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PRESENTATION

Operator

Good morning, and welcome to Criteo's First Quarter 2024 Earnings Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Melanie Dambre, Vice President of Investor Relations. Please go ahead.

Melanie Dambre Criteo S.A. - IR Director

Good morning, everyone, and welcome to Criteo's First Quarter 2024 Earnings Call. Joining us on the call today is Chief Executive Officer, Megan Clarken; and Chief Financial Officer, Sarah Glickman, are going to share some prepared remarks. Todd Parsons, our Chief Product Officer, will join us for the Q&A session.

As usual, you will find our investor presentation on our IR website now as well as our prepared remarks and transcript after the call.

Before we get started, I would like to remind you that our remarks will include forward-looking statements, which reflects Criteo’s judgments, assumptions and analysis only as of today. Our actual results may differ materially from current expectations based on a number of factors affecting Criteo’s business. Except as required by law, we do not undertake any obligation to update any forward-looking statements discussed today.

For your information, please refer to the risk factors discussed in our earnings release as well as our most recent Forms 10-K and 10-Q filed with the SEC. We will also discuss non-GAAP measures of our performance. Definitions and reconciliations to the most directly comparable GAAP metrics are included in our earnings release published today. Finally, unless otherwise stated, all growth comparisons made during this call are against the same period in the prior year.

With that, let me now hand it over to Megan.
Thanks, Melanie, and good morning, everyone. Thank you for joining us today. We’re off to a great start in 2024. We continue to transform our company into a Commerce Media powerhouse, and we’re gaining more and more momentum. We delivered double-digit organic growth for the second consecutive quarter and achieved record top line results in Q1 while nearly doubling our adjusted EBITDA from the same period last year. I’m very proud of the incredible work from our teams. These results are testament to our laser focused and steadfast execution.

As we continue to make progress on our plan, we’re even more excited about our future and confident that we have the right strategy to capitalize on the next wave of digital advertising and deliver value for our shareholders. We’ve built the only unified platform that directly connects advertisers with retailers and publishers, and we believe we’ve repositioned our business to be the leading AdTech player in Retail Media and the platform of choice for performance-based advertising.

Starting with Retail Media. We continue to gain market share with 38% year-over-year growth in activated media spend, outpacing the market. We have a leading and growing market footprint with close to 225 retailers and 2,700 brands globally. This is now miles ahead of any competitor with our scaled network of retailers becoming the obvious complement to Amazon when buying Retail Media.

Our global presence, ability to scale quickly, our end-to-end capabilities, simple-to-use products, AI-driven performance and world-leading sales and product expertise remain key differentiators.

We continue to expand our coverage. We’re delighted to have extended our partnership with Walmart Connect in Guatemala, Costa Rica, Nicaragua, Honduras and El Salvador, further broadening our Retail Media presence in LatAm. In the U.S., we’re proud to add new retail partners, including a leading retail department store chain and a TV and online shopping platform. We also continue to win new retailers in APAC, including David Jones in Australia and drugstore chain, Welcia in Japan. We’re quickly ramping up our newly signed partnerships, including Albertsons and expanding our reach into adjacent commerce verticals as exemplified by the recent addition of Ticketmaster to our platform, the world’s leading ticket marketplace.

We also look forward to expanding our partnership with Uber Eats, as we work with them to go into new categories and add new ad formats. With our relentless focus on driving demand or said differently, attracting advertising spend to our retailers’ sites, our access to unique and premium Retail Media inventory at scale has been instrumental in achieving this. We added over 100 new brands in Q1 and saw continued strong growth through our agency partners by making Retail Media easily accessible to them via Commerce Max.

In the U.S. alone, agency spend reached about $100 million for the first time this quarter, with 40% coming from 3 agency Holdcos growing by triple digits in Q1. We expect sustained momentum as our multiyear partnership -- partnerships with leading agencies and brands represent hundreds of millions of dollars of spend anticipated to come through our platform in 2024 and beyond. Evidence of this can be seen with our largest brands, who are now advertising on 50% more retailer sites than they were last year.

The Commerce Max drives demand to both retailers’ own inventory and to off-site campaigns using retailer data assets to extend their reach across open Internet inventory. Fresh Direct is one of the latest retailers to participate in off-site campaigns with our Commerce Max DSP.

Further to enabling demand through direct channels via Commerce Max, we’re also focused on indirect demand channels. While still early days, opening more channels creates further opportunities to scale. Our Commerce Grid SSP gives brands a further way to access our retailer audiences for off-site campaigns run through third-party DSPs. This means more channels for retailers to attract additional demand and more revenue opportunities. Nobody else offers such flexibility and optionality to reach the most valuable audiences and connect supply so efficiently with demand.

In advertising, results are supported by measurement. Measurement is critical to buying and selling and helping brands and agencies understand the effectiveness of their Retail Media spend. In February, we gained our first MRC accreditation for Retail Media measurement. This is an important step forward as we help to unify the ecosystem. MRC accreditation of our Retail Media measurement means that the data provided by Criteo is certified to the level of the currency data used in buying and selling traditional media and digital display and therefore, is comparable.
Our measurement can be used to make decisions across platforms and media buyers. This accreditation underscores our reliable and advanced measurement capabilities for both on-site sponsored products and on-site display ads, and represents a significant step forward to drive larger brand investments in Retail Media.

We’re also working with key third-party verification leaders like Integral Ad Science and DoubleVerify to enable viewability and invalid traffic measurement across our network of retailers.

Overall, we expect significantly more dollars to continue to shift to Retail Media because it helps brands take advantage of retailers’ increasingly valuable first-party data to connect with consumers. 83% of agencies rate the performance of Retail Media spend is more affected than other channels in terms of sales impact, according to our recent ecosystem survey. Today, more than half of brands and agencies in all regions are investing in retail media, both on-site and off-site.

Lastly, we remain at the forefront of Retail Media innovation by integrating generative AI into our global platform. We’re testing sponsored ads into conversational environments, as consumers progressively use chatbots on retailer websites as part of their shopping experience.

Now turning to Performance Media, which our targeting capability, including Commerce Audiences and our supply and AdTech services from our IPONWEB acquisition. Again, this quarter, our growth was led by Commerce Audiences, up an impressive 54% year-over-year. Commerce Audiences are a set of precision targeting tactics that leverage the largest commerce dataset on the open Internet and best-in-class AI to help advertisers acquire and retain customers. Our strong momentum is driven by the accelerated adoption of first-party data-driven solutions, successful cross-selling efforts, incremental third-party demand through our Commerce Grid SSP and AI-driven performance enhancements.

Firstly, we’re seeing notable success with our first-party data-driven Commerce Audiences, as we captured both new budgets and budget shifts from Retargeting. With privileged access to first-party data, our various targeting tactics enable advertisers to reach relevant consumers everywhere. For example, we’re activating advertisers’ first-party audiences through integrations with about 40 customer data and data collaboration platforms to reengage existing customers and turn them into loyal shoppers. Second, we’re actively capitalizing on cross-selling opportunities for our clients value having -- because our clients are having 1 partner to help them engage with consumers across their buying journey.

Almost all of our top clients in each region buy Commerce Audiences. In fact, 75% of our Performance Media revenue, excluding supply and AdTech services comes from clients using Commerce Audiences in addition to Retargeting.

Third, we’re attracting more demand by our Commerce Grid SSP. Our SSP gives agencies and brands access to our Commerce Audiences packaged with publisher inventory to run highly targeted campaigns through third-party DSPs, including Google’s Display & Video 360. This means distribution at scale.

Finally, AI-driven performance enhancements drove an increase in Contribution ex-TAC in the double-digit million range in Q1. Our cutting-edge AI is front and center in our ability to differentiate through superior performance. Just 2 weeks ago, we received the 2024 SBR Technology Excellence Award in the AI advertising category for our DeepKNN technology. This acknowledges the groundbreaking innovation we’re bringing to market, transforming the way marketers engage our consumers through personalized and impactful advertising.

In addition, Retargeting remains an important tactic valued by marketers. Retargeting grew slightly in Q1, including the activation of Meta’s large-scale inventory in combination with open Internet inventory. We saw a meaningful increase in the number of Facebook and Instagram campaigns in Q1 compared to last quarter, and we expect continued traction as we progress through the year. This is part of our next-generation addressability strategy and is one of our addressability pillars, bringing resilience to our Retargeting business going forward.

As you know, Google announced that they won’t deprecate third-party cookies until early 2025. This is just a few months delay, and we continue to advance our comprehensive multipronged addressability strategy to future-proof our clients’ advertising performance. This delay means upside to our business in 2024.
Regardless of any scenario, we believe our next-gen addressability strategy gives us an edge in the market. We already bring AI-driven performance to our clients in cookieless environments today, and we continue to expand our capabilities to drive the best outcomes for our clients without third-party identifiers. Our stable testing of the Privacy Sandbox APIs involving 1% of Chrome’s traffic without third-party cookies is still ongoing, and we’ll report that back to the U.K. CMA when completed.

Building on our differentiation, we continue to innovate and prove that our commerce-focused AI helps advertisers engage privacy-first commerce audiences throughout each step of the consumer journey as user signals disappear. By leveraging our deep learning models at the intersection of proprietary interest groups, commerce data, and media data across retailer sites, social media platforms and the open internet, we’re pioneering the future of post-cookie advertising. We’re confident in continuing our positive momentum. And our recently announced investor update in the fall will be an opportunity to provide a broader update on our Retail Media business and opportunities. Stay tuned for more details on that.

To conclude, I’d like to take a moment to thank all of our shareholders for their valuable feedback over the past couple of months. We remain open and will continue to consider all opportunities to create further value for shareholders. We’re confident in our business strategy and financial strength. And we are laser-focused on execution of our Commerce Media powerhouse vision. We believe we’re best positioned to lead the market with Retail Media being the fastest growing segment of advertising and Performance Media, bringing the most valuable Commerce Audiences to global advertisers.

With that, I’ll hand the call to Sarah, who will provide more details on our financial results and our outlook. Sarah?

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

Thank you, Megan, and good morning, everyone. Our first quarter performance reflects outstanding execution and strong cost discipline. Revenue was $450 million and Contribution ex-TAC increased $254 million. This includes the year-over-year headwind from foreign currencies of $4 million. At constant currency, Q1 Contribution ex-TAC grew by 17%, up sequentially compared to a growth of 10% in Q4 with strong performance across the board. As part of information, we continue to shift and rebalance our top line mix and our new solutions represented slightly more than half of our business in Q1.

Client retention remains high at close to 90% and about 40% of our clients are using more than 1 of our solutions. Clients who engage with multiple products, more typically our largest clients, have a 7x higher Customer Lifetime Value than those who only use 1 product.

As previously communicated, we updated our segment reporting structure beginning in Q1 2024, and we now have 2 segments: Retail Media and Performance Media. Both segments delivered strong growth in Q1. Our Retail Media segment encompasses revenue generated from brands, agencies and retailers for the purchase and sale of Retail Media inventory audiences and services. Our Performance Media segment encompasses revenue generated from our targeting capabilities and supply and AdTech services.

Starting with Retail Media. Revenue was $51 million, and Contribution ex-TAC grew 34% at constant currency to $50 million. Our growth was primarily driven by our client base in the U.S., Germany and the U.K. and our retailer marketplaces. We benefited from the contribution of newly signed retailers and growth from existing clients remain strong, with same retailer Contribution ex-TAC retention at 136%.

During the first quarter, we also benefited from new licensing and service fees with our largest retailer clients, while they started to transition to their direct sales model and an earlier Easter compared to last year. It’s important to highlight that we benefit from a robust and expanding base of clients in Retail Media and that we continue to experience strong client retention. Many of our retailer partners, including our largest client, have been successfully growing with us for many years. At the same time, we have been expanding our client roster, and we are seeing growth in every annual retailer cohort.

Notably, in our research cohort, Contribution ex-TAC for our retailers in their second year doubled year-over-year in Q1, and our cohort of retailers in their third year grew over 50% in the same period. Remember, this growth comes from retailers already selling directly to their largest brand which we call retailer-sold demand.
On the demand side, we continue to see significant expansion with CPG brands, and we have on-boarded 100 brands again this quarter. We have momentum with our client partners, and we are pleased to see our 2,700 global brand prioritize Retail Media as a key channel for their investment. This is a trend we expect to continue as first-party data becomes increasingly valuable, and brands are looking to reach large global audiences of shoppers.

In Performance Media, revenue was $399 million, and Contribution ex-TAC was $204 million, up 13% at constant currency. Again, this quarter, we saw impressive growth in Commerce Audiences targeting, up 54% year-on-year and representing 20% of our overall Contribution ex-TAC, as we leverage our large-scale commerce data and AI-powered audience modeling technology to find in-market shoppers. Retargeting was up 4% and Supply and AdTech services was up 8%.

We benefited from our latest AI-driven performance optimization. Our platform is built on best-in-class AI, and our Criteo AI Lab has 140 R&D and product experts who drive continuous innovation to deliver unparalleled performance for our clients.

We delivered solid growth across all regions and has tailwinds in all our verticals. Travel remains robust, and we saw improving Retail and Classified trends compared to last quarter. We delivered adjusted EBITDA of $71 million in Q1 2024, up 83% year-over-year, largely driven by operational leverage from top-line growth and cost discipline. Non-GAAP operating expenses were flat year-over-year, reflecting continued rigor on resource allocation. We invest in our growth areas and enable our transformation through realigning our organization and optimizing our operating model to enable scale and operational efficiencies. We continue to streamline our processes to work better and faster, and we continue to enable efficiency by investing in AI-driven tools this year.

Moving down the P&L. Depreciation and amortization decreased by 2% in Q1 2024 to $25 million. Share-based compensation expense were $27 million including $10 million related to shares granted to IPONWEB's founder as part of the acquisition. Our income from operations was $10 million, and our net income was $9 million in Q1 2024. Our weighted average diluted share count was 59.3 million, which resulted in diluted earnings share of $0.12.

Our adjusted diluted EPS was $0.80 in Q1 2024, up 60% year-over-year. We continue to benefit from a strong financial position and robust balance sheet with solid cash generation and no long-term debt. We had about $805 million in total liquidity at the end of March, which gives us significant financial flexibility to execute our growth strategy and disciplined and balanced capital allocation. As expected, operating cash flow was $14 million, and free cash flow was $1 million in Q1, reflecting seasonality and lower CapEx.

Our priorities are to invest in high ROI organic investments and value-enhancing acquisitions and to return capital to shareholders via our share buyback program. We are confident in our business strategy, and we are committed to driving shareholder value. We have a long-standing track record of returning significant capital to shareholders and intend to repurchase $150 million of stock in 2024, including $62 million already deployed in Q1. This includes 2 million shares repurchased at an average cost of $31.10 per share, and we also canceled 2 million shares in early Q2.

Turning to our financial outlook. We have updated our guidance for the year based on our expectations as of today, May 2, 2024. For 2024, we now expect Contribution ex-TAC to grow high single digits year-over-year at constant currency with growth in both segments. This is an acceleration compared to our organic growth of 4% in 2023. Our updated full-year guidance reflects our Q1 outperformance and Google's delay of third-party deprecation until early next year. As a reminder, comparisons to the prior year become tougher as we progress through the year.

In Retail Media, while we are still early in the year, given our Q1 performance, we are confident in our ability to deliver Contribution ex-TAC of 20% at constant currency in 2024. This is from a scaled $200 million revenue base, and with the impact of our largest client transitioning demand for large brands to a direct sales model as previously communicated. As a reminder, we also have tougher comparisons for Q3 and Q4, with Q4 being our largest quarter. Importantly, we continue to expect our activated media spend to grow up 30% year-over-year, faster than GroupM's estimated market growth of 12% as we anticipate sustained momentum across our client base and future share gains. In the fall, we intend to provide an update on the exciting opportunities we believe we have to drive profitable growth and enhance our position as the leading Retail Media AdTech provider.
In Performance Media, given our strong performance in Q1, we now expect to grow mid- to high single digits in 2024. Our outlook assumes no material signal loss impact this year. We now anticipate an adjusted EBITDA margin of approximately 31% for 2024. This reflects our operational leverage and the transformation and optimization of our operating model while investing in areas of growth.

For 2024, we now expect annualized tax rate of 26% to 30%. We expect CapEx to be slightly below $100 million and we expect free cash flow conversion rate at about 45% adjusted EBITDA before any nonrecurring items. For Q2 2024, we expect Contribution ex-TAC of $261 million to $265 million, growing by 10% to 12% at constant currency. We estimate ForEx changes to drive a negative year-over-year impact of about $2 million to $4 million on Contribution ex-TAC in Q2. We expect adjusted EBITDA between $70 million and $74 million reflecting year-over-year margin improvement in a seasonally low quarter.

In closing, we have strong conviction in our strategy and business model. We are well positioned for continued success, and we are committed to maximizing shareholder value. The future is wide open for Criteo.

And with that, I'll turn it over to the operator to begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions). The first question comes from the line of Mark Zgutowicz from Benchmark Company.

Mark John Zgutowicz - The Benchmark Company, LLC, Research Division - Senior Equity Analyst

A couple of questions. I was curious how much cookie deprecation being pushed into ’25 is impacting your annual guidance? And if you could possibly break out the benefit that you anticipate from Retargeting this year and perhaps maybe offset the Commerce Audiences. And then perhaps a question for Todd. Based on what you perceive the CMA is looking for, just curious how you would handicap the timing of ’25 deprecation in terms of the first quarter versus second quarter of next year or even in the second half?

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

Actually, let me just start, Mark. Good to hear from you on great questions, sort of top of mind a moment. I just want to say that we do see a benefit from cookie deprecation being pushed out to ’24. And I'll get Sarah to talk to what that looks like for us as much as we can going into next year. But what I think Todd will also talk to is the work that we've been doing to leapfrog having to use third-party cookies or using third-party cookies in our Retargeting business through the work that he's doing with next-generation model here.

The longer this goes out on, the further we get traction on that next-generation model. The longer this goes on, the smaller the impact is on Criteo’s overall portfolio because the Retargeting business as compared to the high-growth areas gets less -- gets smaller. So I'll sort of start off framing that, and then I'll pass it across to Sarah to talk about Privacy Sandbox.

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

Yes, Mark, first of all, in terms of the delay of the Priority Sandbox, the 2024, you could model assuming about $35 million of impact. We have previously communicated $30 million to $40 million impact in 2024. In terms of next year's impact, kind of similar modeling to what we've said before, which is the Retargeting is now less than 50% of our overall CXT. Chrome is approximately 50% of that. Our assumption today obviously could get better and retain about 60% of that. But overall, we would have about a 10% impact of overall CXT depending on and how the signal loss taken place next year.
In terms of Retargeting for the year, I mean, as you know, it’s a very effective, resilient, tactic that’s loved by our clients. So we were very pleased to see the growth in Q1. We have benefited from 2 things. First of all, the AI and continued enhancements in AI and secondly, the extension with Meta that we have on Retargeting. So we would assume that given there’s no PSB impact and the continued performance that we’re seeing that Retargeting would remain resilient. And just to clarify, the 10% would be of the CXT for 2025 impact, if you’re thinking for modeling purposes.

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

I can jump in on the last part, Mark, how are you? I think there’s 2 dimensions that are important to point out as we look at the delay, the first is really the benefit of industry readiness, as it relates to the delay. Obviously, more participants across the industry make for more trading in a functioning market between the supply and demand sides. We see that as upside for Criteo.

The second thing is, of course, the additional time for us helps focus our performance pipeline, which was entirely built around Privacy Sandbox -- or a new pipeline, I should say, was built around Privacy Sandbox. It affords us time to continue to develop and innovate that which is very much in our control. So there are 2 things that we look at as positives with the delay out into the beginning of the year.

In terms of handicapping anything further, we don’t. We’re prepared for any scenario. And as Megan pointed out, because we’ve been planning for Privacy Sandbox for 2 years and developing on it, and because we have a multipronged strategy for post-cookie addressability, we’re prepared for anything and we’re well ahead. So time is time, we’ll take and do what we can with it, but we’re happy to see the way things are unfolding currently.

Tim Nollen - Macquarie Research - Senior Media Analyst

I’d just like to pick up on the Retargeting line. I know it’s obviously not your most important business line anymore, and that’s great. But if I look back and if I have my numbers right, this is the first time it was in positive growth since Q3 of ‘21, I think. And I just wonder if you can give a bit more color as to why that swung so nicely positive in the quarter?

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

Let me just -- it’s important to know it’s always been an important product in our portfolio because it addresses the need of advertisers, who wanting to reach the same consumer multiple times to get their attention. And so we continue to see advertisers coming to us for that tactic and retargeting. So we’re delighted to see the turnaround there. And it’s been based on a whole bunch of work that’s gone into the product itself, whether that be using the AI technology for performance, whether that’s been extending out into closed environments. In the case of right now, the Meta environment where we see an uptick.

And the sort of power of this cross-sell activity that’s going on to help advertisers use the right tactic and get access to their ad spend to move it between Retargeting and Commerce Audiences in order for them to get the right results. And so the sort of combination of focusing in on that, because it is needed and will always be by marketers, has sort of led to some green shoots for us, and we’re thrilled by that. Do you want to add anything else there?

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

Let me just add, it helps that we don’t have the impact of signal loss, and we were able to use our AI to go and enhance our clients’ experiences and get higher ROAS. So last year, Q1, Q2, we had signal loss to about $4 million per quarter Q1, Q2 ’23. And obviously, in 2022, we had an incremental
signal loss of about $60 million. So teams are able to just really take that AI to a different level to not only refined signal to use the multipronged approach to accessibility and then to continue to extend that signal. So it’s -- we’re very happy with the Retarget team.

And also just to add, and as we said, most of our clients, about 75% of our CXT, Performance Media, our current clients are using both Retargeting and Commerce audiences and interplays between those. And our AI technology also ensures that we optimize the way that we’re using their budgets to do both. And that’s been also a strong Performance Media overall, but for Retargeting and for Commerce Audiences, we are seeing more budgets coming in.

Operator

Your next question comes from the line of Ygal Arounian from Citigroup.

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

Certainly nice to see strength coming across all 3 lines here, I guess, now 2 segments, but really all 3 business lines. I guess with the questions on Retargeting and Commerce Audiences, I’ll focus on Retail Media for a bit. Maybe specifically on the agency side because it seems like you’re gaining more traction there. It sounds like that’s coming at least a bit of the back of Commerce Max, and you mentioned all the new CPG brands that are coming onboard as well. Can you just elaborate on the agency channel, where we are with that opportunity? And if you can point to how much of the growth is coming from there directly. Just what else we can understand from there?

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

Yes, I’ll start. Sarah can talk about the growth. Look, agencies have access to national media budgets, as you know. And so the unlock, I guess, for Retail Media is the flow of those national media budgets into Retail Media. Meaning that most of the dollars -- and I don’t want to -- you all know this, but I’ll repeat it. Most of the dollars in the Retail Media are coming from trade marketing budgets, budgets that are spent on advertising in store.

And that’s unique to Retail Media because clearly, those budgets don’t flow across into other media. But the unlock is when Retail Media gets access to the national media budget that are coming through the agencies, the brands to agencies and then into media.

And it was really interesting listening to the dialogue at Shoptalk this year about how many retailers and brands are trying to work out how to unlock. Now you think that was crazy because brands are the key to it, but brands are actually leaning in. They are looking for more holistic spend. They’re looking for an easier way to place their advertising dollars and not have to decide between trade marketing and the national media budgets. So as that unlocks, then we see more and more and more flow through the agencies.

And the second part of it, of course, is to make it easy for the agencies to make those choices by giving them a platform that’s easy to use, and platform that gives them access to the amount of retailers that we have in the network to be able to spend those national media budgets. And then the third part of that, I alluded to on the call was, the power of measurement, to be able to unlock that measurement for agencies, to be able to prove the success of it and compare it to the other mediums that they’re placing their advertising dollars across. So all of these things, these moving parts are powerful moving parts, which ultimately are just driving more and more unlock into Retail Media. It is still early days. And so we see our relationships with agencies being incredibly powerful and exactly where we want them to be right now.

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

And just a reminder, the 3 Holdcos grew double -- sorry, triple digits. So in terms of just the take-up of the agencies with the brands, we are seeing that traction, and we expect that to continue. So we have signed contracts with all the key Holdcos and not just in the U.S. but globally. And obviously, that’s a huge part of our strategy.
And then just a broader question. As we get through earnings here, this really seems like one of the strongest ad markets we've seen in quite some time. Pretty much everyone we've been paying attention to has reported results ahead of expectations. Can you just help us characterize what you're seeing from the ad market? I know, Sarah, you gave some color, but maybe just more broadly, are you seeing things improve? What are -- what's the tone you're hearing from advertisers and anything else to help paint the picture there?

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

Yes. I mean we saw traction coming from Q4, which obviously was a very healthy quarter coming into Q1. So I would say we're seeing that kind of continued robust demand, if you will. We're also seeing, especially, if you look year-on-year, big changes in terms of the retail specialty department stores, fashion, travel continues to be robust, classified. So we are seeing across the board that the market we're in today, which is similar to the market we were seeing in Q4 is continuing versus Q1 last year, which is obviously a low watermark for the spend.

Operator

Your next question comes from the line of Mark Kelley.

Mark Patrick Kelley - Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst

My first question is just on the competitive dynamics in Retail Media, especially on the supply side. Curious to get your thoughts there, if anything has changed given you guys continue to gain share? And then the second question is just on the updated guide for the full year. When I look at the incremental revenue to EBITDA flow-through, it looks like you're reinvesting some of that incremental rev-ex-TAC back into the business; a, am I right? And b, I guess, where are those investments?

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

I'll start with some -- sorry. Hi, Mark, great question. I'll start with sort of digging deep into the competition side. It's -- I talked in the opening remarks about how differentiated and how far ahead we are in terms of scale and in terms of our share of voice, I guess, the shared market. It seems to get wider. We just -- we see very fragmented sort of smaller competitive environment through. I guess France has a very different marketplace where there's a number of much smaller players. And of course, we've got the polices play there.

But again, they're very small compared to where we are in the scheme of things. So we used to talk about some competitors that we're more concerned about in the past but less concerned about today because we've moved so far ahead. And I think, again, if I go back to listening to our clients, what they like about us is this network effect. So a network builds a network, momentum drives momentum. And the more that we're investing for those clients, building the services and the functions and features that they're looking for, the more they want to couple onto that and the more momentum you get in terms of share.

And so we're very focused on serving the clients that we have because they will attract more share. Again, a small, fragmented space everywhere else. But we're just laser-focused on moving further and further away and investing in those things that delight our clients and bring differentiation.

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

Yes. I can talk, I guess, the guidance question. So in terms of 2024 guidance, we did update the guidance to reflect the Q1 outperformance. We also, of course, added back the privacy sandbox pushback. The guidance is now high single-digit growth that we're anticipating. In terms of how that flows through to the margin, we banked the overperformance in the Q1 EBITDA. So that's been banked. The PSP pushback, you kind of see
this is 50-50. So 50% is to look at reinvestments into accelerate, as we’ve talked before about way to do that in a smarter way. And then we get about 50% operational leverage from that. And it really is about smart investments. So we continue to get asked from the business. And I would say most of them makes sense. And as we saw from the Q1 results here, we’re delivering. So that’s our focus.

It’s all, I would say, relatively incremental. So we do see the flow-through coming to the EBITDA line, and we would continue to expect that. On the other side, there is some FX drag. So that’s just one kind of call out just on what’s also impacting the EBITDA.

Operator
Your next question comes from the line of Doug Anmuth from JPMorgan.

Katy Amanda Ansel - JPMorgan Chase & Co, Research Division - Research Analyst
This is Katy for Doug. I wanted to dive in a little bit more to the delight of cookie deprecation. I guess I’m curious from your perspective, what is giving them the most pause to drive the delay. Do you think it’s that Google Solutions needs some more work. The industry needs some better solutions. Marketers need more time. Just trying to understand from your perspective where the biggest gaps exist today, that’s one.

And then two, as you look out to 2025, you mentioned the 10% impact to Contribution ex-TAC. I know you’re not providing a formal outlook at this time, but can you just walk through kind of the puts and takes and how we should think about that flow-through to profitability on the adjusted EBITDA line?

Megan Clarken - Criteo S.A. - CEO & Director
Let me push the first one across to Todd.

Todd Parsons - Criteo S.A. - Chief Product Officer
Yes. Katy, how are you doing? I just really pretty straightforward on your question about what’s driving. If one can assume that the delay, if you’re reading and following the CMA outlook on this, is really tied to mostly to industry readiness and participation towards a functioning market. And what I said before about enough trading volumes between labeled supply and DSPs participating. So this is – one could imply that this is what is driving the delay most.

As I mentioned, our view of the delay is we’ll use whatever time we have to continue building our advantage in the tech pipelines that we’ve built. And of course, we’re working actively with Google to continue debugging the Privacy Sandbox, both with the Chrome and the GAM teams. So for us, we’re in a great position, and there are a lot of folks that we’re helping bring along to be ready to participate in the process.

Sarah J. S. Glickman - Criteo S.A. - CFO & Principal Accounting Officer
Yes, first of all, we’re not going to guide for 2025. So that was the intent when talking about the impact of Privacy Sandbox delay. That being said, we are seeing the operational leverage flow through to EBITDA. It’s obviously a critical metric for us. And our expectation is that we will continue to keep everything in balance, the top line, the EBITDA line with continued reinvestment into growth areas.

So I would assume for modeling purposes that we continue to drive, I would say, a very heavy EBITDA margin with the operational leverage that we’re already seeing through our transformation and assuming that we continue to ensure that we are working as effectively and smartly as we can with modern and continued, I would say, new skill sets coming in to our operating model.
Thomas Cauthorn White - D.A. Davidson & Co., Research Division - MD & Senior Research Analyst

Just on the Retargeting commentary and the growth that you guys saw there in the quarter. I'm curious whether you're seeing any advertisers that have opted to kind of push ahead maybe with increased commitment to Retargeting spend kind of since we've gotten the news about the Google delay. I realize that Retargeting is more of like a set it and forget it type product, but just curious whether that news kind of is bringing any customers back in the near term in order to kind of capitalize here over the next few months? And then, sorry if I missed it, but any way you can quantify the impact of the cross-selling to that uplift in Retargeting that you discussed?

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

In terms of customers coming back, no, customers mostly want -- they expect their AdTech provider to solve this for them. They need the tactics, and they want us to find a way to get a message out to a consumer once, twice, 3 times. And they've never changed their view of that tactic because of what Google is doing. They have wanted to use it while it's there and continue to have access to it and ultimately have their AdTech provider solves that issue for them, which is testament to our performance, in our Performance Media business because it is about clients working with us because they know that they're in good hands that we're a long way ahead when it comes to keeping continuity for them in this tactic and in the Commerce Audiences tactic or more upper funnel performance tactic after cookie deprecation through our next-generation addressability model.

So long answer to a quick and very question, Tom. No, it's not changed our client behavior. We're just bringing better and better and better performance and results for our clients, which is what you're seeing here.

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

Yes. And just in terms of Commerce Audience, that's about, as I said, 75% of our clients are buying both Retargeting and Commerce Audience. The impact on Retargeting and the shift from Retargeting to Commerce Audience was actually quite small for the quarter, smaller than we saw in Q4. We also do see that AI enhancements -- I mean that goes across all the tactics that we do. So that's driving growth in both the Retargeting and Commerce Audience CXT.

Operator

Your next question comes from the line of Brian Fitzgerald from Wells Fargo.

Brian Nicholas Fitzgerald - Wells Fargo Securities, LLC, Research Division - Senior Analyst

We wanted to ask about the overall activity levels in programmatic market that you're observing through IPONWEB. Google network reported double-digit declines in impressions last week. Are you seeing weakness in volumes or any trends you can discuss there? We've heard there were some headwinds around social media algorithms and traffic referrals out into the IPONWEB, but wanted to ask what you’re seeing.

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

I can take that one, Brian. I mean, first of all, we don’t tear into the details of what we see between trading pairs and trading partners. I think it goes without saying that different trading pairs and different partners will change their traffic patterns based on strategies that they tune over time. That's nothing new programmatic. Everybody is moving towards the most efficient supply path, and they're doing whatever traffic shaping they need to do to get that to happen.
So we see that all the time. People change and they move around. But ultimately, we’re just trying to connect the 2 parties and have them trade more on whichever supply path optimization strategy they deploy.

Operator

Your next question comes from the line of Richard Kramer from Arete Research.

Richard Alan Kramer - Arete Research Services LLP - Founder, MD & Senior Analyst

Megan, you spoke a lot about the completeness of your offering, spanning the retailer, publishers and advertisers and agencies. And you’ve also talked in the past how some competitors were, sort of point solutions and mentioned being the alternative to Amazon. So my question for you is, what would mark success for Criteo becoming the sort of de facto or industry alternative or standard? And what are the proof points of that? Are you seeing now higher win rates in direct pitches? Can you get agencies to secure preferred relationships despite some of their own investments. So what are the couple of things you're looking forward to say we've really put the complete distance between ourselves and rivals?

And then one other one for Sarah. An issue that’s been raised over the past year or so is the volatility in some of the forecast since Investor Day and you’ve now had several quarters where you’re able to meet or exceed expectations. What do you attribute that to? Is it that Retail Media is becoming more mature, that you’re getting more clarity in the sales pipeline? Or are there some other factors that are making you more confident being able to forecast and hit the others?

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

Hi, Richard. Great question, me on the spot. I think it’s a straightforward one. We would love to be the size of Amazon in terms of the advertising that’s flowing through there, so let me caveat that. And we’re not -- again, we’re agnostic in all of this. So we’re an AdTech provider who’s joining one side to the other. So in the spirit of that, we would love to be that size or a complementary choice to buy on Amazon or a buy on Walmart, would be a buy on across Criteo’s Retail Media network.

For us, I talked about it before, it’s the unlock of those national budgets whereby -- when you’re an agency and you’re looking to spend your dollars, you’re spending it across such social and retail. And when it comes to retail, you’re buying maybe Amazon, maybe Walmart, and then definitely Criteo.

And so that our retailers are getting a fair share of the spend that’s coming into Retail Media. And that, that grows because it becomes somewhere where the evidence of our performance is measured through measurement. And it is a performance vehicle because you’re getting to consumers that are close to the point of sale using first-party data. And so it’s a dark, gracious place to advertise.

For us, we’ve got to serve our clients. We need to make sure that in order to do that and unlock that spend, continue to get the trade marketing spend across and start to make sure that we’re at the table next to an Amazon, is to continue to invest in our clients, stay close to them, scale them, get more supply available on their properties, fulfill their fill rates, bring more formats to them, help them drive advertising, not just on-site but off-site.

All of these things, that is the power and, I guess, the magic of Retail Media, us leading into that and bringing that to life over the next years is what’s going to get us to the place that we want to be, which is the ultimate compliment to an Amazon buy. So watch the space.

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

Yes. I guess if I address the other part of your question, we feel very good about the performance we delivered in 2023, and we’re obviously coming into Q1 ’24 as well as the guidance for the year. Of course, the whole industry would impact by the advertising recession starting off -- just after
our earnings day in late 2022. But we feel very, very good about our business. Our strategy stays intact. We've continued to drive top line and bottom line performance. We obviously have an incredible balance sheet.

On Retail Media, we have a scaled base of $200 million. We're the only independent AdTech platform that showing their Retail Media numbers. And we're growing all sectors of that, from our largest clients all the way through to our new clients. So all in all, we're feeling pretty good about life.

Operator

There are no further questions. Please go ahead.

Melanie Dambre - Criteo S.A. - IR Director

Yes. Thank you. Thank you, everyone. Thanks Megan, Sarah and Todd. This now concludes our call for today. The Investor Relations team is available for any additional questions. Have a great day.

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

Thank you.

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

Thank you. Bye-bye.

Operator

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