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PRESENTATION

Operator

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

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

Edouard Lassalle - *Criteo S.A. - VP and Head of Investor & Analyst Relations*

Thanks, Jason. Good morning, everyone, and welcome to Criteo's Fourth Quarter and Fiscal Year 2020 Earnings Call. We hope you're all keeping safe and well. Joining me on the call today are CEO, Megan Clarken; Chief Product Officer, Todd Parsons; and CFO, Sarah Glickman. For everyone's convenience, you will find our investor deck on our website.

Before we get started, I'd like to remind everyone that our remarks today will include 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. 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.

We'll also discuss non-GAAP measures of our performance on the call. Definitions and reconciliations to the most directly comparable GAAP metrics are included in our earnings release published today. Finally, unless otherwise stated, all growth comparisons made during this call are against the same periods in the prior year.

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

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

Thanks, Ed, and good morning, everyone, and thank you for joining us today. I hope everybody is staying safe and well.

Closing on this past year, you'll all agree that 2020 was unprecedented year by any standard. Yet despite an extraordinary backdrop, I couldn't be prouder of how much we've achieved as a company through my first year of leading the company's transformation. We kept our people safe through an efficient work-from-home model, we increased our focus on e-commerce across our entire business, we helped our clients achieve their marketing and monetization objectives by providing the campaign performance and strong ROI we're known for time and time again and we accelerated Criteo's transformation plan to return the company to sustainable growth.

Executing with grit and conviction, we delivered 97% of our original top line guidance set before the pandemic and 100% of our original profitability target. I'm hugely grateful and encouraged by our amazing team for their strong and focused performance, and I want to thank all of our associates for their passion, dedication and discipline they've applied to transform ourselves into the new Criteo that we are today.

Together with Todd and Sarah, we'll discuss 4 key topics on our call today. First, the multiple changes we've made across Criteo to set us up for sustainable growth; second, how our Commerce Media Platform strategy positions us for success; third, what our product areas of focus are for 2021; and fourth, how our solid execution allowed us to overperform in 2020 and what that means throughout 2021 growth momentum, organization and capital allocation as we continue to transform ourselves.

Starting with a quick look back at 2020. Not only did we achieve a lot, we also made multiple structural changes that set Criteo up for profitable growth ahead. We've embraced a client-first focus, putting our customer needs for marketing and monetization at the center of the organization and moving all of our teams in lockstep to support them. We refined our product vision, product strategy, use of assets and transformation plan to expand much deeper into e-commerce and return to sustainable growth. We increased our focus and investment in e-commerce through Retail Media, which is now positioned as a central piece of our Commerce Media Platform strategy.

We reshaped the entire C-level leadership and created a transformation office to assume the smooth execution of our plans. We strengthened our road map to deliver new products, including our focus on extending our leading first-party data assets and unique identity capabilities into a competitive moat. We adopted a much more open approach to partnering with the industry and signed more partnerships in 2020 than in any other year before. And we reignited the culture of innovation, performance and accountability to drive growth and execute against growth opportunities that take full advantage of our unique assets. All of the above, we did through solid planning, thoughtful decision-making, focused on high standards of execution.

Focusing specifically on growth now, let me drill down on what we're seeing that's further validating our strategic direction in commerce media, which we talked about on our last call. To remind you, the commerce media opportunity for us is based on Criteo's front-row position operating at the intersection of e-commerce, marketing and media monetization. This intersection means that we shepherd the buying and selling of advertising and promotions of goods and services with a strong focus on e-commerce across a massive network using first-party identity and commerce data. Our focus is on being the leader in marketing and monetization for commerce outside of the walled gardens.

Let me give you a few examples that bring this to life. During the Q4 holiday season, our clients knew very well how important the shopping season would be after an incredibly challenging year. The new dynamics of more people shopping from home introduced uncertainty into a shopping season that they needed to get right, and in the case of some retailers, as a matter of long term survival.

Ahead of the holiday season, a large New York-based retailer came to us with a double challenge for their marketing and monetization. Within marketing, they needed to address new shopping behavior and move potential shoppers down the funnel to close the conversion loop. We designed a full-funnel audience strategy for them to drive consideration from nonbuyers and engage previous buyers, leveraging online and off-line data to drive more conversions to their e-commerce sites. For this, we drew on our growing suite of commerce media capabilities, our commerce data, product recommendation, predictive bidding, creative suite and brand safety capabilities.

For their ad monetization, the same client wanted to capitalize on growing e-commerce traffic to support their focus on yielding strong ad revenues. They used our Retail Media solutions for that goal. We held -- we helped onboard and train their media team through a series of education training sessions across operations, analytics and sales. Overall, our engagement within -- across marketing and monetization helped this client achieve tremendous results in Q4 and contributed $9 million in revenue, ex TAC, to our results, up 40% year-on-year.

Now as the old Criteo, a retargeting-only company, we would not have been able to offer what I just described. This is our new direction. For 2021, we have ambitious plans to further expand our relationship with this client, drawing on growing capabilities across our Commerce Media Platform.

In another example, a leading e-commerce player in France, primarily known for retail, wanted to build brand awareness for their new travel services. Expanding their portfolio in the busy ecosystem is key to them to stand out from their competitors and bring more value to their customer base while growing it. As the travel audience is less receptive to more traditional media, especially during the pandemic, we suggested a broad-based video campaign. We targeted high-quality audiences showing travel intent by video and across multiple premium publishers on the open internet and helped them achieve their brand awareness objective with top-of-mind uplift while driving strong traffic on their new travel services. This campaign brought an awareness uplift of more than 30% for the client.

Growing and expanding our assets and capabilities leads to a continuous increase in precision, reach and performance for our marketing and monetization services. For instance, we continue to build on our secured and consented privacy safe first-party data. We know the consumers, we know what they like, we know their dislikes and what they buy. And this data set keeps growing. Now let me tell you what I mean by that, and why it's so important.

In 2020 alone, our vast client relationships and processing power allowed us to ingest over $2.5 billion in daily transactions from over 21,000 commerce clients across 4 billion product SKUs and 3,500 product categories. Now this first-party commerce data set remains absolutely central for mapping and understanding every step of the consumer journey, especially for e-commerce. This data is established through direct and privileged integrations with our retailer clients, enabling cookie-less targeting and retargeting across our commerce media ecosystem. Only Criteo has this commerce data at scale if you look across the independent ad tech landscape. And as I said, it keeps growing.

What's more, we have unparalleled tech infrastructure and AI to make sense of this massive data set and make it work hard for our clients. During the peak of the holiday season, our technology was able to support 445 billion bid requests on a single day. This was a 13% increase year-over-year. We regularly evaluate over 64 million campaigns per second using our AI engine. And with every additional data point that it learns from, our AI gets even faster and smarter.

We know that we've barely scratched the surface of what we can do here. Our commerce media strategy has only just begun to uncover what's possible, and Todd will talk shortly to you about our progress there. Important to note is that we believe our data will propel us past the identity challenges that will soon affect the rest of the market. The impact of these challenges could be significant on the overall market, in particular for small businesses.

In partnership with our clients, the constant and safe protection of first-party data is the foundation of our identity strategy. As first-party cookies go away and with iOS 14 changes, we'll further lean into our prized position and continue to offer our clients the services they need. This would essentially have us leapfrog the competition, and we believe we're in great shape outside of what will be otherwise a market storm. And that's why these assets are so important.

We've talked about our commerce data, our tech infrastructure and AI, let's quickly switch to the breadth of our media network across thousands of open internet publishers and retailers. And let me illustrate to you why this is so important in driving new revenue for our clients. Our extensive media network provides marketers the ability to reach their audiences and customers with scale and precision thanks to privileged access to highly attractive ad inventory across premium media properties and away from walled gardens. Premium publishers like NBC, Globo, The Wall Street Journal, Forbes and IBM Watson Advertising give us direct access to the inventory to deliver the best yield per ad unit, combined with advertiser demand at scale and consumer-friendly and brand-safe ways. As a result, we get trusted, privileged and deeper integrations into their media properties.

This doesn't stop at traditional and digital media publishers that more and more are including retailers as well, large e-commerce retailers like Target, Costco, Best Buy and Macy's also provide us access to their media inventory because they know our solutions would generate high-margin ad revenue for them by connecting consumer brands with their audience and promoting their products through commerce-native advertising directly on their online shops. For example, a well-known U.S. grocery delivery service wanted to capitalize on the shift of CPG brand dollars to Retail Media as many consumers buy more CPG products online due to COVID. Through our engagement, our client grew its e-commerce site monetization through sponsored ads by over 150% year-over-year to more than $8.5 million of high-margin brand spend.

The kind of stories showcase the range of solutions we offer and illustrate our commerce media strategy coming to life. It's very early days, but we love the traction that we're seeing here. Looking at our transformation momentum now, we're already generating positive results. Our focus on the growth of the company has required us to better utilize our assets. Remember, these assets previously only focused on our retargeting product, but by expanding the product suite and growing the uptake of new products across existing and new clients, we're transforming Criteo to return to growth, which is exactly what we're executing on. Benefiting from our larger portfolio focused on commerce, our retargeting product continues to perform.

Our new products now represent revenue, ex TAC, of about $160 million, close to 20% of our business, and grew close to 50% in 2020 with strong growth across the board. Today, Retail Media already works with over 50% of the U.S. top 25 e-commerce retailers and over 50% of the top 20 European commerce retailers who run an online monetization program.

Given our strong momentum and highly differentiated capabilities, for Retail Media, this is just the beginning. Our Retail Media is a central piece of our Commerce Media Platform with over 50% growth. All of our new solutions have grown and continue to grow. We're investing in these new solutions and also doubling down on investments in video and CTV as we further grow audience targeting for brands.

Our ambition is to continue to grow our new solutions at close to 50% in 2021. Our attractive growth rates in emerging growth areas validate our strategic direction, leveraging favorable market trends, commerce-focused capabilities for marketing and monetization and a deeply rooted growth culture across the company. In short, we see Criteo's combination of commerce -- focused marketing and monetization capabilities as truly unique in the marketplace.

Connecting brands and retailers to their consumers based on their shopping behaviors across the breadth of the Criteo network, reaching over 2.5 billion consumers while richly monetizing retailers' and publishers' inventory at scale is highly differentiated. We believe Criteo has the value proposition for brands, retailers and publishers on the open internet. Our work ahead is to continue to take full advantage of our unique assets through our commerce media strategy, return to sustainable growth and drive value for our shareholders.

Looking at what this means for our priorities, the team and I are laser-focused on 3 things for 2021. First, growth. Focusing on strong secular trends in e-commerce, accelerating the momentum we've built, making the right thoughtful decisions on investments in attracting and retaining the best and brightest talent out there. Second, execution in everything that we do. We nurture a culture of high-performance and accountability with a high "we do what we say we'll do" discipline. And lastly, first-party data. Using our unique and protected first-party data assets across our network of advertisers and publishers to strengthen our competitive moat and leapfrog other market players challenged by the third-party data consents.

I will, of course, update you regularly as we progress on our priorities. And with this, I'm pleased to turn it over to Todd, who will take you through some of the key product areas of focus for 2021. And I'll be back shortly with closing comments. Todd?

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

Thank you, Megan, and hello, everyone, from San Francisco. On our Q3 call, I touched on the importance of several Criteo assets I'd like to reinforce: our direct assets -- pardon me, our direct access to vast amounts of first-party identity and commerce data, the AI we apply to make predictions about consumer needs that drive commerce outcomes and the vast reach of our direct retailer and publisher network.

As Megan said, our combination of assets makes Criteo completely unique amongst independent ad tech companies. They constitute the raw material we use to continually deliver superior marketing outcomes at scale while navigating challenges posed by changing browser features, operating system policies and data privacy regulation. Since our last call, our delivery of new product has come into sharp focus, and we've made tangible progress with what we're building.

I'm going to walk you through some of our product investments in more detail, but before doing so, I want to share the 2 objectives that drive our 2021 product plan: first, returning Criteo to sustainable growth; and second, future-proofing our business for the benefit of marketers, publishers and the consumers they collectively serve. Using these objectives as our compass, we've built our product road map around 6 key initiatives, 3 of these focus on returning Criteo to sustainable growth.

First, we're expanding our performance audience offerings to address the full consumer journey from discovery to purchase. During the Q3 call, I shared our vision of building a completely differentiated contextual marketing solution. We're shipping the MVP of that product in late Q1 and have secured notable brands for our testing. What makes our approach to contextual truly different is that we're using first-party data to add a commerce signature to the content consumers are reading and watching across the open internet. This enables us to go beyond traditional contextual inferences of interest and intent to indicate what combinations of content are actually driving purchases.

Since our last call, we've also graduated our investment in Google's Privacy Sandbox, shifting focus and resources towards testing the efficacy and impact of cohort advertising on our ecosystem. Our testing approach is designed to provide empirical evidence that cohort advertising will benefit all system -- ecosystem stakeholders and, in partnership with Google, to shape the end solution accordingly. And of course, we continue to be laser-focused on preserving addressable advertising at scale without a third-party cookie, whether retargeting or other outcome-based use cases. While we do this, we're also making solid progress in testing cookie-less advertising channels, like CTV, through our active partnerships.

Our second growth initiative is focused on bringing new advertising dollars into Criteo's network. Here, we've taken a big step forward by launching our API partner program into general availability. Criteo APIs pave the way for brands, retailers, agencies and partners to directly leverage the world's leading Commerce Media Platform and to build customized solutions that produce more value using our core assets. I'm pleased to report we successfully beta tested with more than 100 global clients and tech companies. Redbubble, Foot Locker and Bluecore are just a few notable clients and partners we're thrilled to serve. Next up, we'll be adding API access to our existing support for first-party data integration.

Finally, our third growth initiative is to drive new stakeholder monetization, unlocking value in audiences and advertising inventory in new ways. In addition to the incredible progress we're making with our Retail Media partners, we're actively working to drive more value to our network of 5,000 direct publishers. We're working directly with select publishers and have deepened our investment in Prebid to test a healthy pipeline of data and media monetization products that promise new revenue and higher yields to our publisher partners. Our investment here is very important as it strikes a balance between publisher and advertiser needs and will ensure the entire ecosystem around our Commerce Media Platform thrives.

Now that I've covered our new growth products in some detail, I'd like to illustrate their potential using an example of a large retailer in the home improvement sector here in the U.S. This retailer currently spends $180 million a year on digital, $60 million of which goes directly to the open internet where our most immediate opportunity lies. Of this $60 million opportunity, we've captured $7 million in annual conversion spend just on retargeting, equivalent to a 12% share of wallet. By future-proofing our business using first-party data, we'll not only preserve this retargeting spend but be able to grow it over time. In addition, as you can see on slides 18 and 19 of our investor deck, by packaging new solutions from our Commerce Media Platform across both audiences and monetization, we believe we can quickly triple their spend with us to bring our share of wallet to 36%. To be clear, this is the potential run rate we're aiming for as we go into 2022 and beyond with a client like this one.

It's an imperative for us to enable this growth by future-proofing Criteo's business. Our industry has a monumental challenge to simplify the interoperability of first-party data between partners. By this, I mean all workflows that combine, activate and monetize first-party data at scale while respecting the data rights conveyed by its owners. Powering safe and secure multiparty interaction around first-party data is not only what Criteo does incredibly well, it's simply the future of media on the open internet.

Against this backdrop, our first of 3 product initiatives focuses on simplifying our partners' use of their first-party data with Criteo. Here, our intent is to go well beyond important table stakes of data security, anonymization and multiple paths for data onboarding. We're adding something the industry sorely needs, a rights management layer to safeguard how partners' first-party data is managed and utilized end-to-end. We believe that this capability will encourage first-party data to flow freely into our ecosystem and speed the success of our future-proofing initiatives.

Our second initiative is to replace the third-party cookie with an alternative durable identity to ensure first-party data can flow freely across our network. Since the Q3 call, we've gotten into a regular development cadence with The Trade Desk around [Unified] (corrected by company after the call) ID 2.0, or UID2.0, an open source ID framework created for the benefit of our entire industry. In addition to testing already in progress with buying media on LiveRamp's IdentityLink, we'll soon test buying media on UID2. With these partnerships, it's important to remind everyone that our endgame is to provide the broadest addressable audience reach and advertising opportunities through our Commerce Media Platform.

Finally, our third initiative is to engage consumers directly on behalf of our stakeholders to help them understand and manage how their data is being used and to enforce their advertising choices across our network. As we laid out on the Q3 call, Criteo is developing a single sign-on service which fronts UID2 and other identity frameworks. As part of the UID partnership, we're also codeveloping the privacy and transparency portal where consumers will be able to manage their data and advertising preferences.

Our aim is to open source these capabilities for the entire industry to benefit. We're in process of testing and refining this service with consumer audiences and being especially prudent about getting user design absolutely right before going broad with publisher and marketer testing. Together, these 3 initiatives form our first-party media network.

To sum things up, each of the product initiatives I've outlined, whether aimed at our return to growth or at future-proofing our business, is grounded by and leverages the vast amount of first-party data we uniquely access today. We believe this differentiated set of first-party data solutions will create an increasingly strong competitive moat for Criteo.

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

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

Thanks, Todd. It's an exciting time for Criteo. Good morning, everyone. I will discuss how our solid execution across our strategic pillars drove our overperformance in Q4 and in 2020, and I'll share our financial outlook for 2021.

Let me start with the headline numbers. Revenue grew 1% in Q4 million to $661 million and was $2.1 billion in 2020, 8% down for the year. As you can see, we beat guidance for revenue, ex TAC, and adjusted EBITDA largely due to an extended cyber-30 for our U.S. and European e-commerce customers. On a non-GAAP basis, revenue, ex TAC, was $253 million in Q4 and $825 million for 2020 or $25 million above our expectation. Revenue, ex TAC, was 6% down at constant currency versus Q4 2019 and down 13% for the year.

Q4 adjusted EBITDA of $103 million drove a 41% margin and translated into $251 million for the year. This resulted in an adjusted diluted EPS of $2.17 in 2020. Free cash flow of $120 million represented a 48% conversion of adjusted EBITDA in 2020, the highest level since 2014. Revenue, ex TAC, decline represented a 10 percentage point improvement versus Q3. We estimate the negative impact of COVID was $26 million in Q4 or about 10 points of year-over-year impact, with 95% of this impact from lower spend in Travel and Classifieds.

In fiscal 2020, we estimate the overall COVID impact on revenue, ex TAC, of $106 million or 11 points year-over-year. 60% of this impact was in Travel, 35% in Classifieds and 5% related to Retail, including large U.S. bankruptcies and the curtailment of spend by a large career-based marketplace. Excluding the estimated COVID impact from these vertical customers, our revenue grew 10% in Q4 and 3% in the year. Revenue ex-TAC, grew 3% in Q4 and only declined about 1% in 2020. Our revenue ex-TAC, margin was 40% in 2020, a reduction of 2 points of revenue, in line with expectations due to the evolving product mix of our business. Identity and privacy was an estimated $16 million reduction in rev ex-TAC, in Q4 and $37 million for 2020. For the year, this represents an impact of $10 million from explicit consent in Europe and $27 million from browser restrictions globally.

Let me now walk you through our solid execution related to our 4 strategic pillars that drove our overperformance in Q4 and the fiscal year. On our first pillar, strengthen the core, our strong performance in retargeting across all regions, in particular in the Americas and EMEA, was the largest driver of over achievement in Q4. Relative to prior years and as expected with booming e-commerce, the holiday season was less concentrated around the traditional cyber-6 peak surrounding Black Friday and represented a longer cyber-30 curve.

We added about 900 net new clients in Q4, the highest level for the past 13 quarters. While distributed across our entire business, over 70% of these client additions related to retargeting, with a large part upsold to targeting campaigns as well. With regards to our existing client business, same-client revenue, ex TAC, growth of minus 1% in Q4 improved 10 points relative to Q3 and was a positive 10% excluding the estimated COVID impact. This clearly highlights the healthy positive momentum underlying our core business continuing into Q1 2021.

With respect to our second pillar, expand our portfolio, new solutions grew 38% in Q4 to 24% of the total business. In 2020, new solutions grew 47% and represented about 20% of our business. All our new solutions were strong in 2020, with Omnichannel growing at 120%, Audience Targeting at 32% and Retail Media 53%. In Q4, Retail Media continued to grow strongly at 41%, accelerating from a tough comp last year with terrific results for large U.S. retailers and despite the continued supply chain issues in the consumer electronics vertical.

We added more brands and retailers to our Retail Media platform, and as Megan said, our Retail Media customers represent over 50% of the top 25 e-commerce retailers in the U.S. and over 50% of the top 20 in Europe. Recent additions include selection as the preferred provider of Retail Media solutions globally by one of the world's largest retailers based in Europe. We believe that this deal and others would enable continued momentum in Retail Media in 2021.

On our third pillar, explore strategic game changers, we continue to work with industry partners to strengthen our Commerce Media Platform with new API capabilities offering new functionalities and measurement for customers. In Q1 this year, we launched new video and CTV campaigns for brands and already see strong momentum in media spend.

Finally, with respect to our fourth pillar, drive tech and operational excellence, we acted fast and execute decisively in 2020 to reduce our cost base, drive EBITDA and ensure liquidity. At the same time, we continued to invest in our growth investments and ensured disciplined cost management. We are investing in our transformation of Commerce Media Platform growth initiatives in 2021, including in Retail Media, first-party data, contextual advertising, video CTV and commerce insights. These growth investments are funded for the most part through productivity and cost savings, enabling top line leverage as we commercialize new products and capabilities.

In Q4, non-GAAP expenses were $150 million, down 4%. In 2020, non-GAAP expenses declined $74 million or 11%. This included a $42 million or 11% reduction in employee costs. Excluding a $21 million increase in bad debt provision in 2020 largely related to U.S. bankruptcy risks earlier in the year, we reduced non-GAAP OpEx by $103 million or 18% in 2020. This is a significant achievement. The steps we took in 2020 designed to rightsize our cost structure, main competitiveness and generate reinvestment capabilities included hiring freezes and optimizing our real estate footprint and hosting costs for the future. We closed 2020 with about 2,600 employees, down 6% year-over-year. This includes an ongoing shift of R&D and commercial resources from running our core product to building and send new products. In 2021, we will continue to align our global organization to our customer needs and will relocate some teams to global and regional hubs to enable agility and operational effectiveness.

As you can see in our non-GAAP reconciliation, we incurred $20 million in pretax restructuring and transformation costs in 2020, including $4 million in Q4 largely related to real estate and severance costs. With additional cost actions in 2021, we anticipate to incur about $20 million to $25 million in pretax restructuring costs this year split between real estate portfolio reductions and employee severance.

Moving down the income statement, our G&A expenses reduced 6% in 2020, and our share-based compensation expense decreased 36% in the year. This, combined with our business performance and cost management, drove a 14% increase in GAAP income from operations in Q4. Financial expenses reduced $4 million in 2020, and our GAAP effective tax rate was 30%. Net income increased 13% in Q4 and was down 22% in 2020. Our weighted average diluted share count was 62 million in both Q4 and the year, down 6% in 2020 as a result of our share buyback. Diluted EPS was $0.73 in Q4 and $1.16 in 2020, and adjusted diluted EPS was $0.98 in Q4 and $2.17 for the year.

Free cash flow generation was $22 million in Q4 and $120 million in 2020, reflecting good collections and lower CapEx. The 48% conversion of adjusted EBITDA into free cash flow was the highest level for the past 6 years in 2020. This is a great achievement in a tough year.

Our balance sheet continues to be very strong, and we closed 2020 with $530 million in cash and marketable securities after repaying the revolver drawdown of $164 million in November. We will look to maintain flexibility in our capital allocation to pursue organic and potentially inorganic investments. And while remaining very selective in our approach, we have an active M&A pipeline focused on our growth areas. Also, our Board has authorized a new share buyback program of up to $100 million.

I'll now provide our guidance and business outlook for 2021, which reflect our expectations as of today, February 10. Importantly, a key assumption for this guidance is that we are in a new normal with continued impact from the pandemic driving higher e-commerce, a backdrop of muted global economic growth and continued challenges for the Travel and Classified verticals. We're also closely monitoring the impact of iOS 14 changes over the coming months.

For fiscal 2021, we're targeting low to mid-single-digit growth in revenue ex-TAC, at constant currency and an adjusted EBITDA margin above 30% of revenue, ex TAC. This means an improvement of approximately 16 points of year-over-year growth at the midpoint compared to 2020. We are moving to our Commerce Media Platform with seamless launches of new products and expect growth in revenue ex-TAC, to progress throughout 2021, accelerating in the second half of the year.

Our ambition is to grow our new solutions, including Retail Media, by around 50% during 2021. We expect our new solutions to represent close to 30% of revenue ex-TAC, in 2021. We have assumed incremental identity and privacy impacts of about $60 million in '21 relative to the 2020 run rate. And on the cost side, we anticipate flat expenses compared to 2020 with about $40 million of cost savings funding new investments in our growth areas. Due to the use of former NOLs and one-off items in 2020, we expect our annual effective tax rate to increase from 30% to about 32% in 2021, and we anticipate to maintain our share count flat throughout the year.

As we head into Q1, we see continued solid performance for Retail in the U.S. and EMEA and good traction in our Commerce Media Platform with accelerating momentum in Retail Media and continued solid growth across all our new solutions. With almost a year into the pandemic, we expect around $10 million of incremental COVID impact compared to Q1 last year, all driven by Travel. We expect that our Japan Classifieds business will continue to be soft given local lockdowns.

Taking all of this into consideration, we're guiding for revenue ex-TAC in Q1 of around $200 million or a 4% decline at constant currency. This includes $6 million of incremental identity and privacy impacts relative to the 2020 run rate. On the profitability side, we expect Q1 adjusted EBITDA above $60 million or a 30% margin as we anticipate expenses to decline by around 10% year-over-year.

As a CFO, my priority for 2021 is clearly to continue to foster profitable growth and operational excellence across Criteo. We're focused on ensuring proper resource and investment allocation to our priority growth areas. We are partnering with the commercial team to increase our share of wallet with e-commerce customers and ad agencies. Our product marketing and sales teams are collaborating closely to replicate customer success stories, showcase new products and increase our cross-selling. We are also very focused on process and organizational efficiencies as we continue to evolve our operating model and will make sure to allocate our capital to its highest-value uses across organic and inorganic investment opportunities while maintaining flexibility for shareholder returns.

In closing, 2020 has been nothing short of an important transformational year for Criteo. We are moving fast and executing with discipline and focus on our strategic vision and product roadmap. We're excited about our plans to put Criteo back on a sustainable and profitable growth trajectory in '21 and beyond.

With that, I'll hand it back to Megan for closing remarks.

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

Thank you, Sarah. In closing, I'll say a few words about what makes me confident that we'll succeed through our transformation to Commerce Media Platform and return to sustainable growth, and this is because we have all the right things now moving in the right direction, massive e-commerce tailwinds and increased TAM; superior commerce media assets and capabilities for marketing and monetization that no one else has on the open internet, including global reach and 21,000 advertisers across 100-plus markets; extensive commerce data and a unique, highly differentiated first-party media network. We have a solid product road map to return to growth and future-proof the business; new product offerings emerging that already support our strategy, growing at around 50% and expected to represent close to 30% of our business in 2021; a strong balance sheet supporting our investment plans to further transform our business; and our commitment to thoughtful, steady execution and delivery against our strategic plan.

We're transforming into a new Criteo, and our strategy of creating the world's leading Commerce Media Platform positions us for success and sustainable growth. We have a compelling commerce-focused opportunity ahead of us to create long-term value for our shareholders. We'll be happy to provide more details on our strategy and execution roadmap during our Investor Day coming up in late spring, so please stay tuned.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Sarah Simon from Berenberg.

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

I've actually got three questions, if I may. First one, Sarah, you gave an assumption about the -- you talked about COVID and the impact through '21. When are you thinking Travel starts to come back in terms of spending? And are you seeing any sign of that yet?

Second one, kind of general question. Can you talk about the difference between your Retail Media product and Amazon? I think a lot of people still don't really understand what it is that you're doing and maybe Amazon is a good benchmark to start with.

And then the third one, in terms of CTV, I'm assuming it's very small in the mix of revenues today. Do you think that is a product that you'll be using for -- more for retargeting or more for upper-funnel products?

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

Sarah, take the first one, and then I'll take the second and third.

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

Yes, for Travel, we're seeing that we're about to 75% to 80% down year-on-year still. We have, I would say, a more aggressive assumption throughout the year and, obviously, all of us at home to start taking some trips soon. So we're still seeing it's pretty muted and challenging, but we're ready for when it comes back.

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

Great. Let me take the second one. And thank you for asking it, Sarah. It's important to, I think, lay out the differences between the two. Let's see, we've been clear of ambition of ours to become the Amazon Advertising of the open internet. So let me use that as a framework to explain.

The e-commerce landscape, as you know, is massive, and it's predicted to grow at about nearly $7 trillion by 2023. So it's certainly got room for both of us there. It's an extremely healthy place for us to be setting our sights and specifically with the assets that we've got. We focus on the open internet. And remember, Amazon is very focused on Amazon platform; and secondly, to get their advertising out to the open internet. And the open internet takes up about 38% of that total gross merchandise value that I talked about before. So inside of that $6.8 trillion or $7 trillion, 38% of that is actually the total of the open internet, and that's the area that we play.

We have huge e-commerce scale. So when it comes to being able to stand up against an Amazon Advertising in that space, we process about $900 billion a year in online sales, which is bigger than Amazon. It's not apples-to-apples comparison, but it's a bigger load than what Amazon processes. So we have the scale to be able to stand up there. Now the big differentiator for us, I think, is around the open internet -- our open internet focus and what we're doing around our first-party network, which Todd talked through before, which gives us a clear advantage.

In Amazon's case, they know who their consumer is if they're a registered Amazon user and they're logged in. But once they get out of that domain and once they get to what we call off site, they're no longer on their platform, they have to try and find a way to connect their own registered user to the same person off their domain, and the way to do that is just third-party data. When third-party cookies go away, they have to find a way to be able to connect those dots, and that's why we think we have a massive advantage is because of our -- where we sit in terms of what we do for the open internet today and the massive amount of data that we have and the first-party strategy that we're going after.

We use our first-party network to join the dots across the users on the open internet. And also, we use the UID and other ways to identify and join the pieces. And I think as Todd said so eloquently before, the future of media on the open internet is about first-party data and not third. So they have a challenge in front of them.

So look, I think I've said a lot. But in summary, we do believe that the goal of being Amazon Advertising of the open internet is ours. We do have access to 38% of that $6.8 trillion pie in that regard. We have a strong process in power, and we have that first-party data access. So we're highly differentiated. And hopefully, that helps with the question.

Let me jump really quickly to CTV. We see CTV as a channel. So it's just -- it's another channel in the same way as desktops and mobile. It's a channel that carries video, sound and motion. It doesn't carry a lot of advertising right now. And our focus being e-commerce, it certainly doesn't carry a lot of e-commerce advertising now or addressable advertising. So while it's out there, it's something that we are certainly leaning into and making sure that we're in the right place at the right time for -- if this should progress. Our focus is on e-commerce. That's where our business is going. And any channel that carries e-commerce advertising is what we're most focused on first. I hope that helped.

Operator

The next question is from Matt Thornton from Truist.

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

I also have three, and I'll try to be quick here. I guess just first maybe for Megan or Todd. If we think about the Retail Media business, is there any way to help us think about how it stands right now, maybe kind of SSP revenue versus DSP revenue, self-serve versus full-serve or managed serve? And again, when we think about the self-serve, unit economics of that product, is there any reason that they're dissimilar to what we'd see from other publicly traded types of DSPs and SSPs? Why don't I start with that one, and then I'll come back with my second question?

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

Todd, are you good to take that one?

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

Yes. I can take this one. So I mean, I think, first of all, the emergence of that business and kind of the change in the profile of retailers from being just a place to buy things as opposed to a place to discover and learn. In fact, a media outlet means that we are doing much more in terms of being an SSP, if you will, to those partners.

At the same time, we are servicing many of them with our DSP offering -- with our demand offering. And what we're seeing is that fuller basket is being driven -- is driving, pardon me, a lot more interest and demand from those parties. So the fact that we can bring customers in and we can provide monetization at the same time is something that signals, I think, a very important difference in our marketplace. And so as you've heard me talk about before, we are adding quite a bit to the native media monetization products of Retail Media, and we've got a very healthy pipeline there. We're also looking at ways for our partners to monetize their data through audiences and audience -- first-party audience information that goes with that.

So I would just say we're not traditional as an SSP. We're actually doing things that are much deeper retailer stack than providing an advertising or media solution, and we're very data focused. So those 2 are coming together in a powerful way.

In terms of access control surfaces, we have had self-service capabilities on both sides of our business. You can expect, as we go forward, that those things will come together, that those control surfaces will merge because, in many ways, that's where the market is going and what is needed. So this kind of somewhat artificial separation between supply and demand is harder to keep clean when you have the changing forces in the market that I described.

So Retail Media is going to be 100% self-service soon, just to be more specific, in terms of its deployment. We are pushing hard to get many more of the customers that are coming on. You heard Sarah say that we cleared 900 new accounts just in this last period, and you can't do that without being pretty decent at self-service, right? So those 2 are big investments, and they are going to be merging over time. Hopefully, that helps.

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

That's very helpful. And then just the two other ones. First one is probably for either Todd or Megan, and then maybe the last one is for Megan. Obviously, Google touted their FLoC solution for cohort advertising recently and talked about the effectiveness there. Curious if that, in any way, changes how you think your core kind of retargeting business will look on the other side of those Chrome changes. If you can talk to how important or not important perhaps that is?

And then just final question, maybe for Megan. When you think about the 2 sides of the business, the Retail Media business, if you look at some of the valuations out there around ad tech that have certainly rerated recently and then kind of the core retargeting business, when you think about valuation and where you sit right now, I guess, how do you think about Criteo as a potential M&A target? How do you fend off M&A? I guess, just how are you thinking about that in the broader landscape? Any help there would be great.

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

Let me take the FLoC one.

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

Todd -- yes.

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

Yes, I'm sorry about that, Megan. So the FLoC thing, I'll just be quick on this one. We've been working with Google since the beginning of the -- of what I call the bird proposals. And we're -- now we're at a place where, as I mentioned before, we're all about empiricism and testing. So the 95% number that came out a couple of weeks ago, that's pretty impressive, but it's not testing that we've done and it's not external to Google. So we're all very hungry to continue to invest in our partnership and see how the -- how FLoC plays out, how cohort advertising plays out as we implement it. And as I mentioned during the prepared remarks, we are very invested in that.

At the same time, you asked about retargeting. We are just incredibly focused in terms of preserving that opportunity for the company by bridging first-party data between all of our stakeholders. And we're going to continue to, in parallel with what we're doing with Google on FLoC, invest very, very heavily there.

And then finally, I mentioned noncookie solutions and, of course, getting contextual to market as fast as we have in a different way, something that is unique and very commerce focused is the first of a good lineup there. So we've got the noncookie solutions, we've got the preservation of cookie of retargeting solutions and then we've got the FLoC solutions, I'd say our customers are well covered.

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

Yes, Matt, let me take the last one in terms of how we feel about M&A. We're, as you can hopefully tell, just laser-focused on our strategy and executing against our strategy. And certainly, my job has been to come in and to run a transformation across the business to return to sustainable growth, and that's what I'm focused on. Clearly, we're going in the right direction here. We feel good about where we're at, and we'll continue to execute that -- across that thoughtfully and to plan and deliver what we say we're going to deliver.

If you think about M&A in terms of what we look for to help us execute against our plan, we have, I think Sarah said, an active pipeline around opportunities that drive product synergies for us or tech synergies for us that enable us to perhaps speed things up, deliver things quicker and to build things that maybe we don't have the expertise to do. And so as I said before, we have -- we run an active pipeline to look for those opportunities every day. And we're very thoughtful in our approach, and we make sure that if we were to move forward with something, it would be something that delivered against our strategy and provided shareholder value.

Operator

The next question is from Doug Anmuth from JPMorgan.

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

I guess there are two. I just wanted to ask on net new clients. You reached the highest level since, I think, 3Q of '17. Can you just talk about some of the drivers of those client net adds? And then would you characterize them as more kind of resurrected clients or totally new to the Criteo platform?

And then second, just on the $60 million privacy impact in 2021 and then the $6 million in 1Q, is that all related to Apple and IDFA? Or can you help us break that out across other items as well?

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

Sarah, do you want to take those out? I think both of them are in your...

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

Yes, yes. Yes, absolutely. Yes, I mean, most of these are new clients. So we see, especially with the open internet, a lot of new players coming in, and they need our services. So most of it's on the new sales side. And of course, we're continuing to focus on existing customers as well. And I think I said in the remarks, about 70% of them are for retargeting. So some are moving up the pipeline to targeting as well. So super excited about that metric.

I think the second question you asked was on the privacy. And in terms of privacy, I can't actually -- I'm sorry, I think it's about 2/3 on the browsers and about 1/3 would be on the explicit consent. So that's the way I would look at it.

And sorry, just one last thing. We have -- we continue to hone in on that assumption. So that is lower than we were anticipating a few months back, and we'll continue to update on that quarter after quarter. But that's our latest view on the restrictions on the identity.

Operator

The next question is from Mark Zgutowicz.

Edouard Lassalle - *Criteo S.A. - VP and Head of Investor & Analyst Relations*

Thank you, Sarah. Well, we were just about close, I'm sorry. So we can take that last question quickly.

Operator

Okay. Next question is from Mark Zgutowicz from Rosenblatt Securities.

Mark John Zgutowicz - *Rosenblatt Securities Inc., Research Division - Senior Research Analyst*

You mentioned that you're watching for specifics as it relates to iOS. I'm just curious what those specifics are. Sort of what Apple's laid out, what's was not yet clear, what is clear and sort of how that plays into UID2.0? They've clearly made it clear that hashed e-mails cannot be used as an end around to IDFA, so just curious what's clear, not clear, specific to that as well.

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

Mark, thanks for the question. I'm going to throw it to Todd. You good with this one, Todd?

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

Yes. Sure. So there's not anything, I think, new that we would report that you don't already know. We still, on an overall basis, really believe that providing consumers more control over their data is a good thing for the ecosystem. And what we're worried about here is how it impacts smaller businesses, our app building partners and so on and so forth.

So -- and we're very focused, instead of kind of avoidance and prediction, helping our clients get ready to adapt to the change. So -- and there are a couple of things there. One is making sure that we're able to use our first-party data, like you mentioned, to find users in other addressable areas. We see -- because of the vastness of our network, we see many, many, many users in many places. So the unfortunate thing is it will be harder for apps to monetize those users that we might otherwise place in advertisement.

We're rolling out our SDK much more broadly with publishers. That will help us in the app environment. And we have some work going to map web properties context, which generally is richer than app context to that environment, so at least we can get some dollars flowing, the upper funnel, maybe mid-funnel dollars flowing into those app environments where we care about publishers' success.

So I think that's probably a good summation. We're already on that track and, obviously, waiting for things to flow through and for us to observe consumer behavior on opt in. And -- but we're prepared for it, and we're doing the 3 things I just mentioned.

Edouard Lassalle - *Criteo S.A. - VP and Head of Investor & Analyst Relations*

Thanks, Todd. And apologies, Mark, for interrupting. Thanks, everyone, for joining the call today. This actually concludes the call. Thanks, everyone, and you are (inaudible) for any follow-ups. We wish you a good end of day. Thanks.

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

Thanks so much. Bye now.

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

Thank you.

Operator

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