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PRESENTATION

Operator

Good morning and welcome to Criteo's Fourth Quarter and Fiscal Year 2022 Earnings Call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Melanie Dambre, Head of 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 2022 earnings call. Joining us on the call today, Chief Executive Officer, Megan Clarken; and Chief Financial Officer, Sarah Glickman, are going to share some prepared remarks. 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 Relations website 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 analysis only as of today. Our actual results may differ materially from current expectations based on a number of factors affecting Criteo's business. Except as required by law, we do not undertake any obligation to update any forward-looking statements discussed today.

For more information, please refer to the risk factors discussed in our earnings release as well as our most recent forms 10-K and 10-Q filed with the SEC. We will 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. It's been a few months now since we saw many of you at our Investor Day. The event gave us the opportunity to unpack our business, share more about the growth opportunity in front of us and demonstrate how we've de-risked our business

from a third-party cookie deprecation challenges facing the industry. I want to thank everyone who attended. And for those who weren't able to attend, point you towards the webcast materials available on the Investors section of our website.

At our Investor Day, we explained the Commerce Media opportunity that we're focused on. Commerce Media is the fastest growing media channel today and an opportunity that Criteo is poised to capture. Today, we're recognized as a clear leader in Commerce Media and we believe we're in a unique position to lead this next wave of digital advertising.

Criteo is the Commerce Media Platform for the open Internet and the obvious choice to complement Amazon for brands looking to advertise to consumers at the digital point-of-sale across multiple Retail Media networks. As we explained during our Investor Day event, retailers have been early adopters of Commerce Media and they refer to this as Retail Media.

They're setting the scene with their loved in first-party data, their quality shopper audiences, along with our ability to provide real-time closed-loop measurement, brands are moving ad budgets rapidly in their direction and Retail Media is expected to capture 1 and 5 digital ad dollars by next year.

The first mover advantage was built around Retail Media, the retail network that it creates in the scale of valuable Commerce Audiences we can deliver to brands and agencies form the foundation of our strategy, meaning to reach Commerce Audiences across the open Internet is only possible with access to shopping data at scale, which comes with deep integrations and trusted relationships with retailers.

Retail Media is a powerful growth engine for us and our focus now is to accelerate. Over the past year, we've grown our client footprint to 175 retailers and close to 1,800 brands. No other player matches that footprint and we've only just begun. We've entered new retail verticals, including delivery services in new geographies, particularly in APAC.

We're winning new clients at a rapid pace because we offer one integrated self-service platform for all ad formats and demand sources, allowing retailers to manage their entire Retail Media business at scale. Over the past 3 months alone, we've won, renewed or expanded our partnership with half of the top 10 U.S. retailers.

We continue to build long-term relationships with our retailer clients as evidenced by our multiyear partnership with Target's Roundel, Retail Media network and we're proud to play an increasingly important role in their overall growth strategy. We also expanded the scope of our partnership with Walmart to include multiple ad formats on-site and offsite in Mexico.

Importantly, several large retailers, including Lowe's, recently dropped other providers to work with Criteo exclusively as they continue to scale their Retail Media networks and look to our capabilities to help them to accelerate. In Q4, we also won new contracts with leading U.S. and European retailers and the grocery, ag retail and health and beauty sectors. In addition, we won our fourth retailer in Japan, where we're actively capitalizing on cross-selling opportunities.

This momentum has carried into 2023 and we look forward to announcing some of our most recent exciting wins more formally over the coming weeks. Our success is evidence of our superior offering. Our clients continue to inform our product road map as we're evolving our capabilities in lockstep with their needs.

Our #1 priority is to win with retailers, to bring the best Retail Media solutions to them and to expand our leading position in Retail Media enablement and the acquisition of Commerce Audiences, the highest quality audiences on the Internet. With retailers representing the large majority of our business, we have significant potential for growth within our existing client base alone.

We have the potential to triple our Retail Media footprint by extending our Retail Media monetization solutions to our largest retailer clients that currently only use us for performance marketing capabilities today. As those retailers extend into Retail Media, our platform is there for them. With our unique access to commerce data at scale, deep integration with retailers, differentiated technology, a world-class team and R&D powerhouse, we've created a competitive differentiator in our business and in light of our growing momentum, we've now taken actions to accelerate our plans by shifting more highly experienced engineering resources, doubling the size of our existing team to concentrate on the rapid deployment and

scale of our Commerce Max demand side platform, or DSP and to continue to bring more features and capabilities to market faster for our Retail Media clients.

This includes leveraging our advanced commerce-focused AI, it's our secret sauce to drive powerful performance capabilities across Retail Media. Our goal is to help retailers take further advantage of their media opportunity and to solidify our leadership position for years to come. We have one of the largest concentrations of R&D talent in the ad tech industry, aside from the walled gardens platforms and we're continuously focused on ensuring proper resource and investment allocation to our priority growth areas.

Thanks to our efforts to pivot our business towards these high growth areas, we ended the year with non-targeting solutions -- sorry, non-retargeting solutions representing now close to half of our business in Q4 compared to 32% a year ago. This is an important milestone in our transformation and in line with what we said that we'd do. We're ready to take Criteo to the next level and will unlock further our massive \$110 billion market opportunity.

Now let me highlight some of the 2022 achievements, which puts us in a favorable position to gain share in 2023 and well into the future. What we've called our saving ratio remains extremely high. It shows how resilient we are and how much we can accomplish despite the challenging macroeconomic and geopolitical backdrop. First, we're delivering on the promise of the Commerce Media platform.

We unveiled the full suite of Commerce Media platform solutions and we soft launched our Commerce Max DSP, where our Retail Media and programmatic capabilities converge. Commerce Max is a game-changer for brands and agencies. It gives them one entry point to access premium Retail Media inventory onsite and open Internet supply offsite with closed-loop measurement while leveraging unique first-party audiences built on real shopping behaviors.

Retailers are excited to adopt Commerce Max to increase their revenue and traffic. With Commerce Max, they can best monetize on-site inventory and a valuable first-party data for onsite and offsite targeting and bring more shoppers to their sites. This creates a powerful flywheel between brands and retailers.

Our successful market test shows that integrated onsite and offsite campaigns in Commerce Max as a true full funnel strategy more than doubled conversion rates compared to onsite campaigns alone and drove an increase of close to 60% in revenue per shopper targeted during the campaign. Our ambition is to become the Commerce Media DSP of choice for agencies and brands and the feedback we've received to-date gives us confidence in our ability to gain share.

Overall, our full funnel platform value proposition is increasingly resonating with the market. Today, 35% of our live clients use more than 1 Criteo solution compared to 32% a year ago. We expect to continue to benefit from our integrated go-to-market strategy and increasing traction and up-selling and cross-selling our solutions to existing clients.

This is especially true for Commerce Growth, our product line offering targeting and retargeting capabilities to acquire and retain consumers. With Commerce Growth, our business is evolving to capture incremental budgets and service an increasing number of clients in the easiest and most effective manner. Our unique ability to reach valuable Commerce Audiences at scale makes us an obvious choice to market is looking to drive sales.

Our AI engine leverages a combination of consumer interest, contextual data and trillions of purchasing events to engage in-market shoppers and maximize advertising performance. Among others, Skyscanner now uses our suite of always on acquisition and retention solutions to optimize how they engage with customers across the entire buyer journey.

Full final acquisition with Skyscanner has more than tripled their media spend with us year-over-year with new targeting our acquisition solutions now representing 30% of their investment. This is the Commerce Media effect. Our strategic partnership with Shopify also exemplifies how we intend to scale our solutions. We partner with Shopify Plus technology partner program and certified app program, which simplifies and automates Shopify merchant's ability to leverage our acquisition and retention solutions.

We saw a 36% increase in the number of new Shopify merchants using Criteo in 2022 compared to the number of merchants we added in 2021. We expect to continue to onboard more merchants and scale our partnership as we further enhance our self-service capabilities over the coming quarters. Shopify is a great partner of ours and we continue to explore growth opportunities with them.

Second, our high (inaudible) ratio applies to our growing agency relationships. Agencies drove about 2/3 of our gross media spend in 2022, excluding IPONWEB. 34% of our media spend is now activated through agencies compared to 29% a year ago. In addition to our global strategic partnership with GroupM, we're excited to have signed a 3-year partnership with another major holding agency in the U.S. to accelerate the demands of our Retail Media and Commerce Audiences.

In addition, we're very pleased to have renewed and extended our global deal with Ascential and its world-class e-commerce businesses with a multiyear commitment. As part of our partnership, Ascential's advertising partners can now access advanced commerce insights and analytics in real-time, greatly enhancing their ability to drive performance. These agreements with major agencies reinforced our positioning as a Commerce Media platform or a Commerce Media partner of choice and we believe by further adoption of our multiple solution test speed and at scale.

In addition, we're pleased with the traction of our independent agency programs, which is being rolled out. The program certified and incentivizes independent agencies to offer our acquisition and retention solutions to their advertiser clients. Third, we successfully completed the acquisition of IPONWEB and we're rapidly integrating that business.

On the demand side, we've fully integrated IPONWEB's big core DSP into Commerce Max. On the supply side, we've quickly integrated our respective teams, centralized our product road map and unified our commercial strategies. We've already merged our publisher footprint, bringing more high-quality inventory for our demand partners and more value for our publishers.

Combined with IPONWEB, we added 150 new publishers in 2022 and we now have direct relationships with approximately 75% of the top 100 Comscore publishers in our largest markets, which we believe is instrumental in extending our first-party data integrations. We're well on our way to realize our Commerce Media platform ambitions and we've derisked our business away from third-party signal [duplication].

We're proud that our efforts are being recognized as we were recently named one of the hottest ad tech companies by Insider. We're also one of the few companies partnering closely with Google as part of the Privacy Sandbox. We're not only collaborating with Google to improve the Sandbox APIs, but we'll also be working together to develop specific use cases that we can bring to our clients.

This puts us in pole position to deliver superior performance in the market when Google deprecates third-party cookies. As we enter 2023, we believe we're best positioned to lead the market. At the core of our strategy, Retail Media remains a noncyclical growth spot primarily benefiting from trade marketing budgets shifting online to address consumers at the digital point-of-sale.

In addition, we expect Commerce Audiences to continue to outpace the market as they remain the most valuable audiences to brands. We have an exciting path ahead of us and we're laser-focused on execution and capitalize on our significant long-term growth opportunities. We have a highly experienced senior leadership team who are firing up whole cylinders to achieve our ambitions. Our team has weathered and successfully navigated various economic cycles and I'm confident in our ability to deliver on our plans.

Now let me provide a brief update on the latest trends we're seeing in the macroeconomic environment and our actions to adapt to this environment. As anticipated, we saw more condensed holiday season in the fourth quarter compared to prior year. As we enter 2023, our conversations with CMOs indicate delays in ad budgeting processes due to uncertainties regarding how inflation and interest rates will impact consumers this year.

The marketers are not blindly cutting budgets. Ad budgets are under more scrutiny, forcing clients to optimize their spend. According to a recent survey we conducted across the U.S. and Europe, nearly 2/3 of senior media agency professionals only newer digital channels like Retail Media will deliver a greater return on investment than (inaudible) social. Our Commerce Media Platform and our focus on performance position us to meet that need.

Despite overall budget tightening, we continue to benefit from robust new business trends and high client retention close to 90%. Importantly, we're focused on profitable growth and aligning our cost structure with our top line and a slower growth economy. We believe this will allow us to emerge even stronger once economy -- economic uncertainties subside. As part of our ongoing transformation, we're highly focused on allocating our resources to our growth areas and we have and will continue to take actions to right-size our cost base.

While there is lower visibility on near-term trends, the long-term opportunity for Criteo remains intact. The macroeconomic environment changed significantly over the past 12 months, but our strategy has not. We've laid the foundation for the future and we're on our path to achieve our business ambitions, which we laid out in our Investor Day. We've built incredible momentum that we expect will only continue in 2023 and beyond to drive long-term shareholder value.

With that, I'll turn the call over to Sarah, who'll provide more details on our financial results and our outlook.

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

Thank you, Megan, and good morning, everyone. We continue to execute in a choppy environment, but we have a consistent track record of profitable growth and high free cash flow conversion, coupled with a strong balance sheet and no debt.

Starting with our financial highlights for 2022, revenue was \$2 billion and contribution ex-TAC grew by 10% at constant currency to \$928 million. As anticipated, this includes \$60 million of incremental signal loss impact. This performance was despite significant headwinds from FX and the wind-down of operations in Russia.

In Retail Media, revenue was \$202 million and contribution ex-TAC was \$161 million, up 33% year-over-year as we continue to rapidly expand with our retailers. In Marketing Solutions, revenue was \$1.8 billion and contribution ex-TAC was \$750 million with Commerce Audiences up 26% at constant currency, offsetting lower retargeting.

We delivered an adjusted EBITDA margin of 29%, including planned growth investments and the dilution from our IPONWEB acquisition. We also delivered record free cash flow of \$200 million and an adjusted EPS of \$2.76, including 5 months of contribution from IPONWEB.

Turning to our fourth quarter performance, revenue was \$564 million and contribution ex-TAC was \$283 million. This includes a year-over-year headwind from weaker foreign currencies of \$21 million. At constant currency, Q4 contribution ex-TAC grew by 10.4% on top of strong performance with 11% growth in Q4 2021. This includes organic contribution ex-TAC down to minus 2% and the contribution from IPONWEB.

Our organic performance was driven by Marketing Solutions down 7% year-over-year with lower retargeted, down 13% and Commerce Audiences up 22%. This was partially offset by robust growth in Retail Media, up 23%. As expected, we continue to see a top line shift away from legacy retargeting. Retail Media, Commerce Audiences and IPONWEB combined represented 47% of contribution ex-TAC in our fourth quarter, up from 41% in Q3 and up from 32% in Q4 last year.

Turning to our business segments, in Retail Media, revenue was \$60 million and contribution ex-TAC grew 23% at constant currency to \$57 million on top of strong growth last year. Our growth was primarily driven by our client base in the U.S., the U.K. and Germany, partially offset by France. Growth from existing clients remains strong with same retailer contribution ex-TAC retention at 122% and we continue to scale by adding new retailers.

We on-boarded 150 more brands in Q4 and saw increasing traction with our agency partners. Our 1,800 global brands are prioritizing Retail Media as a key channel for their investment, a trend we expect to continue. While there is caution on release of budget overall, we see strong spend in health and beauty with lower spend for grocery.

In Marketing Solutions, revenue was \$471 million and contribution ex-TAC was \$193 million, with strong growth in Commerce Audiences offset by lower retargeting. Retargeting was down 13% year-over-year or down 7% when excluding the impact of the suspension of our Russia operations earlier this year and close to \$10 million impact from the loss of signals.

In the U.S., we had a solid holiday season around the traditional Cyber 6 peak with deceleration in December, while EMEA was softer during the Black Friday weekend with improving trends in December. Across all regions, retail spend, especially fashion and department stores were soft, while travel remains strong.

We delivered strong growth in Commerce Audiences as clients transition to Always-On audience strategies to acquire and retain customers with new business and cross-selling across our over 20,000 retailers and performance marketers. IPONWEB was flat this quarter on a stand-alone basis, reflecting strong growth for our supply side platform or SSP, offset by softer media trading trends and traffic, particularly in December.

We delivered an adjusted EBITDA of \$104 million in Q4 2022. Non-GAAP operating expenses increased 2%, including targeted growth investments in sales, R&D and product patterns, partially offset by cost reduction actions as we reduced discretionary spending and paused most hires. We benefited from lower bad debt expense as a result of strong cash collections.

Moving down the P&L, depreciation and amortization increased 26% in Q4 2022 and share-based compensation expense increased to \$22 million, including \$11 million related to treasury shares granted to IPONWEB founder as part of the acquisition. Our income from operations was \$49 million and our net income was \$16 million in Q4 2022. Our weighted average diluted share count was \$61.9 million.

This resulted in diluted earnings per share of \$0.25 and adjusted diluted EPS of \$0.84 in Q4 2022. We canceled a total of 2.6 million shares in 2022. In an uncertain macro environment, we benefited from a strong financial position with solid cash generation and no long-term debt. We had about \$835 million in total liquidity as at the end of December, which gives us significant financial flexibility to execute on our growth and capital allocation strategy.

The primary goal of our capital allocation is to invest in high ROI organic investments and value-enhancing acquisitions and to return capital to shareholders via our share buyback program. In 2022, we repurchased 5.1 million shares at an average cost of \$26.40 per share. In December, our Board of Directors authorized an extension of our share repurchase program from \$280 million to \$480 million. 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 expectations as of today, February 8, 2023, we remain cautious given the lower visibility on near-term trends and the volatile advertising environment. For 2023, we expect contribution ex-TAC to grow high-single-digit to low-double-digit year-over-year at constant currency. This assumes low single-digit organic growth and the full year impact from our acquisition of IPONWEB.

We expect stronger organic growth later in the year as we move our Commerce Max DSP to general availability and scale newly signed retailer partnerships. We expect contribution ex-TAC growth of approximately 30% for Retail Media as we anticipate further share gains and higher than the anticipated industry growth rate.

For Commerce Audiences, we expect contribution ex-TAC of approximately 20% as advertisers continue to shift more budget. For IPONWEB, Q1 and Q2 are seasonally low quarters in terms of contribution ex-TAC, adjusted EBITDA and cash contribution, while Q4 is the strongest quarter. We will be closely monitoring market conditions and expect to provide updates as we progress through 2023.

As part of our ongoing transformation, we are disciplined in strategically allocating our resources to higher growth areas while enabling productivity and cost efficiencies. We are executing on and contemplating cost actions that we expect to deliver total annualized savings of approximately 10% of our total cost base or more than \$60 million while ensuring ROI investments for executing on our strategy.

Given the slower macro environment and lower retargeting, actions have already been taken with hiring freezes and reduction of external spend. Along with the rapid integration of IPONWEB, we continue to right-size our organization and optimize our operating model. This focus is to enable speed of new products to market and effective delivery for our broad cloud base.

Overall, we anticipate an adjusted EBITDA margin of approximately 28% for 2023, in line with what we shared at our Investor Day and including about 200 basis points of dilution from IPONWEB. This includes the increased cost due to the full year impact of the IPONWEB business. We expect to realize cost efficiencies over the course of the year, largely offsetting wage inflation and the annualized impact of our 2022 growth investment.

We expect a normalized tax rate of 28% to 30% and we expect CapEx of about \$90 million related to the planned renewals of our datacenters as we transition to a more cost and energy-efficient datacenter architecture and we expect free cash flow conversion rate of about 45% of adjusted EBITDA. For modeling purposes, we assume a flat number of shares outstanding in 2023.

For Q1 2023, we continue to be cautious given the impact of a slower macro environment on consumers, our clients and more conservative ad budgets. Spend from large retailers and brands was lower in December and this continued through their fiscal year-end in January. While early days, we're encouraged by new budget unlocks in February.

Overall, we expect Q1 contribution ex-TAC of \$210 million to \$216 million, growing by 5% to 7% at constant currency. This assumes a mid-single-digit organic decline and IPONWEB inorganic growth in a seasonally low quarter. As a reminder, this lapped a tough comp in Q1 2022 and includes the impact of the suspension of our Russia operations in late March 2022, impacting our growth by about 2 percentage points.

Importantly, we expect Retail Media to continue to show robust growth despite the challenging macro environment. We estimate ForEx changes to drive a negative year-over-year impact of about \$15 million to \$20 million on contribution ex-TAC in Q1. We expect adjusted EBITDA between \$30 million and \$32 million, reflecting low Q1 seasonality exacerbated by the dilution from IPONWEB and some ongoing integration costs. The year-over-year comparison includes growth investments already taken in 2022, ahead of contemplated reductions.

In closing, as a leader in commerce and Retail Media, 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 2023 and beyond.

One comment before we begin Q&A. You may have seen recent speculation in the media related to a potential transaction involving Criteo. As a matter of policy, we do not discuss rumors or speculation, and we will make no further comments on this.

And with that, I will open up the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from [Yugal Aaroni] of Citi.

Unidentified Analyst

I've got a couple of Retail Media questions. Maybe first, just I'm looking at the guidance for the year, where 2022 ended up and the guidance for the year around 30% growth and looking at your -- the targets you set at the Investor Day, which are a little bit higher, 45% to 50% and understanding there's some FX this year and the macro challenges.

But can you help us bridge how we get there and some improvements that get us through 30% the targets that you set at the Investor Day? And then the second, maybe going into a little bit more detail, we've got to understand maybe the Lowe's news this quarter was a good example of some in-housing that happened at Lowe's with that announcement. It sounds like you want some business from a competitor that they were working with as well.

Can you just help understand the puts and takes kind of what happened there? What those trends mean why Criteo took share kind of in that situation and help tie that into the growth that you're expecting from Retail Media?

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

I can take the first question. So we are very confident in our ambition that we set forth in the Investor Day that included \$1.4 billion in contribution ex-TAC and tripling the Retail Media business. For us, that long-term opportunity for Criteo remains intact, and \$110 billion spend, which includes \$42 billion for Retail Media alone, still remains intact. What we've done is we've laid the foundation for the future.

We have phenomenal wins and we continue to gain share in an area where the secular trend is to transition and move advertising dollars including trade advertising dollars over to Retail Media. So the guidance that we've given in 2023 is based on what we're seeing right now, which is some lower traffic overall, more conservative budgets, but we anticipate that that will be temporary in terms of the continuing advertising recession, if you will, in 2023.

And that will continue to progress to more spend coming through the Commerce Max DSP as it comes to general availability in the summer. So that's the way that we've modeled our 2023 expectations and we continue to win new logos. We continue to drive much more business, including new formats through our Retail Media business and we anticipate that we'll continue to be absolutely on track for our 2025 long-term target.

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

I'll take the second piece, which is around the Lowe's relationship. We're thrilled to have secured the Lowe's contract and in fact be part of their future and the fact that they dropped other partners to work with us is testament to the work that we do with them, the performance that we generate for them and the technology that we provide. They have increased internally their teams that manage the selling, the sales to their brands.

You can imagine they have a sales force already and they have increased that to account for the growth in sales to anticipate from Retail Media. And that we should expect from any large retailers that as Retail Media gets bigger for them, or Criteo provides the technology and a portion of the sales. They have an internal sales team and they have other capabilities that they'll continue to grow to be able to meet the growth of their overall Retail Media business. In terms of the actual pieces that we provide to us, I'll have Todd just take you through a couple of highlights there.

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

Yes, thanks, Megan. I think what's important to emphasize here is that as these larger retail partners that we have are building entire businesses, we're helping them in 2 ways. Obviously, what Megan said is really important. We're able to help them drive demand, not just be a technology partner. From a pure technology perspective, we start with Sponsored Products, which is, of course, at the core of our Retail Media solution.

But we've done a ton of innovation that goes beyond that, that helps Lowe's and other large partners see monetization growing for years. What we're doing with offsite is a really good example of that. And we're also doing a lot of product innovation with onsite formats and connecting the dots between these 3 areas in such a way that large retail partners can get performance from their networks.

I think everybody on the call knows that our company is a performance company through-and-through from the start. So when we think about these things from a product perspective, we're not just rolling new features for Lowe's, but we're making sure they work better together so they can grow revenue.

Operator

The next question comes from Mark Kelley of Stifel.

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

Can we just maybe go through just the current environment? I think Q4 came in a bit better than you were expecting. And I appreciate the comments about December kind of tracking weaker and that tearing through to January. But I guess, can you maybe just describe how your conversations go with your agency partners and brands?

Is it they're not giving you enough visibility kind of when you start the quarter, but as the quarter progresses, the conversations just get a little bit more solidified and budgets end up coming through? It's more of just like a wait and see, is that the kind of the dynamics you're seeing, just bigger picture? That's the first one.

And then on the second -- my second question is just on the Retail Media side, I would imagine that in this environment, budgets would shift more towards Retail Media. But Sarah, to your point, traffic is down a bit with consumers, perhaps pulling back a little bit. I guess those dynamics, I assume, get us to the 30% growth for the year and is a key driver just more eyeballs on retailers' websites. Is that like the main driver that would kind of reaccelerate that growth?

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

I mean, I think just a couple of comments here. First of all, when we look at Retail Media, we're talking about 33% year-over-year. And then that was 23% in Q4 '22 that was an incredibly tough cost as well from the year before. What we've seen in the discussions is the retailer (inaudible) to January. So typically, we saw this last year as well the unlock tends to be more around this timeframe in February.

The conversations are all very good conversations and the conversations with brands have been incredible. Brands absolutely want to shift more dollars over to Retail Media, but there is an overall portion. So I would say we feel very, very good about the discussions we're having. We feel it's fantastic about our agency partnerships as well. And as Megan mentioned, we just signed a new U.S. Holdco deal as well. 34% of the media spend is coming from agencies.

So when we look at our large retailers, even if they have brand teams, yes, like Lowe's, for example, has a large brand team, all the smaller brands in retail is coming to us. And for the most part, when we look across our network of 175 retailers, brands, brands with the agencies want to unlock that spend across our entire network. But we've seen is win-win. Now in some cases, we do everything for the retailer and we do incredibly well.

We get fantastic performance. In other customers, we're more of the tech that enables all of that. So we benefit from what Todd talked about in terms of additional capabilities. And we're super excited as our customers who are co-creating with us the Commerce Max DSP, we just did a design spread last week and we got input from them at the beginning of the spring and the end of the spring.

We're working hand-in-hand. So we feel good about the overall dynamics, very caution as of now related to brand budget that's across the board. And we expect that that will continue to unlock as we partner with them. And as more of these dollars, absolutely, we expect to move to the Retail Media and Commerce Media space.

Operator

The next question comes from Matthew Cost of Morgan Stanley.

Matthew Andrew Cost - *Morgan Stanley, Research Division - Research Analyst*

I'm just wondering if you could provide an update on Commerce Max and some of the key gating factors you're working through there to bring it to general availability later this year and sort of areas of strength and things you think still need to be improved in order to get to that point? And then in terms of just the full offering that you have with the company right now obviously, you brought in IPONWEB.

You've used M&A as a tool to expand the capabilities of the company, leaving aside any specific rumors. When you look at the offering that you have right now at the company, are there specific capabilities that you think would be really additive that you're focused on bringing in, whether that's building them organically, buying them or partnering to have them?

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

Yes, I can take that. So a couple of things here that you touched on and it's first important to say that it's our goal to become the Commerce Media DSP of choice for agencies and brands alike. So everything that we build product-wise is really driven by that ambition. In terms of actually connecting the dots of that ambition to Commerce Max, which I think we've said we expect [ETA] on around summertime.

And that we've also been launching some great wins in testing. It's just important to say that from a feature perspective, there are a few things we're really concentrating on. The first of which is we want to help agencies unify their planning and their spending, their buying across our entire network. With the fragmentation Retail Media, that has become a bigger and bigger problem as the market develops. And we have the ability to solve that problem for our partners.

Number two, I think going back to the performance topic that we hit on earlier, because we're able to unify planning and buying across the network, we're also able to apply our legacy performance capabilities in new ways to help those agencies actually get performance for their brand partners and then help our retailers monetize more effectively as we said with Lowe's. So there are 2 things that I just would say you should take away.

And one is planning and buying more effectively across the network as a team in Max. And the second is making sure that those plans and those buys not only can be measured in a closed-loop, but that they perform well for both partners, both demand and supply-side partners.

Operator

Our next question comes from Richard Kramer of Arete Research.

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

Megan, one for you. If we saw 2022 as sort of a year of integration and product launches and you've obviously flagged the softer first half in ad spend, which we also see. But do you see 23% as a need to be a year of sales execution and to make sure you monetize all, the retailer inventory and keep up the targeting and so forth?

And if that's the case, can you maybe rank what are the channels you're looking for, for growth, whether it's faster growth from the agencies, from retailer activations from Shopify merchants it would be good to get a sense of where you see that -- the growth resuming and coming from?

And maybe a quick one for Sarah. You mentioned the cost-cuts, but given the cash balance you've got, what speaks against sort of sustaining the investment in R&D and product development given the pipeline you've gotten making sure that that doesn't slip in terms of time scale?

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

Hi Richard, thanks, for the question. In terms of 2022 being integration, I say 2023 is about acceleration, is that we see the window of opportunity right now. So as I said in the opening comments, the shifting of (inaudible) and doubling the size of our Retail Media team is front and center for us to do that right now. So there's -- and acceleration there, there's also an acceleration in terms of our go-to-market around our retailers.

So really making sure that we're -- as we've said before, that we've just won or renewed or deepen relationships with 5 of the top U.S. retailers is just testament to the sort of activity that you can see us doing. So really focused on the retailers and then a strategic focus on the brands and the agencies really centered on lighting up Commerce Max and Commerce Max is one of our acceleration efforts through the first half of this year

because Commerce Max is where all of the Retail Media networks come together in front of the agencies and they can buy across networks, which doesn't exist today.

So we've got this big window of opportunity in front of us. We're putting our foot down very hard on that accelerator and we're doing that through the first half of this year. Our transformation continues the transformation started when I joined the company.

It continues from a single-point solution company to a multi-solution platform that provides our commerce media technologies and capabilities. And we need to continue that transformation through this year through next year and probably the year after. But this year is the year of acceleration. This is our time.

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

Just before I get to the R&D question, just on Shopify, we increased the number of Shopify merchants by 36% in 2022 compared to '21. And we're kind of only at the beginning of that. So we feel very good about the continuous focus on Shopify and Shopify like clients. So that's another big area of capability and focus for us. For us in R&D, the first thing I'll talk about is the incredible interlock that we do between our commercial teams, product teams and R&D.

It's one process and it's focused on where the ROI is and where the dollars are. So that has been, I would say, landmark in 2022, especially with (inaudible) and as well as the IPONWEB team coming in that we work hand-in-hand to really ensure that we're delivering. And we're looking at throughput getting new features to our customers that they will use to drive revenue.

We are continuing to invest in those areas. We just announced a senior new hire in our product team. We've got incredible talent across the board in R&D which is obviously now being turbocharged along with the IPONWEB team as well. So it's a powerhouse, what we need to do is ensure that we continue to invest in that to unlock more capabilities faster and to continue to drive performance.

So it's not a massive increase in investment that we need. It's ensuring that a powerhouse of 975 engineers in our company are really driving to ensure that they deliver not only for our existing clients, but for the new areas that we're focused on.

Operator

The next question comes from Matthew Thornton of Truist.

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

Maybe an easy one for Sarah and then one for -- I'm not sure for Megan or Sarah. Megan, data privacy headwind, I think you called out -- sorry if I heard this wrong, \$10 million in 4Q, just want to make sure I heard that. And for '23, what are you assuming there? And then secondly, I guess, kind of coming back and thinking about '23 and the linearity of the year. And my question here is, obviously, comps will ease as we get through the year.

But how are you thinking about macro? Are you assuming macro conditions hold throughout the year? Do you feel like that guide is officially conservative given that backdrop? And somewhat related to the prior question, what are the biggest upside potential drivers for you that we should be honed in on? Is it Commerce Max? Is it the Meta partnership? Is it Shopify, is it other -- you're in our shoes what should we really looking at as potential upside drivers for '23?

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

Yes, so first of all, on the signal loss, we believe we had \$60 million in 2022, of which \$10 million related to Q4. That was largely for the [Firefox and Samsung browsers] as well as some (inaudible). We're expecting about \$10 million for 2023 in the numbers that we've assumed. I mean, we won't be tracking for that -- it will be in the next year to drop, but obviously Google, which we already talked about in Investor Day and that won't impact 2023.

In terms of the operational plan and the assumptions that we've taken, I mean, we're working day in, day out with our marketers and our retailers. And they're cautious about spend. So we're assuming that there will be growth in the second half as we've got tough comps in Q1 and Q2. We're expecting the continuation of growth and we're expecting with the new capabilities that that will ramp up in Q3, Q4.

But also incredibly seasonal business and especially with IPONWEB coming in as well, that seasonality is a little bit more focus. So Q1 and Q2 will continue to see a slower growth environment with the macro and we anticipate Q3 and Q4 with new features, but also with just the tailwinds of the secular trends that Retail Media and the highest seasonal patterns that we have been in -- especially in Q4 that that will be where we see the growth drivers.

So most of that is very similar to what we've seen in past years. And of course, there's been a lot of discussion in industry around the reversion back if you will, to the more classic pattern pre-COVID of shopping. That being said, online traffic continues to grow and Retail Media budgets continue to shift and on product...

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

I would just add one thing. Because these things are all interconnected, that you mentioned to a degree, Matt. Adoption from a Retail Media perspective, continued wins and actually more usage from those networks is something that we think a tremendous amount about because what the knock-on effect of that, of course, is that we get the unlocks, the revenue unlocks and the long-term growth that Retail Media as an opportunity overall provides.

So for now the idea of getting more adoption is really important. You mentioned Meta. I want to be really clear about that. There are great opportunities with Meta to add scaled reach and possibly performance. We don't know. As we go through we're learning and experimenting with Meta as a partner, but to provide scale, reach, hopefully with performance to our Retail Media partners.

So when you think about something like Meta, I would say 2 things. One is it's the biggest -- world's biggest logged-in audience. And with that that provides a kind of scale for us to use, but especially as an extension of the work that we're doing with our retail partners. It also adds to what we're doing with Shopify customers and our performance business as we've talked about before.

So I think you're talking about 2 different parts of the business there. Shopify, you're talking about our core business from buyer. Meta, as you're talking about more than just a supplement, but something that can really add and accelerate our retail business of the future. Those are 2 things there. Hopefully, that helps.

Operator

The next question comes from Doug Anmuth of JPMorgan.

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

This is Katy on for Doug. Just a quick one on AI. It's obviously be getting a lot of attention in the past couple of months. So can you just talk a little bit more about the ways in which Criteo's ad stack is already leveraging AI capabilities? And from an investment standpoint is this a priority area for you guys? And how can you just better utilize some of these AI solutions going forward?

And then secondly, I just want to talk about CTV a little bit and your recent partnership with Magnite. Can you just discuss some of the capabilities there and how can you leverage your existing ad solutions to augment your CTV offering, just like what are you embedding from this channel in your outlook for 2023?

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

Thanks, Katy, I'm scratching to -- well, the reason I'm scratching is because [CHAT], [TVT] are coming and so forth have really helped people understand better what Criteo has done with predictions using AI for years. So this is the first time that we can really provide in-market example that people understand about what we've been really good at, which is making a prediction about how a consumer is likely to choose a brand and buy something. Okay.

So it's just important to say that the new libraries and the new applications that are out there are things that we have a very good understanding with and we look to incorporate. Stable diffusion is a good example of something we've been doing internally with images for a while. Obviously, those applications are only as good as the underlying collections of data that they read. And what's an important takeaway here is that our access to commerce data, which is not in the public domain, is something that we use for making those productions.

So yes, AI in -- that is coming in the public sector and flopping on top of tech collections on the Internet is useful, but only insofar as it can help extend the predictions we already make with commerce data. So that's really important. The second thing you asked, I think, was about CTV. CTV is a really important -- I'm sorry?

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

The Magnite relationship.

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

Oh, yes, the Magnite relationship. We're excited about the Magnite relationship first off because it gives us a great deal of scale to use CTV and experiment with CTV as part of a performance solution for retailers. So one of the issues for us is that CTV has been a little bit slower because it doesn't have a direct connection to a purchase as some of the other channels do.

So what Magnite does for us is it gives us great scale to start testing our performance thesis and tracking a purchase all the way from a retailer site that we work with up to the living room where any one of us might be exposed to a brand for the first time. So I would say we're just opening that space. Magnite gives us scale to do that more quickly. And you'll see more from us as we learn how to make CTV perform for our retail partners.

Operator

That concludes our question-and-answer session. I would like to turn the conference back over to Melanie Dambre for any closing remarks.

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

Thank you, Megan, Sarah and Todd. This now concludes our call for today. Thanks, everyone, for joining. The IR team is available for any additional request. We wish you all a great day.

Operator

Conference is now concluded. Thank you for attending today's presentation and you may now disconnect.

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