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PRESENTATION

Operator

Good morning, and welcome to Criteo's Third Quarter 2022 Earnings Call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Melanie Dambre, Director of Investor Relations. Please go ahead, ma'am.

Melanie Dambre - Criteo S.A. - IR Director

Good morning, everyone, and welcome to Criteo's Third Quarter 2022 Earnings Call. Joining us on the call today, Chief Executive Officer, Megan Clarken; and Chief Financial Officer, Sarah Glickman, are going to share some prepared remarks. You will find our prepared remarks and transcript on our IR website after the call.

Before we get started, I would like to remind you that our remarks will include forward-looking statements, which reflect Criteo's judgments, assumptions and analysis only as of today. Our actual results may differ materially from current expectations based on a number of factors affecting Criteo's business. Except as required by law, we do not undertake any obligation to update any forward-looking statements discussed today. For more information, please refer to the risk factors discussed in our earnings release as well as our most recent Forms 10-K and 10-Q filed with the SEC.

We'll also discuss non-GAAP measures of our performance. Definitions and reconciliations to the most directly comparable GAAP metrics are included in our earnings release published today.

Finally, unless otherwise stated, all growth comparisons made during this quarter are against the same period in the prior year.

With that, let me now hand it over to Megan.

Megan Clarken - Criteo S.A. - CEO & Director

Thanks, Melanie, and good morning, everyone. Thank you all for joining us today. We are intentionally keeping today's prepared remarks relatively brief as we look forward to sharing more with you at our upcoming Investor Day on Monday.

We also look forward to meeting with many of you in person over the coming weeks. Our Investor Day will be the opportunity for us to discuss the substantial progress we've made on our transformation journey to reposition Criteo from a pure-play retargeting business to a platform play focused on commerce media. A platform that is self-service and not reliant on third-party signals. We'll show you how our Commerce Media Platform is coming to life, how we plan to unlock its growth potential with our integrated go-to-market strategy and why we believe we'll win in Retail Media, and more broadly, in Commerce Media. We'll also discuss our midterm financial outlook and our plans to drive profitable growth and long-term shareholder value.

Turning to our third quarter highlights... We reached several important milestones this quarter, including the closing of our IPONWEB acquisition and the soft launch of Commerce Max, our self-service and first of its kind demand-side platform, or DSP.

Starting with IPONWEB. It's only been 3 months since we closed the strategic acquisition, and we're pleased with the progress of our integration and IPONWEB's business performance. Our teams are coming together, and we're very energized by the unique opportunities to shape the future of Commerce Media together. IPONWEB enhances our scale and brings our complementary capabilities on both the demand and the supply side to accelerate the execution of our Commerce Media Platform strategy.

The recent launch of Commerce Max demonstrates the progress of our integration. Commerce Max combines the power of our Retail Media tech and IPONWEB's DSP capabilities. Commerce Max empowers brands and agencies to find valuable commerce audiences on retailer websites and activate on-site sponsored and display ads that extends to commerce audiences that exist off site across the open Internet, leveraging multiple channels, including video and CTV.

Our Commerce Max DSP also provides closed-loop measurement capabilities to help marketers understand what performs, why and how in near real-time. Our value proposition is unique and our clients, including some of the largest brands, agencies and retailers worldwide have been enthusiastic about what we're bringing to market. We expect Commerce Max to be instrumental in the growth of off-site for Retail Media in future years.

Moving to our third quarter performance. We delivered constant currency contribution ex-TAC growth of 14%, in line with our expectations.

In Retail Media, our highly differentiated technology and superior offering continue to drive our momentum with existing and new clients. We have a solid pipeline. In head-to-head testing, retailers are shifting from competitors to Criteo. We recently announced a 3-year exclusive partnership with MediaMarktSaturn, Europe's leading consumer electronic retailer across 13 countries. We won after delivering the best performance and a competitive RFP.

In the Americas, we signed new deals with large retailers, including Giant Eagle and Metro Canada, and we're seeing traction in upselling Retail Media off-site and display with existing clients. We also expanded our Retail Media footprint in APAC with the addition of istyle Ads, Askul Japan and Chemist Warehouse Australia. In addition, we onboarded close to 100 brands this quarter. In a tough macro environment, brands want to get as close to the point of sale as they possibly can, and there's nothing closer than advertising on the retailer's site.

In Marketing Solutions, we experienced mixed trends with more moderate or more targeted spending from several clients across regions. In this environment, we benefit from a diversified client base. As we approach the holiday season, our clients are facing challenges related to high inflation and macroeconomic uncertainties. While we experienced an early start to the holiday season last year, we're seeing several marketers and brands slow down their spend [while] (corrected by company after the call) they continue to prioritize performance and rely on our solutions to drive sales and return on ad spend.

A perfect example of this is what we've recently -- is that we've recently joined the Shopify Plus Certified App Program, which simplifies and automates Shopify merchants' ability to leverage our acquisition and retention solutions. While still early days, we saw a 30% increase in the number of new Shopify merchants using Criteo this quarter compared to the number of merchants we added in the second quarter. These merchants come to us for performance as they typically benefit from 3x more traffic and 5x more sales when using our solutions.

Lastly, we're excited to explore new ways to extend our commerce value proposition to social platforms. We're now actually testing new use cases for brands, marketers and retailers, who would like to access Meta's Ad Inventory on Facebook and Instagram globally. We look forward to sharing more in the coming months.

As we enter the fourth quarter and prepare for 2023, we remain laser-focused on execution to capitalize on the significant opportunities ahead of us, and we remain committed to cost discipline. We believe that we have laid the groundwork for long-term sustainable growth, and we're pleased to see that our vision resonates with the industry at large.

I also want to express my sincere gratitude to all Criteos globally, including those who joined us from IPONWEB for their tremendous commitment and hard work to deliver exceptional service to our clients and realize our vision. With that, I'll now turn the call over to Sarah, who will provide more details on our financial results and our outlook. Sarah?

Sarah J. S. Glickman - Criteo S.A. - CFO & Principal Accounting Officer

Thank you, Megan, and good morning, everyone. Starting with our financial highlights for Q3 2022, Revenue was \$447 million, and contribution ex-TAC was \$213 million. Reported contribution ex-TAC reflects significant financial exchange headwinds. The weakening of currencies against the U.S. dollar resulted in a year-over-year \$28 million unfavorable ForEx impact.

At constant currency, Q3 contribution ex-TAC grew 14% on top of a tough comp with 14% growth in Q3 2021. This includes organic growth of 5% and growth from IPONWEB of 9%. Our organic growth was driven by Retail Media, up 32% and Commerce Audiences, which we previously referred to as audience targeting, up 29% as part of Marketing Solutions, up 1%.

The growth of Retail Media and Commerce Audiences, combined with the addition of IPONWEB accelerated the shift of our top line mix with non-retargeting solutions representing 41% of contribution ex-TAC in our third quarter, up from 33% in Q2 and up from 28% a year ago. Client retention remained high at close to 90%.

Turning to our business segments in Retail Media, revenue was \$41 million and contribution ex-TAC was 32% at constant currency to \$37 million. As a reminder, we had 65% growth in Q3 last year, including our Mabaya acquisition for online marketplaces. Our growth this quarter was primarily driven by our U.S. client base and CPG, our largest and fastest-growing vertical. This was partially offset by lower online traffic on certain retailer sites and softness in France. Growth from existing clients remained strong with same-retailer contribution ex-TAC retention at 133%. We are excited about our new retailer wins, which we expect to fuel our growth in 2023 and beyond.

In Marketing Solutions revenue was \$387 million, and contribution ex-TAC was up 1% at constant currency to 180 -- sorry, \$158 million with growth in Commerce Audiences partially offset by lower retargeting. Retargeting was down 5% year-over-year or up 4% when excluding the impact of the suspension of our Russia operations earlier this year and the impact from the loss of signals. This quarter, we saw a \$14 million signal loss impact, including iOS, as expected, and a faster-than-expected rollout of explicit consent in Europe. Our underlying growth in retargeting was primarily driven by continued momentum in travel, including client win backs, solid performance in Asia Pac and most markets in EMEA, partially offset by softer trends in France and for certain large clients in the U.S.

Overall, our full funnel value proposition allows us to capture incremental budgets with an increasing number of clients transitioning to always-on audience strategies to acquire and retain customers. 33% of our live clients use more than 1 Criteo product today compared to 29% a year ago. We expect to continue to benefit from more upselling and cross-selling activities with our integrated go-to-market strategy.

Lastly, IPONWEB delivered mid-teens growth for its 2 months of contribution this quarter, in line with our Q3 guidance.

We delivered an adjusted EBITDA of \$50 million in Q3 2022. As expected, non-GAAP operating expenses increased 15%, including investments in sales, R&D and product talent.

Moving down the P&L, depreciation and amortization decreased 14% in Q3 2022 and share-based compensation expense increased 59%. Our income from operations was \$4 million and our net income was \$7 million in Q3 2022. As you recall last quarter, we accrued EUR 60 million as a provision for loss contingency related to the CNIL regulatory matter. We are now in the process of submitting our response. This is an accrual and will be reviewed each quarter as we move through the administrative process. We anticipate resolution of this matter in 2023.

Our weighted average diluted share count was 63.2 million which resulted in diluted earnings per share of \$0.10 and adjusted diluted EPS of \$0.53 in Q3 2022.

In a difficult macro environment, we benefit from a strong financial position with solid cash generation and no long-term debt, including about \$744 million in total liquidity as at the end of September, and financial flexibility to execute on our growth and capital allocation strategy following the acquisition of IPONWEB. We entered into a new and expanded 5-year revolving credit facility of EUR 407 million in September, which replaces our former EUR 294 million facility. This underscores the confidence of our global banking partners in our balance sheet and our business outlook. The primary goal of our capital allocation is to invest in high ROI organic investments and value-enhancing acquisitions and to return capital to shareholders via our share buyback program.

Since the beginning of 2022, we have repurchased 2.2 million shares at an average cost of \$26.70 per share. We have accelerated our share repurchases since the completion of our IPONWEB acquisition and have \$121 million left on our share buyback authorization.

Turning to our financial outlook, which reflects our expectations as of today, October 28. We remain prudent given the persistent uncertainties in the macro environment. For 2022, we now expect contribution ex-TAC to range between 10% to 11% at constant currency. This comprises organic growth of approximately 5% and inorganic growth from IPONWEB contributing approximately 5% to 6%. Organically, we now expect contribution ex-TAC growth of approximately 35% for Retail Media given softer online traffic, lower brand spend and a slower integration of some of our newly signed retailers and contribution ex-TAC growth of approximately 20% to 25% for Commerce Audiences.

We now expect our 2022 adjusted EBITDA margin to be approximately 28% to 29%, reflecting the lower contribution ex-TAC in Q4, which is our largest quarter and the lower EBITDA profile of IPONWEB.

As we communicated at the start of 2022, with our focus on sustainable growth and our continued transformation to a commerce media platform, we have invested in high ROI projects, including new skill sets. Clearly, we also have initiatives to enable productivity and efficiency. Given the tougher macro and the IPONWEB integration, this is a heavy focus area.

Given the further weakening of the euro and yen against the U.S. dollar, we now estimate the impact of ForEx to lower contribution ex-TAC by \$90 million for 2022 or approximately 10 percentage points compared to our previous forecast of \$60 million. This includes \$10 million in Q1, \$21 million in Q2, \$28 million in Q3 and an estimated \$31 million impact in Q4. As a reminder, close to 30% of our contribution ex-TAC is exposed to the euro and approximately 10% of our contribution ex-TAC is exposed to the Japanese yen.

There is no change to our capital expenditures, and we continue to expect free cash flow conversion of about 45% of adjusted EBITDA.

For Q4 2022, we are cautious given the impact of the slower macro environment on consumers, our clients and the expectation of lower budget, especially in retail. We expect Q4 contribution ex-TAC of \$275 million to \$280 million, growing by 11% to 13% at constant currency. This assumes flat organic growth and IPONWEB inorganic growth. Importantly, we expect Retail Media to continue to show strong growth despite the challenging macro environment. We assume a loss -- a signal loss impact of approximately \$9 million. We expect adjusted EBITDA of \$90 million to \$95 million, reflecting the lower top line.

Looking ahead to 2023, while there is macroeconomic uncertainty, we expect to continue to deliver growth, healthy profitability and solid cash generation. We expect our broad and diversified client base and our performance-driven offering to contribute to the relative resilience of our business. We are disciplined in managing our head count and our expenses and we have a clear plan for the integration of IPONWEB.

We expect our adjusted EBITDA margin to remain in line with 2022 levels given the full year impact of the IPONWEB business. Over time, we have a plan to drive operating leverage from scaling and transitioning to more self-service solutions as well as synergies.

As I've said before and as with any transformation, our path won't be linear, but we remain focused on the execution of our strategy to create the world's leading commerce media platform to drive long-term sustainable growth and shareholder value. We look forward to sharing more at our Investor Day on Monday.

And with that, I'll turn over to the operator to begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Matt Thornton with Truist Securities.

Matthew Corey Thornton - *Truist Securities, Inc., Research Division - VP*

Maybe 2, if I could. First, maybe you could just help us understand what you're seeing out there just from a linearity standpoint as we exit 3Q and kind of through October. I'm just kind of curious what informs your 4Q outlook. Any color there would be helpful.

And then just secondly, around Retail Media. Out of all the different revenue buckets, a little bit more of a decel there. I'm just curious if that's just pure year-over-year comp or if there's anything you're seeing changing there from a competitive and/or other standpoint? Any color on those 2 would be great.

Sarah J. S. Glickman - *Criteo S.A. - CFO & Principal Accounting Officer*

Yes. So thank you for the question. In terms of Q4, I mean, what we're seeing, and we saw this in Q3 and I would say or we're seeing this from all retailers is there's more targeted and more moderate spend. And what we do see is, of course, there's an orientation towards performance marketing. But with the pullback in consumer spending, there's less brand dollars. And I would say there's just more cautious focus on budget.

So we expected a pullback and we saw a pullback from Q3 spend and a more focused spend in Q4 for holiday season. Last year, we saw a early spend for holiday spending and that we haven't seen this year. And consistent with external measurements that expect the holiday season to be muted versus last year, we're seeing the same trend.

So that's the reason for our caution. It's less spend from our customers overall, and that's largely due to less spend by consumers and less online traffic.

Megan Clarken - *Criteo S.A. - CEO & Director*

Yes, I'll add a little bit of color to it. Just to sort of reiterate what Sarah said, one of the sort of signals that we saw was from Prime Day. And usually, what we see and what we saw last year was when different shopping days come up, there's a halo effect and so retailers more broadly than Amazon use that opportunity to do their own discounting on that day, and they see sales based on -- good sales based on their -- based on the fact that Amazon had a Prime Day.

We didn't see that this year, which was really interesting. It was telling in terms of consumer spend. It's not that retailers didn't try. But what we're looking forward to is seeing Cyber Monday and Black Friday coming up to see whether or not there's a shift there -- to see whether or not there's a lift there compared to the halo effect that we didn't see from Amazon Prime Day.

So we're just being cautious because we have a lot of data at our fingertips. We see trends, we see signs and we want to make sure that we are taking those into account when we look at our performance or potential performance going forward.

On the Retail Media front, look there's really solid growth there. It's a very, very solid story and Commerce Media is the big place to be right now. If you're a retailer, if you're an advertiser, you want to swing towards somewhere where you're going to see those results.

And so again, while we remain cautious because we see a slower ramp-up in terms of the time it takes retailers to come on board, just the caution that they're applying to their strategies. There is no doubt in our mind that Commerce Media is the winner as you compare it to the other advertising platforms in terms of search and social.

So we're extremely optimistic still in our strategy around Commerce Media. We're just making sure that we're prudent and cautious given what we see in the marketplace around consumer spend and retailers' reaction to that.

Sarah J. S. Glickman - Criteo S.A. - CFO & Principal Accounting Officer

Yes. Sorry, just to add one piece of color on the consumer spend, more of it is on more essential goods. So less on apparel, toys and hobbies. And those are obviously the huge areas for us, but also for Q4 spend overall.

And then retail, as a sector year-on-year, has decreased as a sector. We've seen that -- we'll clearly see that with other earnings coming out. And so that -- so we've applied that within our assumptions in terms of the spend that we expect to see for Q4.

Operator

The next question comes from Sarah Simon with Berenberg.

Sarah Simon - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

I've got 2 questions. First one is on Q4 outlook again. I mean you're talking about being cautious and so on. So are you assuming in your guidance that things deteriorate from the current level of trading that you see now? That was the first question.

And the second one is the expanded debt facility, should we read anything into that? I mean, clearly, it's a tough environment, probably more companies are going to fall over. Are you feeling like you might want to step up the pace in terms of M&A? Or is it just they offered you more money so you've taken it, and we shouldn't read anything more into it than that.

Megan Clarken - Criteo S.A. - CEO & Director

I'll take the second question first. We started to renegotiate our credit facility earlier this year. Actually, I would say before the financial markets became more shaky. We had a high level of interest from global partners including new partners in the Americas that wanted to be part of this facility. And so we increased the facility largely as a way to ensure that we had the right level of flexibility going forward.

We are incredibly robust on our balance sheet, our cash flow generation, needs for day-to-day operations. We do have an M&A pipeline that we continue to focus on. And most of those would be tuck-ins, as we've always said, for key capabilities that will help us to accelerate.

But no issue at all in terms of our balance sheet, our cash generation and our operational leverage from our own operations.

For Q4, yes, we have seen that the level of spend is more cautious. So we have, in Q4, moved the numbers down, I would say, week over week. That does not mean that we don't have fantastic high five moments within that.

But when we look overall, we're seeing softness in key categories. So retail, apparel, huge areas for us, but we don't see as much spend. And we're seeing country-by-country, Americas large retail, Asia Pac, France being, I would say, lower -- light with some big highlights in terms of return back to growth for some of our other markets, including the U.K. U.K. is more resilient than we've seen over the last few months. So we'll see what happens there.

So that's our caution. I would say it's in line with everyone else's caution. So I don't see anything that's different when I read the transcripts of others in terms of what we're seeing ourselves. The benefit we have is, we're closest to the point of sale in terms of performance advertising. And so we do see and expect to see that there will be continued performance advertising for Q4 going into a holiday season that may be shorter and less exciting than the last 2 years given that we're out of COVID and people are less on their desktops and phones than they were 1 year or 2 years ago.

Sarah Simon - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Yes. Okay. But would you say that in your guidance, you are assuming that things get worse from here? Or are you basing it on kind of what you've seen in October and assuming that, that trend is consistent.

Megan Clarken - *Criteo S.A. - CEO & Director*

Yes, I would say we're not seeing the early pickup of holiday spend that we saw in the last 2 years. So last year, we went from Cyber 20 -- we went from Cyber 6 in the traditional pre-COVID model to Cyber 20 in '21 -- sorry, in '20 to Cyber 30 last year, and we're not seeing that right now. Of course, we're not in the peak holiday season, but we haven't seen the early spend that we benefited from last year. And we are seeing year-on-year budgets are down, whereas last year, they were massively up. So that's the trend that we're seeing. Yes. I wouldn't say it's cautious, I think it's reality.

Operator

The next question comes from Richard Kramer with Arete Research.

Richard Alan Kramer - *Arete Research Services LLP - Founder, MD & Senior Analyst*

Megan, since you mentioned Prime Day, can you talk a little bit about Amazon both as a competitor to Criteo, but also as sort of the poster child or example of how some of your large retail clients might be looking to build a material advertising businesses on their own and how you might be helping them with that?

And I guess one other question, given your comments, Sarah and Megan, about the timing of spend resuming being so uncertain and cautiousness, can you talk about what you're doing to bring new logos on board this year sort of to position yourself now for the growth that you might like to see in 2023?

Megan Clarken - *Criteo S.A. - CEO & Director*

Yes. Great. Thanks, Richard. Was very encouraging, I think, from our standpoint to hear Amazon advertising is still performing, really solid results that they posted yesterday. They are the poster child for retail media. They attract a lot of brands. They're part of sort of a brand strategy spend on their sites. And they do it very, very well. They've been doing it for a long time reasonably.

So we've always said, I think, that we see ourselves as the Amazon advertising of the open Internet, and that's the way we think about our business. And the reason why this is important is that brands cannot just confine themselves, confine might be a strong word, but -- to Amazon because Amazon is a competing retailer and they need to be able to advertise -- sell their own advertising on their own site and also extend off across the open Internet.

So they need a platform that enables them to do that, which means that it's not necessarily that we're going to disrupt their advertising on Amazon, but to be more complementary so that they can light up their own advertising business and expand that to their brands out and across the open Internet. They wouldn't necessarily rely on Amazon to do that. Amazon's reach is not the same as Criteo's reach, particularly when it comes to how many consumers we can reach across the open Internet and how well we know those consumers and know whether those consumers are on their buyer journey, they're shoppers, and therefore, they're a very valuable consumer to reach.

So we have a, I would guess, a complementary but extremely strong offering as compared to Amazon advertising. But to your point, they're a poster child and we're there as the complementary alternate backup or supplementary supplier to Amazon. Our retailers are leaning into the space incredibly heavily right now because it is a new opportunity for them. They see the results that Amazon have enjoyed. They see the growth of Walmart and Walmart Connect. And they see the serviceable addressable market that is available to them if they just line up their own capability, and that's where they turn to Criteo to help them to do that.

We're seeing just solid quarter-after-quarter performance here of our Retail Media business. The logos that we've brought on board in terms of not just retailers but brands and the strength of our relationship with agencies is just continuing to prove to us that we're exactly where we need to be, and we'll continue down this route.

More to come on Monday, Richard. I'm looking forward to seeing you there. On the second piece, I'll get Sarah to speak to.

Sarah J. S. Glickman - Criteo S.A. - CFO & Principal Accounting Officer

Yes. I mean just in terms of -- we've had some win backs. We can't announce the names, but I would say massive retailers in the U.S. that have come back to Criteo due to our performance. So we've seen not only new logo wins and MediaMarktSaturn was one of those. That was a new logo. We have some other new logos that we have just won that we will be announcing soon, in Europe as well as in the U.S. And we have win backs.

Our brands have also -- we've increased the number of brands and more to come on Monday when we share some of those growth metrics. But in terms of same-retailer Contribution ex-TAC, I mean, our retention is a 133% in Q3. That's an average of 137% over the last 4 quarters. And what we see for 2023 is not only the contribution from existing retailers, which is, for the most part, we benefited from this year in terms of our growth, but also new contributions from those signed retailers coming on board.

Most retailers have a Q4 code freeze. So typically, we tend to see more of that uplift going into the new year, and that's what we expect early 2023 as well.

Operator

The next question comes from Mark Kelley with Stifel.

Mark Patrick Kelley - Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst

Great. You just talked about MediaMarkt for just 1 second. Can you just remind us when that kicks in? Is that the '23 time line that you outlined? And I guess when can we expect some of that site to be material?

And then you talked about synergies and your ability to gain some operating leverage perhaps beyond 2023. Can you give us a sense where those synergies might be had? I think IPONWEB, I think the employee base was relatively small already. So any thoughts there would be great.

Sarah J. S. Glickman - *Criteo S.A. - CFO & Principal Accounting Officer*

Yes, we -- in terms of timing, that's a partnership between us and MediaMarkt. So we do expect those revenues to come -- start coming in, in 2023. However, we don't -- we haven't given guidance for 2023, I don't want to be too precise on when we expect to see that revenue coming in.

In terms of the synergies, we have a clear plan with the integration of IPONWEB that we're already working through with ourselves and the IPONWEB team. We do see 2 things: one is the revenue synergies that we expected from integration of their platforms with ours, and a lot more to come on that on Monday in terms of our new offerings, which is the Commerce Media platform and our joint capabilities driving that.

In terms of our own cost base, we have, as you know, for a long time, enjoyed a high margin retargeting managed service business. And as we transition more to self-service, clearly, there are efficiency plays that come with that.

Also, we have already invested in those solutions selling skill set in 2022. And so we anticipate enjoying the benefit of that on our top line growth. And also as they look at their organizations to ensure that they're fit for purpose, focused on growth and focused on high ROI clients.

We have segmented our clients to enterprise clients and growth clients and we have made some changes in our organization to ensure that we're fully aligned to our customers, to their needs at a CMO level so that we ensure we drive the Commerce Media Platform story at the right level to ensure that we're selling a platform as opposed to in the past, individual product plays.

Overall, we anticipate that for 2023, we'll continue to invest not only in the high ROI growth investments, particularly in Asia Pac and in Retail Media, but also that we'll start to see where the infrastructure that we need to drive that change will be invested in.

So data centers is an area of focus for us. We have taken out a lot of spend over the last couple of years, about \$20 million on our data centers and the renewals that we're doing next year, some of which will be CapEx, some will be OpEx. And there's infrastructure around how we ensure that we can bill and collect and account for all our new platforms, along with IPONWEB, sell some of the integration of new capability to upgrade our, I would say, internal infrastructure on systems. We're looking to be world-class. So it's an exciting place to be.

Operator

Our next question comes from Doug Anmuth with JPMorgan.

Katy Amanda Ansel - *JPMorgan Chase & Co, Research Division - Research Analyst*

This is Katy on for Doug. So first, I just wanted to dig into privacy. It looks like it's going to be a \$5 million or \$10 million headwind, worse than anticipated this year. So can you just walk through what's driving that higher, and how you're thinking about some of those incremental headwinds into 2023. I think you previously mentioned not expecting a big year-over-year impact. So just curious if that's still the case.

And then secondly, just looking at Google's privacy standoff. Some recent reports have suggested that the FLEDGE product has received some mixed reviews, so just curious if there's anything you can share in terms of your feedback from testing the FLEDGE product.

Megan Clarken - *Criteo S.A. - CEO & Director*

Well, on the second question on the FLEDGE, that's a topic we'll address on Monday. So I'll move that question to Monday, where we'll have Todd presenting.

In terms of the privacy impact, we have seen a higher increase related to explicit consent. So that was very small for us at the beginning of Q1, Q2. And we had anticipated -- was about \$4 million of the incremental headwind in Q3, and we're anticipating that to be about \$3 million in Q4.

In terms of the 2023 privacy incremental impact, we are not seeing any large incremental impact. So we don't anticipate anything that's incremental to our 2022 expectations.

Overall, we went from \$55 million to about \$60 million, and most of that will be in Q3.

Operator

The next question comes from Tim Nollen with Macquarie.

Timothy Wilson Nollen - *Macquarie Research - Senior Media Analyst*

I've got a question, which I'm guessing you'll probably also be addressing on Monday. So just answer as you see fit, please. But it's about your off-site Retail business, which you mentioned at the top of the call and you've spoken about before. And I'm just curious if you could enlighten us a bit more as to what you're doing in off-site, how you differ from others? And I guess where you see the competition in that field.

Megan Clarken - *Criteo S.A. - CEO & Director*

Yes. Thanks for the question, Tim. It will be addressed on Monday. But let me give you a couple of some top line notes on it. Off-site for us is, well for our clients, is their ability to partner with their brands or offer their brands advertising of the retailer sites because the retailers realize that if they just stick to the traffic that comes to their sites, they'll never get enough reach for those brands. And so they extend that advertising out across the open Internet.

And so Commerce Max for us has been our ability to light up the DSP that the retailers can use to manage this for their brands.

Our ability to reach, and we reach today about 725 million daily active users, of which we have unique insights into whether they're Commerce Audiences, meaning are they audiences that are on their buyer journey, are they audiences that are shopping as opposed to audiences that might just be communicating with each other on social platforms or researching something that has nothing to do with a purchase intent. So we're really very focused on Commerce Audiences, and we have capabilities through the data sets that we have access to, to be able to really narrow in on these very valuable audiences. They come to life for the retailer and the brand through the DSP, through Commerce Max.

So it's a very unique proposition that we offer. There is nobody really doing solid off-site capability right now for retailers. So this is very new for retailers. And there is certainly a big differentiator for us in our ability to do closed-loop reporting. In other words, being able to report for them the effectiveness of their on-site sponsored ads with the display ads, with their search, plus their off-sites, their expansion to off-site ads for the retailer in near real-time management capability.

And that you don't see anywhere. So I don't want to be a spoiler here because there's more to come on this on Monday. But there's a lot of reasons why you would point or you would come to Criteo for retail media off-site versus anybody else.

Operator

(Operator Instructions) Our next question comes from Mark Zgutowicz with The Benchmark Company.

Mark John Zgutowicz - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Thank you. So we've heard a few prominent DSPs talk more about their relationships with retail media networks. And I'm curious if you can discuss what may remain sort of your relative advantage here and perhaps how Commerce Max may enable you to corner this market a bit more. I know

you just talked about closed-loop as certainly a relative advantage, but also curious about what your go-to-market now is with Commerce Max in place?

Megan Clarken - Criteo S.A. - CEO & Director

Yes. Look, retail media -- being a retail media provider is more than what a lot of people think that it is. And we've been doing this for a long time. We acquired a company called HookLogic, and we've been focused on this for 6 years now, which is probably longer than anybody else.

Plus from a global perspective, we have people on the ground in those markets who know, that have local relationships in those markets. And so we have this, a footprint of people who know retail media backwards. So that's the starting point.

The second is to do retail media is to integrate with the retailers. It's not just about lighting up a DSP that the retailers can use. You have to have deep integration into the retailer's data sets from their catalog data through to the SKU data, to their loyalty card data, to their CRM data, it just goes on and on because you have to do a job for the retailer, which is light up the right promotion at the right time, is the product actually available, is it in stock, is it in stock in that geo location. Is the -- how can we continue to stay engaged with the consumer by giving them a recommendation for something else that they might like, all of these things and disciplines that come with being able to do retail media.

And there's only a couple of players out there that can actually do that. So that's sort of the -- that's the ground roots for us, is that don't underestimate what it means to be a player in this space. And the first mover advantage for us is the deep integrations that we already have with over 160 retailers around the world, some of the biggest names on the planet.

From there, it's extending out the services. Like I just talked about, is about retailers now need to be able to extend beyond their own walls to offer advertising to the brands to take them off-site, to get them in front of more consumers who are actually on their buyer journey, and that's what Commerce Max is all about.

So again, I don't want to be a spoiler for Monday. I'm looking forward to the team taking you through what that looks like. It's really very cool and exciting and I look forward to seeing you there, Mark.

Operator

This concludes the question-and-answer session. I would now like to turn the conference back over to Melanie Dambre for any closing comments.

Melanie Dambre - Criteo S.A. - IR Director

Thank you, Megan and Sarah. This now concludes our call for today. We look forward to seeing many of you at our Investor Day in New York on Monday, and we will also webcast the event live. Have a great day, everyone.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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