REFINITIV STREETEVENTS

EDITED TRANSCRIPT

CRTO.OQ - Q3 2020 Criteo SA Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2020 / 12:00PM GMT

CORPORATE PARTICIPANTS

Edouard Lassalle *Criteo S.A. - SVP and Head of Market Relations & Capital Markets*

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

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

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

CONFERENCE CALL PARTICIPANTS

Daniel Salmon *BMO Capital Markets Equity Research - Analyst*

Lloyd Wharton Walmsley *Deutsche Bank AG, Research Division - Research Analyst*

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

Richard Alan Kramer *Arete Research Services LLP - Senior Analyst*

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

PRESENTATION

Operator

Good morning, and welcome to Criteo's Third Quarter 2020 Earnings Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Edouard Lassalle, SVP, Market Relations and Capital Markets. Please go ahead.

Edouard Lassalle - *Criteo S.A. - SVP and Head of Market Relations & Capital Markets*

Thank you. Good morning, everyone, and welcome to Criteo's Third Quarter 2020 Earnings Call. We hope you're all keeping healthy and safe. With us today are CEO, Megan Clarken; Chief Product Officer, Todd Parsons; and CFO, Sarah Glickman. Please note that we may extend our call by a little bit today to look at questions, as Megan and Todd will provide an update on our strategy and road map. I will point you to a slide presentation that is available on our website. Also, please note that we're all joining from different locations due to ongoing restrictions and may face unwanted technical challenges.

During this 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. At this time, the global COVID-19 pandemic is still having a meaningful impact on the global economy, on the business of our clients including their supply chain, as well as on Criteo's business, and may further impact Criteo's financial condition, results of operations and cash flow in the future.

There are significant uncertainties about the global economy and 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, we'll also discuss non-GAAP measures of our performance. Definitions and the reconciliation to the most directly comparable GAAP metrics are included in the earnings release published on our website earlier today. Finally, unless otherwise stated, growth comparisons made during this call are all 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 & Director*

Thank you, Edouard, and good morning, everyone, and thank you for joining us today. I hope everyone is staying safe and well. With me today is our new CFO, Sarah Glickman; and new Chief Product Officer, Todd Parsons. I'm delighted to welcome Todd and Sarah to Criteo, 2 seasoned industry leaders who bring exactly the right skill sets that Criteo needs today. The fact that they've joined our team over the past few months is a testament to the enormous potential of Criteo's business. They've joined us at an important time for our company. Since starting at Criteo a year ago, I've led the company's transformation, and as part of this, I've run a comprehensive evaluation of our business and our markets to identify a turnaround path for sustainable growth.

On today's call, in addition to discussing our better-than-expected Q3 earnings, we'll provide you with an overview of that evaluation and initial insight into our disciplined strategy to move our business forward. We have unparalleled assets, including commerce data, our fast-growing Retail Media business, our industry-leading technology, our 15 years of media-buying expertise and a huge network that this has created for us, our great people and our strong financial position.

We're turning our assets into what we call our Commerce Media Platform, a world-leading media activation platform for global brands, agencies and retailers to optimize their sales and digital advertising returns. We'll capitalize on the white space opportunities opened up by the dynamic changes in e-commerce and digital marketing to best position Criteo for significant long-term success. And I'll explain this further shortly.

Together with Todd and Sarah, we'll discuss 4 key topics on our call today. First, the refinement of our strategy and the opportunity that we're focused on. Second, how we execute on our roadmap, expand our capabilities and respond to the identity landscape. Third, our continued execution along our 4 strategic pillars. And fourth, how we're optimizing our organization and aligning our cost structure and capital allocation to best support our strategy.

The digital marketplace is experiencing fast-moving trends in e-commerce and digital marketing, opening up massive opportunities in the short and long term for us. We know that, by using our differentiated assets, refocusing our business, executing with discipline and pursuing targeted reinvestment, we have a great path to create growth for ourselves, for the clients that we serve and generate shareholder returns.

Criteo operates at the intersection of e-commerce, advertising and media, and we see enormous opportunities to expand our business much deeper into e-commerce and to continue to extend advertising reach for brands and retailers, with a focus outside of the walled gardens that we call the open Internet. We'll call this opportunity commerce media. Our ambition is to be the world's leading platform for commerce-based advertising and marketing, offering capabilities to our clients that we believe nobody else can.

I want to spend a few minutes to discuss why we're focused on the commerce media opportunity and how we'll leverage our unique assets and build new capabilities to deliver against this opportunity, and what this means for our total addressable market going forward.

So why focus on commerce? We're seeing incredible changes across the commerce landscape that pose challenges for our clients that Criteo is uniquely positioned to solve. We see interesting changes happening in the way consumers look for products, interact with ads and ultimately shop online. We also see shifts in the way brands use their marketing dollars to engage consumers directly where they shop online.

First, consumer shopping behavior is rapidly evolving to e-commerce, which is booming from 16% of global sales today to an estimated 23% by 2023. During this boom, brands and retailers transform their e-commerce presence, gaining share from giants over the past months. Importantly, we expect this trend to continue. For example, during COVID lockdown, U.S. online product searches on retailer websites on the open Internet has increased 21 points to close to 30% of total share, while Amazon's share declined 23 points. Also, 81% of e-commerce buyers who tried a new retailer indicate that they expect to continue to use them in the future, creating a shift in brand loyalty towards open Internet retailers, which now represent about 40% of global e-commerce sales.

Second, to take advantage of the surge in e-commerce, brands accelerate the online shift of their trade marketing budgets. And we expect digital trade marketing will exceed $23 billion in global spend in 2020 after growing an average 82% each year since 2016.

And last but not least, ad tech becomes even more important. We know that in the new identity world, publishers and media owners will depend even more on ad tech partners to monetize their audiences. Retailers and brands will continue to depend on digital marketing to drive sales and loyalty in an effective and measurable way. This is our sweet spot. As large online retailers have merged as the new media moguls, they too need the expertise of ad tech partners to optimize the yield of their inventory.

Despite these changes in the e-commerce landscape, when we look at the needs of marketers, they remain remarkably consistent. Ultimately, they're looking to understand their consumers on the path to purchase, to target and reach the right consumers at scale in relevant brand-safe environments, to drive customer lifetime value and impact across the entire marketing funnel and to measure the impact of their campaigns to optimize against real business outcomes like product sales, making sure that they have accountability for every dollar that they spend.

Solving these needs has always been easier said than done. The erosion of the third-party cookie, the rise of privacy restrictions like GDPR and CCPA and the increasing power of walled gardens make it harder for marketers to target, measure and optimize campaigns with the transparency and control that they expect.

At Criteo, we have the unique opportunity to meet the needs of marketers in a rapidly evolving commerce landscape. On past calls, I talked about becoming a full-stack DSP for commerce. Having DSP capabilities is important to us but is not an end state. These capabilities are building blocks for our broader vision that we now refer to as our Commerce Media Platform.

We want to enable brands' and retailers' growth through commerce media. This means driving more valuable outcomes for our clients by activating our commerce data previously tied only to our retail media business to do this across all stages of the marketing funnel through audience-based targeting across the platforms that clients, consumers spend their time on, like CTV. This means leveraging our privacy-focused network of first-party data to maximize return on ad spend for our marketers and drive better monetization of ad space for our retailers and publishers across the open Internet. This also means providing differentiated real-time commerce insights and measurement to marketers.

To be clear, retail media will become a central piece of our Commerce Media Platform, contributing differentiated ad inventory, first-party audience data and insights to the platform. We've already started down this path with our scaled Retail Media business and the launch of our latest Retail Media release, enabling flexible, self-service, branding and targeted advertising on the e-commerce properties of top retailers across the globe.

Added to this, our investment and new focus on our Audience Targeting solutions, which leverage our best-in-class machine-learning and [media] (added by the company after the call) buying together with our shopper data, to deliver full-funnel advertising needs. With our Commerce Media Platform, we'll extend and expand these capabilities to address marketers' needs across an even broader set of inventory and use cases.

We believe the commerce media opportunities is ours to grab. Strong favorable market trends support our vision, and we have the assets to execute on it. Let's talk about these assets.

We believe Criteo is unrivaled in its ability to seize the market opportunity of leading commerce media. We have valuable assets that differentiate us and uniquely position us to solve marketers' needs by connecting brands, retailers and their agencies with the right shopper, the right message and the right media to drive the greatest returns. We'll fully utilize our assets to drive growth and shareholder value.

First of all, our data remains king for data-driven marketing. Our clients need the highest quality data to reduce waste and bring optimal returns. Our Commerce Media Platform will be driven by the highest available shopper behavior and transactional data there is. No other company in adtech has access to the types of data that we have. We have incredible technology to manage commerce data at massive scale, ingesting over $2 billion worth of daily transactional data across 4 billion product SKUs and thousands of product categories. We have direct access to this data via our integrations with our retailer clients.

These privileged relationships enable for first-party cookie-less Audience Targeting across our commerce media ecosystem. Moreover, we extend these shopper targeting capabilities across the open Internet through our leading privacy-focused ID graph with over 2.5 billion user IDs. We're actively participating with industry bodies and regulators to enable cohort-based Audience Targeting solutions. And we're pleased to have joined forces with The Trade Desk on unifying our identity solutions for the post-cookie world. This exciting and promising collaboration is a great step forward for the industry. To develop a long-term open source identifier grounded on consumer choice to safeguard advertising on the open Internet.

On Reach, we have privileged access to highly attractive ad inventory. Through our Retail Media ecosystem, we enable access to exclusive retailer ad inventory and insights that are only growing in relevance as trade dollars move online and consumer brands' media budgets seek to better drive sales outcomes. On total, we have preferred access to over 5,000 premium publishers, enabling massive reach and scale for advertisers. Importantly, all of this reach can be addressable without third-party cookies.

On Retail Media, we provide consumer brands and unique -- with unique opportunities to advertise and promote their products directly on retailers' media, something no traditional DSP on the market can do today. Our Retail Media platform enables brands to engage shoppers in relevant -- with relevant commerce-native advertising and drive product sales across many of the world's leading retailers, while at the same time helping these retailers generate high-margin advertising revenues.

Our measurement -- we provide the ability for advertisers to measure against the outcomes that matter most, product sales. We measure and optimize at the transaction level for both online and off-line sales for consumer brands. We measure outcomes down to the product SKU level. Additionally, we're investing in insights capabilities that bring together organic shopping data and paid media metrics to help marketers better plan, optimize and measure their investments.

On global footprint, across 100-plus markets, we're a partner of choice to support many of the largest and most global brands in virtually every market. Marketers want consistency across their digital marketing spend and a single partner who has that capacity.

Finally, our strong margins, cash flow and solid balance sheet provide the financial capacity to execute on our strategy.

We're already well advanced on our journey to execute against our Commerce Media Platform vision. From our past as a global leader in retargeting, we've begun expanding our portfolio to bring new fast growth areas while evolving and adding new capabilities to our core offering, fitting nicely with our strategy. Our new solutions already represent close to 20% of our business, and so far growing 53% in 2020. In 2020 to date, Retail Media has grown above 60%, and Audience Targeting around 50%. These terrific high-growth rates validate our strategy and the direction which we're heading in, catching the wave of the market trends.

While we've long had a globally scaled mobile offering, we're doubling down on further areas such as video and CTV. In all fairness, while we've made good progress on our journey towards our full platform vision, we have more work to do. This is why we intend to execute with discipline and focus and invest now to further strengthen our offering.

Looking ahead, we intend to complete our Commerce Media Platform by doing 4 things: number one, expand our Audience Targeting capabilities across both the marketing funnel and omnichannel to offer the full range of targeting and retargeting strategies for commerce; number two, extend brand reach across our large media network on the open Internet, leveraging the combination of Retail Media and core business retargeting and measurement capabilities; number three, strengthen our deep commerce analytics and insights capabilities to inform brands, intelligence about their position on the digital shelf and every step of the buyer journey and use this as a customer service for retention; and fourth, further expand our privacy-focused first-party media network, growing our ability to access and activate against first-party identity and increased reach for marketers.

Privacy and identity are part of the broader ecosystem, and we're actively embracing and addressing them as an integral part of our strategy. Our Commerce Media Platform will rely on a privacy-focused and transparent first-party media network with brands, retailers and publishers. All contribute new first-party data to our Shopper Graph commerce data as they do today and Criteo becomes the matchmaker between the advertiser, the product and the consumer. This creates a massive, massive network that we consider no other adtech can match for commerce-specific purposes, and Todd will talk more about this shortly.

Now helping you with our total addressable market, we believe our strategy opens up a $61 billion TAM across brands, retailers and classifieds.

To summarize, our Commerce Media Platform is a combination of our Retail Media and our marketing solutions assets to provide a full suite of media planning and selling services, bringing publishers and retailers data together, creating a huge ecosystem to connect the right person to the right products and the right media, and connect brands and retailers to people based on their shopper preferences. This across the breadth of the Criteo network reaching a potential 3 billion consumers globally. Let me emphasize, nobody else has this sort of reach outside of walled gardens.

We're making and will continue to make investments in our growth areas. We're leveraging our cash and strong financial position to fund for these investments. And we're also strictly managing our cost base in the core business through various operational excellence initiatives.

Why do we believe we'll win with this strategy? It's because we have global reach with 20,000 advertisers across 100 markets. We have extensive shopper data and first-party media network. Our new growth engines already supporting our strategy and today representing 20% of our business, growing at over 50%. A solid product roadmap that tackles the challenges of identity. Massive e-commerce tailwinds, an increasing TAM and superior commerce marketing assets. And finally, a strong balance sheet and reinvestment strategy to further transform our business.

We think that our strategy of creating the world's leading Commerce Media Platform and executing against our transformation plan positions Criteo for a healthy future and sustainable growth.

With this, I'm glad to turn it over to Todd to take you through our product priorities to address the proposition of our Commerce Media Platform. Todd?

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

Thank you, Megan, and good morning, everyone, from San Francisco. I'm delighted to be here for my first call with you today and to walk you through some of the very exciting plans we're working on from a product perspective.

First, let me go back to some of the unique Criteo assets that Megan mentioned. They're a key reason that I decided to join the company and what makes me both confident and excited about our future. I firmly believe that in an advertising world where consumer privacy and data security are front and center, winners will be minted by their access and rights to first-party data, and we anticipate this to be truer in the post-cookie world.

Very importantly, I don't believe we talk enough about the depth and breadth of the first-party data co-controlled by Criteo. What makes Criteo's data incredibly unique is that it is both commerce focused and available real time. Our network collects more streamed commerce data than any other independent adtech company. Every day, our platform ingests over $2 billion of transaction data across a catalog of 4 billion SKUs, 3,500 product categories in 13 languages. This, paired with the 500 million daily active users we see today, half of which are identifiable through hashed e-mail or other off-line identity, we create commerce-focused audiences to drive performance for our advertising clients. With our collection of first-party data, we are very well positioned to innovate post-cookie advertising solutions that perform, and through this performance, to further expand our market and grow revenue.

We don't speak enough also about our technology, the machine-learning we do over our data network that make predictive bidding, product recommendations and dynamic creative come together to ensure the greatest impact of each ad delivered. Our technology enables us to understand patterns and buying journeys across billions of products and consumer touch points in our network. So the ad experiences we deliver can be timed and sequenced to make them even more potent. And it's important to point out that consumer identity is a feature that isn't always needed to facilitate the correct advertising decisions on behalf of brands and retail partners.

Ultimately, what's making our data and tech so valuable is the incredible reach of our network. With deep integrations across 20,000 customers and 5,000 publishers, and exclusive access to inventory on over 100 of the world's top retail websites, Criteo operates on much more first-party data to facilitate greater monetization for marketers and supply partners alike.

As a business, we've created a flywheel that grows this data, marketing outcomes and reach in turn. And we believe that opening Criteo as a platform that is making our data, tech and reach available to power new partners across the commerce space will produce network effects in each of these 3 areas to propel our growth.

Now let me take a moment to elaborate on how we're using these assets today and into post-cookie world, over 3 areas of product focus. We believe we can create network effects to succeed, almost irrespective of where the industry is heading on matters of identity and privacy. To start, our network of first-party data guarantees a huge amount of ad inventory can remain addressable in privacy-compliant ways. This allows us and our partners to build on individual users with an overlay of commerce data. As Megan shared, we're truly excited about our partnership with The Trade Desk to provide the industry with an open-source unified ID.

In addition to partnering with identity providers like LiveRamp, we believe The Trade Desk partnership sets the stage for creating a scaled market standard for consumers to control their ad experiences and to replace cookies and other platform identifiers. It is long overdue for ad tech to address consumers directly and to provide an improved value exchange. We see our effort opening up very big opportunities for the company.

As we build an industry-wide identity solution, also look for us to experiment with private marketplaces and to provide key demand partners with bidding access to our preferred commerce audience supply.

Second, we're very active with industry groups to create a new paradigm for effective commerce advertising without platform identifiers. Criteo has been a leader in these discussions and in parallel, we're testing new audience products that use cohort signals and interest groups to deliver superior performance to our clients. Our SPARROW initiative recently influenced Google's Dovekey proposal for cohort-based advertising. And we see this as a testament to the value of partnering with platforms to navigate consumer privacy challenges.

A third product focus is to transform traditional contextual advertising into performance for our brand and retail partners. By applying our machine learning at the intersection of content, commerce and user signals, we believe we can create a wholly unique advertising solution, which has incredible scale and doesn't rely on third-party cookies.

In summary, our goal is to provide customers with a variety of advertising solutions that operate together for scale and can stand-alone in a post-cookie world. And while driving outcomes for marketers and yield for media owners remains job one, bringing trusted ad experiences to every consumer is now baked into our mindset. Again, our product road map will ensure we continue to succeed, almost irrespective of where the industry changes are taking us.

Looking forward, we have an exciting product road map for 2021 to position Criteo as the world's leading Commerce Media Platform and to secure our status as network operator of the buyer match for all commerce.

Here's a quick look. In 2021, we'll improve our base by doing 2 things on commerce media. First, we'll begin to make our assets more accessible to key technology partners that also serve marketers, retails and publishers. We want to make technology partners more successful, and in turn, drive third-party demand, enable measurement across the entire buyer journey and drive yield to our respective partners. Very importantly, we've just launched the Criteo developer portal to make this possible and have several other initiatives underway. I look forward to updating you as we advance.

Second, we've begun to fully cover the marketing funnel with our product solutions. In 2021, this will include investments to ensure user identity remains available, a focus on performance at the midpoint of the buyer journey and to connect the dots between awareness advertising and in-store experiences. We believe in 2021, we'll continue to demonstrate superiority in delivering outcomes across the funnel. But we'll also take pride in enabling partner applications to have better impact on commerce. An exciting example of this work is beginning with measurement partners to connect CTV household advertising with commerce outcomes. From a product perspective, this is the time to lock in the most important commerce use cases across the funnel for marketers and to support partner use cases enabled by our API offerings.

Prior to turning it over to Sarah, I just want to reiterate my excitement to be part of this team and the company and have part in our opportunity ahead.

With that, I'll now turn it over to Sarah, our CFO, for a discussion of financial and operational performance. Sarah?

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

Thanks, Todd, and good morning, everyone. Now you can see why I am so thrilled to be part of the Criteo team. I'll discuss our Q3 results, our continued focus on operational excellence, our cash position and outlook for Q4. Starting with the headline numbers.

Revenue for the quarter was $470 million and revenue ex TAC was $186 million. Adjusted EBITDA was over $49 million, resulting in an adjusted diluted EPS of $0.40. These all reflect year-over-year declines, largely due to the anticipated negative COVID impact but they are all better than we expected at the beginning of Q3. We generated $38 million of free cash flow in Q3, which brings our year-to-date free cash flow to just under $100 million.

Revenue ex TAC in the quarter declined 16% at constant currency. We estimate the negative COVID-related impact was $33 million, or about 15 negative points year-over-year impact, with 60% of this impact from travel, 30% from Classifieds and 10% from retail. This was a favorable trend versus our guidance in July and against Q2.

We estimate we lost approximately $10 million due to privacy in the quarter, including explicit consent in Europe. Year-to-date, COVID negatively impacted revenue ex-TAC by $80 million or 12 points. Excluding the expected impact of the pandemic, revenue ex TAC declined about 2% and revenue increased 4%. This is encouraging as the fundamentals of our business remain well grounded.

We had solid performance around Labor Day in the U.S. We added 206 net new clients in the quarter and ended Q3 with 20,600 clients, a 3% growth year-over-year. Our client retention remained strong at 88%, improving significantly from Q2 as clients restarted campaigns. During the quarter, we signed our first multiyear MSA contracts with some large clients, which we anticipate expanding to other customers. Our retargeting business declined 24% at constant currency in Q3, with COVID representing 17 points. Our large customer business improved 10 points versus Q2, driven by the U.S. spend by mid-market and direct-to-consumer brands remained healthy.

New solutions grew 43% in Q3, representing 19% of our total business on a revenue ex-TAC basis. This is largely driven by Retail Media, which sees continued strong adoption with brands and retailers and grew close to 60%, driven by strong demand from CPG and reflecting its growing strategic value for brands.

In Q3, Retail Media launched over 150 new brands and activated $200 million of media spend over the first 9 months of 2020. We expect this positive momentum to continue.

Our omnichannel business grew 120% in the quarter, although from a small base. Also, we have some exciting CTV campaigns in partnership with various industry players, and we are fast scaling our capabilities.

Moving to the cost base. We have done an impressive job reflecting focus and discipline. Non-GAAP OpEx, excluding bad debt, declined $25 million or 18% in Q3 and $92 million and 21% over the first 9 months. We were able to generate meaningful cost savings through headcount management and reducing our real estate footprint.

As you can see in our non-GAAP reconciliation, we incurred $12 million in pre-tax restructuring costs in the quarter, primarily related to closing our Palo Alto R&D center and real estate actions.

Moving down the income statement, our depreciation and amortization expense reduced 3% from last year. Financial expense was $0.5 million in the quarter versus $0.9 million a year ago. Our GAAP effective tax rate is 30%. Our weighted average diluted share count was 61 million, reflecting the impact of our last share repurchase program. Diluted earnings per share was $0.09 for Q3 and adjusted diluted EPS was $0.40.

Our cash flow in the quarter of $38 million reflects good collections and lower CapEx spend. Our balance sheet and cash position continue to be strong, and we expect to repay the $[158] (corrected by the company after the call) million revolver drawdown in November.

Now I will provide guidance and perspective through the end of 2020, which reflect our expectations as of today, October 28. Clearly, there are many assumptions underlying this, and the situation continues to be fluid and uncertain. As of now, we continue to see an impact to our business and our customers' business from the pandemic. We expect the holiday peak to be more muted and extended versus the traditional seasonal pattern, and we expect that Retail Media will continue to do well with solid budget spend on our platform.

Taking all of this into consideration, we are guiding revenue ex-TAC for Q4 to be 200 -- between $223 million and $230 million, translating to a year-over-year decline of 15% at constant currency. This includes $17 million for privacy, including extended browser restrictions in iOS 14.

On the profitability side, we expect Q4 adjusted EBITDA to be between $81 million and $88 million or a 37% adjusted EBITDA margin. We have lower cost run rates across all spend categories, including the impact of our restructuring cost actions, and we expect to leverage some of these savings to reinvest increase in growth opportunities. Our annual effective tax rate is still expected to be 30%.

I will close with my priorities to foster profitable growth and operational excellence across Criteo. One key priority for me as the CFO is to ensure proper resource and investment allocation to our priority growth areas. Megan and Todd's vision is obviously compelling, and we are all moving swiftly to execute against it.

On the commercial side, we are partnering with the sales team to advance share of wallet with agencies. On operational excellence, we are focused on step changes to our fixed cost base, including our data centers. Organizational efficiency will be a lever, especially as our business model evolves. Finally, on cash and capital deployment, we will redeploy to highest value uses and invest in growth while maintaining flexibility. We anticipate maintaining flat share count.

These are busy times, and I am personally excited to be part of the Criteo leadership team. With that, I will now hand it back to Megan for closing remarks.

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

Thank you, Sarah. Yes. In closing, I'll say a few words about how I feel about the future of Criteo.

I joined Criteo approximately a year ago, a little under, and I'm proud of some of the key milestones we've achieved together as a team. We've taken a client-first focus across the company. We have refined our company vision and strategic roadmap to return to sustainable growth. We've strengthened the product roadmap to revive growth and address identity challenges. We've expanded our exposure to e-commerce through Retail Media and position it to be central piece of our future strategy. We've reshaped our C-level leadership team and created a transformation office. And we've kept our people safe through a solid work-from-home model while overachieving expectations despite COVID-19, including on top line profitability and cash flow in Q3. And we're developing a culture of innovation, performance and accountability.

Overall, our business performance shows resilience in 2020 to date despite industry headwinds and the impact of COVID-19. This is a testament to the talent, strengths and dedication of our great people. This is also a testament to our relentless focus on execution, while staying nimble as the landscape unfolds and new trends emerge.

While we're pleased with our positive accomplishments, we're focused on the future. To fully realize the strength of the business and the promising vision for Criteo, we're planning against our Commerce Media Platform strategy, both organically and via partnerships. We're defining our product roadmap fully embracing identity. We're executing with discipline and focus. We're implementing an organization and cost structure that supports our strategic plan. And we're investing in significant opportunities for growth to address a TAM of more than $60 billion.

Within this context, we have a compelling future ahead to create sustainable revenue for our shareholders -- sorry, to sustain the core value for our shareholders. Todd, Sarah and I will be speaking at multiple investor and industry analyst events over the next few weeks.

With that, I'd like to open the floor up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Lloyd Walmsley with Deutsche Bank.

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

I have a couple, if I can. First, can you just give us a sense for how growth has trended through the quarter and maybe into October? It seems like your guidance implies not a lot of improvement into 4Q. Wondering how much of that might be conservative. And specifically, you guys had called out a more extended holiday season. I would think that would be good for advertising, but curious just to understand that a little bit better. And then, I guess, more broadly with the pandemic-driven boost to e-commerce. Do you -- shouldn't we expect to see a healthy increase in online advertising to kind of compete with this increase in demand? What would be, at least putting aside travel and classified, like shouldn't we expect a really strong holiday on the core retail side of the business? Anything you could share there would be great.

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

Yes, Lloyd, it's Sarah Glickman. Can you hear me?

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

I can, yes. Loud and clear.

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

Perfect. Sorry, I wasn't so clear on the speaking. Yes. So Q4, we are relatively positive, but clearly, we are dealing with a pandemic that is in waves. So we are a little cautious. However, we are seeing good traction on retail spend really globally. We've seen pickup in Asia Pac. But as you know, Europe is going back into lockdown. And we are cautious, I would say, on the macro headwinds in the U.S.

That being said, we've got some real winners on the -- especially on the retail side. And especially, I would say, the kind of traditional retailers that have now successively moved to e-commerce. So terrific traction there, but we do have a large brick-and-mortar business as well. And depending on which business and which country is that, I would say, ebbing and flowing. So -- but we do have some caution, but we feel pretty good about the trends we're seeing and about the customer demand kind of pick up as well.

The other comment I'd make is that the holiday peak is obviously different this year. People are not running out to the shops on Black Friday. So we have forecast that peak will be more muted, will be extended and likely will be slightly lighter than last year. So those would be the 2 key comments I would make. And I don't know if I addressed your second question, so...

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

Yes. I think that's helpful color, I guess, around people, the peak is going to be more muted. I guess sort of unrelated would just be on the call, you all talked about making your technology kind of available to other players in this space. Curious if you figured out an economic model around this idea and just help us understand the revenue opportunity there.

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

Yes. I mean, I can quickly address that. I mean, we're obviously looking more to longer-term contracting with our customers. And we have a couple of nice MSAs that we've just signed and Retail Media is also a longer-term business. So we're also seeing some really good moves there, I would say. So those would be the key comments I would make.

Operator

The next question is from Richard Kramer with Arete Research.

Richard Alan Kramer - *Arete Research Services LLP - Senior Analyst*

Our team here, I guess, has several questions. The first one, I guess, is we're really struggling to reconcile some of the claims, Megan, that you made very strong claims about your ID graph and first-party data, the 0.5 billion DAUs and with the need for partnerships with LiveRamp and The Trade Desk. And I guess our questions would be, are you going to be getting paid by them to access this terrific ID graph that you have? Or was there more a push from your advertising clients to get together with rivals?

And then maybe a separate question for Todd in a different direction. With the growing number of publisher integrations, are you further cutting SSP and exchange fees and becoming your own SSP? And how much more room is there for you to become a more efficient player and sort of get an edge for those publisher integrations in a post-cookie, post-IDFA world? Maybe those are 2 to start with.

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

Thank you. Let me just kick it off, and then I will pass it across to Todd to give a little more depth and detail. The notion of LiveRamp has always been a partner of ours. I mean, we use their ID matches as part of our Shopper Graph and part of our data set. So nothing changes there. And the same is with The Trade Desk. I mean we're sort of helping each other or clients to each other or open source to each other to ultimately get to identity. And so there's no model change there whatsoever. It's how we're now starting to work more closely with them. I think that, that has changed over the last few months. And the announcement of our collaboration with The Trade Desk is a perfect example of one and maybe one of more to come. So I'll throw a little bit more color on that one, I'll pass it through to Todd.

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

Yes. Thanks, Megan. I think the key message here is that we're not in the identity business, and we're not in the data business. And we've always been in the performance advertising business and the outcomes business, and we're very much going to stick to our knitting there. The idea of making our audiences that have the benefit of the ID graph and the overlays of commerce data and our machine learning that makes sense at the intersection of those things is something that we want to provide to our partners, more so than we have as an output or a result. So that's important clarity.

The idea of opening our APIs is much more about getting to the right audience and delivering a better experience, not to open up data stores or components of the identity graph. That's the current thinking.

Richard Alan Kramer - *Arete Research Services LLP - Senior Analyst*

And I guess, maybe one just quick follow-up with that. I mean, on the first-party cookie-less solution, can you help us understand a little bit more how it works with targeting segments, especially within new solutions and what it means for sort of one-to-one targeting on the retargeting side? Because there's clearly going to be a lot of pressure in how that evolves.

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

Yes. I mean, I think the -- as I said in the prepared remarks, there are really 3 different pieces of that. And they're all connected to the incredible amount of source data that we have and stitching that together at source to effective syndication footprint, which can come from universal IDs like the Trade Desk UID2, why we're participating in that can come from a LiveRamp IdentityLink, why we're such great partners with IdentityLink. So there were 3 things I mentioned. I'd just quickly go back through them again. One is we want to do a lot more stitching at the source to up our game as an SSP. I think you asked the question, and I didn't address it about our SSP capabilities. We already are more of a pure site-side SSP in Retail Media. And there are a lot of things to learn from that model about how we actually collect data, aggregate data and deliver more effective advertising that we can take to the open Internet, indeed, to our SSP partners. So the mechanically, the way that those things deliver, I would love to get into -- in a session, a separate session. But there are 3 paths.

One is, again, doing what we can to stitch data, first-party data together in a purely addressable network that goes beyond site side. The second one is to use the identity graph that we do have as a truth set for validating the veracity of cohort-based or interest-based advertising and contextual advertising. You can imagine the case of contextual advertising because it's more real as we all sit here today. It's more available, that the combination of semantic signals from URLs and commerce signals, that is products which are purchased, SKUs that are purchased that can be associated with a page, transactions downstream that can be associated with a page and user-based traffic where we have it, no matter how small, is a very powerful combination. So in terms of building a targeting set.

So that's not an identity-first targeting set. It's a contextual targeting set. And it's something that I would very much like to brief this group on as we get into details. We're in development. And I would leave you with one thing. This company has a very rich history of using machine learning and applied analytics to do better remarketing, including retargeting. Those skills -- those skill sets, those capabilities are things that work 100% for the audience solutions that we're talking about here at a fairly admittedly high level. So I think the fast follow we would like is a briefing sometime in the next couple of months here. And I think Megan can speak more about our plans, okay?

Operator

The next question is from Dan Salmon with BMO Capital Markets.

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

First for Megan, and welcome to Todd. Just some follow-ups on the identity questions. I guess, we also saw Trade Desk tie up more tightly with LiveRamp yesterday. I guess the big question here is, is this type of federated approach necessary in a post-cookie, post-mobile ID world, where the walled gardens have some obvious advantages? And how could you see that playing out even further? It would been fairly impressive on the level of partnerships you've already talked about today, but maybe help tease out where that goes further.

And then second, welcome to Sarah. You mentioned that the fourth quarter guidance embeds the impact of the browser changes going on across iOS right now. Your predecessor was nice enough to quantify those sort of things for us at times, if you're willing to do that. And then just any big picture comments in particular on what you hope to bring to the position, maybe in particular your views on uses of free cash flow.

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

Yes. I'll start on the identity question. It's a good one. It's a remarkable, I guess, chain of events that are starting to happen on the back of the Chrome announcement and clearly, IDFA and the need for the industry to find another way to get identity, which protects the privacy of the consumer, enables them to have choice and is able to be used across the entire Internet as a replacement for antiquated solution, which is third-party cookies. And so we came forward, I think, last earnings call with an internal piece of work that we were doing, which wasn't dissimilar to The Trade Desk work that they were doing. And Jeff and I sat around and said, look, why aren't we doing it together as an open source with the reach that we have, with the ability to -- for us to influence the open Internet was just a no-brainer. And so it's led to where we are today. I mean, the amount of publishers that we have, the amount of consumers that we touch, and then they have a footprint as well is that why not? If this is all about trying to make sure that we get out as far and wide as we can to get global adoption, then we have to join forces. It can't just be one that's pushing to get this done. We were happy to go after it ourselves, but the more the merrier. And with the lean in from the W3C and the IAB and everybody else that wants to come to the table and play a role in this, I think it's a really exciting shift for the industry to move in this direction. But I'm going to speak high level. I'm going to pass it across to Todd any further comments on this one.

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

Yes. Thanks, Megan. Great to reconnect, Dan. I mean, the only thing I would add to that is first to reinforce Megan's point that it absolutely is a partnership world in terms of what we need to do to ensure a thriving open Internet outside of the walled gardens. But there are distinctions in partners that I think are going to be important to talk about. So I found it interesting that in some ways, our identity graph gets compared to what a LiveRamp might have. But we look at it quite differently. And we look at our commerce assets and first-party data much more so and identity as a way to translate those into a stronger buyer match as we're calling out and to distribute that match across the network, using the rails of identity, something that Scott Howe might say, or Jeff Green might reinforce with the open source UID, too.

So those are important partnerships and initiatives for us to get better syndication for a buyer match. And that's where identity is important to partner around, but I think each party brings something very unique to the table and just that mention of 3 companies. And ours, of course, is very grounded in direct commerce data. And we're going to be developing our products with that in mind every day.

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

Dan, this is Sarah, just to react to your other question. In terms of Q4, we're assuming around $17 million on privacy headwind. We had about $10 million in Q3. And I would say COVID impact, we're assuming around $34 million in our current models.

And then in terms of cash and what we're doing with the cash, obviously, we're going to reinvest some of that. We have a pretty compelling road map here. We're excited that our cash flow looks good and it's obviously a big focus to make sure that continues to look good. We're going to be repaying the revolver back. I mean, that was more a cautionary measure in any event so we're going to repay that back. But we are very conscious on the expectations on capital allocation, and we're going to be very smart about that. And as and when we see the right things to do, we will, of course, let you guys know.

Operator

The next question is from Matthew Thornton with Truist Securities.

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

Maybe one around the transition to kind of self-serve to some degree. I don't know if this one's for Megan. First, maybe on the DSP side, can you give us just kind of an update on either the number of clients using it on a self-serve basis or a percentage of revenue is currently coming from self-serve or whether it's maybe still should be talking about beta clients or whatever the right metric is there. Similarly, on the Retail Media side, just any color what that is in terms of a percentage of the non-retargeting businesses? And again, what percentage of Retail Media right now is being used on a self-serve versus full-serve basis? And then just third and also related, when we think about the cost base long term, as this kind of continues to transition, how can we think about cost base as the product model kind of evolves here? Just any high-level thinking there would be helpful.

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

It's Sarah. I think I can answer some of those. Not sure I have all the detail on self-service versus managed service. Retail Media, we feel very good about. Obviously, it jumped to 60% and we're feeling good about the continued traction there. Clearly, it is a more integrated model with our retailers. So those are more of a self-service component to that. However, I would say we stay very closely connected with those customers. So there's kind of a difference between self-service and managed service. And obviously, we kind of move between those 2, depending on the customer and then depending on our solution. So that would be my, I guess, my key answer on that one. Clearly, self-service is one of the areas we continue to invest in, and we work with our partners and our customers to ensure that we're doing that in a way that works for them. But we also are very much appreciated for the managed service that we give and now our customers see value with that. So I don't have particular stats on that, but I would say both are working well, and we see continued investment and usage in self-service and obviously is a continued focus for the road map as well.

Was there any other question there? Sorry, I don't know if I unpacked everything you asked there.

Operator

The next question is from Sarah Simon with Berenberg.

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

I've got a couple of questions. First one would be whether you're seeing any sign of the walled gardens being more accommodating in the context of the antitrust investigations that are being opened up.

The second one, in terms of Classifieds, are you seeing any distinction between the kind of classified sites? I think the big weak spot for you is in the jobs area, if you could correct me if I'm wrong, because obviously, we're seeing strong numbers coming out of classified sites in kind of other areas.

Third one would just be, can you comment on the revenue ex-TAC margin? It's obviously coming down sequentially. Is that just a function of mix in terms of Retail Media becoming a bigger and bigger part of the total revenue?

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

Okay. I can...

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

Sarah, let me jump in on to the first one, Sarah and Sarah. I'll talk about the walled gardens for a second, and then I'll pass it across to you, Sarah, if that's okay for the Classifieds commentary and the margins.

On the walled gardens, Sarah, there's not been a dramatic change there. I mean, Google are continuing to sort of work towards their time frame for the Chrome upgrade to stop the use of third-party cookies. And I haven't seen any push. Now I think I said last time around when we crusted up this is that we're moving away from this regardless, like we're not sort of hanging anything on, maybe they'll change their mind. That's not the route that we're going. We think that it's time to take another direction anyway. And so our products, our roadmap, our partnerships are all related to not being dependent on third-party cookies. But to your question, we haven't seen a shift or a change in mindset from Google.

We do know that there's a lot of pressure on them to do -- to make sure that they're not anticompetitive. And so we have some insight into that, but it's not changed the way that we cooperate and work with Google, which is a strong relationship, as you saw from the SPARROW work that we did with them. Sarah, do you want to grab the Classifieds and margin piece?

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

Yes. Yes. Yes, absolutely. On the Classifieds, we're actually seeing some really good, I would say, good news here, some definitely traction on both the job market and real estate. And Asia, even in the last couple of weeks, is turning around on that. So we're pretty encouraged by Classifieds, but obviously, massive, massive change versus last year, especially in the travel space. So definitely upticking and we have factored that into our guidance and the trends are looking pretty good there.

In terms of the margin, I would say we had this quarter, we're obviously going to see some more expensive inventory than the kind of Q2 low watermark. We're spending a lot of time focused on our cost base. So margins are, I would say, we're not seeing any major kind of concerns. We obviously are very focused on that. But we will -- we don't give out necessarily kind of -- we don't look at our business from a kind of specific area. So overall, margins are good. Overall, the cost base is looking healthy. Run rate for our headcount is kind of going in the right direction. Obviously, discretionary spend low. And then our cost of acquiring inventory really depends on the market, and we're seeing -- we buy smartly, so we feel good about that. And I would say margins are where we expect them to be, and we're not necessarily looking at any big changes there from a modeling perspective.

Edouard Lassalle - *Criteo S.A. - SVP and Head of Market Relations & Capital Markets*

Okay. Thank you, Sarah. Thanks, Megan and Todd, and thanks, everyone, for joining. This now concludes our call for today. Your IR team is available for any additional request. Have a good rest of day, and please stay safe. Thank you.

Operator

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