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# EDITED TRANSCRIPT

CRTO - Criteo SA at Deutsche Bank Technology Conference

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## CORPORATE PARTICIPANTS

**Benoit Fouillard** *Criteo S.A. - CFO*

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**Lloyd Wharton Walmsley** *Deutsche Bank AG, Research Division - Research Analyst*

## PRESENTATION

**Lloyd Wharton Walmsley** - *Deutsche Bank AG, Research Division - Research Analyst*

All right. We're going to go ahead and get started. Good afternoon. Lloyd Walmsley from the DB Internet Research team here. Very excited to have Benoit Fouillard, CFO of Criteo here.

Benoit, thanks for being here again. It's great to have you.

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**Benoit Fouillard** - *Criteo S.A. - CFO*

Thanks for having us. Thank you.

## QUESTIONS AND ANSWERS

**Lloyd Wharton Walmsley** - *Deutsche Bank AG, Research Division - Research Analyst*

Terrific. So I wanted to just start off at a high level on kind of the -- what's going on at the company as JB has been in the seat now back as CEO for just over a year now. Can you kind of talk about what has changed since his return, how employees and clients are reacting and just kind of the operational cadence since he's been back?

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**Benoit Fouillard** - *Criteo S.A. - CFO*

Yes, absolutely. So JB came back in April last year. There has been significant changes happening in the company since he came back. So I would mention 3 main changes. First, on the product side, which has been his main area, core area of focus initiatives. We've gone through an accelerated product diversification. Now if you look at the new solutions outside of core retargeting, new solutions are now representing 10% of our business while a year ago it was only 6%. So we see a really accelerated diversification there.

The second aspect of changes that have happened is on the self-service platform. We've changed quite significantly the way we develop our products on how we want to open up our platform, but more specifically, embrace self-service within our platform. And in particular, we embarked on launching a new self-service channel for mid-market, which we believe can drive significant penetration in the mid-market over the next few years.

The third aspect that I would mention in terms of changes is the way we've improved our organization and our go-to-market approach. We've announced some significant changes more recently with a renewed executive team. As a result of the renewal of the executive team, we have implemented new organization internally. We have now 3 product units which combine dedicated products and sales resources under the leadership of General Manager of this product unit. So we have one product unit that is focusing purely on web, one product unit that is focusing on apps and store and one product unit focusing on our retail media solutions.



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We also implemented one single team, transverse team, covering all of the common resources to support our go-to-market approach with respect to operation, platform and marketing, and that should allow us to execute better and also to generate efficiency within our operation.

And finally, within our new go-to-market, we also unified the leadership at regional level over the large client sales approach and the mid-markets sales approach that would allow for faster execution in the region. So if you combine all of those changes on the product side, on the self-service side as well as on the go-to-market, and management side, this has been an accelerated transformation. So we are living through a year of transition this year. From a top line standpoint, we have a modest outlook for the top line that's focusing on profitability and focusing on accelerating the transformation.

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**Lloyd Wharton Walmsley** - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. And in terms of how clients are reacting to some of these changes in Q2, you had a record number of client additions. Any specific verticals that you'd call out and how should we think about that going forward?

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**Benoit Fouilland** - *Criteo S.A. - CFO*

So you're right. In Q2, we had a good performance. We added net 360 clients, and this has been the highest for the last 4 quarters. But that came primarily from execution in the mid-market, in the mid-market through our, I would say, telesales traditional managed approach where we had a very good execution. And within this execution from a new client standpoint, we were primarily focusing still on retail. Retail is one of our largest verticals while obviously a few acquisition of new clients outside of retail, but the bulk was still within retail. What's important to keep in mind is that the impact of our new self-service channel for mid-market is not felt yet. We are in the process of building that channel. We had some important milestone in beginning of Q3 with the launch of our self-registration feature within the platform in 3 core markets, that we're still working towards creating an impact from a net new add, net new client standpoint as well as a contribution to the business in early 2020.

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**Lloyd Wharton Walmsley** - *Deutsche Bank AG, Research Division - Research Analyst*

Great segue into the new self-serve product. Anything you can say in terms of just early signs of uptake? What learnings, what's worked, what hasn't worked in the 3 markets you've now rolled out in?

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**Benoit Fouilland** - *Criteo S.A. - CFO*

So we are live with the self-registration feature now in U.S., U.K. and Australia. So we are learning. It's still early because we launched that beginning of the quarter. But I think it's going to be a very good learning for us over the next few months so that we get ready to launch across all geographies by the end of the year.

If you step back on why are we launching this self-serve channel within mid-market it's first because our level of penetration in mid-market is much lower than what we experienced in the large clients. We are approximately at 30% of penetration within the current definition of mid-markets so already businesses with at least 45,000 monthly unique visitors on their digital properties. And we believe that addressing this market through a full self-service channel is going to enable us to increase that penetration and capture that growth. And further to increasing the penetration in the mid-market as you find today, we believe that we might have also have an opportunity to go into the long-tail with this self-service approach. So we're making good progress on the product side. And in parallel, we're working on building new capabilities from a demand-generation standpoint in building the right set of partnership because working with resellers and e-commerce platforms is going to be very important to bring the right demand onto our self-service platform as well as generating, creating some direct marketing capabilities to generate demand on our platform.



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**Lloyd Wharton Walmsley** - Deutsche Bank AG, Research Division - Research Analyst

So the approach working with resellers, including some large ad agencies, seems like it would be pretty promising. What is the update on some of those conversations and how should we think about the timing before that could actually be a nice contributor to the numbers?

**Benoit Fouillard** - Criteo S.A. - CFO

So I would say there is, from a pure mid-market approach, in our self-service channel strategy, we believe that creating an ecosystem of reseller is going to be important because it creates significant leverage and the -- and what we observed is that as we would start moving more in the bottom of the mid-market and in the long tail, there is a very large reservoir of small agencies that help small businesses and small mid-market company with their digital strategies. So clearly it's an objective for us to build that ecosystem for the mid-market. Separately from this, traditionally as a business, we've been growing and building this business primarily as a direct business to the enterprises. What we observed is that we have a -- now that we are building a platform which is much more open, with APIs, with self-service features, and if you look at the asset that we've built on the data side, with the Shopper Graph that offers pretty unique access to shopper data, we've got core pieces now to consider building the solution for agencies because we have -- we will soon have a platform with self-service capabilities allowing to do audience-based targeting, leveraging data out of our unique shopper data. And that could be very attractive to agencies to help them ultimately providing value to their clients', the brands. We are showing already with our retail media solutions that we can provide significant value to the brands. I think with this type of assets, we have probably the ingredients to build a strategy for agencies in the future. Today, we do not have the products ready for agencies beyond what we are doing in the mid-market, but this is definitely an area that we are monitoring very closely.

**Lloyd Wharton Walmsley** - Deutsche Bank AG, Research Division - Research Analyst

And that could offer...

**Benoit Fouillard** - Criteo S.A. - CFO

Yes, that could offer optionality, helping us reaching clients that we don't reach today.

**Lloyd Wharton Walmsley** - Deutsche Bank AG, Research Division - Research Analyst

And similarly, it seems like the e-commerce marketplace is a natural strategy. You've already got people building their e-commerce platforms on those systems. Where are you guys today in kind of forming those partnerships, building up the product? And how easy is it or will it be for someone on one of those platforms to deploy a campaign?

**Benoit Fouillard** - Criteo S.A. - CFO

So you're absolutely right. Building partnerships with e-commerce platforms is going to be important also to our self-service channel for the mid-market. We've already signed with an e-commerce platform in Europe, PrestaShop, which has been a test for us. And we have the start of our strategy to target all of the larger e-commerce platforms. It's -- I think we have -- through this partnership that we signed already in Europe, we've demonstrated that there is a significant value at integrating our solution, self-service solution for small businesses on mid-markets to the e-commerce platform that have developed relationship with those type of businesses. So our intention is to go and target all of the large e-commerce platforms and leverage on those natural synergies to build partnership that will be mutually beneficial.

**Lloyd Wharton Walmsley** - Deutsche Bank AG, Research Division - Research Analyst

Great. I want to shift gears. I mean one of the topics we get a lot from investors is just understanding the various headwinds and privacy changes coming around through the platforms, like Apple and Google Chrome, et cetera. So I guess, to start, can you give us just an update on where we

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are with regards to ITP and what the forward impact is? There have been some recent headlines on kind of tweaks to ITP. Is there anything incremental that's coming out of Apple ITP? What's the latest update there?

**Benoit Fouilland** - *Criteo S.A. - CFO*

So ITP, which has been introduced in end of 2017 has impacted much our business. And that impact is now behind us. I think we felt the entire impact and I think we've passed now the anniversary of the entire impact of ITP. And there has been a lot of learning from us in terms of this experience of going through these restriction by default introduced by Apple, with its own particular reason for introducing a by default restriction. And one of the key learning has been to make it a priority to decrease our dependencies on solely on the cookies. And as a result of this, we've increased our investments, in particular, enriching and strengthening our Shopper Graph, on the -- as you might know now, we have a very sizable and pretty unique Identity Graph within our Shopper Graph. We've more than \$2 billion unique IDs within our Shopper Graph. And if you look at within those IDs, the ones that are solely relying on cookies, it's between 5% and 6%, so a very small portion of our IDs are solely relying on cookies. And the rest of the IDs are persistent long time identifiers and that has been one of the big learnings of ITP for us, is to ensure that we continue investing in the Shopper Graph and making sure as well that we are fully leveraging the opportunity of increasing our presence in the app where there is no similar restrictions. To the contrary the app environment has been designed with advertising in mind.

So when talking about recent development on ITP, from our standpoint, we've been fully impacted and we don't foresee any impact from latest or future known updates from ITP. What I think is important to differentiate because sometimes investors are confusing some of the fear around what Google might do in Chrome to enrich the privacy experience of user to what has been done by Apple within Safari. Google has been very clear when announcing in May some of the changes in Chrome. This would not be by default anti-tracking measures similar to ITP. The intention of Google in Chrome is to introduce more privacy settings for the users, so that users can select themselves their privacy setting, which is a very different approach. We don't expect -- with what we know today, we don't expect that this would have unfavorable impact to our business. We think that it could be neutral or maximum to a very minimal impact, negative impact to our business. We see this as positive to provide more transparency and control to the user, so very dissimilar to what has been done by Apple in the context of Safari.

**Lloyd Wharton Walmsley** - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. And do you see much room for movement? Do you feel like it's fully getting close to fully baked or is there still -- are there still people trying to influence what Google is doing, kind of on either side of the issue. And do you still think of kind of February 2020 is the target for Google implementing this?

**Benoit Fouilland** - *Criteo S.A. - CFO*

What Google has communicated is that this would be implemented within the version 80 of Chrome in February next year. What also they have communicated back in May, their intention in providing more transparency and control to the user is to do this in a manner that would not have a detrimental impact to the advertising and publishing ecosystem, and I think that's an important consideration. So we feel confident with what we know, we feel confident about the changes that will be implemented. Obviously, one of the aspects that we don't know is exactly what will be the format of the user interface that Google is going to implement, and we expect that this will be known between now and February.

**Lloyd Wharton Walmsley** - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. And then on Firefox's enhanced cracking provision, I believe you all incorporated a small headwind into your guidance. Is anything live yet from Firefox?



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**Benoit Fouillard** - *Criteo S.A. - CFO*

So what Firefox has announced is that this was implemented last week in September. So it's very early still. But we had anticipated in our full year guidance, the impact of this restriction from Safari -- from Firefox. And you have to keep in mind that Firefox has a very minimal market share. It represents around 4% of our business. So we don't expect this to have a material impact.

**Lloyd Wharton Walmsley** - *Deutsche Bank AG, Research Division - Research Analyst*

Got it. Okay. And then I guess as we think about stepping back, we've gotten through the implementation of GDPR. Is there anything you've learned that you think is relevant for tackling, whether it's ePrivacy or the law taking effect next year in California? And kind of what are the latest updates on ePrivacy and California?

**Benoit Fouillard** - *Criteo S.A. - CFO*

So GDPR, we've seen this -- the scenario of the implementation has been very much in line with what we had anticipated despite some of the fear that existed in the market at the time it was implemented. So we always believe that in providing more control and more transparency to the user, it would increase trust over time. And that would be favorable to the ecosystem over time, even if there is small friction in the short-term. In fact, the friction has been quite minimum. It was around 2%. 2 points of growth that had been impacted by the implementation of GDPR through the short-term friction, but we're still confident that in the long run this would be favorable to the ecosystem irrespective of this short-term friction.

With respect to ePrivacy, obviously, with the change of the European parliament, the elections, the change of the European Parliament, nothing has really evolved over the last months. So the draft, it was the latest draft that was translated -- is reassuring and favorable. So we don't expect any negative impact from ePrivacy implementation. It should be pretty consistent with the GDPR. What I would add as well is we've seen some recent announcement around the nomination within the European commission as to who will be as key leaders driving digital assets at the commission level. And what we've seen with the names of both Margrethe Vestager and as well as French ex-Ministry Sylvie Goulard, we expect to see the overall ePrivacy and more broadly the regulatory landscape in Europe has been driven by people will have at stake the interest of the digital economy in Europe and that to us is rather favorable. With respect to California law, I mean there's still some -- obviously, some unknown, but we would not expect this to be more constraining than GDPR on -- with our GDPR experience, we should be well prepared for the implementation of the California law.

**Lloyd Wharton Walmsley** - *Deutsche Bank AG, Research Division - Research Analyst*

Great. Looks like we have a question in the audience there.

**Unidentified Analyst**

So we get the argument that with the Shopper Graph it enables you to be less dependent on cookies and less vulnerable to changes in the browser. But when ITP came through it really hurt quite a bit and obviously had to cycle through. And then your point is that with Google, they're not likely to be as extreme, they're not going to create a default box perhaps. I guess the question is why -- if the Shopper Graph gives you 2 billion people of reach, and why does it even matter that Google -- you've said Google isn't going to do this, and I think part of the problem for investors is but what if they did, and do we have to go through another hick up like with Apple? And I guess part of my question is are you getting back into those Safari users using your Shopper Graph and these other technologies, these other kinds of analytics? Or -- and if so, will we see -- why wouldn't we see the growth again in the user base?



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**Benoit Fouilland** - *Criteo S.A. - CFO*

So -- there are several questions in your question. So I think the first one is -- relates to why would Google not implement a by default restriction? I think we have to -- I know it's still a fear in the mind of many investors. You have to think about the worst case scenario. But we've said consistently that this worst-case scenario was not on the table for multiple reasons that we can go through, but Google has confirmed that they would not implement it by default restrictions. So it's not us, telling us -- telling users, it's Google has said that they would not. And they have been the only reason not to do so because, unlike Apple, they have a very strong reliance on advertising. Most of their revenues are generating by advertising. They have a dominant position in the browser market. They are the orchestrator of the ad-funded ecosystem. So it will not make sense for themselves to create a measure that would severely impact their own advertising revenues. But it would not make sense either to implement a measure that would put at risk an ecosystem that they are dominating because they would expose themselves obviously to antitrust potential backfire. And in the current climate where they are under scrutiny, you can understand very well why it doesn't makes sense for them. But I would say irrespective of all of those arguments that we've developed for many months now, they've said very clearly that they will not implement it by default. What they want, and we can understand very well why, they want to give more control to the users in a context as well where Google is under pressure from a regulatory standpoint on the antitrust side, but is also under pressure to show that they give more transparency on control to the users of their products starting by Chrome about their own privacy settings. So what we expect is Google to implement more controls offer to the user within the privacy setting of Chrome. That's what is going to happen. Now how is it going to happen exactly, in terms of how is this going to look like, what will be the user interface is the part that we don't know. And that will be known within the next few months. And obviously, the format is important because it will that's what could impact the experience of the user, but we would expect Google to want to implement things in a manner where they give more transparency to the user, more control, but without disrupting the browsing experience for the user.

So that's for Google. With respect to our Shopper Graph, our Shopper Graph is a very strong asset for us to become less reliant on cookies, yes, but we still -- as long as we have a large web-based business, we would still have some reliance on the cookies. But I think what is very important with our user graph is to create a basis of shopper data that allows us to build new use case, new marketing use case for our clients. And that's exactly what we are doing with our diversified product strategy, where initially, from a business that was serving only the purpose of conversion, the objective of conversion, which is to help our clients to convert Internet users that have expressed already an interest for the clients' products. Now we are able to address cases where we help clients to attract new prospects, so to target new prospects. And why are we able to do so? Because we have the Shopper Graph, because of the uniqueness of our data on shoppers that is shared among our clients. And that I think is very important as an asset for us to execute on our diversification strategy.

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**Unidentified Analyst**

One other question. You mentioned that you now have the pieces to be able to bring out an agency product which, I think, everybody is hoping and expecting you too given what Trade Desk has done and all of that. Do you have a timetable as to when that might -- we might look to expect you to enter that market?

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**Benoit Fouilland** - *Criteo S.A. - CFO*

So there are various ways of partnering with agencies. I think there is one path on which we are working on the preparation as we speak in the mid-market. As we say in the mid-market, we are just constructing a new self-serve channel and, within this self-serve channel, we believe that building an ecosystem of small agencies that are working with the small businesses to enable the demand on our platform is an important component of the strategy. So we are working on that particular path as we speak. In addition, as a result of having the various pieces of the Shopper Graph on the end, on the other end, we are enriching our products through now a platform strategy, which makes the products much more open. And this is 1 condition to work with agency is to have a platform with self-service feature in the platform that are consumable by agencies. But I think we have the data on one hand, and we start having the asset in the platform. I don't think the platform is suitable yet to address at scale the agencies. But you should expect this to be an area of focus for us to enhance our platform in a manner that it suits the needs of agencies, keeping in mind that it's not where we are coming from. We're coming from, historically, our DNA is to serve directly clients. So it's a new area for us, but I believe that we have some of the core assets that should allow us over time to build an offering that can be very compelling.



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**Lloyd Wharton Walmsley** - Deutsche Bank AG, Research Division - Research Analyst

I guess shifting gears a little bit it to some of the new products. I guess just at a high level, the core has been on slight decline. New products are ramping. When do you see kind of -- the things beyond, I guess, the core would be the self-service platform driving a reacceleration and the core retargeting, and then the new products can kind of lift beyond that without that headwind? Is that kind of 2020 when we should see that?

**Benoit Fouilland** - Criteo S.A. - CFO

So maybe we should just cover what are the various pieces. If you look at the core retargeting, there are various, I would say, dynamics in the core retargeting. The first dynamic that we have to recognize and we have recognized that the web-based retargeting, the web-based retargeting is declining. And it's declining mid-single digits. Why is it declining? Because the web usage is declining. Web usage is increasing in the app but it's declining in the web. But also, I mean, there is friction from the cookie restriction. But on the other side, you see some good growth momentum in the app retargeting. And we've seen growth in the teens in the app retargeting. So if you look at those 2 conflicting dynamics within retargeting, our aim is to help our clients transition toward apps. And that's one of our core strategies within retargeting. And through our self-serve solution on the bottom of the mid-market and potentially in the long-tail also to bring growth on that segment of the market. So if you combine those various dynamics, our objective, our ambition would be to offset and stabilize the retargeting over time, especially as we seize the self-service channel, fully active, coming up in 2020 and 2021. So that's for the retargeting. So it's -- what we want is to leverage a stable foundation to then be able to address the new marketing cases that we are addressing through our consideration product on one hand with app installs and with our products to help our clients attract new prospects on their digital properties as well as with our retail media solution where we see some very positive momentum. And combining stabilizing the retargeting and bringing leveraging of new solutions, get back to accelerated growth over time.

**Lloyd Wharton Walmsley** - Deutsche Bank AG, Research Division - Research Analyst

And sticking with kind of the shift to mobile and mobile app, what are the key road blocks you see to kind of increasing that exposure to mobile app and what is the latest update specific to the mobile app install?

**Benoit Fouilland** - Criteo S.A. - CFO

So what we see in app, and if you look at the growth of app, we have the nice growth, latest figures in Q2 where just above 20%. So we see good growth momentum in the app. But we have to recognize that this is not on par with our ambition at the beginning of the year. We were betting on a faster growth in the app. And what explains that is we are slightly below -- even if the momentum is very good, slightly below our initial expectation. I think there is a question of the speed of transition from retail as a sector to the app. We see retail has a lot of conservatism before moving towards the new environment because there's lots of back-end systems that are tied also to those environment. And we see retailers taking slightly more time to go to the app environment, that's what we would have expected. We believe this is going to be an imperative especially in the context where they compete directly with Amazon, and Amazon is, as you know, fully ad based. And Amazon is the first -- now the first destination for product search in the U.S. So in this context, it's going to be an imperative for our retailers. And we definitely -- we will want to make sure we are there to help them in this transition. What we have to recognize as well is that our execution could be improved and some of the changes that we've done in our go-to-market recently, especially, the creation of those products, product lines and product units with a clear ownership over product resources -- dedicated product resources and dedicated sales resources is going to allow to have a faster execution and better execution. So that's what we are really focusing on as we speak.

**Lloyd Wharton Walmsley** - Deutsche Bank AG, Research Division - Research Analyst

And then, turning to retail media, it's transitioned pretty quickly to 30% of revenue in kind of a SaaS licensing model. What are the other parts of the business that you think could move to a SaaS model that carries the perception of more stability and more of a multiple among investors? Where are you in terms of exploring this?



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**Benoit Fouilland** - *Criteo S.A. - CFO*

So retail media, which is the set of solutions that we develop to help our retailers to generate advertising revenue on their digital properties. We see a very fast growth of the transactional SaaS model where our clients are consuming our solution as a technology solution. We see an opportunity to continue growing the share of those transactional SaaS business within retail media. Clearly, large retailers who have existing relationships with the brands, what they are looking at from us is to add them with the technology to enable to leverage and monetize their audiences. So we will definitely continue to support them and increase that portion of transactional SaaS revenue. Whether we can also expand this beyond retail media is something that we are exploring, but the core of the focus at the moment is on retail media.

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**Lloyd Wharton Walmsley** - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. I'm going to sneak one more in which would be on the share buyback. You've authorized another \$80 million. Can you talk about how buyback versus M&A fits into capital allocation strategy?

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**Benoit Fouilland** - *Criteo S.A. - CFO*

So we think we've demonstrated through the first buyback program and the one that -- the second one that we announced at the time of the Q2 result that we want to have a balanced capital allocation policy where in allocating around 70% to 75% of our free cash flow generation to buyback at the time where we feel our share price is very attractive and good investment for the company still allows us to have significant flexibility for M&A given the cash balances that we have. So we feel that this is a balanced capital allocation policy and we intend still to use M&A as a way to enforce our strategy, but to use M&A in a very selective manner, always looking at the quality of the assets. And in the context where the company is going through a fast and deep transformation, we would be very mindful as well not to embrace M&A that would require too much effort in terms of upfront integration in the context where we have a lot to do already in terms of transforming.

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**Lloyd Wharton Walmsley** - *Deutsche Bank AG, Research Division - Research Analyst*

All right. Thanks, Benoit, for being here.

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**Benoit Fouilland** - *Criteo S.A. - CFO*

Thank you very much. Thank you.

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**Lloyd Wharton Walmsley** - *Deutsche Bank AG, Research Division - Research Analyst*

All right.

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