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PRESENTATION

Operator

Good morning, and welcome to the Criteo Second Quarter 2020 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Edouard Lassalle, VP, Head of Investor and Analyst Relations. Please go ahead.

Edouard Lassalle - *Criteo S.A. - VP & Head of Market Relations*

Thank you, Cole. Good morning, everyone, and welcome to Criteo's Second Quarter 2020 Earnings Call. We hope you're all safe and healthy wherever you are. With us today are CEO, Megan Clarken; and CFO, Dave Anderson. Please note that because of ongoing restrictions, we're all going -- joining this call from different locations today and, as a result, may face unwanted technical changes.

In the course of our call, management will make forward-looking statements. These statements reflect Criteo's judgment and analysis only as of today. And actual results may differ materially from current expectations based on a number of factors affecting Criteo's business. Importantly, at this time, the global COVID-19 pandemic is still having a meaningful impact on the global economy, on the business of our clients as well as on Criteo's business and may further impact Criteo's financial condition, results of operations and cash flows in the future. There are significant uncertainties around the duration and extent of the pandemic. The dynamic nature of these circumstances means that what is said on this call today could still materially change at any time. For more information, please refer to the risk factors discussed in our earnings release as well as our most recent Form 10-K and Form 10-Q filed with the SEC. We do not undertake any obligation to update any forward-looking statements discussed today, except as required by law.

In addition, during this call, we'll also discuss non-GAAP measures of our performance. Definitions of such metrics and the reconciliation to the most directly comparable GAAP financial measures are included in the earnings release published on our website earlier today.

Finally, unless otherwise stated, all growth comparisons made during this call are against the same period in the prior year.

With that, it's my pleasure to now hand it over to Megan.

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

Thank you, Edouard, and good morning, everybody. It's a great pleasure to be with all of you for our third call together. Once again, I'm joining you from the safety of my house in Upstate New York, and I hope everyone is staying safe as well.

On our call today, I'm going to cover 5 key topics: number one, the current business context and our learnings from it; number two, our better-than-expected results in Q2; number three, a brief recap of our strategy, including executing on our 4 strategic pillars; number four, our progress on online identification; number five, our operational priorities going forward.

Now let's start with the current business context. In the unusual times that we're living in, the world is changing fast, and so many interesting trends are shaping up. Global retailer sales are shifting to e-commerce. Based on eMarketer data, e-commerce is predicted to grow from 16% of total retail sales today to 23% in 2023, heavily influenced by COVID consumption trends.

In the United States, the growth is partly driven by an increase in click-and-collect, allowing consumers to make immediate contactless purchases. This strong growth benefits many nonlarge platform retailers and direct-to-consumer brands, in particular in the mid-market. For example, according to a survey, 81% of e-commerce purchasers who have tried new retailers during COVID expect to continue to use them in the future. And marketers are making moves to redirect the sizable amount of their trade budgets to media and advertising, injecting ad spend into the market and towards lower funnel campaigns, meaning targeting and retargeting. All of this clearly is very encouraging for our business on all fronts.

So let's move to quarter 2 and our performance. Revenue ex TAC of $180 million and adjusted EBITDA of $39 million were respectively 21% and $30 million, above the high end of our initial guidance at constant currency. We achieved these solid results, thanks to the contribution of all Criteos who have not missed a beat during our lockdown and work-from-home situation. I'm really proud -- incredibly proud of the team and our performance.

In line with the Q1 trend, our mid-market business remains resilient and continues to grow, especially in Retail, thanks to healthy online retailers and direct-to-consumer brands. While a number of large customers in Travel, Classifieds and brick-and-mortar Retail remain deeply affected by COVID, we continue to sign new accounts in both large and mid-market segments and expect growing contribution from new business in the second half. As the economic aftermath of the pandemic progressively unfolds, we believe direct response and targeted marketing remain key to help all clients weather the pandemic and accelerate their recovery.

For our Retail Media business specifically, same-client revenue ex TAC growth was up close to 60% in Q2, a strong acceleration from prior quarters. In Q2, we also signed a new agreement with one of the very top U.S. retailers. While higher e-commerce usage triggered by COVID was a clear positive for Retail Media in Q2, accelerating the move of brand dollars online, we believe this tailwind is going to continue, albeit at a slower pace in Q3 and beyond, as online consumption moves beyond the lockdown-driven peak.

I want to say a few words about COVID. The net impact of COVID on our business was lower than expected in Q2 and proved to be positive in Retail Media and mid-market. Yet the pandemic continues to be dynamic, and business conditions remain incredibly fluid, in particular, in the United States. Our current view is that the pace of recovery may be much slower than originally anticipated, in particular, for the Travel and Classified verticals. As a result, we may not see a full recovery before sometime in 2021 at the earliest, and Dave will talk more about this later.

Now moving to my third point, our strategy. As we've discussed in the past, our mission is to power the world's marketers with trusted and impactful advertising. In order to leverage the key trends I spoke about, our strategy is to build and operate a world-class demand side platform, or DSP, specifically for e-commerce. With this, we want to earn additional marketing budgets from existing clients and win new customers in the consumer brand and commerce space. To succeed with this strategy, we're drawing on our strong and differentiated assets: our deep relationships with commerce clients and retailers, our rich commerce data and large ID graph and our fast-growing Retail Media platform for brands and retailers. Given the short- and long-term growth of e-commerce and what we believe the long-lasting effects of COVID could be, our position in this space provides an exciting opportunity.

Executing on this path, we focus on 4 strategic pillars: firstly, strengthen the core; second, expand the portfolio; third, explore strategic game changers; and last but not least, drive tech and operational excellence.

With respect to strengthening the core, we continue to build our platform and to release DSP features as they become available. So for example, we now offer enhanced commerce audience targeting, allowing marketers to connect more product categories and brands into powerful additional audience segments. Our new reporting dashboards now provide marketers with additional transparency on the performance and measurement of their campaigns. Transparency is a critical requirement for marketers. Responding to our client's retargeting needs while pushing up the funnel to increase our capabilities beyond retargeting is our focus here. As a matter of fact, global research firm, IDC, recently named Criteo the #1 independent ad tech company for 2019.

With respect to our second pillar, expanding our portfolio, I'm pleased to report that our new solutions now represent 20% of our business on a revenue ex TAC basis, growing 67%. In particular, the momentum around Retail Media accelerated to plus 84%, growing more than twice as fast as in Q1. Retail Media, as you know, helps brands to reach critical target consumers on retailers' websites and apps.

In June, we launched our unified Retail Media platform in the U.S. This platform combines our various Retail Media offerings, including sponsored products and other rich ad formats, and provides self-service, transparency and control that they need as they manage and monitor their marketing campaigns. We plan to launch the platform in Europe in Q4.

We told that recently, we hired the prior CEO of Triad Retail Media, Sherry Smith, to join our team and lead our U.S. Retail Media business. And Sherry is a terrific addition to our team.

Some of our other new solutions continued to perform strongly. For example, our omni-channel business, helping clients target and engage their off-line or in-store customers online, grew more than 120%. We expect this to continue to grow nicely even after we get out of the pandemic. And our App Consideration solutions continue to grow very nicely as lockdown restrictions drive more user time on apps, driving more installs, more traffic and more customer acquisition on apps for our clients.

With regards to exploring strategic game changers, we continue to grow our partner network. Partnering with Yahoo! Japan since 2012, we've extended our agreement to now include our consideration solutions, including web traffic and app install, enabling marketers to display ads for additional marketing objectives on Yahoo! Japan's inventory.

We also just signed a partnership with customer data platform, Zaius, to strengthen our custom audience capabilities for online and in-store targeting. We also broadened our partnership with Lengow to strengthen targeters -- sorry, retailers' targeting of off-line consumers -- customers, sorry, with more relevant product recommendations based on what's available in local stores. We expect those 2 partnerships will further enhance our audience targeting success and support our focus towards e-commerce.

And last but not least, with regards to driving tech and operational excellence, as discussed earlier, we're enhancing our platform with new DSP features. We're also working on strengthening our contextual targeting capabilities, building on our partnership with Oracle Data Cloud and enriching the Criteo Engine to enable bidding on contextual signals. We continue to invest in our identity solutions. I'll speak more about this in a second.

I'm also thrilled by the new talent that we're bringing in to Criteo, strengthening the caliber of our leadership team. Most recently, we announced Dave Anderson's arrival. For those who know Dave, know that he brings experience, transparency and integrity with him. He's a hard-working, trusted partner to me, and I'm thrilled to have him onboard. David Fox officially extended his role to Chief Commercial Officer. David is working tirelessly, bringing sales operations, excellence and accountability and structure to our commercial teams. And I'm delighted to announce that we've just now hired a world-class Chief Product Officer in Todd Parsons joining from OpenX. The Chief Product Officer role is a critical role for us, and Todd brings a proven track record as a product leader and with deep expertise in advertising technology. I'm energized by the team we've built in a short time, and they're fired up, and they're ready to go.

With regards to our cost-containment program, we exceeded our plan in Q2 and remain well on track with the targets that we shared with you. As we said in our Q1 call, we intend to implement further cost control and organizational measures to right-size the business while maintaining investment in growth areas.

That gets me to my fourth topic, our focus on identity. We see changes to online identity presenting a step forward for consumer privacy. However, we stress the importance of industry collaboration and thinking through the implications of some of the proposed changes on the wider ecosystem and the consumer experience.

Remember, privacy challenges, including changes to Chrome, affect the entire ecosystem, whether that be ad targeting, supply monetization, measurement, attribution and others. For our part, we see this moment as an opportunity for us to apply our unique assets and work for the open Internet, the advertisers and ultimately, the consumers. We believe we have assets that no other tech company has, and we're stepping up to use them. As our CTO recently put it, "Online identity may go dark at some point, but we have a powerful flashlight."

Our powerful flashlight is built at scale on 3 capabilities: first, our ability to do contextual and cohort-based advertising based on user profiles built on context and affinity; secondly, one-to-one advertising based on consumer identification data coming from first-party integrations with over 20,000 advertisers and 4,700 direct publishers; and thirdly, and adding to these first 2 capabilities, our massive ID graph with 2.5 billion unique users globally, of which 98% have persistent identifiers beyond cookies, a critical asset for online identification that nobody else has.

Enabling marketers to deliver the right message to the right person at the right time and on the right device, whether on app, CTV, you name it, is predicated on our ability to be the best at knowing anonymized consumer identification and their shopping interests. Our 3 capabilities combined provide a massive headlight and will continue to set us apart as we move forward.

It's with our expertise and confidence that we created our response to Google's privacy sandbox on behalf of the industry. We call this SPARROW or Secure Private Advertising Remotely Run On Webserver. Criteo is the only ad tech company, alongside Facebook, that have progressed its proposal to Google Chrome from a W3C group to a more formal group called web platform incubator community. We propose methods related to consumer experience, control and continuity of the ecosystem while improving performance for advertisers. This work is ongoing, and we recently published an extension to our original proposal to add near real-time reporting capabilities with positive industry feedback.

In fact, the CTO of a large, well-respected supply-side platform recently praised SPARROW and called out Criteo for creating good harmony across the working group. Most recently, Adweek called Criteo the #1 retargeting company within the 15 most innovative and relevant companies in ad tech and martech. Overall, our work around identity is deep and wide. Building both inside and outside of the sandbox and extends beyond Criteo to the industry and consumer experience.

As you probably recall, Apple announced that with iOS 14 expected later in Q3, all apps will need to obtain user permission before leveraging its anonymized identifier for advertising. We believe it's a move in the right direction based on respect of user choice and control, yet we also believe this can be a big industry issue. This unilaterally -- this unilateral decision with no concertation and little time to adapt will create troubles with deep implications for the advertising ecosystem, especially on the supply side. Both advertisers and publishers are looking to us to help address the change. And here again, we believe we have a powerful flashlight.

As I said in the last earnings call, we're building a revocable identification system, allowing users to build their own privacy profile and easily adapt it as their preferences evolve. This personal profile would be available across all web and app environments and not be owned by any commercial entity nor limited to a software, operating system or device. We're working with the industry to make a widespread use of the ID solution, which is very promising, and of course, we'll update you down the road.

That leads me to my last key topic for the day. We remain focused on the 5 priorities for the short and midterm that we indicated in our Q1 earnings: first, to ensure employee safety and business continuity; second, support our clients with direct response marketing through their business recovery; third, further align our organization around cost structure to support our strategic plan while also investing for growth; fourth, develop enduring, industry-leading solutions for online identification; and fifth, execute against our full-stack DSP strategy both organically and via partnerships while staying nimble as the landscape unfolds and new trends emerge.

And with that, I'll hand it over to Dave to go over our Q2 performance and our financial outlook.

Thanks a lot. Dave?

David John Anderson - *Criteo S.A. - Interim CFO, Principal Financial Officer & Principal Accounting Officer*

Thank you, Megan. Can you hear me okay? Great. Yes. Thank you, Megan, and thank you very much for those very kind words. Good morning, everyone. Let me echo what Megan said. We wish everyone safety and there's time and also appreciation for joining our call today.

I'd like to start with our quarter 2 performance, and then I'm going to close with a discussion of third quarter guidance and give you also some perspective about how we're thinking about the outlook for the remainder of 2020.

To start, Q2 performance was obviously a lot better than we originally expected with about 2/3 of our improvement compared to our April guide attributable to lower COVID impact; and 1/3 to better underlying performance, including several positive onetime items. I'm going to explain that in just a few minutes.

Revenue for the quarter was $438 million. Ex TAC, the revenue declined 18% at constant currency to $180 million. We estimate that the net negative impact of COVID on the revenue ex TAC during the quarter was about $41 million or about 19 points of growth. So if we exclude this estimated net impact, revenue ex TAC growth was slightly positive, which was obviously encouraging.

Now the COVID headwind more than entirely impacted large clients using marketing solutions, in particular, Travel, Classifieds and, of course, the brick-and-mortar Retail, as some clients temporarily paused or even reduced their campaigns during the quarter. Travel, which stayed deeply affected, contributed to over 50% of the net COVID headwind with the remaining 45% to 50% of the impact evenly spread between Classifieds and other verticals. While the impact on Retail was overall close to 0, it was very contrasted between large clients and the mid-market. In fact, spending by the mid-market and direct-to-consumer brands remained resilient. It was actually supported by COVID. Retail Media also benefited from a COVID tailwind. We estimate that about $4 million of this tailwind for Retail Media benefited Q2 only from a COVID tailwind. Excluding this positive onetime tailwind for Retail Media and the $3 million favorable technical items related to client rebates and traffic acquisition costs in the quarter, we'd view the normalized level of retail -- of revenue, rather, ex TAC, was about $173 million in Q2.

Net changes in foreign currency in the quarter provided a $3 million headwind compared to Q2 last year but a $2 million tailwind compared to our guidance assumptions. The revenue ex TAC margin in the quarter was 41%, in line with the prior quarter and our expectations.

Let's look at some of the operating highlights. I'm just going to tick through these relatively quickly. Our new solutions doubled their contribution to revenue ex TAC from Q2 last year to 20% of our total business. Obviously, the solid growth of Retail Media was a significant driver here. Excluding COVID, retargeting only declined 7% at constant currency compared to 27% unadjusted.

Net client additions were flat in the quarter. We ended March with close to 20,400 clients, which is a 3% growth year-over-year, despite client retention declining to close to 80% for all solutions. COVID had a significant impact on same-client revenue ex TAC, which declined 14% at constant currency, of which 21 points were attributable to the pandemic, 7 points to positive contribution from client stickiness across marketing solutions and Retail Media.

And on the supply side, more than 4,700 direct publishers are now connected to one of our Criteo direct bidders on web and app, and that's a real nice growth on a year-over-year basis.

Turning now to regional performance. Revenue ex TAC in the Americas grew about 2% at constant currency, if you exclude an estimated COVID impact of $14 million mostly on large customers and the broader Classifieds vertical. Retail Media's strong momentum continued to accelerate in the U.S.

For EMEA, revenue ex TAC grew about 1% at constant currency, excluding an estimated $16 million COVID impact that was largely driven by the Travel weakness. And our new business was healthy across EMEA with success across both direct clients and ad agencies. We're also seeing a few large clients adopt more stringent banners for obtaining user consent in some markets.

And in APAC, revenue ex TAC declined about 3% constant currency, excluding an estimated $11 million COVID impact on Travel and Classified verticals, while Retail saw a continued shift from off-line to online, especially in the mid-market.

So shifting to expenses. We reduced total expenses by $34 million on a GAAP basis, $27 million on a non-GAAP basis or $3 million better than our Q2 target before $4 million of unplanned bad debt accrual. And a lot of that accrual, as you would expect, was related to U.S. customers. The cost favorability was driven by a number of initiatives that Megan and Benoit talked about last quarter.

Operating expenses declined 22% on a GAAP basis, 20% on a non-GAAP basis. Headcount-related expenses represented 72% of the GAAP OpEx, in line with last year as we reduced expenses across all areas of the business. And as we indicated on our first quarter call, we're being very disciplined in all of our expenses and our headcount.

If you look at the non-GAAP expenses by function, we also had favorable year-over-year expenses across R&D, sales and operations as well as G&A.

Now adjusted EBITDA for the quarter reached $39 million, which is significantly, $37 million at guidance rates, $30 million above our original guidance for the second quarter. This drove the adjusted EBITDA margin to 22% of revenue ex TAC, highlighting our increased focus on cost control in light of the current economic challenges.

D&A expenses decreased 5% as a result of fully amortizing some technology intangible assets and our office right-sizing policy that you recall, we implemented in late 2019.

The effective tax rate for the quarter was 30%, thanks to the positive effect of the French patent box regime.

Net income was $6 million, down 51%. Adjusted diluted earnings per share were 27%, only down 43% due to the positive impact of the share buyback program on the share count over the period.

Cash flow from operations declined 37% to $33 million, almost entirely driven by the negative changes in working capital due to a 4-day higher DSO, reflecting continued impact of COVID on client payment terms. And despite the payment mentality of some of our clients, including in the U.S., our team stayed focused and have done a tremendous job of collecting payables in a timely fashion.

CapEx declined 43% as a result of cost control, including through optimized server usage. And $15 million free cash flow came out solid, thanks to a reduced CapEx and resilient collections during the period. And free cash flow -- importantly, free cash flow conversion for the first 6 months came in at a strong 61% of adjusted EBITDA.

And finally, cash and cash equivalents on the balance sheet stood at $578 million as of June 30 after spending $15 million on share repurchases in Q2 and also includes a preemptive draw of $157 million on our EUR 350 million revolver. We purchased about 1.3 million shares under the program -- buyback program at an average price of $11.70, of course, financed really through our free cash flow generation in the quarter.

Let me now shift from the quarter and provide a little bit of guidance and perspective on the third quarter 2020. The following, obviously, forward-looking statements reflect our expectations as of today, July 29.

Now as Megan explained earlier, our current view is that the pace of recovery from the pandemic may be much slower than I probably -- most everybody anticipated, in particular, for Travel and Classified clients. Now the lack of international travel remains extremely complicated for OTAs and all the clients in the travel space. This is obviously going to negatively impact the third quarter, traditionally our most heavy quarter for travel.

With continued uncertainty around COVID, we expect continued impact also on the brick-and-mortar Retail clients, and the global situation on the job front and the real estate sector will continue to be detrimental to clients in Classifieds, in particular, in Japan. As a result of the still highly uncertain economic situation, we don't foresee a full recovery happening before sometime in 2021, and obviously, that's still very much a judgment.

Going into Q3, we've seen our July performance decline a bit below the 20% year-over-year on a global revenue ex TAC basis. And as of date of this call, we expect August and September to show slightly more positive momentum despite the weak expected contribution of travel and a more muted back-to-school season this year as a result of the current restrictions.

We estimate that net COVID impact on our Q3 revenue ex TAC to be just below $40 million. In addition, we accounted for some headwind for early adoption of iOS 14 and also advertisers' and publishers' increased adoption of more stringent consent banners in some European markets.

On the expense side, we expect Q3 non-GAAP expenses to be approximately $17 million or 9% at constant currency, below Q3 last year, in line with our prior indication. Taking -- if you take all of this into account and as of the July 29 date, we expect revenue ex TAC for Q3 to be between $171 million and $173 million, translating into a year-over-year decline of 20% to 21% at constant currency with ForEx -- with foreign exchange expected to be a headwind of about 150 basis points of growth or more than $3 million.

Now it's important to say a few words about the Q3 sequential growth, so Q2 to Q3. As we discussed earlier, our normalized revenue ex TAC was $173 million in Q2. In the midpoint of our Q3 guidance, which assumes a $3 million headwind from iOS 14 and stricter consent matters in Europe would be $175 million on a Q2 comparable basis. In other words, we see slight sequential growth on a normalized basis in Q3. This is before highlighting the expected weakness in Travel in what is traditionally our largest quarter of the year for Travel. For reference, revenue ex TAC of about $25 million was done with Travel clients in Q3 last year.

On the profitability side, we expect the still meaningful net COVID impact on our top line to translate into an adjusted EBITDA for Q3 in the range of $31 million to $33 million. As usual, the ForEx assumptions supporting the guidance can be found in our earnings release.

Now importantly, with respect to the business outlook for the rest of the year, you'll recall that we withdrew our guidance for fiscal year 2020 on April 1. And given how uncertain the situation still remains, we believe we're still not in a position to reliably quantify the COVID-related impact on our financial results beyond the third quarter. Therefore, we continue to not provide guidance for revenue ex TAC and adjusted EBITDA for the full year fiscal year 2020.

Let me, though, share some of our current thinking for the fourth quarter. As of today, we're currently modeling little economic recovery from the aftermath of COVID. And based on this macro backdrop, coupled with the assumptions around the early impact of iOS 14 for mid-September and the increased adoption of explicit consent in Europe, we believe the year-over-year decline of our revenue ex TAC in Q4 could remain in the high teens to low 20s percentage range on a year-over-year basis.

On the expense side, we obviously remain very focused on managing the expense base and delivering favorability in 2020 compared to 2019. This includes more moderate assumptions for the second half in terms of bad debt reserve, and we also will continue to obviously closely monitor the cost base and look at further opportunities to ensure that our cash flow generation is strong in both 2020 and beyond.

So with those highlights, Megan, let me turn it back over to you.

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

Thanks, Dave. So in closing, we delivered solid performance in Q2 in highly unusual times. And while the pandemic remains dynamic and the business context is very volatile, Retail continues to hold up well and to enjoy rising e-commerce sales. Mid-market remains strong for us, and Retail Media proves countercyclical in helping brands accelerate the shift to their trade marketing dollars on e-commerce sites.

We've got unique assets for direct response marketing and identity resolution to help marketers get the performance they need. Our financial position is strong, and we'll stay very disciplined in our capital allocation. The leadership team is onboard and fully focused on building our full-stack DSP, our strategy for the future for a future of e-commerce to capture large opportunities across the consumer brands and commerce space.

And with that, I'd like to open the floor now to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today will come from Rocco Strauss with Arete.

Rocco Strauss - *Arete Research Services LLP - Analyst*

Megan, I think you touched on IDFAs or the changes coming with iOS 14. Is there a way to size the share of inventory today that transacts on IDFAs in the core retargeting business as well as in the app installed business within new solutions? And how quickly are advertisers actually like able to shift targeting towards other IDs? And secondly, with the hiring of Todd from OpenX, the ID initiatives, the growing number of publisher integrations, it seems you're aiming more and more to cut out the SSPs and the exchanges fully from the equation, kind of becoming your own SSP. I guess the question here is, is there some thinking of opening Criteo's direct bidder to other third-party DSPs to enable like campaigns on those third-party DSPs to be enhanced by Criteo's ID graph?

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

Thanks, Rocco. You always start with the hard ones. Good for you. Good to hear you. IDFA is difficult to size just because it actually -- it's not necessarily something that we've seen the effects of before. So it's a little new in terms of how fast app owners come up to speed with getting consent and everything that goes along with it. We've sized it enough to be able to make some assumptions around the headwinds that it causes us in terms of our revenue forecasts for the rest of the year where it impacts us, and Dave went through that before. Happy to have him share those numbers again if he has them handy.

But again, what I was talking about earlier was our plans to work with the industry to actually get in front of this through some of the technology that we're building out in order to put in an ID system that allows the consumers to be in control and directly users that pass data across to us that we can use to continue to run our business. So we do see an impact for this year. Sizing - it is complicated. We're focused on getting a solution in place to get past it as soon as possible and something that we can utilize across the industry and help the ecosystem out.

On the Todd Parsons' role coming into him joining our business, I'm thrilled with that. Rocco, I don't know if you know Todd, but he's a terrific guy, extremely talented. We have a strategy in front of us to go full-stack DSP. There's some exciting nuances now that sit in the center of that because of the strong performance of Retail and the growth of e-commerce. So I haven't fully focused on that. With that, clearly, will become other opportunities to expand out that capacity to go into other areas. But in terms of SSPs and becoming SSPs and going beyond what we have in terms of our strategy on paper today, I -- we don't have anything until he's -- he's looking at it, and he can tell us which is the right direction to go on. We have a lot on our plate. And the #1 priority for me is that the team remain extremely focused.

Operator

And our next question will come from Dan Salmon with BMO Capital Markets.

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

All right. Great. Thanks for the comments on IDFA and trying to size it, as you noted, but it's complicated, Megan, and I think we'll probably not try to dig any more on sizing for it, but some of Dave's color on the 4Q impact was helpful.

I guess what I'd like to dig in instead, you elaborated off the top on the Retail Media business, which is understandable why retargeting has gotten most of the focus with your business, it's the largest piece of the business. But Retail Media is really coming on strong. And what I'd like to ask a little bit more about is, I think, the role of the use of an outsourced ad tech stack, it's always made sense for small and midsized players who don't have the resources to build themselves. But I'd love to hear you just talk a little bit more about how the conversation works with larger retailers who may have some of their own resources but also tap into your offering and how you maintain strong relationships there.

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

Yes. Thanks, Dan. Thanks for the question. It's a really good one. As you know, we do have relationships with some of the large retailers. Some of them use our ad tech to offer some of the solutions inside of their own tech stack. So I'll call it white labeling for one of a better term, some of what we do. And as we go into our -- the next round of our strategy and open our offering up more, I suspect that there's going to be a lot more there that you'll hear from us in terms of what we're doing with the larger retailers.

One thing that excites me about what we're doing here is, if you think about mid-market being such as superstar during this time and Retail e-commerce being so strong, there's a stat that says -- I'm just looking at it now, but in terms of people searching now to buy new products, where do they start their search? And the areas of retailer websites and other marketplaces has grown from 7% to, during COVID, 28%. And then you double that with the stat we called out before in terms of 81% of consumers who have switched products will now stay with those products post-COVID. There's a whole marketplace here that's appearing for the mid-market, the mid-market retailers, which is exciting.

And so what I think we have -- what I know we have here in terms of Retail Media, plus the whole suite of the marketing solutions product is an offering that taps into both large retailers plus this growing mid-market range and mid-market retailers that are looking for an underlying platform like ours to be able to move advertising across -- from products to people to sites, including retailer sites, using privacy-driven identity, everything that we have today. So putting that all into -- those blocks into place, what I see as being sort of a massive opportunity for us. And just to circle back to your question, I think the large retailers that already have a presence are going to utilize some of that as well.

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

That's great. And just if I could have 1 follow-up. You spoke, of course, about the high-level strategy around identity, and you come from Nielsen where the whole idea of a single source of truth is the foundation -- has always been the foundation of the business. And Dave obviously spent some time there as well. My question to you is, do you think that there can be a single source of truth in digital? And if not, what do you think the most important differences are and how an ecosystem works with multiple consented identities versus a singular one?

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

Yes. Gosh, you guys, it's morning. All right. So I'm going to -- I will put my Nielsen hat on at the moment and respectfully answer the question. I think a single source of truth really means that somebody has -- somebody is a provider that has it. Like if everybody rallied around 1 provider that owned identity, then you might get to a place where you have a single source of truth. In the same way that Nielsen's measurement is the single source of truth for, say, television because everybody rallies around it and says, okay, this is what we're going to trade on.

To your point, we're in a world where everybody has identity. Everybody says they have the best identity graph. I truly think from my experience, when I look at Criteo's identity graph, it's the best I've ever seen. And at the end of the day, it's about how you use it. Firstly, you get it by having relationships with the sell side and the buy side and ultimately, with the consumer. And when you have relationships, you get trusted access to information, to do a better job of knowing who the consumer is and targeting the consumer. And if you do a better job at that, then you may call it the single source of truth. It kind of doesn't really matter. It's about you provide the service. You get to the right people at the right time on the right device in the right place, and you don't annoy them because it's a contextual ad or something or contextual content that you've served up, and they appreciate getting it. So it's more about how you use it and the quality of the data that you have than this notion of single source of truth for identity because I agree with you. And I happen to think that what we're sitting on here is just -- is gold.

Operator

And our next question comes from Nick Jones with Citi.

Nicholas Freeman Jones - *Citigroup Inc., Research Division - VP & Analyst*

Just 1 more on the iOS 14 update. It sounds like you want to create or Criteo wants to create a solution that gives the users kind of control over tracking. Or I think that's what iOS 14 is trying to do, but the view is that I think a lot of people are going to opt out. So I guess, could you maybe paint a picture of how you think the user engagement should be that, I guess, ostensibly would result in more opting in what that solution looks like in comparison to what Apple is doing?

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

So we come from a place -- by the way, hi, Nick. We come from a place that we believe consumers should be in control, and so there is this -- the operating systems are trying to -- and admirably trying to put privacy restrictions in place that protect themselves from sitting on information or the notion that they may be using consumers' information in the wrong way.

Consumers don't mind their information used, if it's used for the right reasons and if it's used by a trusted partner. And so instead of -- our notion is, give that right or give that control back to the consumer, so they can set up their own way in which they want to be treated and how their data is to be used, what they like and what they don't like.

And so everything we're doing around the ID system, the evocable ID system, is to set up a structure in which consumers can have that control. And we believe that if you give consumers back that control and they feel comfortable about how their data is being used and they see that, they see that they can turn it off and on at any time or break it down and say, "You can use this, but don't use this," they have control. We think that they're -- that they will more likely be willing to opt-in on a system like that than just have one choice of opt-in, opt-out and trust that their experience is going to be a good one, which it won't.

So long way of saying, we want to give control back to the consumer, and anything we can do to build tech to do that, we'll do.

Operator

And our next question will come from Sarah Simon with Berenberg.

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

I've got a couple of questions. First one, on the client retention. Dave, you mentioned it went down. Can you talk about the causes of that? I mean do you think that's basically COVID and Classified and Travel guys simply not spending anymore? Or do you think there's a more materiality we need to be thinking about? The second one was a really small point. Can you just remind us again, what was the $4 million kind of one-off revenue that you were talking about? I didn't catch the explanation. And then as we think about the 4,700 publishers, you've directly integrated with, what's the gating fact -- I mean, obviously, that gives you first-party data. It addresses a lot of the issues people have around Chrome and cookies. So what's sort of holding back that number? Presumably, most publishers would want to integrate with you. So any kind of thoughts on how you speed that process up or why you wouldn't want to would be helpful.

David John Anderson - *Criteo S.A. - Interim CFO, Principal Financial Officer & Principal Accounting Officer*

Well, maybe I could go quickly with the point about -- I mentioned the 80% on the client retention. And Sarah, we think that is significantly related to COVID, and it goes back to clients that were particularly brick-and-mortar Retail clients that were significantly impacted by COVID. So that number is something that I think is going to be -- we'll have more color on that as we go forward. We'll obviously get more insights as we progress through the third quarter. But that's -- I think that's the significant issue there.

Regarding the $4 million, what I explained what was the normalized revenue for the second quarter, the reported $180 million. And I said, if you look at that on a normalized basis, we had some, if you will, technical items. Those are just really related to the revenue accounting, if you will, all related to better than you would expect performance in the second quarter, that was $3 million. And the $4 million, it's really our best judgment, our best insight into what really was a, call it, tailwind for the Retail Media business that occurred in the second quarter that really benefited exclusively in the second quarter. It's sort of the phenomenal flip side of some of the headwind that we experienced on the marketing solutions side. The flip side of that was an estimated $4 million, if you will, good guy that we don't think is going to repeat into Q3.

So that phenomenon, together with the $3 million, really represents our best judgment, taking the 180 reported -- $180 million rev ex T reported and creating a more realistic view for both the actual performance as well as better for comparative purposes looking to Q2 into Q3.

And Megan, do you want to take the third element?

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

Sure will. Sarah, the publishers. So we -- you're referring to 4,700 publishers and getting first-party data from them. Let me flip through the -- to the buy side where we have over 20,000 advertisers and we get first-party data from them.

On the publisher's side, the trick, as you know, is certainly, we want more. We want as much as we can get. The trick is, how do they get it? So the way to get first-party data, of course, is having a relationship whether that be a sign-on, a subscription-based model, a promotional something, whereby, you can get something on the back of a consumer, and it's difficult for publishers to work out what their strategies are to actually get that. Some have done a fantastic job. Others are still trying to get to a place where they can offer something to get something back, and we'll help as much as we possibly can. And I think -- what I think we'll see is that will increase over time. But still, that is regardless of the publishers' side being slower than the sell side. That's an enormous amount of first-party data that we have access to, which is a very good place for us to be.

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

Okay. So basically, is it fair to say that you try and do these integrations more with those publishers that have first-party data than not? Or would you be trying to drive direct integrations regardless? Because obviously there are the economics of header bidding take into account as well.

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

Yes. We try to drive them regardless. And data just gets better as they evolve. That's correct.

Operator

And our next question will come from Andrew Boone with JMP Securities.

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

Megan, some other people in the industry believe that Google eventually will not pull cookies. Can you talk about your personal opinion there and how you see that kind of playing out just given the impact on publishers, the open ecosystem and COVID? And then secondly, you guys talked about contextual targeting in the deck as well as in the prepared remarks. Can you help us better understand your capabilities there? And any degradation in performance as compared to kind of cookies?

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

Yes. Okay. Number one, Google and -- look, I hope that's right. I -- we have a good relationship with Google. They have been a partner for some time. I respect what they do for the ecosystem. What Google is trying to do clearly is to respond to the notion that they hold a lot of private information and particularly as it relates to CCPA. I think they want to make sure that they can do the right thing in terms of CCPA, and so they've got their blinkers on. They're going after that, and none of us can blame them. It's not about what they're doing, it's about how they're doing it. I think -- I suspect that for some time that they -- COVID might slow them down. I still suspect that COVID might slow them down, not because they don't move fast, it's because the ecosystem needs time to catch up, and all of us have had a bit of a jolt.

What I will say is that it doesn't matter to us because this day is coming, whether it be -- third-party cookies are past their due date. And so for us, it's prudent to not worry about their time frame but think about how we get access to the information that we need going forward. So personal information will not go dark. It will be about your relationship with the consumer and how you can get access to it in a way that is safe and private and they feel comfortable and they feel good that you're using it for the benefit of their experience online. So I'm sort of less focused about the time frame around Google than I might have been before. I'm more focused on the traction that we've made to take ourselves up sort of 5 pegs ahead of where we might have been with Google. But yes, so that's the answer to that.

Contextual targeting has been around for us for a long time. So we've been doing it for a long time. It's not -- it's never as good as third party or first party or actual ID-based one-to-one-type targeting. But it serves a purpose in terms of giving you something about the consumer that you're trying to get in front of because you can see them -- you can see the relevance of your message to what you're picking up that they're looking at. I'm just explaining it in terrible layman's terms. But it's a great fallback for us at probably -- because it's such an old concept, it's not our first port of call. It's just something that's absolutely there when and as we need it. And we do contextual targeting today, so it's nothing new for us. And we're pretty good at it.

Operator

And this will conclude the question-and-answer session. I'd like to turn the conference back over to management for closing remarks.

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

Has the call dropped?

Operator

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

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

Okay. Thank you.