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PRESENTATION

Operator

Good morning, and welcome to Criteo's Third 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 Third 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 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 quarter are against the same period in the prior year.

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

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

Thanks, Melanie, and good morning, everyone. Thank you for joining us today. I'm pleased to report that we delivered another solid quarter with top line and adjusted EBITDA above our expectations, driven by organic growth acceleration, market share gains in Retail Media and strong cost discipline.

Our performance is a testament to our team's hard work and the trust of our clients who continue to prioritize performance and rely on our solutions to drive sales and return on ad spend. We've embarked on a significant transformation journey since I joined Criteo 4 years ago, and we've successfully moved our business from a single solution Retargeting play to a multi-solution platform offering, end-to-end AI-enabled ad tech services, with a focus on commerce.

We've demonstrated resilience and we're now positioned at the forefront of the changes in our industry, all while navigating the impacts of signal loss, the global pandemic, geopolitical conflicts and a volatile macroeconomic backdrop.

Our unique commerce data at scale, deep integration with retailers, differentiated technology, advanced AI, world-class team, and R&D powerhouse have been the foundation of our strategy to become the leading ad tech provider for Commerce Media, the fourth wave in digital advertising. Since our Investor Day, 1 year ago, we continued to focus our business on areas of high growth and expanded our leadership position in Commerce Media.

We've maintained a high say/do ratio and built the only unified AI-driven platform that directly connects advertisers with retailers and publishers to drive commerce on retailers' sites and the open Internet. Over the past 12 months, we've have successfully integrated our acquisition of Iponweb, and brought our Commerce Media platform to life for our clients. We further expanded our partnerships with agencies, retailers and supply partners, just as we said we would.

We're well on our way to delivering over $1 billion in Contribution ex-TAC this year for the first time in Criteo's history, including over $200 million in Retail Media alone where we have a leading market footprint. We've achieved a number of important milestones since we unveiled our Commerce Media platform vision last year. Let me highlight some of these achievements since then and during the third quarter.

Starting with Retail Media and our self-service Commerce Max Demand Side Platform which became generally available in September. We're the first to unify the Retail Media ecosystem with a multi-retailer, multi-channel, and multi-format approach. We believe our deep integrations with retailers ensure accuracy and fidelity of the data to execute against the market is exactly what the market is looking for; fully integrated capabilities to advertise to shoppers at the digital point of sale across multiple Retail Media Networks, and to leverage unique retailer audiences built on real shopper data for targeting offsite with full funnel closed loop measurement.

It's just the beginning, but we've already received strong feedback from our partners, including GroupM, Flywheel and Dentsu, and their brands. Agencies and brands are increasingly leaning into Retail Media as the most effective closed-loop marketing investment, tying an ad directly to a sale.

In addition to driving incremental sales, Retail Media helps brands better understand who are buying their products, what type of shopper prefers their brands and who those shoppers are that enter their category. The Retail Media spend going through our platform grew 39% this quarter, as we've grown our footprint to 2,500 brands, and agencies are increasingly contributing to our growth.

Overall, the large agency holdcos have increased their Retail Media spend with Criteo by 50% so far this year in the U.S. and doubled their spend in Europe and APAC, compared to the same period last year.

At our Retail Media For All event in September, we also shared more about Commerce Yield, our retailer monetization solution suite that offers flexibility for retailers and marketplaces to monetize their online, offline, and in-store assets. We now partner with 220 retailers after adding 10 new retailers in Q3, and we've more than doubled the number of countries we operate in over the past year.

We're proud to have won the trust of an increasing number of retailers globally including, most recently Saks, DocMorris, and Mercatus. In addition, we had 2 exciting new wins this quarter. They are 2 of the largest U.S. retailers. We'll announce these when we're able to. We're pleased to now be the partner of choice for close to 60% of the top 25 U.S. retailers and have that monetization program.

We're pushing ahead to drive unification with advertising ecosystem-based solutions and standards across multi-retailer, multi-marketplace, and multi-commerce environments. We've been actively investing in key areas of measurement and insights with the aim to deliver an even more impactful set of solutions for brands and their agencies to reach their full potential with Retail Media.

This includes partnering with industry leaders, such as trusted measurement provider Integral Ad Science. With this, brands can be assured their media buys are being seen, their ads are reaching real users across any onsite ad format, and that they are measured using industry standards so that they can compare results.

While measurement is important, Insights and Analytics are critical navigation needs for clients and a differentiator for Criteo because of both our access to such extensive datasets, and our patented AI-powered digital shelf analytics. We're empowering Retail Media businesses with our Commerce Insights offering to better inform monetization strategies and drive larger brand investments. Walmart Connect Mexico is successfully leveraging these insights and almost tripled brand spending in Q3 compared to last year.

It's still early days for most of our clients, but we're excited to see that retailers and brands are increasingly taking advantage of the compelling Retail Media opportunity. Over the past year, the average number of retailers that brands are advertising on has increased by over 60% across our client base.

Next up, let me talk about how we've been accelerating growth in our supply business since the successful launch of our Commerce Grid Supply Side Platform, or SSP, in June. Commerce Grid had a great debut and is quickly gaining share. Our Commerce Grid SSP represents another path for us to capture incremental commerce media budgets from established DSPs.

We're already seeing incremental demand from top agency holdcos for our proprietary commerce audience and supply packages, and we're excited to expand this opportunity to retailer audiences as we're about to launch our first campaign leveraging retailer data for audience extension across the open internet through Commerce Grid. This represents a powerful Digital Advertising shift for advertisers looking to engage with real shoppers, and a big growth opportunity for 2024.

Moving on to Marketing Solutions, more clients are activating always-on strategies to acquire and retain customers using our Commerce Growth suite of services. As a reminder, always on refers to a service where advertisers commit spend with us to drive the best results the best way we see fit. As we have evolved beyond Retargeting, that spend is optimized for our clients up and down the advertising funnel.

In this context, we're excited by the continued traction of Commerce Audiences to complement Retargeting as marketers are looking for more touchpoints with consumers across their buyer journey to drive performance. Our investments are paying off, as our clients are leveraging a broader and richer audience set from targeting new shoppers who resemble existing high-value customers to finding relevant shoppers with contextual targeting or engaging shoppers who are actively researching the products and services that they offer.

Our ability to target highly relevant and valuable in-market audiences is helping us gain ground against competitors that provide less precise targeting on the open internet. In addition, we expanded our partnership with Shopify as the first open internet platform integrated into the Shopify Audiences product.

Shopify Plus merchants can now instantly upload first-party audiences of high, medium and potential intent generated by Shopify, and then activate campaigns with Criteo. This opens up opportunities to attract new Shopify Plus merchants that haven't used our solutions before and may consider using Criteo alongside Meta, Google, Pinterest, TikTok or Snap.

Lastly, we're encouraged by our prospects to extend our commerce value proposition to Meta. We've demonstrated our ability to drive incremental performance to our existing open web campaigns when accessing Meta's large-scale inventory and powerful communities. Following successful testing, we have an opportunity to extend the reach of our campaigns on Facebook and Instagram for hundreds of clients in Q4 and beyond.

As a testament to the power of our platform play, we've seen an acceleration in upselling and cross selling dynamics with 38% of our clients now using more than one Criteo solution compared to 33% a year ago. Within Marketing Solutions, clients that have embraced the full power of our acquisition and retention solutions spent on average 30% more than a year ago in Q3, and this momentum is continuing. These dynamics have contributed to rebalancing our top line mix, with Retargeting now representing less than half of our business for the first time ever this quarter.

A critical part of our transformation is to lay the foundation for the future. This includes AI-driven innovation to fuel future growth, and our multi-pronged addressability strategy to enhance our resilience post third-party identifiers. We have privileged access to the largest commerce dataset on the open internet to feed our AI models, and we continue to integrate Generative AI into our platform with a focus on improving performance and user experience for our clients, and optimizing our service delivery process.

We're planning to offer AI-powered creative tools like intelligent image generation to clients to enhance performance. In Retail Media, we're focused on bringing sponsored ads into conversational environments as more consumers are utilizing chatbots on retailer websites. Internally, we're using AI to empower our sales team to drive more effective new client leads and enhance client experience through faster response to inquiries.

Turning to our multi-pronged addressability strategy, we're focused on 3 pillars to succeed in environments deprived of third-party signals, including our first-party data strategy, our participation in Google's Privacy Sandbox, and also our access to more closed and authenticated environments like retailers' sites and social platforms.

First, we continue to progress on scaling our First-Party Media Network to retarget consumers with consented first-party data-matching in cookie-less environments. Remember, we collect significantly more hashed emails, or HEMs, than similar alternative industry IDs, which means that we can leverage hashed emails as interoperable match keys to connect demand and supply across our network, and we're pleased to see HEM bidding increase every quarter. This is a crucial advantage to effectively find and monetize commerce audiences on the open internet once the industry finally moves beyond third-party signals.

Second, we remain one of the largest scaled partners in the Privacy Sandbox to which we've dedicated significant time and resources. Early next year, we plan to assess the effectiveness of the Privacy Sandbox APIs when Google phases out third-party cookies for 1% of Chrome users for the web. The real-world results will be critical to further assess the economics associated with the Privacy Sandbox solution, its scalability, and the industry's readiness to absorb the significant changes and technical complexity.

Third, our differentiation lies in our ability to help our clients reach consumers in closed and authenticated environments like retailers' sites and social platforms. Our extensive partnerships with our retailers enables privileged access to first-party data for hundreds of millions of monthly users, and we're potentially expanding our reach to billions of logged-in users on social platforms or other environments where we expect to participate in the future.

To conclude, we believe we're better positioned than we've ever been before to drive performance for our clients across the entire marketing funnel. According to a recent Forrester survey, 90% of retailers say demand from advertisers for Commerce Media has increased significantly during the past 12 months, as there is nothing better than advertising at the digital point of sale or accessing in-market shoppers.

We're about to enter a critical year for digital advertising and our primary focus will be to deliver performance and continuity for our clients, while continuing to invest in our growth areas to scale our Commerce Media Platform. It's important to acknowledge that our path won't be linear, but we believe we've built a strong moat through a combination of unique and proprietary technology, commerce data and retail expertise to navigate the significant changes ahead of us, and capitalize on the next wave of digital advertising and indeed, the future of digital advertising.

With that, I'll hand it over to Sarah to discuss our financial results and our outlook.

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

Thank you, Megan, and good morning, everyone. Our third quarter performance reflects our strong execution despite a mixed macroeconomic environment. Revenue was $469 million and Contribution ex-TAC was $245 million. Reported Contribution ex-TAC reflects a year-over-year $5 million favorable forex impact.

At constant currency, our third quarter Contribution ex-TAC grew by 13%, on top of 14% growth in Q3 2022. This includes organic growth of 8%, driven by strong growth in Retail Media, up 29%, and a return to growth in Marketing Solutions, up 1% year-over-year at constant currency. Within Marketing Solutions, Commerce Audiences was up 31%, partially offset by Retargeting being down 7%, as expected. Iponweb contributed $34 million.

We continue to shift our top line mix to our fast-growing new solutions for Retail Media, Commerce Audiences and Iponweb that represented 51% of our Contribution ex-TAC in our third quarter. Our client retention at 90% remains resilient.

Turning to our business segments, in Retail Media, revenue was $50 million and Contribution ex-TAC grew 29% at constant currency to $48 million. Our growth was primarily driven by our client base in the U.S. and our retailer marketplaces. In Q3, we added 10 retailers and 100 brands, and our same-retailer Contribution ex-TAC retention was up sequentially to 123%.

We also saw strong growth from our agency partners, and robust brand bookings, mainly in CPG, our largest vertical, as brands shift more spend to digital channels. The Retail media spend we activated in Q3 grew 39% year-over-year, above market growth, demonstrating that we continue to gain share.

In Marketing Solutions, revenue was $386 million and contribution ex-TAC was $163 million with strong growth in commerce audiences, offset by lower Retargeting. While Retargeting was down 7% year-over-year, it improved sequentially as the integration of our deep learning algorithms and advanced vector database technology into our recommendation engine has helped marketers enhance campaign performance.

Our clients continue to operate in a choppy economic retail and consumer environment with scrutiny on their advertising dollars. That being said, our Retail vertical improved sequentially, and our Travel vertical continues to perform well, up 35% year-over-year in Q3, and above 100% on a 2-year stack basis.

We delivered strong growth in Commerce Audiences, up 31% year-over-year, or 60% on a 2-year stack basis, driven by cross-selling dynamics as our clients value having 1 partner to help them engage with consumers across their entire buying journey.

Iponweb's performance was up double digits on a stand-alone basis, primarily driven by accelerated growth for our Commerce SSP. We delivered an Adjusted EBITDA of $68 million in Q3 2023. Non-GAAP operating expenses increased 5% year-over-year, due to Iponweb, partially offset by our cost reduction actions. As we transform our business, we continue to drive cost efficiencies while allocating resources to growth areas. We are on track to deliver higher cost savings, closer to $70 million, given our rigorous focus on cost management and efficiencies, largely offsetting growth investments.

Moving down the P&L, Depreciation and Amortization increased 28% in Q3 2023 to $25 million. Non-cash share-based compensation expense increased to $24 million, including $7 million related to treasury shares granted to Iponweb's founder as part of the acquisition. Our weighted average diluted share count was 60.2 million. This resulted in diluted earnings per share of $0.12 and adjusted diluted EPS of $0.71 in Q3 2023.

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 September, which gives us significant financial flexibility to execute our growth and capital allocation strategy. As expected, free cash flow was $4 million in Q3 due to the CNIL payment of $43 million. We anticipate significant free cash flow generation in the fourth quarter in line with the seasonality of our business including Retail Media and Iponweb.

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 buy-back program. We deployed $103 million of capital for share repurchases in the first 9 months of 2023. This included 0.9 million shares repurchased in Q3 at an average cost of $30.4 per share.

Turning to our financial outlook, which reflects our expectations as of today, November 2. As we enter the last and largest quarter of the year, we remain cautious in our planning given the significant uncertainties in the macroeconomic and geopolitical environment. We saw muted trends in October, including softer media trading and lower traffic for Iponweb.

As we move to the holiday season, our sales teams are actively engaged with our clients to deliver performance and strong results. Overall, we expect Q4 Contribution ex-TAC of $296 million to $302 million, growing by 5% to 7% at constant currency. We estimate ForEx changes to drive a negative year-over-year impact of about $2 million to $4 million on Contribution ex-TAC in Q4 given the weakening of the Euro and Yen against the U.S. dollar. We expect Adjusted EBITDA between $109 million and $115 million.

For the full year, we now anticipate Contribution ex-TAC growth of approximately 9% to 10% at constant currency in 2023. This assumes low-single-digit organic growth and the full year impact from our acquisition of Iponweb. We continue to expect Contribution ex-TAC growth of 25% to 30% for Retail Media.

For Commerce Audiences, we expect Contribution ex-TAC growth of approximately 30% as advertisers continue to shift more budgets and adopt full-funnel activation. We now anticipate an adjusted EBITDA margin of approximately 27% to 28% for 2023. This reflects the flow-through of our refined top line and a 50 basis points impact from incremental FX headwinds due to the weakening of the Euro and Yen against the U.S. dollar.

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 centers, for which most spend was incurred in the first half of the year. For modelling purposes, we assume a flat number of shares outstanding in 2023.

Lastly, we are making great progress towards our long-term ambitions and our strategic plans to establish ourselves as the AdTech partner of choice for Commerce Media. Along this journey, our commitment to our investors is to continue to be transparent. I would like to take a few minutes to provide an update on the financial aspects of our long-term growth ambitions that we shared with you this time last year at our Investor Day.

The assumptions that underpins our financial ambitions at that time, anticipated some, but not all the dynamics that have affected the market over the past 12 months. Starting with the macro-economic environment, as you already know, during late 2022, we, along with many in our industry, were impacted by a significant slowdown in advertising demand. Although the macro backdrop looks more stable today, it is still highly volatile, and this impacts our run-rate for growth.

Next, as you know, Google is entering the final stages of their Privacy Sandbox initiative. While Criteo has leaned into a close collaboration with Google and we remain confident about our own readiness, there are uncertainties related to Google's plan to test with live traffic and deprecate third-party cookies in the same year.

Thirdly, as a market leading tech provider in Retail Media, we are enabling long-term sustainable and profitable business models with our partners. For our most mature partners, our economic pricing model is evolving to drive further scale, higher lifetime value and more profitability. In this context, our largest retailer is expected to shift to a multi-year SaaS-like revenue fee structure for the services we provide.

This self-service model enables increased efficiency, and opens up visibility into future revenue. And importantly, it drives further spend to our platform. In addition to recurring SAAS-like fees, our economic pricing model also includes take-rate volume-based fees and additional fees for value-added services.

As a result of these changes, while we expect our Retail Media gross media spend to continue to outpace the market, we currently anticipate that our 2024 Retail Media Contribution ex-TAC growth rate could be lower than in 2023. We also continue to win new clients at a rapid pace including 2 of the U.S. largest retailers in recent weeks, and we are confident that Criteo is well positioned for sustainable growth and increased profitability.

Given these 3 factors, our ambition to achieve $1.4 billion in Contribution ex-TAC is not expected to materialize within the 2025 timeframe. Our strategy remains the same. Our execution is tight. We are laser focused on top line, scale, and profitable growth across our entire business, with operational cost efficiencies and margin expansion over time and solid cash generation.

We're in the largest growth area of the market, and our focus on winning share in Commerce Media is relentless. Our strategy and execution is already paying off. As we continue to execute and gain scale, we will report on our progress in realizing our ambition to be the partner of choice for Commerce Media, today and for the long term. The future is wide open.

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 is from the line of Mark Kelley with Stifel.

Mark Patrick Kelley - *Stifel Financial Corp. - MD & Senior Equity Research Analyst*

Thank you. Sarah, maybe -- can we dive into the last part of your prepared remarks, just about the 2025 targets? When I think about all of the newer wins you've had, whether it's Uber or other marquee names, and then you just hinted at 2 really large retailers in the U.S. that you just can't announce yet. When I take all of that positive commentary and kind of win momentum and pair that with your thoughts on Retail Media for next year and the growth expectations.

Those 2 don't totally align in my head. So maybe can you walk through the moving pieces a little bit more outside of the fee structure changes and some of the other moving pieces? Obviously, weaker challenging macro environment, but just how are those new wins layering in? And I guess maybe what are you seeing from some of your more legacy clients?

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

Yes. Thanks, Mark. Well, first of all, I do want to focus on the share gains we have in Retail Media. Today, we're delivering services to 60% of our U.S. top retailers, and we continue to deliver to 50% of our European retailers. So, the strategy hasn't changed. The clients are terrific, and we continue to meet with them weekly, daily, talking about strategy, talking about operations, talking about execution.

What has changed for 2024 is our largest customer, we've recently engaged in a renewal, and we've moved to an economic pricing model that is more SaaS-like. That's a scale player, a mature player. We continue to drive massive value to them, and we continue to -- which also delivers, of course, value for us. But with that, we have more SaaS-like recurring revenue, so it's really shifting the economic model. We do continue to have the volume-based take rate fees, and we continue to have pricing structures for the value-add services.

Our expectation is that the national brand dollars are going to shift into our ecosystem. It all takes time. And so as a market maker, we feel very good about where we are in terms of client-based incentives of our product, in terms of our strategy. However, for 2024, we're starting from a lower starting point versus our ambitions -- the 2025 ambition. And our expectation is we'll take, I would say, a shorter-term hit on the growth rate versus where we expect it to be in 2024.

That's really the biggest change. But in the short-term, I would say, adjustment to the growth rate with the expectation of short, medium, and long-term gains on all the things you spoke about, client base, product mix and continue to ship dollars. And we're relentless on looking and ensuring that we continue to drive those brand dollars into the Criteo platform.

Mark Patrick Kelley - *Stifel Financial Corp. - MD & Senior Equity Research Analyst*

Okay, all right. And then maybe just one quick follow-up, just on the SaaS fee structure and then the take rate on top of it. I guess, are you seeing more competitive pressures from other retail media network providers? I guess, what was the reason for the fee structure change?

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

Yes, I would say the fee structure change is more in line with our newer contracts, which -- so we see it as more an adjustment to the way we do business. And with scale, we'll continue to drive more fees and more scale. We're also continuing to add capabilities into our Commerce Media platform.

We delivered a lot this year of course, with C-Max., the focus on C-Grid as well for retailer curation. And as you know, from Todd, there's a roadmap over the next year, 2 years, that we continue to look at how can we drive digital spend for brands into the Commerce Media platform.

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

Yes. I'll just add, it's a good question and good topic. Sarah said before that, our strategy remains the same. It does, and it's working. But we're growing share by the day and certainly winning in this space. It's -- we're carving out a marketplace here. We're building something for the long term, and it is a long-term vision. Core of our strategy is to win the retailers, we continue to do that.

The second part of our strategy is to grow with the retailers, and we do that by driving demand to them, but also building out capabilities that they can subscribe to through a SaaS-type model. And then as we're building out this marketplace, it's to be flexible and work with our clients to evolve our pricing models to ones that work for both of us that create sustainable, profitable economics for both of us.

And so, these are the things that we're working through as we're relatively early in the stage of building out this marketplace. But it doesn't take away from the strategy and the strategy is certainly unfolding.

Operator

Our next question is from Ygal Arounian with [Wedbush Securities].

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

It's Ygal with Citi. I just want to keep kind of digging into that point, I guess I'm not really fully understanding. First of all, I want to make sure I heard you, Sarah, the Retail Media Contribution ex-TAC could be lower in 2024 than it is in 2023? And so maybe first, what's prompting the shift to the SaaS like model? Was it more from you guys or is it more from your client?

And then I guess, the piece that I'm not totally getting is why it's less revenue generative, right? So you should theoretically be growing billings next year, but you're getting less of a contribution as you shift to the SaaS model. So can you help just please explain that a little bit better?

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

Yes. First of all, to clarify, Retail Media will continue to grow. What we're anticipating is that the growth rate will be lower -- certainly lower than we had assumed in our ambition, and we anticipate it will be lower than our 2023 growth rate as a short-term perspective. The biggest shift in the model with our largest scaled retailer is that we were doing more Criteo sold for all brands. And as our retailers shift, and many have already shifted to this model, some will do their own sell for their largest brands, and we will continue to sell for the medium to long tail.

In addition to that, we receive fees for everything that goes through our platform, which is all the volume. That's the biggest change. And again, we do anticipate and we do see many opportunities for us to continue to drive scale, not just with this large-scale player, but also with the significant ecosystem we have in the U.S. and in Europe. And of course, as we continue to build our Asia-Pac as well.

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

Okay, that's helpful. Sorry, I misunderstood. And then, with the launch of Commerce Max, maybe you could just share a little bit on early reads, what you're hearing from agencies and partners. And within that being also, Omnicom made an acquisition this year, just this week that feels like they're moving more into Retail Media on their own or Commerce Media as a whole, and Omnicom has been the key partner. So does that change anything with your relationship with Omnicom at all?

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

Sorry, just one thing on the last part of your question. I do want to emphasize that our Retail Media, our Commerce Media platform is self-service. So, a huge benefit of driving scale and driving to these new economic models is there is a shift to more self-service, and that will enhance our profitability over time. We do have positive contribution across our businesses. So the expectation is not only we will drive scale and deliver top line, but we're also continuing to deliver profitability overall for Criteo. So those are other key factors as we look at the platform.

In terms of C-Max, we've had terrific traction in terms of the number of retailers, brands and agencies coming into that platform. It's going to take time to see the dollars. So we're starting to see the flow-through coming through in Q4. We just launched in September, as you know, and our expectation is that will continue to drive in 2024. The conversations are terrific, the contracts that we're seeing -- sorry, the agreements that we're seeing with the agencies and brands are incredibly encouraging. And our retailers are absolutely leaned in.

We're excited about C-Max and the traction. We had a really great launch of that event. It seems like only weeks ago. And so the follow-up is definitely coming, but the momentum is building around that.

I think you asked also about Flywheel or Omnicom, is that correct?

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

Yes, just because they've been an important partner here. So, does that change the partnership at all -- the relationship?

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

No, it doesn't change the partnership at all. The relationship is still strong. It actually, what it does do is it further sort of validates the importance of Retail Media. So, as more and more agencies are leaning into their own capabilities to be able to stand up teams and technology to accommodate brands, asks for Retail Media spend, this is just validates that agencies are really leaning into this. They're not making a Retail Media buy as part of a social buy or a buy on another type of media.

So it's very positive. If you look through the -- I call it the supply chain, I guess, of the way technology is used all the way through from the conversation with the brand all the way through to the buy, Flywheel is right up sort of the very end of that, at the very top of that. And we work with them to activate their buys. So, again, very positive for Retail Media and Commerce Media as a whole, and we continue to enjoy our relationship with them.

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

Yes. I mean, just to add to that, Flywheel is one of the biggest buyers of Retail Media, utilizing our APIs. They're a fantastic partner with us. We've done a lot of cross-marketing with them as well at events. They're in-housing some of the tools, so they can buy across Retail Media networks. We see that as a positive for us. And of course, it increases their own operational efficiency from an Omnicom perspective. And ultimately, agencies are shifting to create Commerce Media Centers of Excellence, which we see as a terrific sign for us, especially given our holdco relationships.

Operator

The next question is from the line of Doug Anmuth with J.P. Morgan.

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

This is Katy on for Doug. I just want to dive a little bit more into the 4Q outlook. I think that the organic growth is implied to decelerate slightly versus 3Q levels. So can you just provide some more color on what you're seeing quarter-to-ate that might be making you a little bit more cautious, and how we should think about sizing some of these moving pieces like macro, geopolitical conflicts and the holiday season so far?

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

Absolutely. I mean, we saw a soft October. So that's a starting point, especially with trading patterns, media trading. In terms of the holiday season, of course, we're expecting a terrific holiday season. Our sales teams are all leaned in. We're not seeing an early start to sell to holiday season. So that's the caution. And that's the caution I would say we're similar to most others in terms of watching and seeing,

We're bullish. We know we love to deliver performance for our clients, and we're leaning all in. But that's where our caution is, is knowing that we're not seeing an early holiday season and, frankly, reading the daily news and seeing some of the concerns raised.

We're going to be keeping a close eye on the retailers' results as they come out over the next few weeks, and that will be a gauge. Week-on-week, we are seeing improvement coming into November. So good signs, but not enough for us to sign off on a terrific Q4, especially given it's a pretty short season with the 5% to 6%. That being said, we feel terrific about the strong Q3 we delivered, and we're looking forward to continuing to deliver a strong Q4 as well.

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

Okay. And if I can just do one more, is there anything you can share on how to think about 2024 profitability? Just thinking about the fact that you realize some cost efficiencies in 2023. So, how should we think about the pace of investment next year?

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

Yes. We have a program now and a rigor around operational excellence. So we've been very focused on our operating model, our operational excellence, on knowing where we should be taking more efficiencies, but also where we need to invest for growth. We're not going to give guidance for 2024 on this call. But I would say we feel very good about the $70 million that we delivered in 2023. That was above our plan of $60 million.

And it's part of our operating rhythm that we will continue to look at where do we see ability to invest and also where do we see ability to continue to be more efficient. The shift to the Commerce Media platform and the self-service capability enables more efficiency, and the continued focus on ensuring that we're delivering for our clients at scale also enables flow-through of those dollars to the bottom line as well.

Operator

The next question is from Matthew Cost with Morgan Stanley.

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

I guess on the guidance for '24 and kind of like the expectation step down for '25, how much of it is macro versus micro? So you talked about an expectation to outpace the market in '24. Are you expecting to outpace the market to the same magnitude you did before or just the market will be weaker? What's the mix there? And then I have a follow-up.

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

Yes. Well, first of all, we're not giving guidance for 2024. But of course, as always, we'll discuss guidance in our early 2024 call after year-end. Our expectations is that we will continue to outpace the market on media spend. And we're focused on short, medium and long term and in particular, medium to long term. For 2024, the most of the challenge is the macro, I would say, slowdown from the beginning of Q4 last year that was pretty significant.

So the starting point is significantly different. That would be the key item that's changed the focus on the ambitions to meet where we wanted to be by 2025. We're making a market. We're spending time getting the product right. We feel fantastic about our launches. We feel good about the economic terms that we set with our clients. We feel terrific about the pricing model we have for performance advertising and for Retail Media.

And frankly, we wanted to make sure we were transparent with all of you as we go along this journey. So the uncertainty includes Privacy Sandbox. We feel very good about where we will be for next year internally. It's a major dynamic shift for our industry, and that's all going to happen in 2024 from testing to deprecation. That's the biggest disruption the advertising industry has seen in the past 20 years. So there is, of course, some uncertainty as it relates to that.

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

Yes. I'll just weigh in again because I want to reiterate the long-term story here because it's just so critical. We're in this for the long term, and our strategy remains the same. You'll see that we continue to win retailers and from the biggest retailers to the smallest retailers, we're winning them. We're significantly ahead when it comes to features and capabilities and how much we're doing for those retailers. We respond to them every single day to make sure that we're in lockstep with them in their journey and that we're growing with them. And so this is a long-term market play of which we find ourselves in a terrific position.

During this, we have to continue to work with those clients to evolve the economics to make sure they're long-term, sustainable, focused on the right things, they drive profitability for us. And that's what you're seeing in the short-term. But this is -- we continue to see a massive, a total addressable market for us where we now see closer to the markets and the size of the market that's available to us, and we're driving headlong towards our leadership position in that. So think out to the long term as much as you can.

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

Got it. And then just on Commerce Audiences, it was definitely another strong performance there this quarter. I think you mentioned in the slide deck, no incremental signal loss impact in the quarter. So I guess, what is motivating people to lean in to Commerce Audiences even as kind of Retargeting is declining somewhat year-on-year. Is it just preparing for signal loss next year? Like why are people doing it so aggressively now when Retargeting is -- it's not getting any worse in Q3?

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

Well, it's a new tactic for us. We've talked about it for a little while. And it's a new-ish tactic for us. And as I said before, we've wanted to expand beyond Retargeting to offer solutions that go up a funnel, and our clients are looking for those -- that optionality to be able to move their dollars around depending on what objectives they're trying to meet.

Commerce Audiences, as we said when we were doing our event last year, is sort of based on audiences that are shopper audiences, that are commerce-based audiences as opposed to people who may be searching their family tree or doing different activities but not close to the point of sale. And so having those -- that capability, therefore, for targeting is a very powerful one. But let me not speak to it. Let me pass it across total to Todd, who's the architect of Commerce Audiences and he can talk it through.

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

Yes. Thanks, Megan. I can't add that much, but I can say that the growth is really pretty simple. If you think of how growth marketers are doing business, they're splitting their attention between acquiring new customers, the best new customers who are shoppers based on real commerce data. And then they're looking at ways to retain those customers and drive more lifetime value. In the past, Retargeting really fell into more the latter bucket, and commerce audiences fall more into the former.

If you look at how spend is cut across those 2 activities; today, about 30% is still going to retention style marketing and about 60% or 65%, a little bit more, are going to growth on the acquisition front. So what you're seeing in this growth is, to Megan's point, we brought a new capability to customers that are already thinking about both activities together, and we gave them an avenue to spend both with us. And that's why you're seeing this growing as rapidly as you are, and we expect it to continue.

Operator

The next question is from Matthew Thornton with Truist Securities.

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

Two questions, if I could. First, on the Retail Media shift that you're seeing with your top client, more of a self-serve model, Is there any way to think about what percentage of Retail Media is still tied to a more full service, take-rate-take model, and thus still could shift to more of a self-serve model?. That would be the first question.

Second question, and maybe this one is for Todd. The Privacy Sandbox has been open for testing. You've been working with Google for a while now. So my question is, have we learned anything about just the usability or the efficacy that informs or incrementally informs your opinion for 2024? I would think that there's probably some learnings and either gaining confidence or a loss of confidence as you think about 2024. But again, I'm just kind of curious if there have been learnings on that front.

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

Yes. I'll take the first part of that question. I mean, in terms of the Retail Media model with our economic model with our clients, we feel very good about the economic pricing that we have across the board. We've renewed most of our clients over the last 12 months, and we continue to renew. We've also seen already a shift to large brands being sold by the clients versus by Criteo and our Commerce Media platform capability being self-service already leans more into a platform pricing model.

So, ultimately, we anticipate the growth to continue in terms of scale and in terms of that mix of, I would say, SaaS-like fees plus volume-based fees plus value pricing for other services that we're delivering. And that's where most of our contracts already are and are continuing to shift. It's going to be around the scale and continuing to bring in new capabilities with increased fees coming in over time. It's really the scale play along with that new economic pricing model.

And then I can hand over to Todd on your Privacy Sandbox question.

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

Yes. Thanks a lot, Sarah. Matt. We, of course, have learned a lot on the back of a very large investment at the company with the Privacy Sandbox and partnering with the Google team. What we've learned so far is that we can do a reasonably good job with our targeting, our recommendation, our bidding and our measurement as we have in the past. And what we're excited to learn next, because the knowledge that we've gained thus far has really been on traffic that commingles Privacy Sandbox with third-party cookies, and what we're really waiting to do and learn from next is the January or Q1 rather, release of cookieless traffic by Chrome. That 1% of the population that will be made available for testing for 5 months thereafter on a completely cookieless basis.

So we've been preparing for this and we're feeling very good leading into that test. We're going to learn a lot once we see how pure cookie free traffic can be targeted, can be made recommendation to, can be measured. But we feel very strong going into that period, and we're going to be excited to share the results of our testing as we go through and as we have in the past.

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

Let me just grab on this one a little bit because, Matthew, it's an interesting question and it really speaks to the DNA of Criteo. So I do want to say something about this. I have a background as an athlete, as some of you know. And as an athlete, you train every day, twice a day, for a day that is years ahead, years ahead. And it's just -- it's about your resilience. It's about keeping your eye on the prize regardless of the ups and downs.

At Criteo, we do exactly the same thing. So, we are laser focused on getting through the Privacy Sandbox, having trained for it for years. And it's the same story with our positioning and our future for our ad tech position for Commerce Media, the ad tech provider for Commerce Media. It is eye on the prize. It is training every single day, twice a day, for the day in the future. And that's the DNA that we have developed here. So, I just wanted to throw that out there because it's just an important part of who we are.

Operator

There are no further questions.

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

Okay. Thank you, Megan, Sarah and Todd. This now concludes our call for today. Thanks, everyone, for joining. We're available for any additional questions. Have a good day. Thank you.

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

Thank you. Bye-bye.

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

Thank you.

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

Bye-bye.

Operator

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