tappers off to zero			
year 12	0.58%	29.6%	12.3%	0.96	Capitalized interests Constant/same as LTM			
year 13	0.56%	28.9%	12.3%	0.97	Dividends/Revenue 2.98%			
year 14	0.54%	28.3%	12.3%	0.98	Tax Rate 30.02%			
year 15	0.52%	27.0%	12.3%	0.99				
Continuing Period	0.50%	27.0%	12%	1.00				
Simulation Assumptions								
Random Variables	Distribution Assumption	MAX	Likely	MIN	Sensitivity: Price Variance Attribution Analysis			
Deviations in annual Revenue Growth--Expl. Per.	Triangular	0.71%	0%	-0.48%	Revenue growth 38.25%			
Deviations in annual Revenue Growth --Cont. Per.	Normal	0.50%	0%	-0.50%	EBITDA Margin 3.99%			
Deviations from EBITDA Margin base annual estimates	Triangular	6.22%	0%	-16.49%	CAPEX/Rev 39.99%			
Deviations from CAPEX/Revenue base annual estimates	Triangular	0.54%	0%	-1.67%	Discount Rate 12.97%			
Deviations from Kd base annual estimates	Triangular	3.31%	0%	-3.13%	TEV/Rev 0.00%			
Deviations from CRP base annual estimates	Triangular	-1.27%	0%	-5.01%	TEV/EBITDA 0.00%			
Deviations from TEV/Revenue base estimate	Triangular	2.33	0%	-0.70	P/BV 0.00%			
Deviations from TEV/Revenue base estimate	Triangular	5.33	0%	-4.88	P/E 0.00%			
Change in P/BV (TTM)	Triangular	4.76	0%	-0.93	Asset Recovery Rate 0.00%			
Change in P/E (FW)	Triangular	32.38	0%	-9.70				
Recovery Rate	Triangular	10.00%	0%	-10%				
Valuation								
DCF Valuation				Intrinsic Value Distribution--Probability (Upside)=70%				
	Base	Explicit Period (Average)	Continuing Period					
Revenues	\$2,278.97	\$1,155.61	\$1,143.33					
EBITDA Margin	10%	31%	27%					
UFCF	\$115.37	\$178.23	\$139.00					
WACC	7.57%	9.82%	9.82%					
ROIC	10.14%	10.24%	9.56%					
Relative Valuation								
	Median Justified Multiple	Basis	Implied Equity Value					
EV/Rev (FW)	1.0x	\$952.79	\$970.43					
EV/EBITDA (FW)	9.8x	\$294.84	\$2,897.93					
P/BV (TTM)	2.2x	\$1,646.03	\$3,695.14					
P/E (FW)	17.4x	\$126.51	\$2,201.19					
Asset Based Valuation				Valuation Summary				
Recovery Rate	60%			Intrinsic Value	Target Price	Model Weight		
Capital	\$1,957.98			DCF Valuation	\$ 16.22 \$ 27.28	100%		
Intangibles	\$410.57			EV/Rev (FW)	\$ 14.57 \$ 15.68	0%		
Claims	\$1,180.49			EV/EBITDA (FW)	\$ 43.51 \$ 46.81	0%		
Implied Equity Value	\$0.00			P/BV (TTM)	\$ 55.49 \$ 59.69	0%		
				P/E (FW)	\$ 33.05 \$ 35.55	0%		
				Asset Based Valuation	\$ - \$ -	0%		
				Price per Share	\$ 16.22 \$ 27.28	100%		