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CORPORATE PARTICIPANTS

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

Melanie Dambre *Criteo S.A. - IR Director*

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

Todd Parsons *Criteo S.A. - Chief Product Officer*

CONFERENCE CALL PARTICIPANTS

Justin Tyler Patterson *KeyBanc Capital Markets Inc., Research Division - Director of Internet and Media Equity Research & Lead Senior Analyst*

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

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

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

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

Ygal Arounian *Citigroup Inc., Research Division - Director of Internet Equity Research*

PRESENTATION

Operator

Good morning, and welcome to Criteo's Fourth Quarter and Fiscal Year 2023 Earnings Call. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Melanie Dambre, Vice President, Investor Relations. Please go ahead.

Melanie Dambre - *Criteo S.A. - IR Director*

Good morning, everyone, and welcome to Criteo's Fourth Quarter and Fiscal Year 2023 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. Todd Parsons, our Chief Product Officer, will join us for the Q&A session. As usual, you will find our investor presentation on our investor website now as well as our prepared remarks and transcript 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 analytics 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 call 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 for joining us today. In Q4, we delivered record top line with organic growth acceleration and record adjusted EBITDA. I'm proud of our team's hard work and strong execution during the holiday season when the entire organization leans in to support our clients throughout this peak time and advertising. Our outperformance reflects the resilience of our business and was driven by the robust strategies we've implemented with large-scale commerce data and breakthrough AI technology to deliver better predictions and outcomes for our clients.

Looking back over the years, since I started with Criteo and began the transformation of the company, we've made remarkable progress. I'm so proud of the work that we've done, what we've achieved, and I've never been more excited about our future. Our better-than-expected performance in 2023 further affirms our strategic direction, while setting the stage for continued growth in 2024.

In 2023, we achieved double-digit growth for the second consecutive year with a historic milestone of crossing the $1 billion in contribution ex-TAC mark for the first time. This is a testament to the tireless efforts our Criteo is important to executing our company turnaround.

We also exceeded our adjusted EBITDA margin target for the year, demonstrating cost discipline while executing our turnaround. Retail Media surpassed $200 million in annual revenue, and retargeting now represents less than 50% of our business. Our strategy to offset the claims in our retargeting business by offering full funnel targeting, a strategic move that we announced in 2020 has proved successful. With accelerated momentum, our commerce audiences targeting is up 60% in the fourth quarter.

As we continue to push forward carving out our leadership position in Commerce Media and delivering against the vision that we've laid out, 2023 was a big year for us as we focused on tech delivery, and differentiation with the launch of our demand side platform called Commerce Max and the launch of our supply side platform called Commerce Grid. We've built differentiated capabilities that position Criteo to offer the end-to-end platform of choice for Commerce Media, allowing data flows and access across one platform for frictionless data needs that our clients are looking for.

We bolstered our position as the leading retail media or ad tech provider, gaining market share in 2023 with a remarkable 36% year-over-year growth in activated media spend, which surged to $1.2 billion now flowing through our pipes. We partner with 220 retailers globally and they are trusting Criteo with more ad placements, more ad formats and more first-party data than ever before. Among others, we expanded the scope of our partnership with Walgreens to now include on-site display, and we're excited to launch sponsored video with Walmart Connect, Mexico, and DocMorris.

In addition, we expanded our global presence by tripling our retail footprint in APAC over the past 12 months. We also broadened our ecosystem to include commerce companies like Uber which saw media budgets more than double sequentially in Q4. We're pleased to continue to expand our partnership with Uber in new markets, including Japan, Colombia, and Peru. We continue to gain traction with our self-service Commerce Max DSP, which gives our 2,600 brands and agencies a single access point to buy premium retail media inventory on retailers' sites, and across open Internet inventory off-site with closed-loop measurement. All of the major holdco agencies are now using Commerce Max, and we're seeing increasing adoption of multi-retailer campaigns and full funnel campaigns across on-site and off-site advertising.

We ran multiple off-site campaigns in Q4 and we kicked off 2024 with 10 onboarded retailers such as Best Buy, Macy's, Rite Aid, Shipt, Asda, and a growing pipeline. We've seen Commerce Max unlock brand national media budgets. Along with the growth of Retail Media as a powerful new advertising vehicles, our momentum is building. We're in pole position to capitalize on the largest market opportunity in advertising since search and social, and our team continues to work hard to differentiate, deliver, and drive scale.

Turning to Marketing Solutions. We delivered our second consecutive quarter of growth with a successful holiday Cyber six period. This was driven by the fast growth of our Commerce Audience Solution, which focuses on mid- and upper funnel targeting using the latest commerce data set on the open Internet and best-in-class AI. We see more advertisers using Criteo for precision targeting across the entire marketing funnel, including existing clients, expanding the scope of their partnership with us.

A recent example is our full funnel activation with TUI that led to successful engagement during the holiday season and resulted in a year-over-year increase of close to 60% in their media spend, which they allocated to Criteo in Q4, our advertiser clients can move spend between performance, awareness, and broad reach tactics using shopper targets only available with our full funnel targeting capabilities.

Our cross-selling efforts are also contributing to the success. About 70% of our media spend comes from clients that use Commerce Audiences targeting in addition to retargeting. We also benefited from our AI-driven performance enhancements which drove an uplift in contribution ex-TAC in the high single-digit million range in Q4, a real output of our AI/ML practice at work.

Furthermore, we're experiencing solid traction in our partnership with Meta, and we see further opportunities to expand into other social environments, which bring access to first-party identifiers for billions of users. The work we've done over the past few quarters has started to bear fruit. We ran hundreds of campaigns on Facebook and Instagram during Q4. Our advertiser clients are seeing a 25% boost in sales on average when activating Meta's inventory in combination with the open Internet. Among others, Superpharm experienced a double-digit increase in return on ad spend and a 69% sales boost after adding Meta's large-scale inventory to their campaigns in Q4. It's important to call out that social networks are logged in environments, which offer precision and scale for first-party data matching in a cookieless world, and represent one of the pillars of our multipronged addressability strategy. In other words, activation of first-party data at much greater scale.

Turning to 2024, we see further opportunities for Criteo ahead as we continue to focus on delivering against our transformation. In retail media, our top priorities this year are centered on scaling retailers and driving more demand into our platform. We recently expanded our roster of senior leaders to further scale our business with the appointments of industry veterans, Melanie Zimmermann; and Stephen Howard-Sarin. We are thrilled to have them join us at a time when we continue to gain market share. We recently won new retailers, including Albertsons in the U.S. and PCcomponents in Europe, which present exciting growth opportunities and reinforce our leadership position in the space. Albertsons chose Criteo for our technical capabilities and our platform's ability to scale and perform along with our roadmap to continuously enhance our capabilities, and we're off to a great start with them.

With an expanded retail footprint, we see exciting opportunities to drive more demands or media spend, I should say, into our platform. Our goal is to make Retail Media easy to buy, bringing more opportunities to our clients in driving further scale. We're proud to have recently signed multiyear global brand deals with 2 world-leading beauty and CPG brands. We also anticipate sustained momentum with the major holdco agencies as their Retail Media has been allocated to Criteo's surge in 2023 by 50% in the U.S. and experienced a twofold increase in Europe and APAC. Overall, our multiyear partnerships with leading agencies and brands represent hundreds of millions of dollars of spend predicted to come through our platform in 2024 and beyond. According to GroupM, Retail Media is the fastest-growing advertising platform worldwide and is predicted to exceed linear TV and connected TV spend combined by 2028. Similarly, a recent study we conducted shows that more than 2/3 of brands and agencies expect Retail Media to attract more spend in 2024 and a 77% of brands and 82% of agencies globally say Retail Media spend is more effective in terms of sales impact compared to other channels. Our platform unifies supply and demand to unleash the full potential of the Retail Media activation as more and more dollars flow from legacy ad channels to Retail Media, further accelerated as advertisers increasingly value retailers' first-party data and the absence of third-party cookies.

Looking at Commerce Media more broadly, we believe we have great opportunities to scale our offering and drive more innovation. We're excited to expand our Commerce Grid partnership with Google's Display and Video 360 to surface always-on supply deals powered by Criteo Commerce audiences inside their marketplace for activation across their advertiser portfolio. We're already seeing incremental demand from top agencies through our proprietary Commerce Audience and supply packages that could expand to retailer audiences over time. With Commerce Grid, we intend to bring demand from established third-party DSPs to drive more revenue for retailers. We recently completed our first Retail Media off-site campaign using retailer first-party data through Commerce Grid, and we look forward to building on that momentum. Importantly, we continue to integrate cutting-edge AI into our platform with a focus on improving performance and user experience for our clients and optimizing our service delivery process. The use of impactful and engaging creatives is expected to become increasingly important to capture an audience's attention. This is a key component of the innovation we're bringing to market, and we've been developing and testing generative AI-powered tools to optimize creatives and enhance performance. We're also innovating with AI-powered creative formats such as shoppable videos, in-bot sponsored products and affiliate product listing ads to bring more demand to publishers, retailers and social platforms.

Meanwhile, we're really realized significant efficiencies using co-pilot for development and our own AI assistant for the identification of business opportunities, and we plan on rolling out more AI-driven efficiency tools this year.

Lastly, 2024 is expected to be a dynamic year in digital advertising with the planned deprecation of third-party cookies on Chrome in the second half of the year. Now we've been preparing for this change for years with a comprehensive multipronged addressability strategy to future-proof our clients advertising and performance.

First, as you know, we've worked with Google since the very beginning of the Privacy Sandbox and met with them weekly on average over the last 3 years to ensure proposed solutions maintain advertising performance for our clients and partners. We're actively involved in the 5-month testing

related to cookie deprecation on 1% of Chrome's users that started in early January, and we're working tirelessly to ensure proper setups and evaluate all testing mechanisms.

This testing requires a rigorous methodology and statistical significance. We expect to deliver the results for the U.K. CMA by mid-June to help them determine whether third-party cookie deprecation can move forward. We'll also provide updates to the broader market along the way.

Several ad tech players have focused their efforts solely on using a durable ID to replace third-party cookies. For us, this is just one part of our multipronged approach to secure continuity. We refer to it as our first-party media network. We leverage hashed identifiers, which are universal privacy safe tool to bridge data sets from marketers and media owners across demand and supply, facilitating successful personalization of measurement.

When looking at signals from publishers, we have direct integrations with, we connect over 10x more hashed e-mail than similar alternative industry IDs that lack scale. In addition, we have integrations with about 40 customer data and data collaboration platforms to activate clients' first-party audiences.

Next, and as an extension of our first-party data strategy, we're focused on helping our clients reach consumers in more closed and authenticated environments like retailer sites and social platforms, including Facebook and Instagram. These environments facilitate first party data matching with precision and scale.

Using best-in-class AI can marry these diverse solutions with contextual and other cookie-less signals enables us to automatically determine the optimal path for driving personalized advertising that meets our clients' performance expectations. We believe we're prepared for third-party cookie deprecation on Chrome and we already bring performance to our clients in cookie-less environments today. We continue to expand our capabilities to drive the best outcomes for our clients without third-party identifiers.

To conclude, we're proud to have been recently acknowledged or recognized as one of the hottest ad tech companies by Insider for the second year in a row. This acknowledgment reflects our commitment to staying at the forefront of our industry with the only unified, AI-driven platform that directly connects advertisers with retailers and publishers to drive commerce on retailer sites and the Open Internet.

One last but important callout, sustainability is a key focus at Criteo, and I'm pleased to report that we're the first company in our industry to have our carbon emissions reduction targets approved by the science-based targets initiative, meaning how climate goals are aligned with the Paris agreement.

As we step into 2024, we'll laser focus on execution, and we look forward to harnessing the opportunities that lay ahead. We're confident in our strategy, and our commitment remains steadfast towards sustainable, profitable growth with a disciplined approach to capital allocation to drive shareholder value. And with that, I now want to call -- turn it over to Sarah, who will provide details on our financial results and our outlook. Thank you. Sarah.

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

Thank you, Megan, and good morning, everyone. We delivered strong results in 2023 with double-digit growth and margin expansion. Starting with our financial highlights for 2023, revenue was up -- sorry, revenue was $1.9 billion, and contribution ex-TAC grew by 11% at constant currency, reaching over $1 billion. This is the first time in our history, and we now have more than 50% coming from new solutions. In Retail Media, revenue was $209 million, and contribution ex-TAC was $203 million, up 26% year-over-year as we continue to expand with our retailers, brands, and agency partners.

In Marketing Solutions, revenue was $1.6 billion, and contribution ex-TAC was $697 million with Commerce audiences up 42% at constant currency, reflecting our clients' strong adoption of (inaudible) targeting solutions, including new retention strategies. We delivered an adjusted EBITDA margin of 30%, including over $70 million of annualized savings while continuing to invest for growth. We delivered free cash flow of $110 million,

including the onetime payment to CNIL of $43 million. This represents a conversion rate of 51% from adjusted EBITDA before this payment. Our adjusted EPS was up 15% to $3.18 in 2023.

Turning to our fourth quarter performance. Revenue was $566 million and contribution ex-TAC was $316 million. This includes a year-over-year tailwind from foreign currency to $4 million. At constant currency, Q4 contribution ex-TAC grew by 10%, up sequentially compared to our organic growth of 8% in Q3. Our performance was driven by robust growth in Retail Media, up 29%. This was also driven by marketing solutions, up 6% year-over-year with impressive growth in Commerce audiences targeting up 60%, more than offsetting lower retargeting down 9% year-over-year. These dynamics have contributed to rebalancing our top line mix with our new solutions representing 56% of our business in Q4.

Turning to our business segments. In Retail Media, revenue was $77 million, and contribution ex-TAC grew 29% at constant currency to $74 million on top of strong growth last year. Our growth was driven by continued strength in Retail Media on-site and new upside campaigns. Growth from existing clients remain strong, with same retailer contribution ex-TAC retention at 121%. We onboarded 100 more brands in Q4 and saw continued traction with our agency partners. Our 2,600 global brands are prioritizing Retail Media as a key channel for their investments, a trend we expect to continue as first-party data becomes increasingly valuable.

In Marketing Solutions, revenue was $455 million, and contribution ex-TAC was $208 million, up 6% at constant currency, making our second consecutive quarter of growth. We had a successful holiday season around the traditional Cybersix peak, and we experienced continued strength in December which has carried through to the beginning of this year. We saw a sequential improvement in retail returning to growth this quarter, while travel remained strong. We also benefited from our latest AI-driven performance optimization. We delivered exceptional growth in Commerce audiences up 60% as more clients are embracing full funnel audience strategies to acquire and retain customers, demonstrating that our strategy is working.

Notably, we doubled our revenue associated with customer retention solutions year-over-year as we increasingly leverage clients' first-party data from customer data platforms and data management platforms for precise targeting. And we have seen more clients shift spend from retargeting to this alternative tactics. Cross-selling remains an important growth driver as 40% of our clients are now using more than one Criteo solution compared to 35% a year ago. This represents 70% of our media spend from clients that use Commerce Audiences targeting in addition to retargeting and marketing solutions. We also benefited from incremental third-party demand through our Commerce Grid SSP.

IPONWEB revenue was up 2% this quarter. This does not capture the contribution of our acquisition to the growth of our other solutions, including Commerce Audiences. We delivered an adjusted EBITDA of $139 million in Q4 2023. Non-GAAP operating expenses decreased 5% driven by our rigorous focus on cost management and efficiencies, offsetting our planned growth investments. We also benefited from lower bad debt expense due to strong cash collections.

Moving down the P&L, depreciation and amortization decreased 16% in Q4 2023, and share-based compensation expense decreased 6% to $21 million including $5 million related to treasury shares granted to IPONWEB's founder as part of the acquisition. Our income from operations was $88 million and our net income was $62 million in Q4 2023. Our weighted average diluted share count was $59.7 million. This resulted in diluted earnings per share of $1.02. Our adjusted diluted EPS was $1.52 in Q4 2023 up 81% year-over-year. We canceled 2.1 million shares in 2023.

We benefit from a strong financial position with solid cash generation and no long-term debt. We had about $837 million in total liquidity, as of the end of December, which gave us significant financial flexibility to execute our growth and capital allocation strategy. Our commitment to diversity, equity and inclusion and a sustainable plan at our core to that strategy, as demonstrated by our existing $450 million 5-year revolving credit facility being recently converted to a sustainability-linked loan. Certain terms and conditions of the credit facility are now linked to certain sustainability targets to increase the representation of women in tech roles and reductions in our GHG emissions.

We delivered free cash flow of $142 million in Q4, an increase of 28% year-over-year. Our free cash flow amounted to $110 million in 2023 after the CNIL payment of $43 million and $45 million for restructuring and integration costs.

We have a disciplined and balanced capital allocation strategy. Our priorities are to invest in high ROI organic investments and value-enhancing acquisitions and to return capital to shareholders via our share buyback program. In 2023, we deployed $125 million of capital or 114% of our free cash flow for the year for share repurchases. This included 4.3 million shares repurchased at an average cost of $29.30 per share.

As of December 31, 2023, there was $118 million remaining under the current authorized share repurchase program. In February, our Board of Directors authorized an additional $150 million to be added to our existing share repurchase program. This demonstrates our confidence in our business strategy, financial strength, and our ongoing commitment to enhance shareholder value.

Turning to our financial outlook, which reflects our -- which reflects our expectations as of today, February 7, 2024. Our outlook assumes third-party cookie deprecation on Chrome in the second half of the year. For 2024, we expect contribution ex-TAC to grow mid-single digit year-over-year at constant currency with growth in each of our segments. In Retail Media, we expect to continue to grow rapidly from a scaled $200 million-plus base. We expect our activated media spend to grow above 30% year-over-year, faster than GroupM's estimated market growth of 12% as we anticipate further share gains.

We expect this will translate into contribution ex-TAC growth of approximately 20% at constant currency, in line with consensus expectations. Our 2024 guidance includes take-rate volume-based fees for all our clients, which is effectively a percentage of their media spend. It also includes licensing and services revenue, which represents approximately 20% of our total expected retail media revenue. Overall, 80% of our Retail Media contribution ex-TAC is derived from retailers that are driving more than half of the demand in sales and are limited in their ability to do more.

As previously communicated, our 2024 guidance reflects our largest client moving some of their demand to a direct sales model as we progress through the year. We expect this to be more than offset by the growing momentum that we are seeing across the rest of our client base. Over time, we have an opportunity to increase the share of Criteo solid demand as we tap into national media budgets from our agency partners and brands, and scale across retailer and full funnel campaigns.

In addition, we expect to drive more and more demand for midsize and smaller retailers. Our strategy is focused on unit buying the Retail Media ecosystem, and we believe new on-site ad formats, off-site and omnichannel all present exciting opportunities to drive continued strong growth going forward. We expect contribution ex-TAC to grow low single digit for both Marketing Solutions and IPONWEB. This reflects continued traction in AI-powered Commerce Audiences and for our Commerce Grid SSP.

Now I'd like to address our current assumptions as it relates to the potential loss of signal in Chrome that impacts we targeted. Our 2024 guidance assumes that Google starts phasing out third-party cookies in the latter half of Q3, resulting in an expected signal loss impact of approximately $30 million to $40 million in the second half of the year. This assumption is consistent with our previously communicated estimated impact to signal loss on Chrome with the remainder of the signal loss impact expected in 2025.

As previously communicated, we would expect we would retain approximately 60% of our retargeting contribution ex-TAC on Chrome post third-party cookie deprecation. We intend to continue to update our assumptions as we move throughout the year. As part of our transformation, we are disciplined in strategically allocating our resources to higher growth areas while enabling productivity and cost efficiencies. In 2024, we intend to continue to rightsize the organization and optimize our operating model.

Overall, we anticipate an adjusted EBITDA margin of approximately 29% to 30% for 2024, flat year-over-year. This includes continued rigor on cost efficiencies to offset wage inflation while continuing investments in our multipronged addressability strategy, gain Retail Media capabilities, and AI-driven productivity tools. We expect a normalized tax rate of 28% to 30%, and we expect CapEx to be down compared to last year or slightly below $100 million, and we expect free cash flow conversion rate of about 45% of adjusted EBITDA before any nonrecurring items.

For modelling purposes, we assume a flat number of shares outstanding in 2024. We're off to a solid start in January. The Q1 2024, we expect contribution ex-TAC of $240 million to $247 million, growing by 10% to 12% at constant currency. We estimate ForEx changes to drive a negative year-over-year impact of about $1 million to $3 million on contribution ex-TAC in Q1. And we expect adjusted EBITDA between $50 million and $54 million, reflecting year-over-year margin improvement in a seasonally low quarter. As a reminder, comparative to the prior year get more difficult as we progress through the year.

Lastly, we are contemplating updating our segment reporting structure beginning in Q1 2024. This follows the completion of the integration of our IPONWEB acquisition, which has contributed to the launch of several products and accelerated our Commerce Media platform more broadly. We intend to provide you with additional information regarding this change and a recast of historical financial information reflecting the segment change in the near future.

In closing, we believe we are well positioned to deliver on our plans for growth, resilient performance, healthy profitability, and strong cash generation to drive shareholder value in 2024 and beyond. And with that, I will open up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Justin Patterson with KeyBanc.

Justin Tyler Patterson - *KeyBanc Capital Markets Inc., Research Division - Director of Internet and Media Equity Research & Lead Senior Analyst*

Great. Two, if I can. First, Sarah, I was hoping you could give us a little more detail about some of the assumptions that went into that 60% retention rate for retargeting. What have you been seeing so far today off of the initial deprecation loss or signal loss from deprecation? And just how is that flowing into that estimate?

And then Megan, I just wanted to go back to a comment you made earlier just around opportunities to expand in social environment. It sounds like you've seen really good traction at the Facebook so far. What do you think really needs to happen just broaden that opportunity set? Is that something that requires things like the Digital Markets Act in the EU? Or is that something you can do without regulation?

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

I'll start with the third-party cookie impact that we've assumed. So if I could -- we have -- it's really very consistent with what we've already shown to all of you. But our anticipation is that we will have -- I mean, if you assume, let's say, about $1 billion is (inaudible) for 2023. And we expect to grow that mid-single digits in 2024. So you can assume that kind of moves up by around $75 million. And you assume we're targeting about 45% of the business in 2024, so just under $500 million.

And then we're assuming that there's no impact for 65% of the year or 2/3 of the year, and the cookie deprecation will start in late August or September time frame. So less than $200 million being impacted. And only Chrome is impacted. So that's about 50% of our traffic. So you can assume that's just shy of $100 million, and we would retain 60% of that. So (inaudible) $30 million to $40 million. So we would keep the remainder. So that's our rationale for our range of $30 million to $40 million. And as we said, we will continue to update this assumption as we go through the testing and as we see the timing. I can hand over to Todd who can talk on the second part -- or Megan to talk on the second part of your question.

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

I'll take. Justin, great questions. In terms of the relationship with Meta -- with Facebook and Instagram, and these are supply relationships and these are great opportunities for us to high expand the supply that we have access to with Meta, which, as you remember, sort of came about earlier last year. So this has been over time of building tech that enables us to integrate and utilize (inaudible) environment. We're also driving that capability into Tiktok, for instance. There are other social platforms where we gain access to audiences. The objective, of course, is to drive value for those social environments as selling their inventory, but also drive value to the advertisers that want to reach beyond the open Internet into these very big social platforms.

The third benefit to us, of course, is that gaining access to the billions of users that they had really just strengthens the pool that we have available to us as part of our addressability strategy. So for as long as we have access to those audiences and we're driving Commerce interactions between them and the advertisers that are advertising on them, then this is just a supply demand scale game that will continue to be aggressive with and push forward.

Operator

Our next question comes from Ygal Arounian with Citigroup.

Ygal Arounian - *Citigroup Inc., Research Division - Director of Internet Equity Research*

Also 2 for me, and also starting with cookies. Just we're just a month in, so I know it's early, but if you could share us some of the learnings from the 1% application that we've seen so far, given your kind of close relationship with the privacy sandbox and how that might translate through the course of the year. What do you think advertisers -- do you think they're ready or positioned here? What needs to happen to make sure that would kind of go along as expected and you're retaining 60% of the signal with cookies and it's not something beyond your expectations.

And then given the strength in Commerce Audiences that we've seen throughout the year and it's kind of been the leader of growth. And maybe just parse into some of that a little bit more. How much of that is coming from the shift away from retargeting? How much is outside of that? Or anything else you can kind of share on what you're seeing the expectations into next year?

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

Yes. Great questions. I'll just kick us off and then the sort of star of the show here (inaudible) same question as Todd, so I'll share it quickly and pass it across. But I do want to sort of comment on the readiness of publishers towards cookie deprecation. This mix, I think what you'll see and what you have seen it's been printed a lot is that there is at least now sort of an awareness and a movement towards trying to solve for this problem. Our job is to help publishers to get there through both the information that we pass to them as we get sort of closer to this and understand the impact on them, and also with our relationships with them directly. So we're staying very close to that. We feel very good about the 3-pronged approach that we have to this.

And remember, addressability comes in different flavors depending on what the objective of the advertiser is, if they want to reach a broader audience, then what's going on with cookie depreciation becomes less problematic. If they want to get to one-to-one audience, and they want to get to that person multiple times, and that's what this is all leaning in to solve for that problem, but also with the mind to bring them continuity to their business and also to the brand's advertisers, the agencies along the way. So all of these things are (inaudible) solving for visits. It's complex. But as you noted, we're right snack in the center of it, and we know a lot. So let me pass it across to Todd to share some of that.

Todd Parsons - *Criteo S.A. - Chief Product Officer*

Ygal, nice to hear your voice. On the 1%, I just wanted to reinforce that we've been getting ready for this testing period for well over a year technically. And the objective is for us to compare and contrast advertiser, ROAS' expectations at constant spend with the impact to publishers CPMs. I think we're probably the only company that is deploying that methodology, which shows the cause and effect of the ad dollars to publishers CPMs.

With that, the readiness that we're preparing for the test is quite technical. It involves full pipelines, including dedicated bidding models, new infrastructure, an entirely different strategy for shopper behavior collection, storage, adapting to the interest group approach of protected audience and Privacy Sandbox and so forth. So what we're doing now is getting ready for using all those things, getting ready for a stable testing period wherein we will report the relationship between ROAS and publishers CPM.

And in that, we will be providing feedback consistently to both the CMA and to Google so that any improvements to the API, which will drive performance in that relationship are realized. So it's a very -- it's an accelerated process today, given all of the excitement and noise about the testing period, and we're right on schedule. We'll report results just as soon as we have them to report.

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

And I'll just take on the other question you had on Commerce Audience. So we're clearly thrilled at 60% growth for Q4 and 42% for the year. Approximately half or about $10 million of the decline in retargeting in Q4 was a switchover to Commerce Audiences. But more broadly, Commerce Audiences is benefiting from our AI. It's benefiting from the multiple addressability solutions with contextual and other cookie-less signals. And 70% of our revenue in Marketing Solutions now covers across marketing -- both retargeting and Commerce Audiences Solutions for our clients.

So we feel good about it, and we do continue to expect a shift from retargeting to Commerce Audiences more broadly. And for our clients, we look to have the always on advertising across all the methods of retaining and acquiring new clients, and that would also include with Meta as well.

Operator

Our next question comes from Richard Kramer with Arete Research.

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

One for each of you. I try to make it quick. Megan, you mentioned the material scale edge and addressability in a market where obviously signal is going to get more scarce. Do you think you can get a material increase in your market share of gross media spend, maybe in some areas, for example, CTV where Criteo hasn't traditionally played? Todd, you hopefully laid out when your blog post the time lines for this initial wave of Privacy Sandbox testing. And obviously, there were a lot of concerns expressed by IAB Tech Lab. How do you help marketers with the lack of preparedness without scaling up head count to support them with managed services and so forth.

And lastly, Sarah, were there any one-offs in this -- in the take rates of Marketing Solutions, for example, Criteo getting paid by Google to test Privacy Sandbox, anything else that explains that big effective take rate jump?

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

Richard, great. I think we've got these. Let me take the first one. Certainly, in terms of scale driving our ability to grow share is what we have to do. I mean it's one of the underlying promises that the strategy is to extend towards allocation of audiences across all channels as opposed to just being limited to retargeting. There's a much, much, much bigger marketplace for that than there has ever been for retargeting. Now, that's not to say retargeting is not important. It is an important tactic as you know, in terms of (inaudible) funnel, but our strategy has enabled our clients to be able to take campaigns and shift them during flight up and down the funnel in terms of tactics, but also across formats and across channels as well. CTV is a great place to talk about. It is an environment that is not susceptible to third-party cookie deprecation.

But it is an environment which (inaudible) clearly now who's sitting in front of the screen, if it is a TV screen (inaudible), slowly becoming more programmatic, but that's not where it started. And from a Retail Media perspective, there's a little ways to go until it becomes a true Retail Media proposition. But in terms of targeting and finding allocation of audiences on that environment, yes, it's an opportunity. For us, what we have is addressability capability with a differentiator of commerce, a differentiator of knowing where shoppers are, which is what nobody else has. And so for us, this is what's driving the strategy to, over time, of course, make what we're doing in the middle and at the funnel is so much larger.

Todd Parsons - *Criteo S.A. - Chief Product Officer*

I can talk about the -- Richard, I can talk about the -- about the allocation, the resource allocation. I think what's important to note there is we've been working on cookie loss and signal deprecation since 2017. And so the same teams that we're working on, the problem from the start have only accelerated based on what we learned and what we accomplished to protect our clients from that signal loss. I look at it also, given that we have those teams in place, and they have great expertise. I look at the opportunity for us to build more quickly on what has been learned already and capture more market on the other side of cookie depreciation because we've already been there working the problem. So we look at the work on privacy sandboxes being portable to other interest group creation that uses our unique commerce assets. Whether it goes to CTV or another channel, we're sort of agnostic to as long as it performs for clients, and we have the people in place to do this work, and they're doing it already.

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

And just to address your retargeting comments, there is no one timer in that. The benefit is a strong Q4 holiday season, along with AI performance engine continuing to drive precision targeting across our campaign spend. And also our ability to find signals in -- across inventory, which -- some of which has been at a lower CPM. So I would say it's all of the investments we've made in AI are really delivering for us on the retargeting and across our marketing solutions space.

Operator

Our next question comes from Mark Zgutowicz with Benchmark Company.

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

Sarah and Todd. Three, I think, rather quick ones for me. First one, just on the social user addressability. I'm just curious if you have a sense yet of what that may contribute to your ongoing growth, maybe more near term in '24, and perhaps looking at this indirectly, of course, from the buy side of the equation.

And the second question, Sarah, I was just curious what your sort of assumptions were for the 20% Retail Media growth expectation? Just trying to get a sense of the conservatism in that number. And then lastly, just on Retail Media take rate dynamics. I'm curious, as you think about the next 12 months, sort of what the -- I guess, the dynamics are there and specifically around offsite, sort of how off-site is impacting perhaps take rate, that would be helpful.

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

Mark, I'll start with the question about the social environment and its relationship to (inaudible). What we have there is just access, I guess, billions of ID to be able to match to. So if you think about match rates for the open Internet, one of the issues that publishers have today as they get themselves ready for a cookie deprecation is to have floated environments or environments where they can pass an ID to you whether that be a (inaudible) email address or an actual ID, just to be able to make that match. So that indecently you're just getting to the right person at the right place, at the right time and the right device.

And what we like about social environment is that they have -- they are long-term environments and (inaudible) more precise match, but you can follow that up with really solid measurement for the brand. The advertiser is spending (inaudible) with you. For us, it has an added benefit that the billions of IDs that come with that relationship just gives us another massive scale set of addressability capability to include in our 3 (inaudible). So as we get to a point where signals, in particular, just third-party cookie signals on Chrome that that's what we're looking at, taking away and the ability to fill in that gap by using other signals that we had access to it again, this adds billions -- just makes our ability to provide continuity to our clients possible, and that's what that brings to us. (inaudible).

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

Yes, I can join the Retail right. We're assuming 20% growth rate and as we communicated in Q3, that does include the expectation of a change to our largest client contract, which we did renew on a multiyear basis. And for competitive reasons, we're not going to comment on individual customers. However, what I would say is our expectation is gross media spend will grow around 30%, and we're taking share within that. So our expectation is 30% versus kind of a 12% expectation from the market.

That does assume that all of our clients are continuing to grow and expand quite considerably. So I would say it is not a conservative expectation. We are expecting strong growth across board. Those would be the 2 key parts. And then just in terms of the quarter-on-quarter, our expectation is that the changes in contracts will impact kind of Q2 onwards. And then, in terms of take rate, this year, the average is around 16.5%, and our expectation in 2024 is that will decline as communicated previously to around about mid-teens in 2024 and beyond.

Operator

Our next question comes from Mark Kelley with Stifel.

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

Just to go back to the Retail Media commentary from the last response. So the contract change kicks in, in Q2, if I heard you correctly. I guess given that the exit run rate for '23 for Retail Media, 30% on a reported basis, that's kind of what you think activated media spend grows for 2024. I guess how do we think about the start to the year for Retail Media. The accounts are a little bit easier, the contract with your largest retailer sounds like it's unchanged and kicks in Q2. I guess how do we think about the trajectory of the year for Retail Media? That's my first question.

And then the second one. Hearing you, Megan, talk about just how publishers are adopting some of these newer cookie work around. I think there's a sentiment across the advertising community and definitely ex-TAC, and maybe like the CSPs, especially the smaller subscale folks, certainly not you guys, are way behind in terms of testing the privacy stand back tools or any of the other cookie workaround. Is that an opportunity for you to take meaningful share particularly on the DSP side. And I guess, does that kind of facilitate consolidation in Retail Media, and I guess, ad tech just more broadly?

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

Just quickly on Q1. So we don't give guidance (inaudible) Q1. But yes, we would anticipate stronger Q1 growth, and we are seeing that coming into the year, and that is before the new contract kind of kicks in, which will be, for the most part, coming through Q2.

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

Mark, it's a great question. It is a great question. I think -- well, firstly, to start with publishers, I've talked to many. And as I said before, they're in different stages of understanding. We've been working on being ready or being ready. And as you move out from the globe, I must say that if you're sitting in the U.S. and in Europe, (inaudible) to the naturally -- I was in Australia the other week. And I mean they know what's going on, but it just feels sort of that as you move out from the center again. So this is a global problem that publishers doing their best to the rest (inaudible) trying to understand what it means to them and trying to see who the new partners will be and what they have to do (inaudible).

I suspect that CSPs and smaller (inaudible), they just need -- they need to be ready. But knowing what we know, and again, we've been with this for a long time, ready, being ready is an absolute advantage in terms of where you are as content to your competitors in the marketplace. And we are absolutely ready. So yes, it is a big advantage that we have over the other in the ad tech space, except for those who are many with us, but there (inaudible) not.

And as we sort of move through cookie deprecation, of course, there's an opportunity there to make sure that clients are not being served by their partners that we will come and offer the services that they need to make sure the business continuity and remain successful. So they call that what it is, it is a major opportunity for us that we've been looking at for some time in terms of taking -- really taking advantage of and getting results for the work that in the years that we've put into getting ready for this.

Operator

Next question comes from Doug Anmuth with JPMorgan.

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

This is Katy on for Doug. I have two. First, can you just talk a little bit more about in the post cookie deprecation world, your 3-pronged approach and just like what you think the advertising landscape is going to look like over time? And just to that end, how should we think about sizing the signal loss in 2025.

Secondly, just a quick one. Can you just talk a little bit more about the AI enhancements that you called out in the quarter that drove the uplift in Marketing Solutions.

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

I'm going to pass to (inaudible) Todd.

Todd Parsons - *Criteo S.A. - Chief Product Officer*

Yes. I can -- I'll do the first one and want to jump in. So on our multipronged strategy, Megan laid it out very well (inaudible). The core first-party data matched from an offline identifier standpoint to offline identifier or potentially using third-party identifiers as the intermediary, which we do at the core. The second piece of the multipronged strategy that we've been deploying here is focused on closed environments. I just want to reinforce (inaudible) audiences at both retailers and social platforms. And the third thing outside of Privacy Sandbox is really work that we're doing to help publishers define their own interest groups with commerce data that we have so that the interest group model that's being propagated by Privacy Sandbox could be innovated in addition to using our data.

So we're excited to open up new opportunities through our multi-prong strategy for building audiences and hoping publishers be better monitor (inaudible) through that, retailers seeing better (inaudible) through that and brands getting better performance. If these 3 things working together using AI, then I want to emphasize, make the program much simpler for brands. The big problem with this multi (inaudible) approach and (inaudible) sandboxes on pace of it. It's mysterious and complicated to the space.

What we have done through our strategy has made it possible for these identity solutions to be chosen at run time automatically using AI in such a way that our partners don't need to select or choose or take risk of maybe going too deeply into one of the pillars of our strategy versus the other.

So doing things automatically at run time and using AI to make the right decision on what Identity Solution to choose is really at the core of the strategy, and we're just continuing to develop and own it. It's very promising, and we're very excited about it.

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

And I was just to build on AI. It has impacted our year for 2023 and in Q4. And it really is continuing how we do the campaigns that are -- the formats and ways that we use generative AI to be appealing for our clients and their consumers and continued focus on optimizing how the engine works.

So it's still paying off and it was an area of investment for us in 2023 with an incredibly high (inaudible). We're very excited about how that will drive us not only the '23, but into the future as well.

Melanie Dambre - *Criteo S.A. - IR Director*

All right. Thank you, Megan, Sarah and Todd (inaudible) today. Thanks, everyone, for joining (inaudible).

Operator

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