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PRESENTATION

Operator

Good morning, and welcome to Criteo's First Quarter 2021 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. - VP and Head of Investor & Analyst Relations*

Thank you, Chad. Good morning, everyone, and welcome to Criteo's First Quarter 2021 Earnings Call. We hope you're all doing well and keeping Safe. Joining me on the call today, CEO, Megan Clarken; and CFO, Sarah Glickman, are going to share some prepared remarks. After these remarks, Todd Parsons, the Chief Product Officer; and Geoffroy Martin, General Manager of our Growth Portfolio, will join us for the Q&A session. As usual, for everyone's convenience, you will find our investor deck on our website.

Before we get started, I'd like to remind you 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 hand it over to Megan.

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

Thanks, Ed, and good morning, everyone. Thank you all for joining us today. I hope everyone is doing well and staying safe. On our end, I have to say we feel good today. We've had a strong start to 2021 and have already achieved a number of solid things and a year of return to growth for

Criteo. In particular, we're seeing good momentum across our 3 priorities of growth, execution and first-party data. In Q1, we've already returned to growth. And good trends in commerce and online shopping continues to sustain the growth of our clients' business and our own.

Our leadership is firmly in place, and our teams are aligned and focused on steady, thoughtful execution. To add, recent market developments highlight the need for the industry to grow its focus on first-party data, validating the strategic importance of our own first-party media network. In short, our market opportunity is big, our strategic priorities are clear, and our execution is strong. All of this supports our Commerce Media Platform vision that I've talked you through on our past 2 earnings calls.

Today, and looking at 2021 so far, I'm feeling very good about the momentum around our vision coming to life. Together with Sarah, we'll discuss 3 topics on our call today: first, the value of our Commerce Media Platform, what it brings to the market; second, how our steady and thoughtful delivery across our 3 priorities of growth, execution and first-party data is driving momentum in our business; and third, what drove our overperformance against guidance in Q1 and what this means for Q2 and our 2021 growth momentum.

First, our Commerce Media Platform. Our strategy of building the world's leading Commerce Media Platform brings together the best of Criteo to deliver smarter consumer experiences. Commerce Media is a category of digital advertising that drives growth -- sorry, that drives commerce outcomes for brands, retailers and publishers by delivering smart experiences to in-market audiences as they browse and purchase online.

As a marketing category, Commerce Media is real and growing fast. It's out there and it's big. As I've said before, we view the Commerce Media opportunity as a $60 billion+ TAM for us. Our place in Commerce Media is based on our front-row position at the intersection of e-commerce, marketing and media monetization. Our unique platform makes Commerce Media work for everyone, driving powerful outcomes for all those that we serve. Brands like Adidas or P&G generate commerce results through powerful commerce focused targeting, measurement and optimization capabilities deployed by both our unique Retail Media inventory and our huge network of media properties, providing brands with a combination of promise, capabilities and unmatched scale, even by the walled garden standards.

Retailers like Target provide commerce outcomes and create new, high-margin ad revenue streams for themselves through targeted promotions. Publishers access existing and new brand marketing dollars previously spent below the line. And all of us, as consumers, get to enjoy better shopping experiences through better content and personalized ad experiences, while enjoying continued access to ad supported content online. Our Commerce Media platform's unique combination of commerce-focused marketing and media monetization capabilities makes us ideally suited to address the complex needs of our customers.

For example, we recently helped one of the world's largest retailer execute their marketing and monetization strategy in Canada. This big client has been laser-focused on growing the ROI of its digital marketing investments at scale during the holiday season and early 2021, while at the same time monetizing its in-market audiences and media with multiple CPG brands. Our marketing services for them focused on converting the visitors on their site and app, leveraging our strong creative and product recommendation suites, trusted brand safety capabilities and flexible budget allocation tools to turn their site and app visitors into buyers.

On the media monetization side, we help them launch native and sponsored product ads across their site and apps and added new ad placements on their grocery-specific inventory. Over Q4 and Q1, the value we delivered to this large retailer helped drive an increase of 195% year-over-year in product sales, translating into 100% growth in revenue for us. In 2021 and beyond, we see great opportunities for this retailer to further leverage our full suite of marketing and media monetization solutions, with available audiences to drive commerce outcomes on and off its properties for the brand manufacturers it works with.

As you can tell from this example, we focus on being the leader in marketing and media monetization for commerce outside of walled gardens. With our unified offering, we shepherd the buying and selling of advertising and promotions for goods and services with a strong focus on commerce across our massive network of brands, retailers and media partners. We continue to work on making the seamless flow of our first-party data across our Commerce Media network a big part of our differentiation.

Moving to my second point. Our steady delivery driving growth. We're making good progress on each of our priorities, growth, execution and first-party data. The positive momentum we're seeing across our business is supported by our team's solid planning and focus, thoughtful decision-making and high standard of execution. As I hope that you can see, we're executing on a well thought-out transformation plan and overcoming unprecedented circumstances.

Let's start with our first priority, growth. Our growth turned positive in Q1, earlier than planned, leveraging continued health in online commerce. I'm pleased that our better-than-anticipated performance was driven by solid momentum across all solutions. Since I joined Criteo, our focus on growth has required us to better utilize our assets. We're growing the business by expanding our product suite and growing the uptake of our new solutions across existing and new clients.

Benefiting from our larger Commerce Media product portfolio, our retargeting product continues to show solid resilience and to perform better than expected. In fact, a large part of our overperformance against our guidance in Q1 came from retargeting, highlighting that our clients continued -- that their continued need for superior performance and converting their customers. Whether that conversion is aided by retargeting, brand building, audience targeting, direct retail promotion, superior access to buying and selling of ad real estate, this is the power of the Commerce Media Platform at work.

Our new solutions that represents about $176 million revenue ex-TAC on the last 12-month basis and now -- is now 21% of our business, growing -- it grew 60% in Q1 accelerating from both Q3 and Q4 2020 with strong growth across the board. Retail Media's growth dramatically accelerated to over 120% as we further expanded our business with new retailers, brands and agencies and grew our share of wallet with existing ones. We already work with over 50% of the top 25 American and top 20 European e-commerce retailers with monetization programs, and we continue to expand our business with them.

While Retail Media is a central piece of our Commerce Media Platform strategy, all of our new solutions continue to grow fast. We're investing in contextual advertising and audience targeting for brands on video and CTV. We continue to expect all our new solutions combined to grow by close to 50% in 2021. And last point on growth, we're driving profitable growth, too, as we significantly increased our adjusted EBITDA margin in Q1, while continuing to invest in our growth initiatives.

Execution is our second priority. The team continues to deliver steady, thoughtful execution on all fronts. This spans our execution playbook across organic, build and partner. On the organic side, we saw continued solid momentum across the business. In our new solutions business, we continue to focus our sales efforts across our new solutions. In Q1, we had growth of over 160% in our omnichannel solutions and mid-teens in our audience targeting products. This solid growth is enabled by our teams to focus on best addressing and servicing the Commerce Media needs of our customers, big or small.

On the product side and as discussed in our last call, we launched our next level contextual advertising solution. Our solution is a first-of-its-kind product that connects first-party commerce data, like a consumers recent purchase of Adidas sneakers, with real-time contextual signals, like a particular new site or app or a key topic of an article. This capability paves the way for marketers to continue to drive and measure incremental revenue in a post-cookie world. We're already seeing good customer adoption and good performance for marketers.

In supply, we launched our direct SDK product with a top U.S. news app, adding to the scale of our direct access on the largest news apps. We also started testing in 2 Asian markets with one of the largest messaging platforms in APAC with huge scale, a significant strategic win for us in the region. As a reminder of our importance to supplier partners, premium publishers like NBC, Globo, The Wall Street Journal and Forbes give us direct access to the inventory because they know we deliver high yields per ad unit, combined with advertiser demand at scale in brand-safe and consumer-friendly ways.

In speaking of locking in highly differentiated supply, in Retail Media, we executed strongly with new business wins and growth in our existing customer base. On new business, we have signed a 3-year global preferred partnership with Carrefour. The agreement calls for the deployment of the Criteo Retail Media platform in 9 Carrefour group countries, starting with France, where Criteo will be the exclusive partner for the marketing of Retail Media inventories to advertisers and agencies.

The Criteo Retail Media platform will power advertisers, promotions on their products on all of Carrefour digital assets, i.e., on its web and app shops through innovative solutions, 100% integrated into the shoppers journey. Carrefour joins retailers like Costco, Target, Macy's and Best Buy in granting us privileged access to their media inventory because our Retail Media solutions generate high-margin ad revenue while protecting the shopper experience through relevant commerce native ads.

Also in Retail Media, we've signed a multiyear agreement with a very large U.S. home improvement retailer, along with agreements with [6] (corrected by company after the call) other new retailers in Q1. We expect these contracts, together with potential similar agreements in the future, to continue to sustain and strengthen Retail Media's growth over the next multiple years. In Q1, we also fully integrated our preferred deals offering, previously called Commerce Display, into our Retail Media platform, providing retailers, brands and agencies with a single unified platform for managing all ad formats across retail sites and mobile apps. On the partnership front, we continue to expand our strategic API partnership program, making it easier for brands and agencies to buy with Criteo. Today, our APIs and partners drive greater stickiness and long-term growth for Criteo, including acceleration of our offsite Retail Media offering for brands across the open Internet.

Moving to our third priority, first-party data. As everyone knows, this is a critical area for the industry and for us, an area we were actively and methodically securing our moat and differentiation. First of all, all of our Retail Media on-site solutions leverage first-party data and do not rely on third-party cookies. This means that our growth in Retail Media on-site is not only tremendous in size, but also sheltered from changes in third-party identification and, therefore, brings steady, durable, predictable growth. This is important in light of our fast growth in this business and the central role that Retail Media plays in the traction of our Commerce Media Platform.

Secondly, in their early March blogpost, Google interestingly reminded every one of the strategic importance of first-party data, to the entire online ecosystem. We found Google's rap to be music to our ears as the foundation of our Commerce Media Platform is first-party data that we operate on behalf of our partners. Our first-party media network enables this data to power marketing and monetization across the open Internet at scale. In partnership with our clients, the constant safe and protected flow of first-party data within our broad network is the cornerstone of our data identity strategy.

As changes come in iOS 14 and third-party cookies go away, we'll further lean into this asset and continue to offer our clients the ability to achieve their marketing and monetization goals via third-party data. As I mentioned earlier, a strong focus of us is to make our clients' first-party identity data fully interoperable across our first-party media network to ultimately power the Commerce Media Platform in the most seamless way. This means creating durable connections between first-party identity data operated on the demand side of our business with first-party data operated on the supply side of our business.

Our effort requires investment in infrastructure for seamless data rights management, privacy protection and integration with the programmatic ecosystem to differentiate. Third, in collaboration with industry partners, we further advanced the integration of the universal identifier UID2 solution into our Commerce Media Platform. We worked with the Trade Desk on our new single sign-on software called OpenPass built to support UID2 and to provide publishers and retailers the tools to use first-party data as an alternative to third-party cookies.

The OpenPass software will be open source and available for all publishers and retailers to easily install on their site and technology stack. We started testing OpenPass with consumers, publishers and retailers in Q1 and Q2 and anticipate that it will take up to about 12 months to build scale. As we've said before, OpenPass and UID2 are built for interoperability with other consent and identity solution and OpenPass will operate with identifiers other than UID2, which means both will also enhance other solutions publishers and retailers choice to use.

And finally, we're excited about our customers' interest we're already seeing in our first-of-its-kind contextual advertising product. It's built with the best of Criteo AI to merge content classification with first-party transaction data, to close the loop between what -- between the cohorts of consumers buy and their affinity for specific content. In the very early going, we've seen incrementality for our clients and believe this product will thrive in a post third-party cookie world. It's also important to note that our Shopper Graph data proves particularly relevant for cohort advertising use cases to drive higher relevance for consumers and performance for marketers.

We believe this positions us well ahead of testing Google's FLoC and FLEDGE proposals over the coming months and quarters. In short, our team has delivered steadily, thoughtfully and with discipline across our strategic priorities in early 2021. And looking ahead, we remain laser-focused on the same 3 priorities.

First, on growth, accelerating the momentum we've built, focusing on strong secular trends in e-commerce, making the right thoughtful decisions on investments and continuing to attract and retain the best and brightest talent out there.

Second, on execution. By sticking to a strict "we do what we say we'll do" discipline, we nurture a culture of high-performance and accountability in everything we do.

And third, on first-party data. Using our competitive moat of protected first-party data across our advertiser and publishing network and focusing on the various techniques we have available to us, we feel good about our position in the market post-cookies.

In closing, I'm very proud of our team's solid delivery achieved with grit and conviction. I feel good about the momentum we've created in our Commerce Media Platform and how we're tracking against our transformation plan to turn our business around. And to discuss our strategy and execution plans in more detail, we're excited to host you all at our 2021 Investor Day, which will take place virtually on June 3. And during this event, our extended leadership team will explain why the new Criteo we are today is best positioned to offer the world's leading Commerce Media Platform to brands, retailers and publishers. And all details will soon be available on our IR website. I hope that you're all able to join us.

With this, and looking forward to seeing you all attend our Investor Day, I'm pleased to turn it over to Sarah, who will take you through the Q1 performance and outlook for the rest of 2021, and I'll be back for the Q&A session. Sarah?

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

Thanks, Megan. And yes, it's exciting to see our momentum of growth. Good morning, everyone. I'll discuss the operating and financial drivers of our Q1 performance, and I'll share our financial outlook for Q2 and 2021.

Let me start with headline numbers. Revenue grew 7% in Q1 or 4% at constant currency to $541 million. We beat guidance for revenue ex TAC and adjusted EBITDA due to our overperformance across retargeting and our new solutions. On a non-GAAP basis, revenue ex TAC was $213 million, up 4% or 0.5% at constant currency and $13 million above our expectation.

Adjusted EBITDA of $76 million, up 21% at constant currency, drove our 36% margin. This resulted in adjusted diluted EPS of $0.67 and free cash flow of $64 million, representing 84% of adjusted EBITDA. Even with Q1 seasonal uplift in cash collections, this was the highest level for 21 quarters. We estimate that the COVID impact incremental to early 2020 was a negative $18 million or about 9 points of year-over-year growth.

Excluding this estimated incremental COVID impact, our revenue ex TAC grew close to 9%. Incremental identity and privacy impacts drove a $5 million reduction in revenue ex TAC. And our revenue ex TAC margin was 39% of revenue, down 150 basis points year-on-year, in line with expectations due to the evolving product mix of our business and our go-to-market strategies. Our performance was strong across Criteo's entire business. Revenue ex TAC growth was over 4 points above our guidance and improved about 7 points compared to the rate in Q4. We continue to operate Criteo as a single operating segment.

To provide additional transparency, we have disaggregated revenue and revenue ex TAC to show both Marketing Solutions and Retail Media. Marketing Solutions revenue ex TAC declined 5% compared to Q1 2020, largely related to an estimated $18 million impact from COVID. Close to 90% of this impact was in travel. Excluding this estimated incremental impact, Marketing Solutions revenue ex TAC was up 4%, driven by better performance in retargeting across all regions and audience targeting growth of 14%. Growth in our omnichannel product accelerated to over 150% due to continued strong demand in retail.

In Q1, Retail Media grew 122% on a revenue ex TAC basis, driven by strong momentum across existing clients and the onboarding of new retailers and brands. And overall, our new solutions across Criteo, including Retail Media, grew 60% to 21% of total revenue ex TAC. For our existing client business, same-client revenue ex-TAC growth of 3% improved 4 points relative to Q4. In Marketing Solutions, our retail business went up 9% this quarter. Both metrics highlight the healthy momentum underlying our core business continuing into Q2 2021 and on new solutions traction.

Moving to our regional momentum. Revenue ex TAC in the Americas grew 6% or 8% at constant currency, improving 13 points of growth compared to Q4, driven by retail retargeting, audience targeting and strong momentum of Retail Media with large retailers and brands. In Europe, EMEA revenue ex TAC grew 5% on a reported basis but declined 2% at constant currency, driven by continued weakness in travel, offset by retail new business and strong traction in Retail Media, in particular, in our preferred deals offering.

Revenue ex TAC in Asia Pac declined 2% or 5% at constant currency, improving by over 12 points compared to Q4. This was driven by a still depressed travel vertical and an improving classified business still down year-on-year, offset by the return to growth of our retail business, in particular, in Japan and Korea. We added over 120 net new clients in Q1 as commercial momentum built on across all solutions. Over 75% of these new live clients related to retargeting with about 25% up-sold to new solutions campaigns as well.

Our client metric, which is a lagging indicator, counting all clients that have been live with us over the preceding 12 months in Q1 reflected the annualized impact of client churn that peaked in Q2 2020 when COVID started to impact the global economy. We continue to invest in growth while wisely managing the expense base. We are seeing returns from our investments in our Commerce Media Platform, including expansion of our Retail Media sales team and product and R&D investments in our first-party media network and related infrastructure, contextual advertising, video, CTV and commerce insights.

Our G&A cost increased as we have also scaled up the back office capabilities and tools to support new products. Our growth investments are largely funded through productivity and cost savings, enabling top line leverage as we commercialize new products and capabilities. In Q1, non-GAAP expenses were $137 million, down 8% at constant currency. Non-GAAP OpEx reduced by $8 million or 8% at constant currency declining minus 13% before the impact of our growing stock price and social charges. On that same basis, we reduced employee costs by $7 million or 12% at constant currency after investing in R&D, products and Retail Media.

We continue to work with strategic partners to accelerate innovation and expand our capabilities, particularly in contextual advertising, Retail Media and the build-out of our first-party media network. These partnerships are reflected in the evolution of our R&D OpEx lines. As you can see in our non-GAAP reconciliation, we incurred just shy of $12 million of pretax restructuring and transformation costs, largely related to real estate and severance costs. We anticipate expenses of $20 million to $25 million in pretax restructuring costs in 2021, split between real estate portfolio reductions and employee severance.

Moving down our P&L, our D&A expenses reduced 9% and share-based compensation expense declined 7%. This, combined with our business performance and good cost management, drove a 44% increase in income from operations and a 43% increase in net income, reflecting flat financial expenses and a 30% GAAP effective tax rate. Our weighted average diluted share count was 64 million, up 3% as a result of our increasing stock price over the period. Diluted EPS was $0.35, up 40% and adjusted diluted EPS was $0.67, up 29%.

Our strong cash generation and cash position continue to provide ample flexibility for execution. Our free cash flow grew 41% to $64 million in Q1 2021, reflecting strong cash collections, offset by payout of the 2020 bonus and some restructuring payments. In Q1, we purchased approximately $5 million worth of shares as part of our new $100 million share buyback program.

Our balance sheet continues to be very strong as we closed Q1 with $566 million in cash and marketable securities. We look to maintain flexibility in our capital allocation to pursue organic and potentially inorganic investments and have an active M&A pipeline focused on our growth areas. As of March 31, we had total financial liquidity of around $1 billion, providing strong flexibility for investments as well as enabling the execution of our $100 million share repurchase over time. In the quarter, we repurchased 150,000 shares at an average cost of $32.87.

I'll now provide our guidance and business outlook for Q2 2021, which reflects our expectations as of today, May 5. This guidance reflects our views of secular trend sustaining in e-commerce, expectations for more retail reopening, coupled with muted global economic growth and a slower-than-expected recovery of the travel vertical. We continue to monitor the impact of iOS 14 changes over the coming weeks and months.

As we head into Q2, we continue to see good traction in our Commerce Media Platform with continued strength in retail, strong momentum in Retail Media and solid growth across our new solutions. We do not anticipate any significant rebound in the travel vertical given extended lockdowns.

We do expect growth in retargeting in Q2, partly driven by the favorable comp in retail and classified from the trough of the COVID impact in Q2 last year.

As we had a very strong comp in Q2 2020 that was helped by COVID, we expect our Retail Media business to grow in the high 30s. Taking all of this into consideration, we're guiding for revenue ex TAC in Q2 of approximately $208 million or about 14% growth at constant currency. This includes $11 million of incremental identity and privacy impact relative to the 2020 run rate. On the profitability side, we expect Q2 adjusted EBITDA of approximately $60 million and anticipate expenses to increase low single-digit year-over-year at constant currency after increased investments in our growth areas.

For fiscal 2020 -- sorry, for fiscal 2021, we maintain our guidance of mid-single-digit growth in revenue ex TAC at constant currency and an adjusted EBITDA margin above 30% of revenue ex TAC. We refined our assumption on incremental identity and privacy impacts to $55 million in 2021 relative to the 2020 run rate, mostly as a result of the later than expected release of Apple's ATT in iOS 14. Based on our great start to 2021, I'm happy with the way we're executing on fostering profitable growth and operational excellence.

In closing, I want to thank our customers and our Criteos for the steady momentum our business is enjoying, powered by disciplined execution and strong lasting commerce trends. We are laser-focused on our transformation and our plans to offer the world's leading Commerce Media Platform. We work to drive sustainable and profitable growth and create long-term value for our shareholders. As a female CFO, I'm also very proud to work for a company that ensures gender pay parity.

We are looking forward to hosting you all on our June 3 Investor Day. On this day, we will share our views on our opportunities and more insights on our strategy and provide you an opportunity to meet our team. We will not be sharing a formal financial outlook. We are committed to continue to share updates with you on our transformation, new solutions, and on Chrome litigation as our strategy and product launches evolve going into 2022. We'll be pleased to see you all online there.

And with that, I'll now open up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question will come from Tim Nollen with Macquarie.

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

I've got a lot of questions, but I'll keep it to 1 or 2. It looks like your retargeting business, if my basic math is right, was still down in Q1, but you're calling for it to turn positive in Q2. It looks like that is partly on the relatively easy comparison year-over-year. But could you just talk about the trends in retargeting as the year progresses? And when Google Chrome third-party cookies are eliminated, and Google focuses on its FLoC system, does this open up a much bigger opportunity for your retargeting business going into 2022? Am I thinking about that the right way?

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

Yes. Good to hear from you. Let me just direct the traffic here a little bit. I'm going to try to direct the first part of the question in terms of the 2021 view of the retargeting business to Sarah, just in terms of trends we're seeing in the market segments come back. But then I want to jump quickly to Todd. I want to utilize the fact that we have Todd and Geoffroy on the phone. So I want to jump to him pretty quickly to talk about the impact of Chrome on the retargeting business. It's -- I think that's an appropriate one for him. Sarah, do you want to just kick this off with...

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

Yes. Yes, absolutely. I mean, your thoughts are right. We're doing very well in retargeting. We're definitely very pleased with Q1, and we see that traction continuing into Q2. And we obviously expect some impact actually from iOS 14 kind of coming into Q2. All good on retail, definitely on that wave and seeing really terrific traction across all regions and across our customers. So excited to continue that momentum. But I'll hand over to Todd, who can talk more on the other topic.

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

Yes. Thanks a lot, Sarah. I think this is a pretty easy one. The use of any cohorts through Google really presents a great opportunity for us to expand advertising solutions in general for our client base. You've heard us talk a lot about our product strategy being to future-proof the business. And that's a combination approach where what we're doing or will do with Google as we go through testing, to get cohorts into our product mix is just 1 of 3 things that we're doing to expand our capabilities while we future-proof the business.

So FLoC is just underway in testing. It's delayed in Europe. FLEDGE looks like it's pushed to the end of 2021. That's the Google solution, which most closely proximate retargeting. And we're excited to test both of them. And we're in the queue on FLoC now. And of course, we're very hungry to test FLEDGE. In either case, we'll be building our portfolio of solutions towards taking everything that Google throws at us as well as developing our first-party media network which will preserve one-to-one targeting and open up other opportunities for us to use our own cohorts.

You heard Megan talk about our new contextual solution. In many senses, that is a cohort solution. That's a buying cohort solution applied in a privacy safe way onto the open Internet by URL. So we're already doing a cohort marketing in some ways at Criteo, just not cohorts as they relate to Google's proposals, but we're very much in line with -- from a product perspective to take advantage of those, the moment that they are testable.

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

Could I slip in another question about Retail Media, please? It looks like you've got very strong growth, a decent amount of which must be coming from new customers. Could you just talk about brand-new customers coming on as Retail Media customers versus existing? And if it's possible to share a number of percentage or number of retailers that are using -- existing retailers that are using the service.

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

Let me direct to Geoffroy. Geoffroy, do you want to take that?

Geoffroy Martin - *Criteo S.A. - Executive VP & General Manager Growth Portfolio*

Yes. Thank you, and great question, Tim. Thank you so much. Yes. So as Megan has just discussed in our prepared statements, we announced a very big deal with Carrefour, as you know, in Q1, and we signed 6 new retailers. Now what's really interesting with our business is we are continuing to gain market share. As a matter of fact, we estimate that the overall Retail Media market is growing at about 20% CAGR worldwide, excluding Amazon and excluding China. And as you heard, we grew at 122% in Q1. So we clearly are gaining market share. And the way we're doing that is by signing new retailers but also by increasing the share of wallet for existing retailer.

And just to share a little bit of data, we already work with over 50% of the top 25 U.S. retailers that had monetization on-sites and over 50% of the top 20 EMEA retailers. So when you look at the growth that we're generating, it's a combination of, again, increasing the share of wallet for the existing retailers that we have, signing new retailers and we sign new retailers on a quarterly basis, and also expanding toward new geographies where, historically, we haven't been present yet, for example, in APAC, and finally, addressing new client types like marketplaces. So that's why we are very excited about the growth prospect of Retail Media. And that's why we are expecting Retail Media to grow around 50% this year.

Operator

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

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

Maybe the first one for Megan and Sarah. You mentioned Japan and Korea as sort of leading the retail response. I'm wondering how much of the recovery in retail that you saw -- wondering how much of that may be due to better COVID responses. Because when I look at the impact from COVID versus privacy headwinds on this quarter, it would suggest that the privacy headwinds, even being twice as big in the second quarter, it's still really that the COVID comps is the most significant headwind to your top line. Is that still the right way to look at this?

And then just second, maybe -- I'll just add one more for Todd, if I can squeeze in for you. Just maybe take us one level deeper on the contextual solution. We know that first-party data from the retailers is a big, important part of it. But why is that different from traditional contextual solutions and certain types of look-alike modeling, if you could spend more time on that?

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

Yes. So I'll start on Asia Pac, just on COVID in general. Travel for us is a challenge, and we are seeing some coming back, but it's obviously off a very slow base. And that has not come back as quickly as we expected. So Japan is in significant lockdown, and that's impacting really travel as well as classified. So that's for Asia Pac classified is a big business. For us in the Americas, travel is a smaller part of our business. Europe and Asia Pac is a large part of our business, and they've had more significant lockdowns.

So we anticipate -- we're expecting that travel kind of sluggishness, frankly, to continue throughout the year. We'd love it to come back, but we see that probably be more towards the end of Q4 and 2022. The other comment I'll make on travel is we're seeing a lot of investment, not surprisingly from travel bureaus, federal government, state government as well as, I would say, some free advertising from others. So for us, retargeting is going to become, after all of that, likely towards the end of last year into 2022. Everything else, retail is doing well, obviously. Opening up the high streets again is something that we're very focused on. It's just starting again in Europe and then in Asia Pac as well. And Todd?

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

I can jump in on the second one, Dan. Great question. The -- our approach is actually very unique. What it draws on is our very large store of offline transactional data and product data across our network of advertisers. So the way to think about it is that our Shopper Graph, which is a combination of those 2 things, is a very rich place to create a buying cohort that is anonymously a group of transactions around a group of products. And then to apply that or map that back to media in our network.

What that does is it gives us kind of the reverse of what contextual advertising is known for mostly today, which is scanning a URL or a piece of content on a URL and providing or extracting the meaning of that object and then putting it into a category which is targeted by an advertiser. In the traditional approach, advertisers have to bet that the way that the content is being interpreted is a good place for them to advertise, to reach an audience that's interested in whatever the product is.

Because we're doing it the opposite way, we're looking at people who buy the Adidas sneaker, as Megan said earlier, across the things that they read, what that does is it not only helps us use a completely unique approach at contextual, but it also helps us find consumers in places that are less likely to be identified by traditional content classification and made available for targeting. So it's very exciting. It's a new approach. We will be doing this sort of thing with our Shopper Graph more and more. This is just the first. And I think I just want to emphasize, we're live in 4 markets in the U.S., here in the U.S., in the U.K., France and Germany. And it is the early going, but it's -- if I had to be honest, it's hard to not be quite excited about what we're seeing thus far. And we think this is going to be a very disruptive innovation for the market.

Operator

And the next question is from Doug Anmuth with JPMorgan.

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

I just wanted to ask about guidance to start. Just given the 1Q outperformance and then the 2Q guide, it looks like the full year unchanged at mid-single-digit growth. And I think that's as privacy headwinds are actually improving relative to 3 months ago. So just curious if that's all the delay in travel recovery that you mentioned or if there's something else we should think about? And then just second, related to the Apple iOS 14 changes. Just curious if given your -- the large network of first-party ID and commerce data, just if you're seeing any benefits here in the early days as advertisers look to other data sources.

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

It's great to hear from you. So on financial guidance, Q1 was solid. We were executing across the board on our transformation. And Q2 outlook looks very good. So we're really hoping that Q2 kind of ceded all of us. However, H2 becomes a little tougher. And that is, as you said, the privacy identity impacts. So we've assumed $55 million over the next 3 quarters. And as you recall, we had $60 million for the year. Q2 assumes about $11 million of incremental identity. So we're doing really, really well. We're executing well, certainly in retail and e-commerce, and, unfortunately, some of that goodness just kind of sucks up with the privacy impact.

On travel, we had -- we've assumed a relatively muted kind of recovery unfortunately, not as significant or as fast as we would like. And I think we've -- and we talked a lot about that in the last quarter. So I don't want to overtake all the good news. But right now, we're just not seeing that come back quickly enough to kind of ensure that we can lock and load higher returns for the year. We're going to mid single-digit growth as opposed to low to mid single-digit growth, and that's really where we're focused, is to get to overall -- to exceed expectations, but certainly trending more towards the midpoint at this point, which we're very happy about. And now I hand over to Todd on your other question.

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

Yes. I think where you were headed is, have we seen a change in our ability overall to target audiences? I would just say, it's a little early to say because, obviously, consumer behavior has to catch up with the ATT, the 7-day window. And we have to actually get a read on their response rates versus the disappearance of IDs that are not permitted. So far, it's safe to say that the consumer response is a little better than the market has predicted which is positive. But we're not getting ahead of ourselves to talk about what we see in terms of impact to audience targeting overall until enough time has passed that we can take a new baseline. So more from us on that later.

Meanwhile, absolutely not sitting still and waiting to see the contextual solution that I described, for instance, is useful for web and mobile companion properties as well as is for web only. So we're taking approach of doing some testing there. Obviously, there are other things we can do with cohorts. And you heard Megan talk about our -- some of our direct SDK wins to just get a better direct supply path to the application market despite what was happening with AT&T -- ATT rather. It's hard not to say AT&T, by the way, which is crazy. I feel bad for the company. So that's the picture. It actually looks pretty good, and we feel like we've got a full slate of options to be running with. It's just a matter of time now.

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

And just when you say consumer response is a little bit better than what the mark predicted, you just mean very early opt-in rates? Or is there something else?

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

That's right. That's right. And I've seen anecdotal data on that. Important to say we're not quoting any data. But the early returns seem to be in certain markets slightly higher opt-in rates than were expected. And again, that is punditry. I'm not sure that anyone has a good read on this and would expect us to get some decent data a month or 2 out from now.

Operator

And the final question today will come from Matt Thornton with Truist Securities.

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

Maybe 2, if I could. Coming back to Google, it seems that they're exiting the 1:1 retargeting market, at least away from their owned and operated properties. And so my first question is, does that open up an opportunity for Criteo? And if so, if there's any way to size or dimension that? And then just secondly, not to beat a dead horse, but maybe, Sarah, when we think about the full year, it seems to me that the messaging here is, look, 1Q was better. And yes, ATT is pushed out. So that's incrementally positive. And it sounds like the only incremental negative we should come away with is travel just isn't kind of coming back maybe as fast as we had hoped. I just want to make sure that I got the messaging right there. Any color would be helpful.

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

I can take the first one. That's a great question, and I'm glad you asked it because we're very excited about the moves that Google is making. We think that there's probably no better time to -- for a company with a lot of access to first-party data to be -- in ad tech to be building a business on the open Internet. You have some tectonic shifts working in our favor. And certainly, Google looking more inward on the identity front is one of them. So we're very excited about it. I would say no sizing on the opportunity or incremental just yet. But it's safe to say if you look at the way Google reports revenue, that is large.

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

Yes. And I can address the second part. I think your reading is right. So we are -- we feel good across the board on retargeting retail. Classifieds and travel kind of creeping up, but nowhere close to where we'd like them to be, certainly way below 2019 levels still and especially travel. And privacy is a bigger impact for the next 3 quarters, although what I would say overall is that we feel really good about across the board. Retargeting is going well. All our new solutions are going well. They're all in the right space, as Todd said, and we're still trending for 50% growth year-on-year on our new solutions. That's our focus and our target.

So I would say all tracking in the right direction. 2H is tougher with privacy impacts, but then we have new product launches. Those numbers are small. So we're very excited about contextual. We're very excited about our video, but we -- they're small and they're growing. And so it's hard to replace the giant of retargeting and the growth is there, but it's incredibly resilient. We're very happy about it. It really helps us to continue to reinvest and focus on our clients and help them through their own transformation as they think about the post-cookie world as well. So all moving in the right direction, but it's definitely a marathon and not a sprint.

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

Well, thank you, Sarah, Megan and team. This now concludes our call for today. We'd like to thank everyone for joining, and the IR team is available for any additional follow-ups, as usual. We wish you all a good day. Thanks. Bye now.

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

Thank you.

Operator

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