criteo

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Criteo Q1 2020 Earnings Call | Prepared Remarks

Edouard Lassalle – VP, Head of Investor and Analyst Relations

Good morning everyone and welcome to Criteo's Q1 2020 earnings call. We hope you're all safe and healthy wherever you are.

With us today are CEO Megan Clarken and CFO Benoit Fouilland. Please note that because of lockdown restrictions, we're all joining this call from different locations today and, as a result, may face unwanted technical challenges.

In the course of our call, management will make certain forward-looking statements. These forward-looking statements reflect Criteo's judgment and analysis only as of today, and actual results may differ materially from current expectations based on a number of factors affecting Criteo's business. Importantly, at this time, the global COVID-19 pandemic is having a significant impact on the global economy, on the business of our clients, as well as on Criteo's business, and may further impact Criteo's financial condition, results of operations and cash flows. There are significant uncertainties about the duration and extent of the pandemic impact. The dynamic nature of these circumstances means that what is said on this call today could materially change at any time. For more information, please refer to the risk factors discussed in our earnings release, as well as our most recent Form 10-K filed with the SEC. We do not undertake any obligation to update any forward-looking statements discussed today, except as required by law. In addition, during this call we'll also discuss non-GAAP measures of our performance. Definitions of such metrics and the reconciliations to the most directly comparable GAAP financial measures are included in the earnings release published on our website earlier today.

Finally, unless otherwise stated, all growth comparisons made during this call are against the same period in the prior year.

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

Megan Clarken – CEO

Thank you, Edouard, and good morning everyone. It's a great pleasure to be with all of you for our second call together. I'm joining you from the safety of my house in Upstate New York and hope everyone is staying safe as well. On our call today, I'll cover **five** key topics.

- First, how we're adapting to the circumstances of the COVID-19 outbreak;
- Second, our current assumptions for the business implications of COVID-19 for the rest of 2020;
- Third, our progress on our four strategic pillars, which I outlined on our last call;
- Fourth, the latest developments on our online identification plans, in particular around Chrome;
- And fifth, our strategic and operational priorities for the rest of the year.

Let me start by saying that in my first full quarter as CEO I've been confronted with a very different set of challenges from the ones I was expecting when joining. Still, we tackle the challenges as they come. I'm very proud of our team's agility and I'd like to thank each and every Criteo for their outstanding contribution throughout the early stages of the crisis and to this day.

As I indicated during our last earnings call, I'm a firm believer in transparent communication and an open dialog with all stakeholders. It's therefore my intention to be as clear and helpful as possible today, in providing you with the visibility you need on our business during these unusually fluid and challenging times.

To my first point, we adapted early and quickly to the circumstances of the COVID outbreak. The safety of our employees has been our immediate and number one priority. We closed all of our offices around the globe, before local authorities' requirements. Our policy is safety first – always.

At the same time, we focused on business continuity to ensure all of our operations and R&D functions remained 100% up and running and our associates had all the resources they need. We quickly put a plan in place for supporting our clients, securing our data centers and maintaining our internal processes. And I am pleased to say that today, we're operating very smoothly thanks to tight communications and seamless alignment within and across teams.

We're also supporting our clients more than ever during these times. For example, we're providing COVID-related weekly updates about shopping trends across categories and regions, we're assisting clients in trying to identify new revenue opportunities and helping them to adjust their messages in line with the new paradigm. And, we're working with them to leverage the significant rise in online users to capture new audiences and build customer loyalty for their business.

We launched several social contribution campaigns to help all those on the front lines who're assisting people around the world. For example, our technology enables the APHP Foundation in Paris to raise funds in order to improve the working conditions of medical teams and fund research on COVID-19 treatments. We're also running pro bono campaigns for the Ad Council – a nonprofit organization promoting the works of various nonprofit, NGOs and U.S. government agencies.

Internally, we also immediately applied financial rigor and took incremental measures to control our cost base. I'll talk to that in greater detail in a few minutes

We intend to continue to manage our business in this way during this time: People and Safety, Operations and Clients, Cost Control and Social Responsibility.

That gets me to the second topic. As early as April 1, we communicated our updated Q1 guidance to the market and exceeded our initial Adjusted EBITDA target. Benoit will talk more about that in a few minutes, so for now let me talk about the potential implications of COVID-19 for Q2 and the rest of 2020. Whilst acknowledging that there are still many moving pieces and we continue to learn more every day, I want to establish that our current forecasting framework is based on the best knowledge we have as of today, April 29.

We started feeling the COVID-19 impact from mid-February on. Different verticals have been impacted differently. Traditionally, our business-mix is about 70% Retail, 10% Travel, 10% classifieds, with the remaining 10% a collection of verticals including auto, finance and gaming. In Q1, spend in the Travel vertical decreased by around 95% compared to pre-COVID-19 levels, while spend in Classifieds decreased by 40% or more. **Retail, by far our biggest vertical, has held up well**, with spend reductions in our core solutions limited to about 10%. The impact also varied by client segments as midmarket clients sustained their spend in more resilient ways than large customers. We saw a healthy 5% increase in our midmarket client base. We also saw different developments in our various geographies, related to factors like the time of the outbreak, the restrictions on social life and the industry mix. And finally, pure online clients have seen less impact than those with a more traditional brick and mortar model, challenged by the temporary closure of their stores. These indicators, along with other factors, have helped shape our modelling for the remainder of the year.

Looking forward, in short, we see a **slow recovery out of the crisis** with no full return to pre-COVID levels by the end of the year.

We've built various scenarios based on a framework with two critical dimensions: number 1, the **timing of the trough** by business vertical and geography, and number 2, the **pace of recovery** by vertical and geography. Within these scenarios, we've benchmarked our assumptions against our own data, third-party data and against what we learn from our clients about the short and mid-term effects on their business. I'll focus now on the projected assumptions that form our **mid-case** scenario.

On the first dimension, the timing of the trough, we assume that our Retail client spend has reached its low point in EMEA and APAC, but will deepen further in the U.S. until end-June. For Travel, we assume that it has already reached its low point and will plateau now until early July. For Classifieds, we model a further deepening in the U.S. and APAC, namely Japan, and then a plateau until end of June.

On the second dimension, the pace of recovery, we assume that Retail will gradually recover in EMEA over the second half of 2020 aided by government support measures, but will remain weak in the U.S. into Q4. For Travel, we've modelled a much slower recovery leading to a still material impact by the end of the year. And for Classifieds, we see a gradual recovery over the second half.

I acknowledge these assumptions carry a lot of uncertainty. There are still many things we don't know today, and things are rapidly changing. As a result, we'll intend to update you as we progress throughout the year. Taking all of these considerations into account, and as of today, we believe our business in Q2 will decline by 32% to 35% year-over-year on a Revenue ex-TAC basis, and from this level, may see a progressive recovery during the second part of the year. This obviously assumes there isn't another significant wave of COVID-19 outbreak during or after the projected recovery, or any unexpected material economic disruption of any kind.

In response to the consequences of COVID-19 on our business, we took immediate and meaningful incremental measures to **further contain costs**. We implemented a strict hiring freeze until further notice, we stopped business travel, cut marketing spend, events and third-party services, and further optimized hosting costs. These reductions come in addition to the savings already included in our 2020 guidance provided last February. We intend to further implement cost control measures to right size our business during this time while maintaining our investment in our product strategy.

Let's now take a look at how we deliver against our strategic pillars, which remain in focus.

Firstly, our core business remains resilient and shows positive signs.

Our retargeting business with large customers has been softer so far, especially in the Travel and Classifieds verticals, and a function of large clients temporarily reducing spend or pausing campaigns rather than stopping working with us. However, we see the Retail vertical **holding up much better** than other verticals as ecommerce grows due to the crisis. Our midmarket **remains resilient** in the current circumstances, particularly in Retail, and continued to grow in Q1, driven mostly by new clients.

Second, we continue to expand our product portfolio.

We're excited by the growth and resilience of our new products. Our App Install has performed well since the outbreak, growing over 90% in Q1, especially with non-traditional clients. This was close to 45% better than expected. Our App install solutions drive customer acquisition by having new users install our clients' mobile app on their device. As most global consumers are locked down within the confines of their homes and look for entertainment or information, or simply want to communicate on their phones, we believe demand for App install may remain high throughout the various innings of the crisis. Another positive is that apps are cookie-less by design and therefore immune to all cookie restrictions.

Retail Media grows strongly across the board, accelerating to 41% in Q1, as brands benefit from increased consumer use of ecommerce for a broad range of product categories such as webcams, shaving and grooming gear, lounge wear and exercise equipment. In Q1, we created a business partnership with Unilever which adds tremendous value for Unilever brands from both a data, insights and resources perspective. We also expanded our business with Carrefour. With the huge increase in traffic to their sites in reaction to the COVID outbreak, our teams enabled Carrefour to effectively address their brand advertisers' requests while preserving great customer experience. At a time when ecommerce has become the new normal for consumers, Retail Media proves not only resilient but **counter-cyclical**, in particular in the grocery space. For this reason, we believe we offer even higher strategic value to brands and retailers when an online presence becomes critical for brick and mortar retailers beyond Amazon. Looking forward, we expect demand for Retail Media to continue to flourish and we're excited to launch our new unified Retail Media platform, expected later in Q2. This platform will combine our various Retail Media offerings, and provide retailers and brands with self-service transparency and control over their full-funnel ad campaigns, using sponsored products and other rich ad formats.

Third, we make good progress with our strategic game changers.

As I explained on our Q4 call, we're exploring what we call strategic game changers to accelerate the execution of our strategy. These aim at strengthening our core business and expanding our portfolio with new solutions, especially around a best-in-class full-stack DSP. In Q1, we added new partners for audience creation and brand safety, such as Leadsbridge and Oracle Data Cloud. We expect these partnerships will strengthen our Consideration solutions. And I'm excited about our strategic relationship with Nielsen, announced last week, that'll allow us to integrate with their Digital Ad Ratings and Digital Brand Effect measurement solutions. We believe offering independent measurement from a global leader like Nielsen will enable our clients to understand the brand lift benefits of their performance campaigns, as well as measure the demographics of the consumers they reach across platforms. As we evolve into a full-funnel AdTech platform and align our technology to a broader array of marketing objectives and insights, including CTV, this integration will provide more transparency, flexibility and performance for brand advertisers. In April, we hired David Fox, our chief development officer joining from Stellar Labs whose focus will be to further strengthen our offering through more strategic partnerships. I want to emphasize that, in executing our strategy, we prioritize the use of our cash primarily for building and partnering and will remain extremely thoughtful about any potential new M&A going forward.

And last, we continue to drive tech and operations excellence across the board.

In mid-Q1, I improved the efficiency of our operations by changing the organizational structure. In the current context we've paused the hiring of most of our new C-Suite. Instead, and during this time, our leaders are doubling down. Yet, our search for a new CFO, in light of Benoit's previously-announced departure at the end of June, is still underway.

As I said earlier, we took immediate and meaningful measures to further contain costs. Beyond containing our fixed and variable costs, we continued to drive tech excellence and assigned our top employees to the areas and projects that are key to our roadmap, such as online identification.

That's a good segue to my fourth point, the latest developments on our work to mitigate the risk around Chrome. As you've heard me say before, we're strong believers in user-personalized advertising and its benefits for all participants in the ecosystem, starting with consumers, publishers and advertisers. In line with our convictions, we've made further progress to move beyond browser control and redefine how consumers can liberate themselves to see personalized, meaningful ads. In doing this, we continue to leverage our direct integrations with advertisers and publishers, and use their **first-party data** as a means to create identity solutions for our clients. This first-party data continues to feed our **ID Graph**, increasing both its size and resilience and providing a massive source of identity data. Our graph continues to grow to well over 2 billion users, and now aggregates persistent identifiers, like hashed emails or logins, for over 96% of these users. We're also investigating ways to build and support a **user ID network** around cookie-less identifiers for advertising, independent of browsers, that allow users to manage their consent and preferences. All of this creates a powerful ID spine to help our clients to get the right message to the right person at the right time. With our commitment to supporting consumer choice, while protecting their privacy, we're also actively participating in the World Wide Web Consortium with respect to Chrome's initiatives around cohort-based advertising. In parallel, we've continued to entertain a constructive dialogue with Google, both about the consequences of the changes being considered in Chrome, as well as potential opportunities to partner.

That leaves the fifth topic, our priorities for the rest of the year. While things are fast changing around us, we remain proactive, disciplined and engaged in our strategic and operating priorities.

First and foremost, we stay focused on protecting the safety of our people and guaranteeing the best business continuity for our clients and partners.

Second, we'll continue to support our clients throughout the crisis and aim to help them maximize opportunities during the recovery phase.

Third, we're hyper focused on managing our cost base and prioritizing our use of cash.

Fourth, we'll look to further our industry lead in shaping the future of personalized advertising.

And, last but not least, we remain dedicated to executing against our product strategy while staying nimble as the landscape unfolds. This includes leveraging our core strength in direct response marketing and our best-in-class performance solutions to help our clients best rebound from these unusual times by driving sales for them.

As we head into what's likely a tough recession for the global economy going forward, we believe marketers will increasingly look for valuable, high-return investments that drive sales. A number of Industry Analysts, including Ratko Vidakovic at AdProfs, believe that top of funnel budgets like brand awareness are more likely to be cut than direct response, and suggest marketers will prioritize the safer, more measurable and more accountable channels that are typically direct response. A recent survey from Advertisers Perceptions shows that 65% of advertisers say they'll focus more on performance marketing in the COVID-19 context. For this reason, we think our core strength in direct response marketing, as well as our strong client relationships, may prove to be competitive advantages in helping our customers best recover from these hard times.

With that, I'll now hand it over to Benoit to cover our Q1 performance, our cost control and liquidity, and our financial outlook. Benoit?

Benoit Fouilland – CFO

Yes, thank you Megan, and good morning everyone from Brittany in France. Let's start with our Q1 performance. I'll then focus on our cost containment program and liquidity position, and close with our guidance for Q2 and provide details about how we think about the outlook for the remainder of 2020.

Q1 was a solid quarter amidst a challenging environment.

Revenue was $503 million. **Revenue ex-TAC**, our key metric to monitor the business, declined 11% at constant currency to $206 million, or $207 million using the forex assumptions for our updated guidance provided on April 1. COVID-19 impacted Revenue ex-TAC by about $10 million, or more than 4 points of year-over-year growth, as some clients decided to temporarily pause or reduce their campaigns with us. About 80% of the COVID impact was with large clients, as spending in the midmarket remained resilient. The Travel vertical, which was deeply affected by COVID-19, contributed to 40% of the impact and the remaining 60% were evenly spread between Retail, Classifieds and other verticals.

Currency changes in Q1 contributed to a $4 million headwind compared to Q1 last year, and provided a $1 million headwind compared to our guidance assumptions.
Q1 Revenue ex-TAC margin was 41%, in line with the prior quarter and our expectations.

Looking at **some of our operating highlights**:

- Our **new solutions** grew 49% to 13% of our total business, increasing 4 points compared to Q1 last year, and now represent close to 20% of our business in the Americas. The solid growth of Retail Media was a significant driver of this performance. We launched our Commerce Audiences and Similar Audiences solutions for Web globally. With these solutions, advertisers are now able to search and create audiences in self-service based on product categories and price ranges, brands, customer gender and purchasing power. Our Omnichannel business grew over 120% as more clients onboarded offline transaction data to reach their customers online.
- Our **retargeting product** declined 16%, in particular with large customers. About 5 points of this decline, or most of the $10 million impact, related to COVID-19.
- We added **over 110 net new clients** in Q1 and ended March with close to 20,400 clients. This is a 5% year-over-year increase while maintaining high retention at close to 90% for all solutions.
- COVID-19 had a significant impact on our **same-client Revenue ex-TAC** which declined 9% at constant currency, of which 5 points are driven by COVID-19.

- We launched **Criteo Partners**, our global partnership program dedicated to helping our reseller partners get the training, certification, marketing, support and rewards they need to effectively sell our core product to our small midmarket addressable clients.
- And, from a **supply** standpoint, more than 4,600 direct publishers are now connected to one of our Criteo Direct Bidders on Web and App. That means we now connect to about 40% of all publishers we work with via direct bidder. Further, we started to benefit from preferred deals with a large number of publishers running on Google Ad-X, allowing select advertisers to buy at a negotiated fixed CPM, increasing privileged access for Criteo and our clients.

Turning to our **regional performance**.

- Revenue ex-TAC in **the Americas** declined 16% at constant currency. This was driven by a $3 million COVID impact, in particular with large customers and in the broader Classifieds vertical. This came in addition to a soft start in January, due to clients slowing down their budgets after very high spend levels during the Q4 2019 peak season. At this stage, we expect the COVID impact to get worse in Q2 in the Americas.
- **EMEA** Revenue ex-TAC declined 9% at constant currency, driven by a $5 million impact from COVID and the fact it's the region most impacted by the weakness in Travel. Under these circumstances, our performance in the midmarket across the region, as well as our German and Eastern European businesses, remained solid and resilient. Our new business was also healthy across EMEA, with new client gains like Roman Originals and UNIQLO.
- And in **APAC** Revenue ex-TAC decreased 7% at constant currency, after a $2 million COVID impact, mostly in the Travel and Retail verticals, with our South-East Asian markets most hit. Our Japanese business was less impacted than other countries, and Korea continued to grow double digits despite the early COVID outbreak.

Shifting to **expenses. Other cost of revenue** were up 30%, driven by the opening of a new data center in Japan, $2 million digital taxes in France, Italy and Turkey, lower sales of fixed assets and an increase of our datacenters power. Non-GAAP other cost of revenue grew 24%.

Operating expenses declined 16% on both a GAAP and a non-GAAP basis. We spent about $7 million less than plan in Q1 on a non-GAAP total expense basis, mostly thanks to lower people costs, driven by lower headcount, lower sales commission and a lower stock price impact on our social charges, despite higher provisions for collection risk on client receivables.

Overall, our non-GAAP expense base reduced by $20 million year-over-year in Q1. We've made it a high priority to effectively adapt our cost base and intend to significantly increase our focus on cost control, productivity and efficiency gains. I'll go over this in more detail in a few minutes.

Headcount-related expenses represented 73% of GAAP opex, down 1 point. We ended Q1 with 2,700 employees, 4% or about 110 employees less than a year ago, including 64 related to the closure of our Palo Alto R&D center in the quarter. As Megan indicated, we do not plan to hire until further notice and have asked all our teams to be very strict and only backfill certain critical roles on an exception-only basis.

Looking at non-GAAP expenses **by function**:

- **R&D** opex declined 27%, driven by a 11% decline in headcount to 630 R&D and Product engineers after the closure of our Palo Alto R&D center, as well as an increase in Research Tax Credit and lower facilities expenses. Non-GAAP R&D expenses declined 280 basis points to less than 14% of Revenue ex-TAC
- **Sales & Operations** opex decreased 8%, driven by lower sales compensation, a 1% decrease in headcount to about 1,600 employees, lower marketing costs and lower facilities expenses, slightly offset by an increase in bad debt. Our quota-carrying sales and account strategists increased by a few heads compared to Q4 to just over 710. Non-GAAP Sales & Operations expenses increased 170 basis points to 37% of Revenue ex-TAC.
- And **G&A** expenses declined 23%, driven by a 5% lower headcount to about 490 employees, lower facilities expenses as a result of the right-sizing of our offices, lower contractor fees and lower expenses for Global Communications. Non-GAAP G&A expenses were below 11% of Revenue ex-TAC, down about 150 basis points.

Adjusted EBITDA reached $59 million, or $60 million at guidance rates and stood $2 million above our original guidance for Q1. This drove our Adjusted EBITDA margin to 29% of Revenue ex-TAC, in line with Q1 last year and highlighting our increased focus on cost control in light of the COVID turbulences.

D&A expenses increased $5 million as a result of our Q4 capex last year and the accelerated depreciation of the Manage acquired technology.
Equity awards compensation expense decreased 39% driven by the lower average stock price.
Financial expense was non-material.
And, our effective **tax rate** was 30% thanks to the positive effect of the French patent box regime.
Net income was $16 million, down 23% and **Adjusted diluted EPS** was only down 13%.

Cash flow from operations declined 16% to $57 million, due to a slightly higher DSO which drove a negative change in working capital year-over-year, reflecting the early impact of COVID-19 on client payment terms.

CapEx declined 50% and were $10 million below expectations thanks to optimized server usage. And our **Free Cash Flow** came out solid, increasing 3% or $1 million to $45 million, thanks to our resilient cash collection and reduced capex and cash taxes, despite a $4 million cash restructuring charge. Our Free Cash Flow conversion rate was strong at 76% of Adjusted EBITDA.

Finally, **cash and cash equivalents** stood at $437 million as of March 31, after spending $18 million on share repurchases in Q1. We completed our second share-buyback program in February. We purchased 4.5 million shares under this program for a total cash amount of $77 million, at an average price of about $17 per share.

Let me now go over our **cost containment program**, our **credit risk management** and our **financial liquidity position**.

As Megan indicated, we're hyper focused on managing our cost base and protecting both our profitability and our cash. Since the COVID-19 outbreak, we've planned to spend approximately $77 million less for non-GAAP expenses in 2020 than in 2019, which represents about $46 million incremental savings compared to our 2020 guidance provided in February. While about two thirds of these incremental projected savings are employee-related and largely driven by our strict hiring freeze until further notice, we've also planned significant savings in business travel, marketing spend and events, third-party services and hosting costs. We ask all our teams to strictly enforce our new expense restrictions with rigor and discipline. We've also planned significant capex reductions by more than 10% of our original envelope for 2020. After these cuts, we anticipate our capex for 2020 to represent about 3% of gross revenue.

We've also significantly increased our attention and focus on cash collection and credit risk management. As of March 31, our DSO was up 3 days compared to March 31, 2019 to 62 days. Our commercial and finance teams follow very strict guidelines as to how best manage our cash collection risk. Besides our focus on collecting cash in a timely and disciplined way, we've immediately tightened our credit management, for example by systemizing the automatic pausing of all midmarket campaigns reaching a certain budget cap.

From a financial liquidity perspective, we have a comfortable net cash position of $434 million as of end-March, including $437 million cash on the balance sheet and only $3 million in financial liabilities. In addition, we have immediate access to a €350 million Revolving Credit Facility, which, combined with our cash position, provides total liquidity of about $820 million, equating to close to 18 months of expense run rate, based on our projected Non-GAAP expense base for 2020. Overall, we believe our current financial liquidity, combined with our expected cash-flow generation in 2020, puts us in a strong position to weather the COVID-19 crisis under multiple scenarios.

I'll now provide our **guidance** for the second quarter 2020. The following forward-looking statements reflect our expectations as of today, April 29, 2020.
Before diving into our assumptions, I want to acknowledge that, while Criteo has weathered several storms before, including the severe 2008-2009 financial crisis when we started operating commercially, this COVID-19 crisis is truly unique in nature and therefore calls for a lot of humility in trying to assess its full economic and business consequences.

With regards to Q2 specifically, this is traditionally our lowest quarter of the year in terms of seasonality for both topline and profitability and, as Megan indicated earlier, is the assumed low point quarter in our mid-case COVID-19 scenario.

Going into Q2, we've seen our April performance decline by about 25% year-over-year on a global Revenue ex-TAC basis. Through April, we've seen APAC trend a bit better, while EMEA was still significantly impacted by lockdowns and reaching a plateau in Retail, and the Americas continued to see a growing impact compared to Q1.

For May and June, and as of the date of this call, we currently assume that the business impact of COVID-19 will get slightly worse, in particular in the U.S. Overall, we estimate that the COVID-19 impact on our Revenue ex-TAC for the entire second quarter could range from $60 to $65 million.

On the expense side, we've planned to cut our non-GAAP costs in Q2 by over $27 million compared with Q2 last year, which means incremental savings of $15 million on top of what was in our original plan.

Taking all of these considerations into account, and as of April 29, we expect Revenue ex-TAC for Q2 to be between $140 million and $147 million on a reported basis, translating into a year-over-year decline of 32% to 35% at constant currency. Due to the significant depreciation of many currencies against the U.S. dollar, we expect year-over-year forex changes to be a headwind to reported growth of about 230 basis points or about $5 million.

On the profitability side, we expect the significant COVID-19 impact on our topline to translate into an Adjusted EBITDA for Q2 in the range of 0 to $7 million.
As usual, the forex assumptions supporting our guidance can be found in our earnings release.
With respect to our business outlook for the rest of the year, we **withdrew our guidance** for fiscal year 2020 on April 1. Given how fluid the situation still is and the many unknowns at this point, we believe we're currently not yet in a position to reliably quantify the COVID-19 impact on our financial results beyond the second quarter 2020. We'll therefore not provide guidance for Revenue ex-TAC and Adjusted EBITDA for fiscal year 2020 until further notice.

However, I'm happy to share some of our current assumptions for the second half of 2020. As of the date of this call, we're currently modelling a progressive recovery in the second half of the year, with a high-20s percentage decline in Q3 and a high-teens percentage decline in Q4 on a Revenue ex-TAC basis, reflecting a slightly larger COVID-19 impact for the entire second half than what we currently expect for Q2 alone. This is our best view as of today and assumes a progressive recovery for non-Travel clients and a much longer and slower recovery pace for Travel. Again, I want to establish that, given there's still a lot we don't know, the breadth in the variability of potential outcomes of our current projections is quite meaningful, and highly dependent on our various assumptions, in particular the recovery pace by vertical.

On the expense side, we anticipate to spend approximately $30 million less in non-GAAP expenses in the second half compared to the prior year period, or an incremental $24 million savings on top of what was already reflected in the guidance provided on February 11, 2020. Most of these expected savings are headcount-related. We intend to closely monitor our expense base and will look into further expense reduction opportunities to protect our Adjusted EBITDA and maximize our ability to generate free cash flow in 2020 and beyond.

Last, with regards to capital allocation, our Board has authorized a new buyback program of up to $30 million to meet our equity obligations to employees while taking advantage of the very low price of our stock. We intend to use all of the shares to be repurchased under this new program in connection with employee equity grants and vesting, in order to limit future dilution for our shareholders. In fact, as set forth in our proxy that we filed yesterday, in connection with our employee equity requests to shareholders, we're committing to not incur any additional dilution with respect to our employee equity program between the June 2020 AGM and the date of our 2021 AGM.

Let me now close with a few personal words about my departure from Criteo at the end of June. It was a heartbreaking moment for me to decide to leave because I have so much passion for Criteo. Yet, after 8 years and a full cycle from scaling the company by more than 10x from where it was when I joined, to taking the company public and now adapting the company model to a different growth profile, I think it's about time for me to move on to a new challenge. Together with Megan I'll ensure that we identify a great successor and manage the transition smoothly. It's been a wonderful ride for the past 8 years. Criteo is an amazing company with truly unique assets and amazing people. And, with Megan at the helm, Criteo is in very good hands!

Megan Clarken – CEO

Thanks a lot Benoit, really. Before wishing Benoit all the best in his future new endeavors, I want to thank him for the extremely valuable business partnership he's provided the executive team and myself since we started working together. I also want to emphasize that we're focused on hiring the right successor and will proactively manage the CFO transition with Benoit and his strong leadership team in the interim.

In closing, we delivered solid performance in Q1 amidst an unprecedented business context. Our Retail clients hold up well, our midmarket business is healthy and resilient, and our Retail Media solutions prove counter-cyclical in helping brands and retailers leverage the rise in ecommerce. The entire company is all hands on deck to successfully navigate these uncertain times, while helping marketers best rebound through best-in-class direct response marketing. We have unique assets and a robust financial position to come out healthy and strong. And, we continue to expand our portfolio and to leverage Criteo's core strengths to best position us for the future.

With that, we'd now like to open up the call for your questions.

[…Q&A…]

Edouard Lassalle – VP, Head of Investor and Analyst Relations

Thank you, Megan, Benoit. This now concludes our call for today. The IR team is available for any additional question or request. We thank everyone for attending and wish you all a good end of day. We hope you all stay safe and healthy.