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CRTO.OQ - Q2 2021 Criteo SA Earnings Call

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PRESENTATION

Operator

Good morning, everyone, and welcome to Criteo's Second Quarter 2021 Earnings Conference Call. (Operator Instructions) Please note today's event is being recorded. At this time, I'd like to turn the conference call over to Edouard Lassalle, SVP Market Relations and Capital Markets. Please go ahead.

Edouard Lassalle - *Criteo S.A. - SVP, Market Relations and Capital Markets*

Thank you, Jaime, and good morning, everyone, and welcome to Criteo's Second Quarter 2021 Earnings Call. We hope you're all doing well and keeping safe. Joining us on the call today is CEO, Megan Clarken; and CFO, Sarah Glickman, are going to share prepared remarks. After that, Todd Parsons, our Chief Product Officer, will join us for the Q&A session. As usual, you'll find our investor deck on our website now as well as the script and transcript after the call.

Before we get started, I'd like to remind you that our remarks today will include forward-looking statements, which reflect Criteo's judgment and analysis only as of today. Actual results may differ materially from current expectations based on a number of factors affecting Criteo's business. 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 do not undertake any obligation to update any forward-looking statements discussed today, except as required by law.

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. And 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, Ed, and good morning, everyone. Thank you all for joining us today. I hope everyone is doing well and staying safe. On our end, the start to 2021 has been strong in a year of growth and momentum for Criteo. Latest developments around cookies remind the industry of the criticality

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of first-party data and further highlight the importance of our lead in this area. Thank you for attending our Investor Day, where we showcased our new brands, our Commerce Media Platform strategy and our strength in Commerce Media. Our teams are now firmly in place, and we continue to deliver steadily on our 3 priorities of: Growth, execution and first-party data. And again, this quarter, I'm increasingly pleased with the momentum we're building around our company's transformation and our Commerce Media Platform.

Together with Sarah, we'll discuss 4 topics today. First, what Google's decision to delay the deprecation of third-party cookies in Chrome means for the industry and for Criteo. Second, how our Commerce Media Platform strategy is gearing us up for long-term success. Third, how our steady delivery across growth, execution and first-party data is driving our business momentum. And fourth, what our Q2 performance means for our growth outlook in the second half.

Starting with the Chrome announcement. Google's decision to delay the deprecation of third-party cookies in Chrome through 2023 is welcome news for people who rely on a vibrant and healthy open Internet. That means everybody. While this creates more time for our industry to prepare, Google's decision does not, in any way, change our impact or impact our strategy and product road map. Criteo's goal is to become the strategic partner for global brands, marketers and media owners as they navigate cookie-less advertising on the open Internet. We are ahead in the race to connect first-party data across our ecosystem and in creating viable non-cookie marketing and media monetization alternatives from that base. We expect to advance our lead during this extended period of time and provide that much needed safety net for businesses in a world of first-party data.

While we hear collective relief from the market right now, the clock is still ticking, and unprepared marketers and media owners will still wake up with a hangover when cookies finally fade. To thrive in the post-cookie world, the industry needs to accelerate making first-party data fully interoperable across our complex ecosystem. Marketers and brands need an open garden of audience and media opportunities to advertise across the open Internet, including on retailers' digital properties, all connected by first-party data.

This requires ensuring the collection, aggregation and interoperability of consented first-party data across all marketers and media owners to make digital marketing a seamless and performant as possible on the open Internet and to level the playing field with walled gardens. With our Commerce Media Platform operating at the core of the ecosystem, Criteo is in a unique position to cultivate this open garden. This is our strategy: To be the centerpiece of Commerce Media for the open Internet.

Talking about Commerce Media Platform strategy. During our Investor Day, I shared with you our views on the massive opportunity that Commerce Media provides. As a new approach to advertising, Commerce Media uses commerce data and machine learning to target consumers through their shopping journey, essentially putting targeting on steroids. We think Commerce Media opens up a TAM for us of about $100 billion by 2024, representing annual growth of 22% compared to our current market. Executing on this huge opportunity, our plan is to not only expand our addressable market, but also to continue to gain share across all of our existing markets.

Criteo's contribution to Commerce Media is to provide the platform and suite of solutions that activate the world's largest set of commerce data and capabilities to help marketers and media owners reach and monetize audiences to drive commerce outcomes, whether these are leads, sales or ad revenue.

In short, our marketing Commerce Media -- we're making Commerce Media work for everyone, meaning Adidas, P&G and Lazada get new or repeat customers. CNN and the Weather Channel get new audiences and attract advertisers. Carrefour and Target get brands to spend on their own media properties. And all of us, as consumers, we get more relevant, trustworthy, enjoyable experiences with more choices across the most diverse, accessible space online, the open Internet.

Commerce Media is the future of ad technology and our position here is both strong and unique in the open Internet. We have a large $900 billion + commerce data sets comparable only to walled gardens. We have superior AI capabilities and a unified tech platform built for first-party database marketing and monetization. Next to that, we have enormous consumer reach across our media network and 15 years of experience in driving powerful marketing outcomes. With a strong first-mover advantage and defensible moats, we think we're poised to win in Commerce Media. It's primarily a matter of delivery.

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Speaking of delivery, we're making steady progress on each of our priorities. Starting with growth. Our growth accelerated to 18% in Q2, 4 points above guidance. Growth was well-balanced across our portfolio with retargeting growing 10%, a nice milestone for us, and New Solutions growing 50%. We grew double digits across all regions as we leveraged continued growth in Retail and commerce and drove healthy trends with our enterprise and core customers.

One good example of a large enterprise customer we grew with is a very well-known global American sportswear giant. This client has built a far-reaching direct-to-consumer strategy around content, community and customization, conceived for a consumer world where brand connections are everything. Over the past 2 years, we've consistently expanded our business with this client across several solutions, and we're now building a long-term partnership with them, supporting their transition from a retail-first to direct-to-consumer business across the U.S., South America and Asia Pac markets.

In Q2, we helped them support historical earnings growth by working in tandem to develop audience-based scenarios and drive incremental return for their e-commerce channel. With our first-party media network, we enabled this customer to activate its first-party audience and reach new customers in key markets, both online and in-store, in line with their objectives. We helped grow the retail and clearance sale portions of their sites by 75% compared to Q1 and grew their on-site conversions by 200% compared to Q2 2020. In turn, our business with them grew 130% year-over-year and 180% compared to Q2 2019. We believe this customer values Criteo's strong performance and the diversification we have driven away from the digital ad duopoly. Helping marketers like this American sportswear giant capitalize on their own audiences through various complementary channels, positions Criteo as a strategic enterprise partner for the largest brands and retailers worldwide.

Execution is our second priority. The team continues to execute steadily and thoughtfully across the "build", "buy" and "partner" layers of our execution playbook. We keep investing in talent and are thrilled with the industry heavy hitters who have recently joined Criteo as we focus on bringing more world-class talent to the organization. We saw solid momentum across the board in Q2.

In Marketing Solutions, our New Solutions grew 52%, including solid bookings through our recently launched contextual product. We're excited to carry this momentum to untapped agency awareness and consideration spend. When shipped this year, our new SSP will lead the way, enabling agencies to reach commerce audiences and measure outcomes using their clients' first-party data either through Criteo's DSP or the DSP of their choice.

In Retail Media, we continue to strengthen our #1 position and signed 10 net new retailers in Q2. We also signed or transitioned 15 existing retailers to our Retail Media Platform. This includes the recently announced deals signed with Best Buy and the signing of our first retailer in Japan, and new multiyear and exclusive agreement with a large high-end fashion specialty retailer in the U.S. and a very large membership-only big-box retailer also in the U.S. On the demand side, we added over 200 net new brands.

On the product side, we continue to make good progress with our new solutions, including contextual, online video and CTV. To expand our first-party media network on the supply side, we've started building the Criteo supply-side platform, or SSP, to provide many more advertisers working with third-party DSPs with privileged access to buy audiences and media across our own large network of direct media partners. After a successful proof of concept, we already work with over 450 publishers to activate third-party demand through our direct connections, driving significant momentum over the past few months. This is just the start of Criteo deepening integrations into marketers and media owners first-party data assets to solve data transparency, persistence and interoperability issues for both sides of the ecosystem.

And in supply, we've connected directly with more publishers, for example, adding a top global soccer site to our new direct bidder partners ahead of the 2020 UEFA Euro tournament in Q2. Direct integrations allow us to reduce the tech tax and enhance supply path optimization, in addition to increasing our business on media sources that do not rely on third-party cookies. This leads to around 60% of our daily active users on the web now addressable through publishers we have a direct integration with.

On the M&A front, we acquired Mabaya in May, expanding our Commerce Media Platform into the exciting area of online marketplaces. Beyond Mabaya, we have an active M&A pipeline focused on building capabilities to strengthen -- to further strengthen our first-party data assets and accelerate our CMP vision.

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With regards to first-party data, our third priority. We continue to advance our moat and differentiation. As we said at our Investor Day, we think the holy grail of building a sustainable first-party data solution for the industry is to serve both marketers and media owners, in essence providing a combination of a DSP and an SSP. This is what our Commerce Media Platform is about.

We know that a better first-party data solution for the supply side will be propelled by our control of the demand side data in spend, as it allows us to reduce multi-hop data loss across the value chain. We also know that once data no longer is transmitted by cookies, connected first-party supply will become the only way to provide the opportunity for both marketers and media owners to effectively advertise and monetize consumer audiences on the open Internet, and this is exactly where we're going.

We continue to partner actively with the demand and supply sides of the market, helping create the open garden I mentioned earlier. We're investing in a large-scale infrastructure needed to drive the collection, aggregation and interoperability of consented first-party data across all marketers and media owners on our open garden. The Criteo SSP I just talked about provides us with an even broader access to direct supply and data as we add third-party demand to our already extensive demand base. While small, the addition of Mabaya, all first-party data supply-side customer business, not relying on third-party cookies further strengthens our moat around first-party data, and we're making further progress with our open source interoperable single sign-on solution.

Last, as I said earlier, we feel good about what Google's delay in its upcoming changes to Chrome means for us as we continue to strengthen our first-party data assets. In short, our team has delivered steadily with discipline and conviction across our strategic priorities in Q2 and H1. Looking ahead, we remain laser-focused on the same 3 priorities. First, on growth, accelerating our momentum, focusing on commerce, delighting clients and bringing more to them and attracting and retaining the best and brightest talent. Second, on execution, maintaining a high [do/say] (corrected by company after the call) ratio in everything that we do. And third, on first-party data, focusing on leapfrogging the market post-cookies using our competitive moats of consented first-party data across our marketer and media network.

In closing, I feel good about the momentum we've created around Commerce Media Platform. Our leadership team is fully committed to steady execution against our growth plan. Our solid balance sheet provides the means to invest with conviction in our transformation and our growth. And as we're uniquely positioned to win in Commerce Media, the future is wide open for Criteo.

With this, I'll turn it over to Sarah, and I'll be back for Q&A. Sarah?

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

Thanks, Megan. And yes, we are very pleased with our business performance and the momentum on our Commerce Media Platform strategy. I will discuss the drivers of our operating and financial performance in Q2 and share our outlook for Q3 and 2021. In Q2, we outperformed across our portfolio of retargeting and New Solutions for revenue and revenue ex TAC, and we had a 31% adjusted EBITDA margin. So let's dive into our performance.

The media spend our Commerce Media Platform activated was over $2.4 billion in the last 12 months, and accelerated to over $620 million in Q2, growing 31% at constant currency. As we said at our Investor Day, activated media spend is the underlying spend that our Commerce Media Platform activates for marketers and media owners. Our take rate on this spend reflects the value that our customers rely on our stores to ensure best-in-class returns on their advertising dollars. Clearly, we benefited from digital marketing tailwinds in Q2, in which revenue grew 26% and or 22% at constant currency to $551 million.

Our revenue ex TAC growth of 18% accelerated over 17 points compared to Q1. This included $8 million of incremental identity and privacy impact, slightly lower than anticipated. Our revenue ex TAC margin was 40% of revenue in line with expectations. And on a 2-year comparable to Q2 2019, revenue ex TAC grew 11%, excluding privacy impact.

Our Retail business was particularly strong across all our solutions, growing 19% year-over-year and 17% when compared to Q2 2019. Travel remains challenging despite budgets increasing 360% year-over-year and is still down 73% versus Q2 2019. Our Marketing Solutions revenue ex-TAC grew 15%, including our retargeting business growing 10%, driven by strong execution in all regions and continued healthy trends in commerce and

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retail. Our Targeting solutions grew 52%, driven by audience targeting growth of 31% and omnichannel accelerating to close to 200% as stores continue to reopen. Retail Media grew 49% on a revenue ex TAC basis, driven by existing accounts and the onboarding of new customers. Prime Day was a highlight for our large retailers and brands, especially in North America, and we are excited by the ramp-up of activity with Carrefour. Overall, our new solutions across Criteo, including Retail Media grew 50% to 25% of our total revenue ex TAC.

We now have over 21,000 customers with close to 40% of live clients using our new solutions. We added over 700 net new clients in Q2. Same-client revenue ex TAC growth of 16% improved 14 points relative to Q1, including a 17-point improvement in Marketing Solutions.

All our regions grew double digits in Q2. On a revenue ex TAC basis, the Americas grew 23% at constant currency, improving 15 points of growth compared to Q1, driven by traction in our strategic customers. In EMEA, revenue ex TAC grew 13% at constant currency, improving 15 points from Q1 due to high e-commerce sales during extended lockdowns offset by travel. Revenue ex TAC in Asia Pac grew 20% in constant currency, improving 25 points compared to Q1, largely driven by one large marketplace restarting campaigns, offset by weak travel and the muted macro in Japan still impacting classifieds.

We continue to invest in growth while [managing] (corrected by company after the call) our cost base. Our adjusted EBITDA of $67 million was up 61% at constant currency, driving a 31% margin, up 9 points year-over-year and up 6 points compared to Q2 2019. Our growth investments are largely funded through productivity, enabling top line leverage as we ramp up commercialization of new solutions. Key investments in Q2 included contextual, commerce insights and Retail Media with terrific new hires in solution selling, product and go-to-market as well as R&D.

In Q2, non-GAAP expenses were $153 million, up 8% at constant currency. Non-GAAP OpEx increased $11 million or 9%, including 14% for R&D and grew only 5% before the impact of our higher stock price on social charges. On that same basis, we increased employee costs by $14 million or 15% at constant currency. We are also upgrading our back office processes and tools.

As you can see in our non-GAAP reconciliation, we incurred just shy of $10 million of pretax restructuring and transformation costs in Q2, almost entirely related to downsizing our global real estate office footprint. We anticipate pretax restructuring and transformation expenses of around $30 million in 2021, largely driven by our real estate portfolio actions and to a much lesser extent, employee severance.

Moving down our P&L, depreciation and amortization increased 11% and share-based compensation expense increased 63% due to our stock price over the period. Our business performance and solid cost management drove a 102% increase in income from operations and 144% increase in net income, reflecting lower financial expenses. Due to our stronger revenue performance and regional mix, our projected 2021 tax rate is now expected to be 27%, with a Q2 effective tax rate of 22%. Our weighted average diluted share count was around 65 million, up 5% as a result of our increased stock price. Diluted EPS was $0.23, up 156% and adjusted diluted EPS was $0.63, up 133%.

Our strong cash generation and cash position continue to provide ample execution flexibility. Our free cash flow was $13 million in Q2, and we repurchased close to 800,000 shares at an average cost of $37.60 per share. Since the $100 million buyback program commenced in early 2021, we have repurchased $35 million worth of Criteo shares, including $30 million in Q2.

We closed Q2 with a strong balance sheet and $553 million in cash and marketable securities after the Mabaya acquisition. We have total financial liquidity in excess of $1 billion, providing strong flexibility for capital allocation. We maintain a robust capital allocation process with our primary goal of investing in our continued organic growth and leveraging M&A to accelerate our Commerce Media Platform, including capabilities to further strengthen our first-party data assets.

I'll now provide our guidance and business outlook for Q3 and 2021, which reflects our expectations as of today, August 4. Our guidance reflects Retail reopenings, sustained secular trends in online commerce and contemplates tougher comps for year-over-year growth in H2. For H2, we expect limited recovery for travel, down over 70% from 2019 levels and incremental identity impact of $43 million, largely driven by Apple's ATT in iOS.

For fiscal 2021, we are increasing our guidance for revenue ex TAC growth of 6% to 8% at constant currency. We are strengthening our Commerce Media Platform with our fast-growing new solutions, expect it to grow over 50% in 2021. We maintain our assumption of an incremental identity

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and privacy impact of about $56 million in 2021 relative to 2020. And we are also increasing our adjusted EBITDA margin guidance to 32% of rev ex TAC, demonstrating operating leverage and our top line strength. We expect our EBITDA to free cash flow conversion to be about similar in 2021 to the 2020 rate, between 45% and 50%.

In Q3, we're guiding for revenue ex TAC between $202 million and $205 million or approximately 8% to 9% growth at constant currency. We see momentum in our Commerce Media Platform with continued strength in retail and new solutions, which we expect to grow around 60%. We expect our underlying growth in retargeting to be reduced by $17 million for incremental identity and privacy impacts. On bottom line, we expect Q3 adjusted EBITDA between $47 million and $50 million as we make higher investments in our growth areas and the higher social charges for our RSUs.

Finally, I am excited to be in our Paris headquarters meeting with our amazing team. Our Criteos have been integral in delivering terrific results and have helped shape our flexible hybrid workplace that enables innovation, collaboration and teamwork while integrating flexibility and work-life balance.

In closing, we continue to be pleased with the momentum our business is enjoying, powered through our broader platform offering and execution by our global teams. We are laser-focused on providing the world's leading Commerce Media Platform, driving sustainable profitable growth and creating long-term value for our customers and for our shareholders.

And with that, I'll now open the floor to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Doug Anmuth from JPMorgan.

Douglas Till Anmuth - *JPMorgan Chase & Co, Research Division - MD*

I have two. First, I just wanted to ask about the privacy outlook. It seems like iOS 14.5 changes were slower to roll out than initially anticipated, and you've obviously heard that from a number of other companies. Just wanted to get a sense of how you're thinking about maintaining the $55 million privacy impact for the full year, and maybe some of the puts and takes there. And then also, I was just hoping to get an update on the innovation side, just in terms of more on contextual targeting and also perhaps UID2.0. And is there any advantage in your view that you gained with some of these products just with Google deprecation pushed out some?

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

Well, I can take the...

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

Go on. I was going to pass it to you, Sarah. Go on. Go through it.

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

Okay. Wonderful. Thank you. So I can take the privacy impact. So yes, you're right that we had a lower-than-expected privacy in the first half, mainly due to iOS being a little slower to roll out. And in the second half, we are anticipating a higher increase, both -- mainly for iOS ATT. And in terms of

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the -- sorry, in terms of the offsets, we actually have seen the explicit consent is less than we anticipated. And ATT in iOS is slightly higher than anticipated, largely due to the opt-out rates have been around about 65%.

So that's -- we went with the middle-down-the-road assumption. We wanted to take the benefit of what we've seen in the past. And we continue to update every single quarter our outlook. So we feel comfortable for 2021, and we feel comfortable about the areas that we're focused on to ensure that we mitigate that risk as well. And I can hand over to Todd, who can take you through some of those developments.

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

Yes, sure. Doug, just to address your question about timing, and the impact of the extension from Google as it relates to Contextual specifically, really, we had a fast start with our Contextual product. This gives us more time to tune that product and to get it further in market than we already have. It remains a top of mind tactic as an alternative to data deprecation or things that are reliant on third-party cookies or mobile ad IDs.

So we feel very, very good about how the market is sitting in terms of wanting our new products, reflected by our growth, our New Solutions growth. And things are going very well. Just to dig into Contextual a tiny bit, since our last call, we opened 5 new markets, bringing us to 9 total. And we have an alpha going in Japan, which is actually very promising in terms of its results. We have about 70 advertisers using that solution. And the performance gains are quite good for mid-funnel metrics for cost per qualified visit. And most importantly, incrementality of the qualified traffic that we're able to drive, meaning unduplicated new audience to our customers' websites exceeding 80%.

So this is, as you know, a cookie-free solution. And the dynamics in the market and both the performance of the product are quite strong. The extra time we will not just use to continue getting into market and tuning, but we will also be bringing some of our other core capabilities to the contextual product. We've started to do so with advertising, personalization and product recommendations and also on-site product recommendations that match so that overall performance continues to grow while we have that extra window to work. All good stuff. I would say we're firing on all cylinders.

Operator

And our next question comes from Sarah Simon from Berenberg.

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

I had two questions. Sarah, you referred to travel still being down significantly. But I think at least in the U.K., we have a slightly distorted view about what travel is going on, i.e., not very much. But if you're in Europe, people have been really starting to move around quite a bit. So as you look through to Q3, how does that trajectory in terms of travel recover? Because I think it's most concentrated in your European segment.

And then the second question was on Retail Media. Does the Publicis' acquisition of CitrusAd change anything for you guys? It's obviously a ringing endorsement of Retail Media. But I think Publicis was working with you guys anyway. So I'm just interested in your thoughts on that deal and how that might change anything for you.

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

I'm actually supposed to be going to see my parents in the U.K., which is not happening yet. So I hear you on U.K. travel. So our assumptions are that travel continues to be sluggish. And what we are seeing is people are starting to fly, but the retargeting business for travel, which is where we were stronger, that's not coming back, not coming back quickly, I should say.

So search is aggressive and some of the larger players that have, let's say, a large footprint in travel, they're definitely getting a share of that market. We do anticipate it coming back every single day, every single week. We're getting more budget, but it's just coming from a very low base. So our

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anticipation is that -- we're not seeing that sleeping dragon rise yet. So our anticipation is that we will continue to be down probably 70% versus, let's say, we expect it to be 65% exiting this year. We think it's probably going to be close to 70%.

And then maybe...

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

It is interesting to have thought that it lags. You should basically think about it as lagging stuff like normal upper funnel and search activity.

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

Yes, correct. Yes, search is -- I mean, I would say bookings are stronger. We've seen that. Search is definitely stronger. We're seeing that, and we're seeing some other competitors kind of ensuring travel to a certain extent for all the players that they work with. We expect retargeting to be kind of after that. But right now, people know where they're going. They know where they want to go, and there's less activity.

We're starting to see it pick up and again healthy budgets coming every day, but nowhere close to, I'd say, the banner year we had in 2019. And just -- I mean, to emphasize, we are really focused on right now Retail and CPG as being the large verticals that we see massive growth and a lot of opportunity, but we are working incredibly closely with travel -- our travel teams, especially on the first-party data as they look to how do they kind of move forward in this new world. I think the second question on Citrus, maybe Megan...

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

Yes. I can take that one. Sarah, good to hear you. Citrus, so yes, you're exactly right in terms of it is a clear validation to us of the Retail Media opportunity to see that company. We knew that Citrus was in play. And we think that Publicis taking up it is a positive -- is a positive for us for a couple of reasons. One is that Citrus is -- has been a small and quite aggressive player. And having them go under the wing of Publicis will sort of take them out of that area, and that will become part of a much, much bigger company. It may slow them down or have them focus in a different direction. We don't know yet, but that's generally what I've seen in the past.

The one that really stands out is that is our independence. And we're pretty confident that with Citrus going under Publicis and Omnicom, WPP, the Dentsu, they won't rush to channel budgets to Citrus on behalf of their large brand customers because they're now owned by Publicis. They'd see us as an independent player. And we're already getting calls from brands that are looking to a strong independent player, which is a great sign of what we offer around Retail Media and what we offer to the market.

There is -- the Retail Media TAM is a $32 billion TAM. So there's room for several players. But we see ourselves as the biggest player outside of Amazon. And as we've said before, our aspiration is to be the Amazon advertising of the open Internet. And that's where we're laser focused. We have 50% of the top retailers in the U.S. and Europe. And the acquisition of Mabaya just goes to strengthen the portfolio that we have in retail media. So yes, it's a validation of this as a big area, and our independence is incredibly important as we service our clients.

Operator

Our next question comes from Matt Thornton from SunTrust.

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

Maybe a couple on Retail Media as well. First, obviously, you guys outperformed the guidance in second quarter. But when we look at the gross spend versus the revenue ex-TAC growth, can you just kind of remind us and walk us through the puts and takes in terms of how the, I guess, I'll call it the take rate is ebbing and flowing there in that business and how it will continue to ebb and flow in that business?

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And then just secondly, coming back to the consolidation, when you think about that market, when you look at traditional SSPs as an example, the logic has been mergers of two as equated to less than 2 and not greater than 2. So they really haven't worked. I'm curious in this space, if you look at someone like a Criteo and a PromoteIQ or something like that, if the logic goes the other way and there is accretion to be had and thus that's the direction this category will continue to go. Any thoughts there would be great.

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

Well, I'm happy to address the first part of that question. And also, I'm sure there will be others who will picture on the second part. So we said this last quarter that from Q1, as we move to our Retail Media platform, we actually moved from gross accounting for revenue to net accounting for revenue. So in other words, our revenue and our RexT are the same. So there's really no impact other than accounting, and we show that within our tables. What we look at is gross media spend, which is effectively the amount we activate for our customers, and that's why we started to include those metrics. But our revenue was up 10%, RexT up 49%. Yes, we're very happy with those numbers. We see continued traction. So -- and I can hand over to Todd for the second part.

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

Yes, Matt, I think if I understood your question correctly, it's kind of is there a collision between Retail Media, which has largely been an on-site business so far with the more traditional marketplace views of an SSP. And we would take the position that, that is the case. And the reason for that is because anyone who is trying to monetize their on-site audiences would also like to monetize those audiences off-site. And that means that you have to be able to blend both on and off-site audiences as one, which means that more traditional supply aggregation where those on-site audiences can be reached to actually expand total revenue, available revenue is a sensible thesis.

Operator

Our next question comes from Andrew Boone from JMP Securities.

Andrew M. Boone - *JMP Securities LLC, Research Division - Director & Equity Research Analyst*

I think you mentioned that 60% of audiences is now a direct integration with the publisher. Can you just talk about your kind of go-to-market strategy? How high can that go? How are you guys building that, just break that down? And then new solutions continues to grow nicely. Can you just talk about the drivers there? And outside of Retail Media, like what are the products that you're seeing that are really resonating?

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

So I don't know if Megan or Todd wants to jump in on that.

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

Yes. I'm sorry. Can you repeat the first question? I just cut out on my connection here.

Andrew M. Boone - *JMP Securities LLC, Research Division - Director & Equity Research Analyst*

Yes. So I think the stat that you guys put out there is that 60% of the audience is now through a direct integration with publishers. I think that was 50% the last time you guys kind of disclosed that. And so the question is kind of how are you guys driving that? And then on a go-forward basis, how high can that get, right? At what point, clearly, what the deprecation of cookies and the importance of first-party data, that's a strategic lever for you guys. So how are you guys doing that? And kind of an update kind of on the kind of the go-forward progress there?

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

Yes. I mean, we're heavily leaned into direct connections, and you're seeing the results of that commitment for pretty obvious reasons, going back to what we were talking about at Investor Day. The reduction of kind of overall take rates and what we call the tech tax so that our marketers achieve stronger marketing outcomes is really dependent on removing extraneous take rate or what could be looked at as extraneous take rate between our marketers and our media owners. So the direct connecting that we're doing is aimed squarely at reducing that expense.

By going direct, obviously, we're saving our marketers from additional SSP take rate. And in doing so, we're able to achieve better outcomes for them. So you can look for us to obviously continue that investment with verve. As we get into the first-party media world, and obviously, we have gotten a bit of a reprieve from getting that perfect, but we're already racing ahead with those connections to enable them so that media owners are more able to activate their first-party data from their domain across our network. So a direct connection is the only way to achieve that, Andrew, not through an SSP as we have gotten a good portion of our user base supply in the past, hence our investment. Hopefully, that helps.

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

Yes. And I can take the second part on the New Solutions. So yes, there's a few areas that we're focused on and also are performing incredibly well. Audience is up 31%, and that's largely due to our customers, especially as they look to first-party data and they look to how they can move up the funnel themselves, how can we help them there. So we're seeing terrific buy-in on our solutions. And then Omni, which really focuses on the retail stores and getting back into the stores, especially in preparation for back-to-school in Q3, that's up about 200%. So that's largely due to the stores reopening.

In terms of Retail Media, I mean, there's some pretty terrific, I think, stats on this. But our same retailer revenue increased 65% year-over-year. So that's really where we're not only going country by country but also brand by brand as we continue to extend into our key customers. And then, of course, we're ramping up new customers all the time, and we've just won some awesome deals that one was in-house this morning with the Best Buy renewal and other deals and just seeing a lot of traction there. So it's very robust.

Contextual is relatively new. So a small number, but as Todd said earlier, terrific buy-in as well. So really across the board, all new solutions are ramping up, and that's what we're seeing. And we're having fulsome conversations with our customers, especially around first-party data to really think through how we can help them to activate more media spend as well.

Operator

Our next question comes from Tim Nollen from Macquarie.

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

I'd like to come back to the impact of IDFA and potentially cookies and the work that you're doing there. Just to be clear, it looks like you're calling out incrementally worse impact in Q3 and then again from that in Q4 from identity and privacy issues. Just to be clear, that's mostly IDFA and why is that getting worse even though most of the new platform installs, I think, have taken place and you seem to know what the opt-out rates are? And then also, given the delay in the cookie elimination, I guess, is there any impact from cookies currently in 2021 numbers? And what can we think about in terms of what it will mean in '22, if anything, meaning could your retargeting business again be flat to up again next year if there's no cookie impact next year?

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

Yes. I can take the first part of that and wish Todd can or Megan can kind of pitch in on other areas. But in terms of our overall privacy impact, so the beginning of the year, we anticipated about $60 million impact. We're at about $56 million now, and we expect the impact of iOS to be around

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half of that $56 million. So during Q2, where we had a very -- that was -- the implementation was later than anticipated. So that kind of really only impacted the end of Q2. So we're seeing today, I would say, we know what those opt-in rates are, but that's largely quite new information.

So we've adjusted our assumptions for iOS IDFA slightly. So we're still in the ballpark of where we had anticipated at the end of Q1 on our Investor Day. And there's a small, I would say, kind of offset to that, which explicit concern is slightly better. So we did anticipate this would be a -- it's relatively accelerated ramp-up of the iOS. And so we are anticipating the impact in Q3 and Q4 to ramp up from what was a relatively small impact for Q2 largely because of the late implementation. So that's what we're seeing. But all within, I would say, the numbers that we'd expected and disclosed. And then I can hand over to Todd on kind of what we're doing and what we're seeing there.

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

Only one thing to add -- thanks, Sarah, to add to that, Tim, which is Sarah accentuated the slow rollout. There's still a lot of apps that haven't implemented. And we're seeing those numbers come through against our conservative model. But we -- you can think of us as being a little bit more insulated from the overall impact of ATT opt-outs and large single apps would be because of our network reach. So what we want to see come through is how much audience we have that is consented on both publisher and advertiser side. And of course, we have a huge amount of breadth to match to.

So the backdrop of our conservative model is just seeing through the data and how much audience with that we're able to match across mobile app as well as web, of course, because we look at both. But just apps, specifically to your question, we have a better opportunity to get more matches and a higher degree of targetable audience because we're looking at so many apps and so many marketers at the same time. And we want to be conservative about how we model those numbers out. And that's what you're seeing in the guidance.

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

Yes. I could jump in just quickly on retargeting and Chrome. So we are not giving guidance right now, I would say, for 2022, but yes, we are seeing that our retargeting business is buoyant, and we expect that to continue into 2022. So -- that's -- yes, we feel good about where we are. We feel good about the traction we're seeing, and we see that is going to continue.

Operator

Our next question comes from Dan Salmon from BMO Capital Markets.

Daniel Salmon - *BMO Capital Markets Equity Research - Analyst*

First, for Megan, affiliate marketing is often seen as a pretty old school e-commerce advertising tactic, but it also seems to be getting a little bit of a renewal with players like Instagram and Shopify in that area. So how does that fit into your view of the competitive landscape for your broader Commerce Media positioning?

And then for Todd, just as the dust settles after the Chrome delay, can you just speak high level about what you're hearing from your technical partners from the industry groups you're involved with, maybe mixing a little of what you're hearing from Google itself, but wrap it all up, maybe like what are the 2 to 3 most important high-level themes you're hearing about why the delay happened and what it means for Google's path forward?

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

Yes, I'm going to -- Todd's an expert around affiliate marketing. So I'm not going to pretend to know more than him. So I'm going to get him to answer it. So Todd, jump in there. I think you're chomping at that.

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

Cool. Thanks, Megan. Dan, good to hear from you. I'm really glad you brought up that point. We -- there's a lot of things that we want to do within our media owner network that we haven't done in the past as our business was focused on retargeting. There's a lot of video opportunities without stream, for instance, before you even get to affiliate.

Right now, on the affiliate point, we're actually testing shoppable formats in video, and we'll do so in display as well. You'll hear from us on what those tests look like later on in the year. But the premise of that, of course, is that we have the incredible makings of an affiliate network of our own that is untapped.

So we don't talk about it because it's very much an aspirational view at this point. But we are testing in the process of looking at partners and beginning testing on those shoppable formats that I think you're suggesting are so important to Instagram and Shopify. There's some additional really interesting developments we'll talk about over the next quarter or 2 on that. So stay tuned with affiliate.

Daniel Salmon - *BMO Capital Markets Equity Research - Analyst*

And just on high level...

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

So you asked about the industry groups.

Daniel Salmon - *BMO Capital Markets Equity Research - Analyst*

Yes.

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

The industry groups, I mean, I think a lot of people are cheering. A lot of people are happy to have more time to be thoughtful about solution design. What really -- the way that it teases out just practically is that we can do more with the entire community to show that the approaches that Google are taking might work and be leveraged through Criteo better because of our position and how we manage first-party data on behalf of our marketers and media owners. We have a lot more time to work out.

So the FLoC origin trials, what we'll hopefully do with FLEDGE going forward are things we've talked about on this call. The other thing that we haven't is that we actually have been asking the community to test data of ours in relation to those capabilities, which is pretty cool. So you'll look for some press on that in the near future here. We call it the ad KDD machine learning competition.

So you're going to see a lot more of us feeding the ecosystem with our own data to show how it can be used better to improve a FLoC or a FLEDGE. And that just wouldn't be as possible, Dan, if we just didn't have more time. And now we do. So it's -- it's a really, really good position to be in while retargeting is just rocking on. We're able to develop these new things without having a landing zone date that's maybe tighter than anyone really would benefit from. That's the wrap.

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

Yes, I want to reiterate that. I go back to what I said in opening around the Chrome delay. It doesn't change our strategy whatsoever. It gives us more time to bring the market on board and make sure that they're ready for a world of first-party data. And our Commerce Media platform is the

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platform on which we can provide that. And the capabilities that, that offers across the open Internet using our DSP and SSP solutions, that's what we're laser-focused on.

It's a good thing for the market because it gives more time. It would have been incredibly uncomfortable for all of us if it hadn't happened before time, which would have been middle of next year, but it just gives the market more time.

And it gives the market more ability to use a first-party solution that provides equal or better ability to get a return on their marketing investments, of course, using our ecosystem that is the Criteo Commerce Media Platform that connects the sell-side to the buy-side that takes out the tech tax and noise in between. So again, just -- it doesn't change what we're doing. We're laser-focused on it. We go as fast as we possibly can. And what it does do, it gives us and the market more time to come on board and get ready for such a change in the environment.

Edouard Lassalle - *Criteo S.A. - SVP, Market Relations and Capital Markets*

Great closing, Megan. Thanks a lot, and thanks, Sarah and Todd. Thanks, everyone, for joining. This now concludes our call today. Our team is available for any additional request as usual. So we wish you all a good day, and thanks all for joining. Thanks. Bye-bye.

Operator

Ladies and gentlemen, that does conclude today's conference. We do thank you for attending. You may now disconnect your lines.

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