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PRESENTATION

Operator

Good morning and welcome to Criteo's second quarter 2024 earnings call. (Operator Instructions).

Please note, this event is being recorded.

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

Melanie Dambre - *Criteo SA - Head of Investor Relations*

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

As usual, you will find our Investor presentation on our Investor 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 critical 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 more 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.

Megan Clarken - *Criteo SA - Chief Executive Officer, Director*

Thanks, Melanie, and good morning, everyone. Thank you for joining us for our second quarter earnings call and what a quarter it's been for Criteo. I'm excited to share that we delivered another strong performance with double-digit organic growth for the third consecutive quarter. Notably, we achieved record top-line and adjusted EBITDA margin for Q2. These results reflect the outstanding work of our teams who are driving momentum across our business.

Before delving into this quarter's performance, I'd like to address Google's recent announcement to move away from their original plan to fully deprecation third-party cookies on Chrome. They are now proposing a new framework to continue to support third-party cookies with user choice. This means that we expect to benefit from ongoing access to third-party signals for opted-in users, and that Google will continue to support Privacy Sandbox for opted-out users.

As a result, we expect that any given scenario would lead to a smaller signal loss impact than previously anticipated. We look forward to our continued collaboration with Google to shape this new framework. Although it's premature to pinpoint the timeline and precise impact of this change, we welcome this good news, which provides more clarity and publish our stability, ultimately benefiting the entire advertising landscape. Our next-generation addressability strategy remains unchanged with additional strength coming with the news of more third-party signals.

We remain confident in our ability to provide scalability and runtime interoperability of privacy, safe solutions for a more open, unified, and efficient ecosystem that supports multiple addressability options. Our vision is quickly coming to life. As we continue to transform our company into a commerce media powerhouse. We continue to build out capabilities that focus on reaching consumers throughout their buyer journey from discovery, purchase, leveraging a unique commerce data assets, best-in-class AI, and our supply and demand side relationships, creating a flywheel effect and making us the perfect platform for a unified commerce media ecosystem.

Partnerships are vital when scaling our value for all marketers and media owners. Over the past few years, we've worked closely with Microsoft to bring commerce audiences to the high-quality native advertising we deliver on Microsoft properties, and we're now excited to extend our long-standing partnership with Microsoft through our retail media suite.

Our most recent announcement reinforces the belief that the world of retail media is converging and together Criteo and Microsoft can play a more central role and unlocking its full potential partners and for clients. The collaboration with Microsoft is twofold. First, we're excited to bring Microsoft Advertising's extensive demand to our global network of 225 retailers. This first-of-a-kind integration will enable retailers to tap into new budgets from Microsoft's 500,000+plus advertisers expanding the value and reach of their inventories in the process. Integration, design, and planning are underway and we look forward to capitalizing on this opportunity together as more budgets shift to retail media.

Second, Microsoft chose Criteo as their preferred on-site partner, and we're working to consolidate the retail media supply onto our platform. The transition of these retailers from Microsoft Advertising to the Criteo's platform is expected to start in 2025. We expect this to further strengthen our position as the leading ad-tech player in retail media while creating an even more unified access for all media buyers.

Our shared focus on AI innovation is a unifying force behind our expanded partnership. Together, we aim to elevate retailer monetization and advertiser outcomes across the consumer journey, tapping into world-class strengths and predictive modeling to drive privacy, enhancing targeting, product recommendation, content workflows, and creative format. We have been incredibly excited with this work and the opportunities that working with Microsoft on AI unlocks.

On top of this exciting development of Microsoft, we continue to gain market share in retail media in the second quarter with 30% year-over-year growth and retail media activated media spend, outpacing the market. We have a leading market footprint, including 65% of the top 30 retailers in the Americas and 50% of the top 30 in EMEA. And we believe we've become the hub of retail media to complement Amazon. We had notable retailer wins across all regions over the past few months. In the US, we're excited to partner with new large retailers, including Dollar General, QVC, and Belk.

In Europe, we're proud to work with Euronics, a global leader in distribution of home appliances and electronics, and we extended our relationship with MyTheresa, a global luxury e-commerce retailer that has now using both our performance, marketing, and retail media capabilities. We're also partnering with luxury department store Selfridges to power the online retail media advertising technology on their e-commerce website.

Lastly, with broadening our reach retail media presence in APAC and LatAm, including new retailers in Peru and Brazil. These retailers that come to us through our global presence, the ability to scale quickly our end-to-end capability, simple-to-use products, AI-driven performance, and world-leading sales and product expertise.

Our momentum carries into adjacent verticals such as tech-enabled services. For instance, we added Grab, a leading app in Southeast Asia, providing everyday services such as mobility, deliveries, and digital financial services to over 38 million users. We've also seen strong demand and revenue growth for Uber Eats since we expanded our partnership to the spirits and beverages category across various regions earlier this year.

Importantly, we continue to experience strong client retention and expansion, a multiyear and often exclusive contracts with deep technical integration contribute to the stickiness of our retail media business. We're also very encouraged to see that over half of our retailers in the Americas and EMEA are leveraging multiple ad formats for their retail media network, building out their advertising offering. A recent example is the expansion of our DocMorris partnership with the launch of native video ads. This activity drives scale.

We ended about 200 new brands in Q2, and we're pleased to see agencies lean in with our commerce media demand-side platform or DSP as we give them a single entry point to reach our valuable network retailers. In the US, agency spend accelerated sequentially and we saw the major holding companies growing more than 50% year over year.

As a result, agencies now account for two-thirds of commerce net spend in the US. This quarter, we launched further capability of Commerce Max with our new SKU-based financial. This further enables brands and agencies to buy sponsored product ads across our 225 retail media networks within one simple consolidated workflow.

Instead executing campaigns on multiple retail media networks individually, brands and agencies can leverage our DSP to promote their products on any retailer in our network where their product is sold. All-in-one streamlined campaign and activation with management optimization workflow and closed-loop measurement. This allows marketers to focus on what really matters, selling products.

In turn, it's expected to bring more demand for a larger number of retailers, enabling brands to reach the majority of world's retail supply outside of Amazon. Commerce Max also brings demand off-site campaigns, meaning using retailers, data assets to extend their reach across open Internet inventory. French toy giant, Joy Club, is a recent addition to our offsite campaigns that we run with our DSP in Europe and we're currently bringing one of the biggest US retailers on board.

Turning to performance media, which encompasses our targeting capabilities, including retargeting commerce audiences, and our supply and ad tech services. We're seeing continued strong momentum for commerce audiences up 41%. We are leveraging the largest set of commerce data in shopping intent signals on the open Internet to reach valuable audiences across the entire shopping journey to drive more sales and grow customer lifetime value.

Similar to prior quarters, we benefited from the accelerated adoption of first-party data-driven solutions, successful cross-selling efforts, AI-driven performance enhancements, and incremental third-party demand through our Commerce Grid SSP.

Today, 80% of our performance media revenues, excluding supply and ad tech services, comes from clients using commerce audiences in addition to retarget. This was always our goal, and we're continuously innovating to appeal to a larger pool of potential clients.

Our retargeting solution has returned to growth for the second quarter in a row, including the growing activation of Meta's large-scale inventory in combination with Open Internet inventory. We're pleased to see continued success across our Facebook and Instagram campaigns and in reach with performance.

For example, reed.co.uk, one of the UK's leading career marketplace partnered with Criteo to assist authenticated social environment and effectively link open web candidate intent to social channel. Our integration with Meta enables them to generate thousands of additional applications while reducing the cost per application by approximately 8%.

We launched our Commerce Grid supply-side platform or SSO a year ago, and we're pleased with our progress to date. Grid gives agencies and brands access to our commerce audience packages with publisher inventory for highly targeted campaigns through third-party DSPs like Google's Display & Video 360. It represents another path for us to capture incremental commerce media budgets and leverage the power of commerce media at scale. We continue to grow our premium roster of publishers and most recently added top names like the New York Times.

We also introduced new commerce formats like Klarna, which is the first payment app to launch advertising with Commerce Grid, and we're already seeing high demand for its high shopping intent environments with our large base of performance clients.

The strength of our data assets combined with our best-in-class AI put us in a unique position to pioneer the future of performance advertising. As a reminder, the objective of our comprehensive addressability strategy is to add value throughout the consumer buying journey with relevant, personalized, and trusted advertising while meeting our clients' performance expectations.

We leverage 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. This work sits as the foundation of Criteo's commerce media platform, serving both sides of our business with advanced targeting capabilities that set the new performance paradigm and ensure consumer privacy and control.

To conclude, we're right where we said we'd be as we progress through our transformation to be a world-leading commerce media platform. We have strong conviction towards our business strategy and we're well-positioned to drive sustainable, profitable growth in 2024 and beyond.

We recently announced the promotion of key leaders to further propel growth and continue building momentum in retail media and performance media. We're ready to seize the exciting opportunities ahead and we remain committed to delivering shareholder value.

And please save the date for our upcoming retail media Investor Update that will be a live webcast on November 18. You will get the chance to hear from our leadership team to provide an update on our retail media business and the opportunities ahead.

with that, I'll hand the call over to Sarah, who will provide more detail on our financial results and our outlook.

Sarah?

Sarah Glickman - *Criteo SA - Chief Financial Officer, Principal Accounting Officer*

Thank you, Megan, and good morning, everyone. We delivered record Q2 results with strong operating leverage enabled by top-line growth and disciplined cost management. Revenue was $471 million and contribution ex tax increased $267 million, including year-over-year headwinds from foreign currency of $6 million.

At constant currency, Q2 contribution ex tax grew by 14%, with strong performance across the board. We continue to shift and rebalance our top-line mix with our new solutions representing 52% of our business in Q2. Client retention remains high at close to 90%. Our two segments retail media and performance media delivered double-digit growth in Q2.

Starting with retail media, revenue was $55 million and contribution ex tax grew 24% at constant currency and $54 million in line with our expectations. As previously communicated, our Q2 results included the expected transition of our largest retail client to their direct sales model. Our Q2 growth was primarily driven by our client base in the US, Germany, and the UK.

Growth from existing clients remained strong, with same retailer contribution ex tax retention at 131%, and we benefited from the ramp-up of newly signed retailers. We have unmatched scale and continue to experience strong client retention in retail media. We are also excited to transition Microsoft Advertising on-site retailers to our monetization technology stack starting in 2025 to further scale our footprint.

On the demand side, we now partner with 2,900 mobile brands and have onboarded about 200 new brands this quarter. Our activated media spend in Q2 grew 30% year over year above market, demonstrating that we continue to gain share. We saw strong growth from our agency partners and robust brand bookings, mainly in CPG categories like beauty.

We are pleased to see that agencies and brands prioritize retail media as an impact for closed-loop marketing investments, tying advertising directly to a sale. We are also excited about our upcoming demand integration with Microsoft Advertising, which we expect will give us access to new performance budgets from thousands of advertisers.

In Performance Media, revenue was $417 million and Contribution ex-TAC was $213 million, up 11% at constant currency. We saw continued impressive growth in commerce audience targeting, up 41% year on year, on top of 41% growth in the same quarter last year as we leveraged large-scale commerce data and AI-powered audience modeling technologies to find in-market shoppers. Retargeting grew 4% and supply and AdTech services was up 3%.

Our platform leverages cutting-edge AI and our Criteo AI Lab keeps innovating to offer meaningful performance for our clients. Our latest AI-driven performance optimization drove a Contribution ex-TAC uplift in the double-digit million range again this quarter and unlocked additional budgets with valued clients like Coupang in South Korea. We delivered solid growth in the US and Europe. Travel remains our fastest-growing vertical, up 31%, followed by classified and retail. In retail, which is our largest vertical spend from department stores and marketplaces grew double-digit year over year in Q2, while we saw lower demand for fashion.

We delivered adjusted EBITDA of $93 million in Q2 2024, up 67% year over year. Our double-digit topline growth and a lower cost run rate resulted in strong operating leverage. We also benefited from the timing of some investors -- investments that moved into the second half of the year as well as the reduction in bad debt expense due to lower DSOs for retail media, and a milestone payment related to one of our large partnerships.

Non-GAAP operating expenses decreased 6% year over year, reflecting continued rigor on resource allocation. We are driving our transformation by investing in growth areas and optimizing our operating model for scalability and efficiency. We are also enhancing our operational effectiveness with streamlined processes and the deployment of AI-powered productivity tools.

Moving down the P&L, depreciation and amortization was $16 million in Q2 2024. Share-based compensation expense decreased 21% to $22 million, as expected, which includes $4 million related to shares granted to Iponweb's founder as part of the acquisition.

Our income from operations increased to $37 million and our net income grew to $28 million in Q2 2024. Our weighted average diluted share count was $59 million, which resulted in diluted earnings per share of $0.46 per share and our adjusted diluted EPS was $1.08 in Q2 2024, up 104% 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 $675 million in total liquidity at the end of June, which gives us significant financial flexibility to execute our growth strategy and disciplined and balanced capital allocation.

As expected, operating cash flow was $17 million and free cash flow was negative by $4 million in Q2, reflecting seasonality partially offset by lower OpEx -- CapEx. Our trailing 12-month free cash flow was $142 million.

We are confident in our business strategy and financial strength, and we are fully committed to driving shareholder value. Our key priority is to continue to invest in our Commerce Media platform to enable sustainable organic growth alongside value-enhancing acquisitions and to continue to return capital to shareholders via our share buyback program.

We have a longstanding record of returning significant capital to our shareholders and we are on track to repurchase $150 million of stock in 2024, including $40 million deployed in Q2. This included 1.1 million shares repurchased at an average cost of $36.70 per share. We also canceled 2 million shares in early Q2. At the end of June, we had $166 million remaining in our broad share buyback authorization.

Turning to our financial outlook, we raised -- we have raised our guidance for the year based on our expectations as of today, August 1, 2024. Despite macro uncertainties, we entered the second half of the year in a position of strength and confidence to deliver double-digit growth with continued margin expansion.

For 2024, we now expect Contribution ex-TAC to grow 10% to 12% year over year at constant currency with growth in both segments. This is an increase from our prior guidance of high single-digit growth and is a meaningful acceleration compared to our organic growth of 4% in 2023. As a reminder, prompts to the prior year become tougher as we progress through the year.

In retail media, given our year-to-date performance, we are confident in our ability to deliver Contribution ex-TAC growth of 20% to 22% at constant currency in 2024. This is an increase from our initial guidance of approximately 20% and includes the impact of our largest client transitioning demands to a direct sales model as previously communicated. As a reminder, we have tougher prompts for Q3 and Q4, with Q4 being our largest quarter. We do not expect our strategic collaboration with Microsoft Advertising to have a material impact in 2024.

In Performance Media, given our strong performance in the first half of the year, we raised our guidance to high single-digit growth for 2024. We have also raised our adjusted EBITDA margin from 31% to 32% for 2024. This reflects our confidence in operating leverage from topline growth, strong expense management, and the transformation of our operating model as we continue to invest in areas of growth.

For 2024, we expect a normalized tax rate of 25% to 30%. Our overall CapEx is expected to be slightly below $100 million as we continue to invest and optimize our leading AI infrastructure. Lastly, we expect a free cash flow conversion rate of approximately 45% of adjusted EBITDA before any non-recurring items.

For Q3 2024, we expect Contribution ex-TAC of $264 million to $268 million, growing by 8% to 10% at constant currency as we continue to drive superior performance for advertisers across our product portfolio. We estimate Forex changes to drive a negative year-over-year impact of about $1 million to $3 million on Contribution ex-TAC in Q3. We expect adjusted EBITDA between $72 million to $76 million, and as previously mentioned, this includes the time and shift of certain investments from the second quarter to the third quarter.

Looking ahead, Google's favorable announcement brings clarity to one of the pillars of our next-generation addressability strategy. While this is recent news, we expect to retain more third-party signals and we continue to advance our addressability strategy, including Privacy Sandbox APIs. As a result, the potential loss of signal in Chrome would have a smaller financial impact than previously communicated.

In closing, we have strong conviction in our strategy and resilient 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 hand it over to the operator to begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ygal Arounian, Citi.

Ygal Arounian - *Citi - Analyst*

I guess with the Google announcement we'll start with cookies. You're giving the color helpful to understand that signal loss will be less and that's going to have less of an impact on the revenue. But could we just maybe talk through your expectations for how this evolves? The user opt-in choice with IDFA, while maybe a little bit different, certainly wasn't a good signal for what opt-in might look like.

So how do you see this evolving and how do you think about the balance between Privacy Sandbox and opting-in and opting-out, and what that means for you in the ecosystem?

And then I have a follow-up.

Megan Clarken - *Criteo SA - Chief Executive Officer, Director*

Good to hear you and thanks for the question, first up. It's a very good one. It's a very good one, because they're still clearly working through what that looks like. The Google team are in design. They've only just come to the first part of this, which is to go to this model and we're clearly working closely with them and collaborating with them, as we have now for many, many years.

I'm going to pass you across to Todd for a bit more color as to what he sees, because he's closer to them in terms of how they're going to do it. But let me just start by saying that I reiterate how good the news is for us and for the industry that there is some clarity around what Google are going to do, what they're not going to do, and we anxiously await a timeline and more detail about the opt-in model.

But for us, we always say something's better than nothing. And in this case, we're now going from, if you can imagine, a highway of cookies to a single lane road of cookies, which is still very effective and does the same thing in terms of getting you from A to B. So we're thrilled. We want to make sure that we stay close to Google in the way that they set that up, so that that single lane can be as big as it can possibly be by doing it effectively and making sure that we can capture as many consumers opting in as possible. But that's work to come.

I'll pass to Todd.

Todd Parsons - *Criteo SA - Chief Product Officer*

Great. I can build on that a little bit, Ygal. And the comparison to ATT that you mentioned. I think important to say that because we're close with the Google team, we have it straight from the top of that team that the objective in user choice design is going to emphasize clarity for consumer trade-offs to opting-in or opting-out as well as take a fair and balanced approach to that messaging. So what I do think will be different this time around is that the language that consumers are addressed with and the way that they're educated should be more favorable.

Secondly, to Megan's point about the fact that some is better than none, if you consider the fact that we have built a performance machine on cookies in the past and only in the last three years have built additional signals into that approach, you can imagine that we're excited about using whatever cookies are left to compare and contrast our new approaches with what has worked for years, like a song. So we're excited to have the additional cookies that are remaining, regardless of how small and we think this is an amazing progression for Criteo and our partners.

Ygal Arounian - *Citi - Analyst*

Right. Great. I see how all this evolves, but that's really helpful.

My second question, I wanted to focus on the Microsoft partnership on the Retail Media side a little bit. Understanding it's not going to have material impact in 2024, if you could help us maybe size or think about what the impact might be in 2025 and beyond and what it means. And maybe more importantly, what this means for Criteo's positioning within the retail media landscape. This was a key competitor partnering up with, I know you've had a relationship with Microsoft, but on the retail media AdTech side.

And then similarly with agencies, we hear agencies continuing to invest in their retail media products, but they're also becoming larger customers of Commerce Max and bigger partners. Just maybe walk us through how your positioning and landscape has evolved and how it evolves from here?

Thanks.

Megan Clarken - *Criteo SA - Chief Executive Officer, Director*

Yeah. Thanks again. Good -- another good question.

This speaks to consolidation is how I would start. Retail media is the fastest growing medium -- digital medium that there is today. And if you look out a few years at the numbers, it continues to be that way and it takes shifts like this to bring that to life.

This is Microsoft identifying a player who has put the work in that we have and is world leading to trust with their clients to pass their supply clients across to the Criteo platform and that's trust that they've given us and a nod towards the need to consolidate the ecosystem. And we don't take that lightly. We don't take that for granted. We have to nurture those clients as well.

But bringing a network of retailers onto a single platform to create a very large and compelling offering to advertisers, of which Microsoft happens to have access to 0.5 million of those advertisers, is a very big nod forward for retail media in general, with Criteo sitting in the center of that.

So I see this as, it's hard to put it in words. I see it as a shift in retail media, which we've announced a few weeks ago, but that you'll hear more from us as we get closer to actual implementation, how this gets rolled out, how that demand from Microsoft Advertising starts to flow through the system, and how Microsoft retailers or supply-side clients get comfortable with using the Criteo platform. All of this is very, very good.

And we speak a lot about creating a ecosystem of retailers, which is not an alternative, but a supplement or a way to not have to buy across Amazon and a retail environment. This is it. This is other retailers coming to life and having a compelling offering for advertisers. So we're very excited about this move and we can give you more color on what this means from a financial perspective as we get closer to the implementation of the product fit and the client for 2025.

Operator

Mark Kelley with Stifel.

Mark Kelley - *Stifel - Analyst*

I want to go back to the cookie deprecation stuff really quick.

Maybe first a clarifying question. Todd, when you said you expect the language to be more favorable relative to ATT, more favorable to Criteo and the ecosystem or more favorable to the consumer as in maybe we'll see more people opt out of cookies or maybe I heard that wrong altogether. So please, by all means, correct me. And then part of that (multiple speakers)--

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Todd Parsons - *Criteo SA - Chief Product Officer*

I am sorry. Go ahead, Mark.

Mark Kelley - *Stifel - Analyst*

We can start with that one. I can ask the other one after that if you want to start with that.

Thanks, Todd.

Todd Parsons - *Criteo SA - Chief Product Officer*

Yeah. So we would say favorable to both. I mean, I think my reflection on ATT was that the prompt to consumers' vilified the value of advertising. And the assurance that we've had from Google is that they're not going to take the same approach, which would mean that one could assume more consumers will opt-in to third-party cookies and that there will be more remaining after the implementation is rolled out. So ergo-friendly to Criteo, friendly to advertisers and publishers that are all helped by that.

Mark Kelley - *Stifel - Analyst*

Okay. All right. Perfect. Thank you for clarifying that.

And then the other one let's -- I want to focus on retail media. You already have a big footprint. You're bringing on this Microsoft supply. When you take a step back and look at adding incremental supply, I guess, are there any obvious end markets or geographies? I guess, where is the next component of the Retail Media opportunity in your view?

Thank you.

Megan Clarken - *Criteo SA - Chief Executive Officer, Director*

Good question, but an easy one.

We always we -- we went into this year with a strategy of wanting more retailers. You'll probably remember us saying that as we came into 2024. And this is testament to the fact that we just continue to bring on more retailers to build out that footprint. We're also building out the actual stack or the -- I called it a flywheel earlier on. It is a flywheel.

So by having both the demand and sandwiching the retail media offering on the supply at the bottom and demand at the top, and then building out capability through the [fynta] that our retailers can continue to enjoy and can feed us back the things that they need to continue to bring scale or have the opportunity to bring scale into their assets is also something that we're leaning into.

And those two things together, if supply attracts demand and demand -- you got a lot of demand coming in and it's looking for supply and supply is sort of building out because it's getting scaled. You're getting geo footprint. You're getting, as I've talked about other client -- some of our clients who are doing more and new things with their advertising format. All of this thing is just a creation of a flywheel that just drives more supply and more demand.

So for us, we're focusing on making sure that that wheel is moving and we're contributing to that wheel as we see momentum, which we're seeing. And also that we're helping our clients who are on the supply side, the retailers get scaled, because right now in some pockets it is still nascent. They are still trying to work out how this works. They are still trying to grow and there's no doubt that they are growing, but this is all the momentum that we're building and it comes with these announcements. Huge demand coming at us, more supply coming at us, more capabilities being offered to the supply side, this flywheel being built up, et cetera, and that's exactly what we're doing here at Criteo.

Operator

Brian Pitz, BMO Capital Markets.

Brian Pitz - *BMO Capital Markets - Analyst*

Maybe a quick follow-on from the first few questions?

If you take a step back with respect to the retargeting business, does this change your long-term strategy for retargeting? Obviously, when you look at and talk to retailers, they love the product, but in the new world of different identity providers and solutions as well as having some of the legacy still available, it seems like it's as hard to step away as ever from this business.

How are you thinking just more strategically about putting some of the changes in place or just give us some sense for how you're thinking?

And then just on TAC, you executed very well coming in below -- 8% below what the street, I think, was expecting. What were the drivers here, and do you expect that momentum to continue?

Thanks.

Megan Clarken - *Criteo SA - Chief Executive Officer, Director*

Let me take the first one for the beginning of it and then I'm going to hand across to Todd for some more detail into how he's driving the product roadmap for retargeting. Retargeting for us or the entire -- retargeting is part of the entire performance portfolio with commerce audiences coming across the top, for instance.

And the fact that our clients now are using both of those tactics is just testament to how well they work together and how sticky that entire targeting environment up and down the funnel from a performance perspective has become. I think it's now 80% of clients are now moving their money between the retargeting capability or tactic and the commerce audience tactic.

And I say tactic because they two -- both of them serve slightly different purposes. Their objective is the same, but the way that they work and go about getting that objective is slightly different and our clients want to be able to do both at different times for different reasons.

But for us, retargeting has been reinvented given now that we do more than retargeting, that we're now offering products that are complementary and supplementary, and we have a renewed focus on retargeting, which is causing excitement internally and excitement externally and you're seeing that now as it's appearing in the numbers. But the product lead, I'll pass it across to Todd because he's leaning into this area very, very closely.

Todd Parsons - *Criteo SA - Chief Product Officer*

Well, I would just build on what Megan said.

If you think about the performance-minded buyer, which of course everything we do is focused on performance, but if you think about the traditional performance-minded buyer, we're now supporting all of their performance activities within the budgets that they control.

Retargeting is just one of those tactics and it's nothing for us to run away from. It's something for us to preserve as much as we possibly can so those budgets can spend and get the performance that they've always gotten from Criteo.

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The way that we have approached that from a product roadmap perspective is through our multi-pronged addressability strategy, expanding from the open auction, open RTB into social environments where we're able to get to new reach and still maintain performance expectations for our partners. And of course, we'll continue to do that, Mark (sic - Brian).

So our landing for retargeting is to provide as much retargeting reach as possible for our customers while maintaining their performance and we're not going to stop emphasizing that as a goal. But as Megan said, it is important to point out that we're servicing two different tactics in addition to that these days.

So Brian, retention we've talked about before. We've talked about customer acquisition and the fast growth of our commerce audiences. And so, those things together really help de-emphasize retargeting for being what it is, a single tactic in the performance mix.

Megan Clarken - *Criteo SA - Chief Executive Officer, Director*

And I apologize, Brian. We couldn't hear your second part of your question.

Brian Pitz - *BMO Capital Markets - Analyst*

Sure. Sorry.

Just about TAC. You obviously outperformed on your TAC. (multiple speakers)

Yeah. And then how sustainable are those improvements in TAC? Could you just give us some of the drivers there?

Thanks.

Todd Parsons - *Criteo SA - Chief Product Officer*

I mean, generally speaking, I'll answer that as well. Generally speaking, and I think we've talked about this quite a bit before, we are doing more with direct supply, which has been part of the company's lineage for a long time and we're doing more with supply path optimization with our indirect supply partners. So what you're seeing coming through there is a combination of those two things, and of course, we're excited to produce upside in our ability to acquire traffic.

Operator

Doug Anmuth, JPMorgan.

Katy Ansel - *J.P. Morgan - Analyst*

Yes. Hi. This is Katy on for Doug. Thanks for taking the questions.

First, I just have a follow-up on the Microsoft partnership. I mean, this feels like a pretty big and exciting undertaking. I know the integration begins more so in 2025. So can you just talk more about how much uplift and investment is required to get this up and running or do you feel like you're in a good place and not much more like incremental investment is needed?

Second, on Commerce Max, I mean, it's been almost a year since its launch and it sounds like you've had some pretty good client wins. So just taking a step back, can you provide an update on how this has been progressing relative to your initial expectations?

Thanks.

Megan Clarken - *Criteo SA - Chief Executive Officer, Director*

Yeah. Hi, Katy. Good to hear from you and thanks for the questions.

On the Microsoft, I have to start with, firstly, yes, it's very exciting news for us and a fantastic project for us to get our teeth into. There's not a lot of investment in here. So if you can imagine that from the demand side, Microsoft would make Criteo's retail networks available to its advertisers. So it'll use its own DSP to get there. So there's not, you just open it up so that they can get access there.

And then, on the supply side, this is work -- where we have to one by one work through Microsoft's client base, Microsoft Advertising's client base, and work with them to migrate across to the Criteo platform. We -- again, we don't take this one for granted because we have to understand, we have to fill in any gaps that might be caused by moving from one platform to the other. They don't all look the same. So in there, there may be some incremental investment to make sure that we're giving that client base what they need to make that transition smooth. But from an overall, there's nothing here that's being, we're not reproducing anything or building anything from scratch. It's the migration and it's the welcoming of Microsoft Advertising client base.

On the Max side of the house, this has been terrific in terms of having it -- there's two sides to Max, remember. One side is that Max is the gateway, if you like, the pathway for agencies to get access to our retail media networks. So they're buying through Max. And that buying or that demand grew $150 million through Max for the second consecutive quarter.

So this is multiyear partnerships that we have with agencies who are just increasing that spend as they come through Max to get access to the retail media inventory. So we're extremely happy with that. Agencies are doing a terrific job working with us on that front.

On the other side of Max, which is what we call offsite, it is early innings for offsite or the use of offsite as an advertising vehicle for retailers. It's early innings everywhere in terms of retailers using offsite to extend their advertising campaigns with their brands out across the open internet.

And I said today that we're seeing someone, we talked about Joy Club here in France. At the moment, we're working with a very big US retailer to help them with those offsite campaigns. And we have a solid pipeline of different third-party DSPs coming through Max to be able to get access to those audiences and come out across the open internet as well. So there's a lot of activity going on through Max, whether it be buying retail media inventory or buying offsite inventory, and so we are -- it is exactly where we'd like it to be at this point in time.

Operator

Mark Zgutowicz, Benchmark Company.

Mark Zgutowicz - *Benchmark Company - Analyst*

Todd, maybe just a quick follow-up on cookies. I'm just curious how and when you expect Google to implement the user consent or choice, as you call it, and would you anticipate any temporary business disruptions in the process?

And then, Megan, just maybe digging in a little deeper on C-Max, two-thirds of agencies you mentioned comprise the majority of spend. I'm just curious, if you think about the roadblocks or what's preventing more volume from coming from the agencies, I'm just curious how much of that was by bottlenecks, is just breaking agencies spend from their existing DSP relationships and getting that sort of funneled to you versus the variability that we hear from agencies ourselves in terms of just how retail media networks in general are set to accept or buys and how they take their inventory, just a lot of variability aside from the fragmentation that we hear. That would be helpful.

Thanks.

Todd Parsons - *Criteo SA - Chief Product Officer*

Yeah. Hey, Mark. I'll take the first one then. Obviously, we stay incredibly close to Google as well as to the CMA and many partners who have been supportive of the Privacy Sandbox rollout. What I can say about timing is that across the Board, things are very much in the discovery phase. Google is solicitous of our feedback. We've worked a lot with them to help inform how they might think through presenting user choice and that work has just begun.

The same is true with the CMA. The CMA has been directly solicitous of our feedback and we have given it to them in the same accord. I would say it's still early to talk about timing and it will be a process to get that right. It's clear that there's thoughtfulness around it. So to your point about business disruption, we don't expect any business disruption from this. And of course, we'll make sure that in our closeness with all those parties that we're always working to continue making sure there is no disruption.

Megan Clarken - *Criteo SA - Chief Executive Officer, Director*

Let me jump in on Max.

So firstly, again, the ecosystem has got to find its feet in terms of the tools that it uses to get access to and we feel like we're in a terrific position with Max. I mean, we're getting so much closer to the agencies. As I said, it grew -- it put $150 million through Max for the second consecutive quarter and we expect that we'll just continue to see them increasing their presence there.

One of the things we know, I think everybody knows, is that agency workflows vary and they have a lot of their own tools and a lot of their own partners in place. Especially retail media where you're buying across multiple retailers is relatively new in the scheme of things, particularly to agencies. So we work very closely with them and have done now for a couple of years since we've broken the tie and become very strong partners with them. And we're building our tools that are getting them what they need to get closer to us. This is a bridge that's coming together.

I talked before about the SKU-based buying tools that we've just put in place, which enables an agency to buy multiple retailers through Max where the brand is actually appearing across those retailers, the same product across multiple retailers, through one product or one access point. And those things are exactly what retailers are -- the agencies are looking for to make it easy for them to get access to retailers, which remember they have never had before. They've had to go one retailer at a time.

So as we just continue to bring tools to market that tick the boxes with retailers and we've brought some terrific talent into Criteo over the last 12 months that are helping us understand exactly what it is that we need to put together for retailers. These bridges are being brought closer and closer together and our relationships with agencies are only getting stronger. So we're really excited about what's in front of us here and the collaboration that we have with agencies now and going forward.

Operator

Richard Kramer, Arete Research.

Richard Kramer - *Arete Research - Analyst*

A couple of quick ones. Megan, with the elevation of Brian to CRO and President of Retail Media and you've talked about cross-selling of solutions and full funnel activation and you mentioned the renewed focus on retargeting, are you now expecting Performance to return to growth materially in 2025? I don't know if it's too early to comment on that and how you're bringing retail media and performance closer together.

And maybe a quick question for Todd. Outside of retail media where you can absorb first-party data, do you see any alternative IDs that are at scale now and how much would be enough third-party cookie inventory to model off of to sustain your signal in retargeting?

Megan Clarken - *Criteo SA - Chief Executive Officer, Director*

Thanks for that. Good -- all good questions from everyone.

The performance question, it's too early to tell. I think we covered that earlier on. It relies a lot on, as you know, how Google sets this thing up and their timing and we maintain where we are for 2024, but 2025 is a little hard to read until we get closer to exactly what it is that they're doing.

On the shuffle internally, nothing too much to read into that. Let me just say a couple of things. Firstly, I'm very much a believer for having a team of extremely strong professionals who can do a lot of things and when we need things done, we need to shuffle people around student quickly and effectively and efficiently. And so that's one of the objectives in changing the landscape a little bit to make sure that we've got accountability and drive throughout the organization.

I also think it's just a sign, you should read it also as a sign of just high-performing professionals at Criteo who I want to stretch and give a challenge to. But also -- the last thing I'll say on that one is that you've read something here into the move around and it's close to what I said in the opening remarks around the power of what Todd's doing from a base -- a Criteo base of Performance and the tools that we have access to, the data that we have access to, the AI that sits on top.

Now you can hear our excitement about the opportunity that Microsoft's AI capabilities can bring to us as we learn from them. All of this creates this foundation of what performance media and retail media sits on top of and the two are very strong together. I want to be able to exploit that and make sure that both sides of our business are really benefiting from the power of that core, the power of our addressability, the power of our performance and that we bring that out to our clients.

And so, I just have to move the team around internally. They're athletes and I expect that the team move around to make sure that we can deliver and we can do that quickly and effectively and that's what that was all about.

Todd Parsons - *Criteo SA - Chief Product Officer*

Yeah. I can -- Richard, how are you? I can answer the second piece.

I think, first of all, alternative IDs, at least those that are tied to deterministic data, we don't see the scale up, not the scale that a company like us would need to be successful into the future. Hence, our investment in other addressability approaches along with alternate IDs.

So what I want to emphasize is that, we still look at an important role for alternative IDs. What we don't want to do is make it complex for our customers to have to choose between them. We want to make sure that at runtime, when we find a user for retargeting or retention of any sort, that the decision is made for them at the best possible performance outcome and that's what we're doing today, exactly.

So we have a variety of different alternative ID partners that we have been testing, but I can't say that not one of them would provide the scale needed to replace third-party cookies. Hence, several of them and also the other prongs of our addressability strategy and making them work together without having our customers go through the complexity of choosing, testing and doing all the work that we're doing that Megan described earlier.

The last thing is data minimization. You talked about how much data. I do want to say that our addressability strategy counts on and assumes data minimization over time and that our use of advanced AI and deep learning is aimed squarely at what we can do with a lot less signal than what we see today with identity being stitched together and graphed.

It's too early to say how well those models will perform at what level of data, but what I can say, and we're very specific about proving things and letting data do the talking. What I will say is that our teams know that less data is needed to get performance out of models in the deep learning and advanced AI environments, and we're very excited to develop that as we go forward.

Operator

We have no further questions at this time. I will turn the call over to Mr. Dambre.

Melanie Dambre - *Criteo SA - Head of Investor Relations*

Thank you, Megan, Sarah, and Todd. This now concludes our call for today. Thanks, everyone, for joining. We're available for any additional questions. Have a great day.

Operator

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

Sarah Glickman - *Criteo SA - Chief Financial Officer, Principal Accounting Officer*

Yes, yes, yes.

Megan Clarken - *Criteo SA - Chief Executive Officer, Director*

And I know that I'm back in the back.

Yes. And I'm not going to commit back and.

Sarah Glickman - *Criteo SA - Chief Financial Officer, Principal Accounting Officer*

No, no, no commitment.