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PRESENTATION

Operator

Good morning, and welcome to Criteo's Second Quarter 2023 Earnings Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Melanie Dambre, Vice President, Investor Relations. Please go ahead.

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

Good morning, everyone, and welcome to Criteo's Second Quarter 2023 Earnings Call. Joining us on the call today is 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 IR website now as well as our prepared remarks and transcript after the call. Before we get started, I would like to remind you that our remarks will include forward-looking statements which reflect Criteo's judgment, assumptions and analytics only as of today. Our actual results may differ materially from current expectations based on a number of factors affecting Criteo's business. Except as required by law, we do not undertake any obligation to update any forward-looking statements discussed today. For more information, please refer to the risk factors discussed in our earnings release as well as our most recent forms 10-K and 10-Q filed with the SEC.

We 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's now hand it over to Megan.

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

Thanks, Melanie, and good morning, everyone. Thank you all for joining us today. I'm pleased to report that we delivered a strong performance in the second quarter, driven by our team's outstanding execution despite ongoing macroeconomic volatility. We have demonstrated resilience in the current environment and despite the market factors, we are where we said we would be: in the pole position and at the center of the Commerce Media ecosystem.

We believe that we're uniquely equipped to provide the market-leading tech to our clients, prospects and partners who are looking to capitalize in one of the fastest-growing areas of digital advertising, Commerce Media. Our transformation to a Commerce Media powerhouse continues to unfold and our Commerce Media platform vision is coming to life. One year after the acquisition of IPONWEB, we've successfully completed the integration of our teams, and we're leveraging the IPONWEB assets to accelerate our strategy.

This includes the imminent launch of our demand-side platform called Commerce Max and the launch of our supply side platform called Commerce Grid. These capabilities bookend our stack and the differentiation that they bring unlocks the full potential of our Commerce Media platform and positions Criteo to become an end-to-end platform of choice for Commence Media.

Starting with Commerce Max, we look forward to the general availability of our Commerce DSP next month. Stay tuned for more details on the official launch on September 12. Our beta testing has progressed well with various retailers and brands across multiple geographies.

As we expected, results of our beta testing show increasingly strong results in terms of conversion rates on integrated on-site and offsite campaigns. This proves the value to our clients of the advantage that the end-to-end platform delivers. We're very encouraged by our growing pipeline of retailers and brands that have already signed up to use Commerce Max, and we expect the ramp-up to be gradual over the coming quarters.

Brands and agencies are excited to finally have a single access point to buy premium Retail Media inventory on-site and open Internet inventory offsite while also taking advantage of differentiated features like closed-loop measurement and product-level sales data and leveraging unique audiences built on real shopping behaviors to drive performance.

Retailers are also excited to leverage Commerce Max to best monetize their on-site inventory and their valuable first-party data to increase their revenue and bring more shoppers to their sites.

Moving on to Commerce Grid. We're pleased with the successful launch of our Commerce SSP. Omnicom was our launch partner, and we have since expanded access to other agency holdcos in the U.S. and EMEA, which combined our Criteo direct supply with IPONWEB's capabilities to create a unique value proposition for the market.

For the first time, Commerce Grid brings our Commerce Audiences data like shopper intent signals and audience segments, which publishers can package with their inventory. For retailers, Commerce Grid brings additional monetization opportunities. It allows retailers to curate their first-party audiences and make them available for access through all DSPs.

Importantly, Commerce Grid expands access to third-party demand so that agencies and brands can reach Commerce Audiences through any DSP. Commerce Grid is both complementary and supplemental to Commerce Max, making our Commerce Media platform interoperable to drive incremental demand, mainly from agencies that have already committed spend to other DSPs. For agencies, that can be the first step to participate in Retail Media, and they will leverage Commerce Max to access sponsored listing of on-site and the real time campaign optimization for both on-site and off-site with closed loop reporting.

Ultimately, it all contributes to attracting more demand to our platform and increasing advertising revenues for media owners. This is the power of the Commerce Media platform, allowing data flows and client access across one platform.

Turning to our second quarter performance, we're pleased with our growing momentum as we continue to shift towards a broader solution portfolio centered on the fast-growing Commerce Media opportunity. Our new solutions now represent around half of our top line, and we expect this will become the larger part of our mix going forward as we laid out at our Investor Day.

Our Q2 performance also demonstrates our strong focus on execution as we continue to do what we said we will do. Starting with Retail Media, we bring our 7 years of experience to a growing number of retailers, now 210 retailers, 2,400 brands and our agency partners globally. We're pleased to see that our Retail Media growth has accelerated in our third quarter to date as we're ramping up newly signed partnerships. We're proud to win the trust of an increasing number of retailers across all regions. We're also expanding our footprint of online marketplaces, including most recently, Debenhams and Sprinter, who chose Criteo for their superior technology and monetization opportunities.

We're making great strides into adjacent commerce verticals as exemplified our -- by our Uber partnership. Through our platform capabilities, CPG brands can now promote their brands and products via sponsored ads on the Uber Eats' app and multiple countries. We're pleased with the continued ramp-up of this exciting partnership, and we have ambitions to launch additional formats and markets in the coming months.

More broadly, we are scaling our existing retail relationships in this quarter launched new inventory with 7 top U.S. and EMEA clients to help them expand their monetization opportunities. Our access to unique and premium Retail Media inventory at scale has been instrumental in attracting more demand. We added nearly 100 new brands in Q2, and Retail Media spend driven by agencies grew over 50% in the U.S. this quarter.

Our agency partners are increasingly leading into Criteo as we're independent, meaning we don't own media, we're not a retailer, and we're not part of any agency. We are independent. We also value -- -ode also value the tools we bring to maximize performance for their brands. This includes our unique AI-powered digital shelf analytics, providing visibility into their share of shelf, share of category and more product-level insights as part of our DSP.

Only Criteo applies AI to digital retail shelf analytics, and we were granted a U.S. patent on systems and methods, including the integration of AI for Digital Shelf Display earlier this year. It's still very early days, but we're already seeing top brands harness the power of these insights to strategically design campaigns to win or defend market share.

Looking now at Marketing Solutions, we delivered strong growth in Commerce Audiences as we continue to diversify our business by combining large-scale commerce data and breakthrough AI technology to power relevant advertising and environments deprived of third-party signals. Commerce Audiences represented close to half of our contribution expect with new clients in Q2, up from only 1/3 of our new business a year ago. This reflects our ability to unlock targeting opportunities and signal limited environments that others cannot address, leveraging our large-scale commerce data and AI-powered audience odelling tech to find in-market shoppers. Commerce Audiences are the most valuable audiences to brands and an integral part of our Commerce Media strategy. These capabilities also create the foundation of our success in Retail Media offsite as we help retailers extend their advertising reach beyond their own walls across the open internet.

Importantly, we've made great strides in cross-selling our solutions with about 100 more clients now using more than one Criteo solution compared to last quarter. Clients like Currys are embracing the power of our Commerce Media platform and now leveraging our suite of always-on customer acquisition and retention solutions in addition to our Retail Media capabilities.

Retargeting benefited from our latest release of AI-driven performance enhancements to optimize campaigns and unlock additional budgets and a still uncertain macroeconomic environment.

In addition, we continue to scale our first-party media network to retarget consumers with first-party data matching in cookieless environments. We saw a sequential increase in hashed e-mail bidding this quarter, and results are encouraging. A top U.S. publisher partner saw an immediate list of close to 140% in CPMs for Safari browser traffic, which contributed to a year-on-year increase of 70% in media spend after enabling hash e-mails as a targeting signal for its authenticated logs and users.

This demonstrates that our publishers can have confidence around continuity for when third-party cookies are deprecated on Chrome and Android. As part of our multi-pronged addressability strategy, we also remain one of the largest scale partners in the privacy sandbox. Google's recent announcement of scale testing with 1% of Chrome users for the web before the planned deprecation of third-party cookies is a positive development in line with our recommendations to get real-world results. It is also expected to represent an integral part of the U.K. CMA's assessment.

We believe that Criteo leaning into a close collaboration with Chrome to develop specific use cases will enable us to deliver superior performance.

Last quarter, we shared our thoughts on the potential of generative AI to reshape advertising, and I'd like to provide an update on what that means for Criteo. Unlike others in the industry, we have privileged access to the largest commerce dataset on the open Internet.

We leveraged twice as much e-commerce sales as Amazon with more than $1 trillion every year or close to $3 billion in daily transactions to fuel commerce-driven AI models. Thanks to our Criteo AI Lab's experience, expertise, our models incorporate deep learning at scale and combined with our consented commerce data, delivered breakthrough performance across the entire buyer journey.

We are integrating generative AI into our platform and a focus on 3 specific areas: improving performance, enhancing the user experience for our clients and their customers shopping online with applications such as chatbot interactions for product recommendations and optimizing our service delivery process through pro pilots to drive efficiencies.

Our clients are at the center of everything we do. The client retention remains close -- remains high at close to 90%. The meaningful year-over-year improvement in our average customer satisfaction score is a testament to the hard work of our teams. We are focused on bringing value to our clients through service and performance with a client centricity lens to everything that we do. Our CSAT score this year was the highest it's been for 3 years.

Criteo is working across the industry to establish standards for Retail Media that we expect will help encourage further adoption and drive long-term growth for the ecosystem.

One example of particular importance to me as a measurement. Measurement is an imperative for advertisers to make data-driven decisions, demonstrate value and ultimately achieve better results. Brand also need to compare results across marketing channels to create benchmarks.

Recognizing this need, we're leading the way with a first of its kind partnership with Integral Ad Science to bring industry standard viewability and invalid traffic measurements on any on-site ad format across our network of retailer partners. It's expected to unlock new budgets from advertisers that adhere to strict media buying standards. To conclude, our focus on execution is front and center in every level of our organization. We believe we've built a highly scalable Commerce Media platform and we're confident in our future. We're focused on profitable growth, and we have multiple initiatives underway to generate operating leverage over time, all with a focus on driving shareholder value.

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

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

Thank you, Megan, and good morning, everyone. Our second quarter performance reflects our clear focus on performance and execution. Revenue was $469 million and contribution ex-TAC was $240 million. Reported contribution ex-TAC reflects a year-over-year $2 million unfavorable ForEx impact.

At constant currency, our second quarter contribution ex-TAC grew by 13% on top of 7% growth in Q2 2022. Our organic performance was flat and driven by marketing solutions, down 5% year-over-year with Retargeting down 15% as expected, offset by Commerce Audience growth of 41%. Retail Media was up 20% year-over-year and IPONWEB contributed $29 million. We continue to shift our top line mix to our fast-growing new solutions for Retail Media, Commerce Audiences and IPONWEB that represented around half of contribution ex-TAC in our second quarter. Our client retention at 90% continues to be resilient, and we had great new client wins this quarter.

Turning to our business segments. In Retail Media, revenue was $45 million, and contribution ex-TAC grew 20% at constant currency to $44 million and was up 62% on a 2-year stack basis in a traditionally low quarter. This was primarily driven by our client base in the U.S. and our online marketplaces, offset by lower spend in France due to temporary government measures to curb inflation.

In Q2, we added 10 retailers in 100 brands, and our same retailer contribution ex-TAC retention was 118%. We also saw strong growth from our agency partners and robust brand bookings, mainly in CPG, our largest vertical. As we anticipated, our Retail Media growth rates accelerated in July.

In Marketing Solutions, revenue was $395 million, and contribution ex-TAC was $168 million, with strong growth in Commerce Audiences offset by lower Retargeting. As expected, Retargeting was down 15% year-over-year or down 12% when excluding the $4 million impact from signal loss.

Our clients continue to operate in a choppy economic retail and consumer environment with significant focus on the marketing investments. In the second quarter, retail online traffic and online transactions improved sequentially. However, retail online transactions were lower across all regions in Q2 compared to last year. Our travel vertical is performing well, up 36% in Q2 and 111% on a 2-year stack basis.

The optimization of campaign performance with strong rollout using our deep learning algorithms and advanced vector database technology unlocked more budget as we progress through the quarter. We delivered strong growth in Commerce Audiences, up 41% year-over-year and up 62% on a 2-year stack basis as more clients transition to full funnel audience strategies to acquire and retain customers.

As we capitalize on cross-selling opportunities, we see that our client value having one partner that helps them engage with consumers across their entire buying journey. One year after completing the acquisition, we have successfully integrated IPONWEB, which has been instrumental in accelerating our Commerce Media platform strategy.

On a stand-alone basis, IPONWEB's performance was up mid-single digit in a seasonally low quarter. We delivered an adjusted EBITDA of $56 million in Q2 2023. Non-GAAP operating expenses increased 6% year-over-year, primarily due to IPONWEB, partially offset by our planned cost reduction actions.

A key part of our transformation is to realign our organization and optimize our operating model to enable scale and operational efficiencies. We have already executed against majority of our targeted cost savings this year, and we continue to streamline our processes to work better and faster.

Moving down the P&L., depreciation and amortization increased 32% in Q2 2023 to $27 million. Noncash share-based compensation expense increased to $28 million, including $11 million related to treasury shares granted to IPONWEb's founder as part of the acquisition. We incurred restructuring costs of $22 million, offset by the partial reversal of the CNIL contingency. Combined with the margin dilution from IPONWEB in a seasonally low quarter, these factors resulted in a net loss of $2 million in Q2 2023.

We reported a diluted net loss per share of $0.05 and adjusted diluted EPS of $0.49 per share. We have a strong financial position with solid cash generation and no long-term debt. We had $747 million in total liquidity as of the end of June, which gives us significant financial flexibility to execute our growth and capital allocation strategy.

As expected, free cash flow was negative by $35 million year-to-date due to CapEx related to the planned 5-year renewal cycle of our data centers and restructuring. We anticipate positive free cash flow generation in the second half of the year in line with the seasonality of our business, including Retail Media and IPONWEB.

We expect the CNIL payment in Q3, which will impact our free cash flow in Q3. 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.

We deployed $75 million of capital for share repurchases in the first half of 2023. This included 0.7 million shares repurchased in Q2 at an average cost of $32.30 per share.

Turning to our financial outlook, which reflects our expectations as of today, August 2. We remain cautiously optimistic about our outlook for the remainder of the year, and we anticipate high single-digit to low double-digit contribution ex-TAC growth at constant currency in 2023. This assumes low single-digit organic growth and the full year impact from our acquisition of IPONWEB. We now expect contribution ex-TAC growth of 25% to 30% for Retail Media, reflecting the first half performance and unchanged expectations for growth for the remainder of the year. For Commerce Audiences, we expect contribution ex-TAC growth of 25% to 30% as advertisers continue to shift more budget and adopt full funnel activation.

We do not expect signal loss impact in the second half of the year. Overall, as a reminder, we expect more pronounced seasonality with Q4 as our business mix is evolving. We continue to anticipate an adjusted EBITDA margin of approximately 28% for 2023, including about 200 basis points of dilution from IPONWEB. We are on track to deliver over $60 million in annualized cost savings over the course of the year, largely offsetting the annualized impact of our 2022 growth investments.

Given seasonality, we expect approximately 45% of our full year adjusted EBITDA to be realized in Q4. We expect a normalized tax rate of around 25% in 2023. We anticipate CapEx of about $90 million, mainly related to the planned renewals of our data center for which most spends have incurred -- been incurred in the first half of the year.

For modeling purposes, we assume a flat number of shares outstanding in 2023. As we enter the second half of the year, we are ready for back-to-school and the holiday season, and we have seen retail media brand spend accelerate.

Overall, we expect Q3 contribution ex-TAC of $238 million to $242 million, growing by 7% to 9% at constant currency. This assumes low to mid-single-digit organic growth and 1 month of IPONWEB inorganic growth. We estimate ForEx changes to drive a positive year-over-year impact of about $8 million to $10 million on contribution ex-TAC in Q3.

We expect adjusted EBITDA between $58 million and $62 million, reflecting the dilution from IPONWEB. Looking ahead, we remain focused on executing our transformation to drive long-term shareholder value. This includes operational excellence initiatives across all aspects of our business, capitalizing on our pole position in Retail Media, our priority is to enable sustainable growth and margin expansion as we continue to scale our Commerce Media platform. The future is wide open for Criteo.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Mark Zgutowicz with [Benchmark] (corrected by company after the call).

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

It's Mark Zgutowicz Zgutowicz with Benchmark. So just on the Retail Media, you mentioned a few things there. I was hoping we could just parse out a little bit in terms of lower spend across all segments. And I think you had mentioned some lower spend the French government. And then you also talked about July growth accelerating sort of what that might be attributed to? And then maybe overarching, just the take rate, sort of assumptions or your thinking there? I know you had made a direct call out on take rate, Sarah, in the -- on the first quarter call that, that would continue to come down? Just maybe refresh us there in terms of the trajectory on take rate.

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

Yes, we did see in Q2, France is a big part of our European business, and Europe was overall have lower traffic and lower online transactions. So we did see that in Q2. And as you said, in France, we saw there were temporary government measures that were taken to curb inflation. So effectively, less brand spend coming in. That has now anticipated in July. Overall, we saw some factors from predominantly, I would say, the retail sector, but specifically fashion continues to be slightly lower and when we look overall, we do see strong signs in July and continue to see month-on-month more acceleration in our growth rate. So we're feeling confident for the year. And we took a 25% to 30% knowing that half the year has already gone -- has already occurred and we did see lower growth in Q2.

That being said, the half -- the first half was 66% 2-year stack year-on-year. So we're feeling -- still feeling very confident overall on our customers, on the brand discussions we're having with the brands and agencies are all incredibly positive, and we feel confident in our outlook. On the take rate, there's really 2 factors here. One is, overall, we have anticipated the take rates and throughout time, continue to reduce with scale increasing. That being said, we also have marketplaces being a larger part of our business, and that has a lower take rate, traditionally for some other client segments. So that has impacted the take rate.

The scale of the activated media spend, we feel very confident about we're getting marquee brands, bringing more and more spending as recently as last night, some very good names coming in with some large brand spend. And we are feeling cautiously optimistic knowing that we continue to have a choppy economic outlook. And of course, our biggest season being the holiday season, which is yet to come. So feeling pretty, pretty good and understand the factors related to Q2.

Operator

The next question comes from Ygal Arounian with Citigroup.

Ygal Arounian - *Citigroup Inc. Exchange Research - Research Analyst*

Maybe a follow-up kind of on that sort of on Commerce Audiences. So you're seeing more strength there and it feels like the environment as we move away from third-party and been able to use trackers that there's more of an opportunity there maybe than you guys were expecting before. Can you talk about what you're seeing there and how that's evolved and if you think there is more potential growth there?

And then a bigger picture question on Retail Media that we get often from investors is just kind of understand the environment. We hear news often about we saw in this quarter with a large retailer that kind of broke off their partnership with one of your competitors, and we hear often about this give and take with moving things in-house, particularly as retails get bigger. Maybe can you just opine on that a little bit more and what you're seeing there, what that opportunity is for Criteo and what that balance is as we move forward in Retail Media, that's data...

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

Let me just -- I'm going to do this in a couple of parts, if that's okay. The first one, I'll do a high level on Commerce Audiences growth and what we're seeing there and how exciting this area is for us at a high level now as that across the time to give some more detail around performance. And then I'll come back to the second part of the question after that. On the Commerce Audiences front, even the name of that Commerce Audiences, those audiences are so important to our clients. People who are actually shopping, who are on their buyer journey are critical. It's those audiences that they ultimately want to get in front of, not audiences that are doing some other activity.

And so we expect the performance there to be high over time we've invested in this area. And so what we're experiencing now is our team internally that have been traditionally selling Retargeting or retention targeting has now really found their feet in terms of cross-selling and bringing Commerce Audiences to our clients who are looking for targeted solutions. And that's where we see a lot of the ramp-up coming in our ability to cross-sell and use the clients that we've already had of 19,000 clients to extend them beyond Retargeting and into broader targeting capabilities using Commerce Audiences at the core. And again, we find that to be the highest performing for us as well. So Todd, do you want to talk about the product and how it's performing?

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

I think just to add to Megan's point, obviously, Commerce Audiences are benefiting from the data that we operate across that $1 trillion of spend that we talked about before. And a key point that Megan makes that's helping drive their adoption is that their purpose built to drive a commerce outcome. That's what is accounting for interest in the market. When the people want to sell something, commerce science is a very good place to turn. And then two, I think something else that you pointed out, because of our multi-pronged addressability strategy, it enables us to use commerce data that we operate and protect the way that we can expand those audiences as cookies disappear. We've seen this work well already with Safari and Firefox and other cookieless traffic, and we anticipate it to continue as we move into the post cookieworld. So those are the main factors from a product perspective that are teaming up to make Commerce Audiences grow and work well.

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

Okay. Let me take the second part of the question, in housing. I'm just going to broadly in housing because you're talking about a competitor, I'm not sure of who, but let me just -- let me talk to how we feel about that. There are some very big players that will in-house. And I think one you might be talking about is taking their business off their competitor of ours in the space to in-house. And when you think about what they've done is that they've been investing in building capabilities around Retail Media, how to create on-site activation, how to perhaps do off-site activation, how to develop their trade marketing team to be able to get demand or by demand themselves.

All of the stuff, very specialist areas, and it takes very big players to really take that on to do that themselves. And you've seen that with the likes of Walmart and others who have done it and done it successfully or done it and then found that parts of that have been very difficult and then sending back out afterwards. And Kroger is a very good example of that.

Kroger has built an immensive environment internally in -- sorry, [8451], which they've been working with now for 8 years or so. There's 1,400 employees there, and I think they've added another 100 to that space. It just really points to the size of the operation that's needed to be able to do this.

For us, we're a platform. And so we can do all of it or we can do a piece of it, and we make ourselves available in that sort of environment. If there's something that they really don't want to do, don't want to do in-house, and not experts in that area that we can like that up for them. So again, in-housing is something that belongs to the top end of town, where it has provided a platform of which people our clients can ultimately use all or use a piece of it in the case of the very large players who are looking to bring that on board themselves.

Operator

The next question comes from Doug Anmuth with JPMorgan.

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

Megan, you talked about 3 areas where you're utilizing generative AI. Hoping you could help us understand how far along you are in realizing some of the benefits on performance and enhancing the user experience and optimizing service delivery, maybe how we should expect these benefits to layer into your business going forward. And just curious also if you're already achieving engineering and coding efficiencies tied to Gen AI.

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

Thanks for the questions. I'll just start by saying we've had AI capabilities in-house for a long, long time. Now -- Criteo AI lab is now hitting its side here and Mark celebrating that this year. And so the stat lab plus others are already leading into. What we're now talking is around is generative AI in everything that we do. So all of the developments that we do internally has to come through a lens of that. And also anything that we bring in externally have come through a lens of that as well. Todd's area is working incredibly hard on some of the 3 different things I called out on the call, come directly out of Todd's area. So I want to pass it to him to give you a little more color on what's going on there.

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

Thanks, Megan. We are very far along with model development, and we're actually accelerating that model of development that we've used to drive performance. That's already in production, and it's an investment that's ongoing and progressing. So you should count that as well in motion on top of an already mature start as Megan pointed out.

Secondly, when it comes to our internal strategies, we have been using copilot for development for some time now. And we are building a variety of other copilots for different operating functions to use for people-intensive tasks. For instance, in finance, in campaign management and delivery, service delivery to name a couple. And then thirdly, we have some really exciting developments that are newer, but are moving along quite fast this coming quarter, which goes to enhancing the ways that our customers experience our products.

You can think of GenAI adding to how media planning is done across a very fragmented and tricky environment of Commerce Media. It's a brand-new marketplace, and AI can help a lot there and it is helping. And then you can also think about how we can expand our sponsored product business significantly as our retailer partners are picking up chatbots over on-site search as being 2 really specific areas of concentration of our team's development. Those are probably about half of what we're doing. There is going to be some other interesting things to talk about, but I think they're the most relevant for now, Doug.

Operator

The next question comes from Mark Kelley with Stifel.

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

And I apologize if I have been asking kind of bouncing around. But the full year guide for Retail Media, obviously, was 30%. Now you kind of have a range wrapped around that. Is that entirely due to the softness you saw in Q2? And obviously, it sounds like the trends quarter-to-date in 3Q have improved a bit. Or is there something else going on there? And then the second question is Uber, they had a nice Criteo call out on their call yesterday. I would love to just get kind of the lay of the land in terms of that relationship, how it's ramping and what we might expect in '24 and beyond.

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

So yes, to answer your question, it is due to Q2. I mean, the 20% growth is on a 2-year stack, 52%. We have a tough comp from last year, but it is isolated, and it does relate to Europe and France, I would say, certain countries in Europe obviously have had more of an impact than others. And then just in general, we know that in online traffic, online transactions in certain sectors are slightly lower than people would like. But absolutely, we're seeing good traction in July. Of course, July includes some of those big shopping days for Amazon and Circle Day and other big days. But what we have done is we've seen, what's the traffic related to those specific events, which is obviously have a halo effect for everyone, but also more specifically, the trend line and the trend line is positive.

So we feel good about the guide for the year, and we understand the factors behind Q2.

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

I'll jump in on the Uber front. Yes, we're excited about the relationship with Uber. I think we announced that last quarter, and it was great to get the shade yesterday. It sounds -- it shows that this is important to them as it is important to us, and we expect them to continue their relationships and the direction that they want to go, which is to extend this further with more formats that are coming our way. I want to stress that this actually -- that Uber relationship really shines the light on our ability to go beyond Retail Media. We've spent a lot of time talking about Retail Media and then commence Media, Commerce Media being the bigger total stretchable market for us in players that are not retailers, but are obviously commerce players. And Uber is a really good example of that. So we love the fact that we're able to work with them and learn and bring us to many more commerce players. It just gives us the ability to just light up more marketplaces as we extend beyond what we're doing today to launch the division of Commerce Media, which we laid out at our Investor Day.

Operator

The next question comes from Matthew Thornton with Truist.

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

Maybe 2, if I could. Coming back to retail. I guess, as we think about the back half of '23 and into 24, there's an implied acceleration there. Maybe you could just kind of walk us through what the most important drivers of that are, whether it's easing comps or macro or some of the new products verification, things like that. And then just secondly, maybe this one is for Todd. Obviously, the privacy sandbox continues to develop and come along here, and I know you're a close partner with Google on that. You guys have embedded expectations for the impact of third-party cookie deprecation in '24 and '25. I'm curious if you've seen anything in the efficacy of the privacy sandbox that perhaps is accretive to those expectations to date? Any thoughts there would be helpful.

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

Yes. I'll start just again at a high level on Retail Media in the second part of the year. A few things, more clients, we continue to add clients to our roster Retail Media clients. And then with those clients and existing clients, we continue to push for more inventory to come online, which we're seeing that we lit up a lot of inventory in Q2, and we expect that then to continue as Retail Media and Commerce Media grows so where it will grow.

With that drives activated ad spend and that drives demand onto those platforms. We also are excited about C-Max, which launches on the 12th of September, which drives demand into retailers, which again increases ad spend to them plus revenue for them and drives more inventory to be lit up on their site. So all of this is about compounding or snowballing the growth of the platform and the growth of the Commerce Media sector out over the coming years. Always Q4, I should say, is always a big quarter for us as well. So this, I think, Sarah has already said this already, there's special shopping days that happen in Q4. So we expect that they will also drive those returns for us.

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

On the privacy sandbox, Matt, we're really just sticking to a plan that's incredibly well resourced. And we've got our expertise all over this topic and have had for a long time as everyone on the call probably knows. What we're seeing now without having the benefit of the Q1 fully retired cookie or cookieless traffic from grown the 1% figure that is going to be provided for real-world testing. What we're able to do now is look at live traffic in a fairly open way and do split testing between our existing cookie-supported traffic and our addressability strategy, which includes privacy sandbox, and we see promising results from that. So we feel confident that we're on plan. Nothing has changed for us. But as privacy sandbox rolls out, it's cookieless traffic. We expect to learn more and improve on the work that we've already done. Things are going great.

Operator

The next question comes from Brian Fitzgerald with Wells Fargo.

Brian Nicholas Fitzgerald - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

On Commerce Audiences, strong acceleration there. Wondering if you're seeing any demand unlock on those segments become available via your DSP and SSP versus the more traditional insertion order-type process? And then has there been part of the story with the acceleration you saw in Q2? Is that a continuation of that?

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

On the DSP, I'll take the first one on the DSP. We obviously are just getting ready Criteo on the DSP, and we'll test a variety of Commerce Audiences there because they're available across our entire portfolio. There are nuances to what we can run in our DSP because we need to be safeguarding our retailers data in the Huawei operate Commerce Audiences. But I think the takeaway here is that Commerce Audiences are a great advantage for all of our users, no matter which of our products in the platform they're using, and you should expect that they'll use some flavor of Commerce Audiences across the board, and that will continue to fuel our growth, whether it's through RVSP, or whether it's through our growth product or our recently launched Commerce Grid.

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

Yes. I'll stress on that, but we are focused on comments. DSP is a common SP. Our SSP is a common DSP at this space targeting those to Commerce Audiences. And this issue differentiated for us. Our ability to actually know about alliances, we know about the products that they're interested in, know about their buyer journey can access the SKU-level there and apply that to everything that we do from the demand side to the supply side across audiences that bought across publishers through our SSP and the lens in which the demand side is operating on and stay are buying inventory or ad inventory.

All of that is fueled our ability to know about Commerce Audiences and know about products. So you'll see sort of Commerce Audiences happen pipe across the solution set. But you really see it right now in targeting in the Commerce Audiences targeting to the middle of the funnel to the top of the funnel that we were up now over a year ago, maybe a year ago. So this is, again, a snowball effect of bringing our commerce lens to an ad tech environment.

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

Yes. I mean, just to add to that in our kind of midsize smaller kind of traditional marketing solutions customers now close to 40% by using more than one solution. They also are seeing that the rollout is really strong. It's healthy. They are going up funnel. So we're seeing video campaigns. We see new acquisition campaigns. We're seeing prospects and campaigns. And every day, we've seen great, great make marquee names that really moving from or more traditional solutions to taking on the acquisition and retention kind of all-in budget view that we deliver. And it is based on our superior performance in our models.

Operator

The next question comes from Tim Nollen with Macquarie.

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

I've got a couple of things I'd like to ask about the Commerce Grid, please. First of all, could you talk about what IDs or contextual signals you will be incorporating into that? I know you mentioned at one point in the call about hash e-mails, just curious kind of what your approach is to identity and contextual as well? And then also relatedly, with the launch of Commerce Grid and then separately Commerce Max, I guess they kind of go hand in hand, though there are separate things, DSP and SSP. Will there be incentives for advertisers to use both? Or indeed, will there be incentives for you to have advertising using both -- and both together?

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

I can start back to -- on this one. I mean the incentive for advertisers is one of convenience that is accretive to our retailers. It's really simple. Opening up grid gives an advertiser yet another path for us to steer them at our retailers and sell more Commerce Media. So you can think of Commerce Grid as a matter of convenience and choice for advertisers and one that ultimately brings more dollars into our ecosystem. So the incentive is really up to them on what they want to use.

Secondly, on the Commerce Grid identity point, and it comes back to how Commerce Audiences were built in our multi-pronged identity strategy. We have a first-party media network, which is matching first-party data to first-party data. That is possible through a deal in Grid. And we also have audiences which are built on contextual, but benefit from an overlay of commerce signals that would imply where shopping interest is out on the open Internet. And those are available in Commerce Grid.

So you've got -- you can actually pick and choose between which audiences are most effective for you. And that's really the aim behind Commerce Audiences. We want to be giving as many options as possible for our advertisers to find performance and for our retailers to monetize. That's exactly what we're doing.

Operator

The next question comes from Richard Kramer with Arete Research.

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

First one, can you lay down the pending General Availability of Commerce Max and you described it as a gradual ramp. My question really is how much line of sight do you have on committed campaign spend heading into the end of the year? Or is this something you'd rather have us expect accelerating in the sort of 6 to 12 months as marketers get more experience with the platform?

And then my second question for any of you really is can we get more of a breakdown of where the increases in activated media spend are coming from, not just in terms of brand versus performance, but also whether you're materially tapping into trade marketing budgets and equally, whether you can size at all for us the kind of spend do you think you can bring in on the SSP side for MediaGrid.

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

Yes. So just -- I mean, yes, we do have customers that are committing on C-Max and I would say, a great pipeline. So far, we've got dollars committed. We don't tend to mention those externally. So -- but I would say we absolutely have a pipeline and that is part of our Q4 ramp. So we're going to launch September 12, and we expect some of that to come in, in Q4, but obviously, with more coming into '24 and '25. So feeling good about the conversations with retailers, agencies and brands, and we do address those 3 communities with C-Max and there'd a really good uptake and excitement from all of those parties. So feeling good about the comprehensive kind of view that we have.

In terms of the activated media spend, we don't necessarily know exactly how much is from trade marketing versus other dollars. What I will say is that we see significant spend and commitments starting to come in when they've already started to come in from very large brand names. And so I would anticipate that a share of that is coming from trade marketing but also incremental spend as well. I'll come back with more specifics once we get some feedback from C-Max, but absolutely, we see very strong demand flow from brands.

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

Yes. Let me just add to that, Richard. So the reason gradual is there is because of -- probably because of the market maturity, the buying dynamics and what we've learned in our data. I just wanted to point out, we are maniacally focused on making sure that the joint between on-site and off-site

Commerce Media effectively performed together, okay? And we have learned a ton during the course of our data testing about how to make that work. One of the things that we learned is the buying functions of the advertisers that we serve and agencies are still not necessarily together between search and programmatic.

And so not only kind of doing the planning, but getting the operating those budgets together to benefit from the closed-loop measurement that we provide and the performance that we are committed to is a bit of a process. I think you know the marketplace. So we are doing a lot of work educating our partners building best practices to use our platform so that the performance falls out of it. So we want to be a little bit smart about how we're going to market with this. What we don't want to do is sell a lot of things that don't get renewal and don't perform. So that's what's behind that word.

Operator

The next question comes from Matthew Cost with Morgan Stanley.

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

Just revisiting Commerce Audiences. We saw in the quarter, and it seems like it's your expectation going forward that we'll see continued growth in Commerce Audiences against potential more headwinds in Retargeting over time. I guess when we think about Commerce Audiences in terms of building audiences and then targeting them at least for some instances, off-site, it sounds like it's available across your whole portfolio. But for off-site usage of Commerce Audiences, is there a reason that doesn't take the same targeting issues that Retargeting does in the cookieless world? Like why will this in a more signal-constrained environment, be able to pick up the slack from Retargeting going forward?

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

Yes. I mean that's a pretty simple one. Retargeting is based on direct response. It's a one-to-one sort of thing or a 1 to very close cohort of people that have been exposed to a product, a category of products, a certain set of sites that they've landed on the solid type of product and then targeting them, okay. And that's something that's covered by the in first-party data and our first-party media network. And it also it looks very promising, as I mentioned before, on the protected audiences API, the privacy sandbox, okay?

So Commerce Audiences on the other hand, is really, really different. Commerce Audiences are actually taking the signals that I just described and mapping them to things that have nothing to do with people that have everything to do with the content that they're using to inform themselves about the products that they're considering, brands that they haven't discovered or things that they're looking to in parallel another. That's more about content than it is about people and the joint of the shopper signals that I described earlier with that world of content that makes Commerce Audiences scale and so powerful because we get both performance and scale together. And that opens up a huge amount of supply, which is underserved at this point and right for us to buy, to make perform for our advertisers and to be hugely accretive to our margins here as well, pretty exciting.

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

That's a great explanation. So would it be fair then to describe it as based on contextual signals informed by all the data that you have about Commerce Audiences?

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

100%.

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

And you add to that, it's our commerce data that we have is $1 trillion of transactions that Megan spoke about and the $3 billion per day, that all relates to shoppers and to what they're doing at that time. And we believe we're the only people that have that level of signal that is related to commerce.

Operator

I would now like to turn the call back to Melanie Dambre for closing remarks.

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

Thank you, Megan and Sarah and Tom. We now conclude our call for today. Thanks, everyone, for joining us. The Investor Relations team is available for any additional questions. We will wish you all a good day.

Operator

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