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Q4 2023 Comscore Inc Earnings Call

EVENT DATE/TIME: MARCH 06, 2024 / 10:00PM GMT

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Comscore fourth-quarter 2023 financial results conference call. (Operator Instructions)

Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, John Tinker, Vice President, Investor Relations.

John Tinker ***Comscore Inc - IR***

Thank you, operator. Before we begin our prepared remarks, I'd like to remind all of you that the following discussion contains forward-looking statements. These forward-looking statements include comments about our plans, expectations, and prospects and are based on our view as of today, March 6, 2024.

Actual results in future periods may differ materially from those currently expected because of a number of risks and uncertainties. These risks and uncertainties include those outlined in our 10-K, 10-Q and other filings with the SEC, which can find on our website or at www.SEC.gov. We disclaim any duty or obligation to update our forward-looking statements to reflect new information after today's call.

We will be discussing non-GAAP measures during this call, for which we have provided reconciliations in today's press release and on our website. Please note that we will be referring to slides on this call, which are also available on our website, www.Comscore.com under Investor Relations, Events and Presentations.

Finally, Comscore intends to file a proxy statement and related materials with the SEC in connection with the 2024 Annual Meeting of Stockholders. Our directors and certain officers will be participants in the solicitation of proxies in connection with the annual meeting. Stockholders are encouraged to read the proxy statement and related materials when they become available as they will contain important information, including the identity of the participants and their direct or indirect interests by security holdings or otherwise.

As you may know, 180 Degree Capital submitted notice of its intent to nominate a candidate for election to the Board and submit a proposal for consideration at the annual meeting. At this time, we will make no further comment or take any questions on 180 Degree Capital's nomination and proposal or any related matters.

I'll now turn the call over to Comscore's Chief Executive Officer, Jon Carpenter. Jon?

Jon Carpenter ***Comscore Inc - CEO***

Thanks, John, and thank you, everyone, for joining us this evening. 2023 had both highs and lows for the business.

On the positive side, we accomplished a number of things which our team should be very proud of and I believe set us up well for a return to sustainable growth. I'm more confident than ever that we're headed in the right direction. We delivered on our adjusted EBITDA margin goals, made key cross-platform product innovations, and revamped our go-to-market operations. We received conditional certification from the US JIC, and we're the only measurement player who received the certification and is also working toward MRC accreditation of a TV measurement product.

We also drove significant growth in both Comscore Campaign Ratings, our product that measures cross-platform advertising campaigns and Proximic, our cross-platform audience activation business that provides both ID-based and ID-free solutions. We believe we're just starting to see the kind of growth that we can expect across these key areas of our business.

At the same time, we did fall short of our revenue target for the year. Macro-challenges did have a material impact on our custom business last year, especially in the back half where the custom business was down double digits. Additionally, there are end markets that we serve that have been and are likely to remain challenged. Specifically, we saw low-single-digit declines in the part of the business that supports large traditional network clients where linear ad spend is expected to remain under pressure as dollars continue to shift to digital platforms, and our business last year was certainly not immune to some of these pressures.

That being said, our new go-to-market structure under the leadership of Chief Commercial Officer, Steve Bagdasarian, along with key innovations across our Campaign Ratings and Proximic products are already delivering results for us, aligning our growth with the fastest growing areas of need within the market. And the bookings we printed in the second half of the year are two of the most promising renewal periods we've had in the last two years.

In fact, the progress we made in '23 sets us up nicely to deliver on our '24 expectations. Our cost control and technology transformation work has continued to help us deliver stronger operating margins in 2023. Our combination of local TV speed and precision helped us deliver yet another year of double-digit growth in our local business.

Finally, we've made substantial progress in our key cross-platform products, Proximic and CCR. The market has responded incredibly well to the value we're delivering with those two product areas to the tune of well over 30% year-over-year growth. Given that these businesses represent approximately 10% of our total business last year, we're confident we're just scratching the surface on what our opportunity for 2024 looks like. But before we go any further on '24, I'll let Mary Margaret take you through our '23 numbers in a bit more detail.

Mary Curry ***Comscore Inc - CFO***

Thank you, Jon. Total revenue for the full year was $371.3 million, down 1.3% from $376.4 million in 2022. Cross-platform solutions revenue of $162.5 million was down 0.9% from 2022. As Jon mentioned, we're impacted by the linear ad spend pressure the major networks are experiencing, which resulted in a decline in our national TV revenue in 2023 from lower renewals. This decline was offset by double-digit growth in local TV and 4% growth in our movies business compared to the prior year.

Revenue from digital ad solutions of $208.8 million was down 1.7% compared to $212.5 million a year ago. The decline was primarily driven by lower deliveries of certain custom digital products, which were impacted by the macroeconomic environment along with the decline in syndicated digital revenue. These declines were partially offset by the growth we're seeing in our Proximic and CCR products, which on a combined basis grew 34% over 2022.

Adjusted EBITDA for the year was $44 million, up 17.5% from 2022, resulting in an adjusted EBITDA margin of 11.9%. If you exclude the foreign exchange impact from adjusted EBITDA, this year's result of $46.9 million is up 29% over the prior year. Even though our top line was challenged in 2023, we were successful in achieving our adjusted EBITDA margin goal, which is a testament to the hard work our teams have done to make disciplined and intentional decisions around spend.

Our core operating expenses for 2023 were down nearly 5% over the prior year, primarily due to lower employee compensation as a result of our restructuring efforts. As part of the restructuring plan, we also reduced our physical office footprint, and we're continuing to transform our business operations and simplify our tech stack to drive additional efficiencies as we move into 2024.

Our fourth-quarter results tell a very similar story. Total revenue for the fourth quarter was $95.1 million, down 3.2% from $98.2 million the same quarter a year ago. Cross-platform solutions revenue of $39.9 million was down 7% from 2022, again, primarily driven by the decline in national TV, partially offset by growth in our movies business.

Digital ad solutions revenue of $55.2 million was roughly flat with the prior year. Similar to the full-year results, the decline in revenue was primarily driven by lower deliveries of certain custom digital products and lower syndicated digital revenue, which were offset by the growth of our Proximic and CCR products, which when combined grew more than 50% over the prior year quarter.

Adjusted EBITDA for the quarter was $16.4 million, up 36.8% from the prior quarter, resulting in an adjusted EBITDA margin of 17.3%. If you exclude the foreign exchange impact from adjusted EBITDA, the fourth-quarter result of $18.7 million is up 12.9% over the prior year. Our core operating expenses were down 4.5% compared to the fourth quarter of 2022, again primarily due to lower employee compensation from our restructuring efforts.

With that, I'll turn it back to Jon to talk about where we're headed.

Jon Carpenter ***Comscore Inc - CEO***

Thanks, Mary Margaret. The ANA estimates that as much as $22 billion of the $88 billion in open web programmatic ad spend is wasted, and that's a staggering amount. That waste and the rapidly increasing complexity across the media landscape that's fueling it is what we're focused on, helping our clients address and navigate successfully.

We're doing that by focusing on connecting audiences across all screens and markets, leveraging our currency grade, local and national linear TV, digital streaming and social data assets to help advertisers reach their intended audiences efficiently and publishers to more effectively communicate the value of their audiences to those advertisers.

When we think about what that means for Comscore in 2024, there are three key areas that we're focused on: first, cross-platform product adoption and specifically our CCR, and Proximic offerings; second, digital resilience as we finally start to see indicators that our syndicated digital business is turning the corner; and three, continued local growth and expansion, leveraging our cross-platform capabilities alongside our leading local linear data to deliver value for our local clients. We're already seeing encouraging signs in each of these areas early in 2024, as evidenced by acceleration of the adoption of our cross-platform products, key metrics for our digital business improving and two major announcements with leading local station group clients.

A big reason we're able to put up wins like this is that we're just built differently from other measurement companies. That's giving us a serious advantage as the world becomes more cross-platform and more programmatic. By measuring from the bottom-up starting at the household level and building up to a national view, Comscore is able to provide cross-platform data with the speed and precision needed to let advertisers optimize in-flight campaigns.

Our announcements with both Nexstar a few weeks ago and last week with Tegna are a validation of the approach that we're taking. And we're excited to have such important partners leaning in and expanding their relationships with Comscore. Our comprehensive view of audiences across national, local, digital, streaming linear or walled gardens is why we believe Comscore is built for the future of programmatic cross-platform media.

Given that, when we look at the market, we're not simply just focused on the linear TV ad market. We're focused on influencing the total market of more than $400 billion in ad spend as the world becomes increasingly programmatic and audiences become increasingly fragmented.

Building on that, with Comscore Campaign Ratings, we announced a key enhancement just a few weeks ago, adding local market data to CCR. This enhancement allows advertisers to advertise nationally and then optimize locally, something that wasn't previously possible. Beyond enabling an advertiser to understand how their campaign is performing across different markets, the speed and accuracy with which we're able to deliver this data makes it possible for advertisers to optimize their ad campaigns in-flight, shifting dollars to the most performance channels and driving the outcomes they need more efficiently.

Along with that announcement a few weeks ago, you may have seen our deal with The Trade Desk to integrate CCR with local reporting into their platform. This partnership will help the Trade Desk clients optimize their campaigns, eliminating waste and delivering the outcomes they need as efficiently as possible.

Prior to releasing this feature, we saw an increase of more than 80% in impressions measured by Comscore Campaign Ratings in January of this year versus January of last year. And as we move into the second quarter of this year and our integration with The Trade Desk begins to ramp, we expect to see that growth, accelerate.

Cross-platform adoption, digital resilience, and local expansion are the things we're focused on in '24. These pillars, coupled with a relentless effort to scale our capabilities profitably point to a solid '24 ahead. I look forward to updating you on our progress as we go throughout the year.

And with that, I'll turn it over to Mary Margaret to talk about our guidance.

Mary Curry *Comscore Inc - CFO*

Thanks, Jon. Based on current trends and expectations, we believe our total revenue for 2024 will be between $375 million and $390 million. As Jon just laid out, there are a number of factors driving growth in 2024, including our continued growth in local TV, the stabilization of our syndicated digital business, and the accelerated growth of our cross-platform products, Proximic and CCR.

When thinking about our revenue guidance for 2024, I think it's important to talk about some of the factors that will influence the timing of revenue growth as we move through the year. First, we expect our growth in proximity and CCR to ramp over the coming three or four months as new integrations roll out and clients are onboarded, delivering a more pronounced revenue impact in the back half of the year.

Second, we anticipate that our national TV revenue will continue to be impacted by the linear ad spend pressure that major networks are experiencing, and the demand for custom digital products will continue to be unpredictable as we move into 2024. And finally, we expect the improvements we're seeing in syndicated digital to take a couple of quarters to translate into a better year-over-year revenue results.

As a result, we expect revenue in the first quarter of 2024 to be lower than the first quarter of 2023, with the majority of our expected revenue growth occurring in the back half of the year. For adjusted EBITDA, we expect continued improvement of our adjusted EBITDA margin in 2024 and anticipate the full year margin will be between 12% and 15%. In addition to top-line growth, the key factors driving the increased margin include the continued impacts of the restructuring initiatives we executed in 2023 and the disciplined product innovation we're undertaking as we continue to transform how we operate.

As we think about core operating expenses, we'd ideally like to keep costs as flat as possible year over year, but we also know we need to make investments in certain areas of the business, such as data and cloud computing costs in order for our cross-platform products to scale in a way that will drive meaningful revenue growth. These additional costs anticipated to be between $5 million and $8 million have been built into our plan for 2024 and are included in the guidance I'm giving today. Similar to last year, we expect our margin rate to scale as we move through the year.

With that, I'll turn it back over to Jon for closing remarks.

Jon Carpenter *Comscore Inc - CEO*

Thanks, Mary Margaret, and thanks, everybody. At this time, operator, we will open it up for any questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Laura Martin, Needham.

Laura Martin *Needham & Company Inc. - Analyst*

Hi. So I'm wondering -- so I see you -- we have national down, even though cross-platform is growing so quickly. Are you finding that there isn't as much advantage of linking your local to national as we hoped because I'm surprised nationals falling with the rapid growth of cross-platform. And then my only other question is on the balance sheet goals for 2024. Could you give us an update on that, please? Thank you.

Jon Carpenter ***Comscore Inc - CEO***

Hi, Laura. Thanks. Yeah, on the national one, no, I think what you're seeing with the major networks is obviously just pressure on the linear ad model, which did create some headwinds for us last year. And I anticipate and we factored into the guidance a bit of that in 2024 as well.

It's also true that the shift from a -- how advertising is bought and sold is shifting very much to a cross-platform view. And I think that's why you see an acceleration of our cross-platform products, which I think is going to be the future of certainly where everyone is focused and certainly the focus of our investment dollars.

I would point to the wins that we had with -- let's take Nexstar, for example. Nexstar's got major national networks. They've got obviously largest local broadcaster in the country, significant digital properties. When we look at our expanded relationship with Nexstar and how they want to go to market, it's leveraging the totality of our capability that differentiates us from everybody else in the marketplace -- that ability to step up from a local market all the way up to a national point of view, which allows that team to go to market with both a national picture of the full 200 million-plus people that reach their platforms as well as individually across local stations. And that was definitely a major differentiator for us in those wins.

And your second question was on the balance sheet. I don't have an update for you on the balance sheet specifically. It's something we continue to work on and be focused on. Our preferred shareholders have been very supportive of giving us the investment that we've needed with a couple of the announcements we had late last year in terms of moves we made with the dividends, and those conversations continue to be ongoing. And so at this point, I don't have an update for you beyond that.

Laura Martin ***Needham & Company Inc. - Analyst***

Thank you.

Operator

Thank you. Jason Kreyer, Craig-Hallum.

Jason Kreyer ***Craig-Hallum Capital Group LLC - Analyst***

Thank you, guys. So Jon, I think you mentioned something in your prepared remarks about the bookings that you guys have logged in the back half of the year gives you confidence into 2024. Just wondering if you can unpack the bookings comment and specifically what you're referring to in there?

Jon Carpenter ***Comscore Inc - CEO***

Yeah. When I look at the contract value that we underwrote in the third and fourth quarters of last year, both quarters were up on a comparable -- when we looked at the 12-month value of those deals that we're booking, both the third and fourth quarter were up significantly from where we were in the prior periods or the expiring contract values, which gives -- which is what I was pointing to in my remarks, which was encouraging and a lot of great work by the teams on many significant second -- the third and fourth quarter -- the other part to point out, the third and fourth quarter represent some of our biggest renewal periods for the business. So it was encouraging.

Jason Kreyer ***Craig-Hallum Capital Group LLC - Analyst***

Okay. And then in the slides, you kind of mentioned how signal loss and cookie deprecation create new opportunities. Can you just talk more about how that's monetizable or how you expect that to impact fundamental this year?

Jon Carpenter ***Comscore Inc - CEO***

You want to talk about that, Steve, in terms of Proximic business specifically?

Steve Bagdasarian ***Comscore Inc - Chief Commercial Officer***

Yes, it's a combination of a couple of things. One is obviously the importance of being able to buy audiences on a verified and validated basis goes at the heart of what the digital syndicated product line directly offers. Additionally, the audience segmentation business that essentially is built for Proximus is heavily predicated on being able to provide privacy centric, non-ID-based contextual enrichment as segments for publishers as well as the buy side that we're both seeing adopted at a tremendous rate.

So the short story with both of these scenarios is as we see deterministic ID-based data that has been prevalent for a long period of time begin to be dedicated outside of the market, it raises the visibility of the profile of being able to trust independent measurement to verify and validate the consistency of audiences that we're buying across all channels. That's directly at the heart of our asset class and the way that the products are ultimately built.

Jason Kreyer ***Craig-Hallum Capital Group LLC - Analyst***

Just one last one for me for Mary Margaret. Just trying to dissect the cash flow in Q4, you had a strong EBITDA number and nice growth there, best EBITDA of the year, but it looks like free cash flow had a drag. Can you just walk through if there's anything unique in there?

Mary Curry ***Comscore Inc - CFO***

In the fourth quarter specifically, there wasn't anything unique there other than we did catch up on some accounts payable in Q4. We also were expecting some receipts to come in right at the end of the year that didn't come in until the first week of January. So those would be the two things that I would point to.

Jason Kreyer ***Craig-Hallum Capital Group LLC - Analyst***

Got it. Thanks.

Operator

Thank you. Surinder Thind, Jefferies.

Surinder Thind ***Jefferies LLC - Analyst***

Thank you. Jon, can you maybe talk a little bit about where you see risk in the guide in terms of ensuring that you will achieve it this year? Is it all macro-related or have you de-risked for macro? How should we think about the range that you've provided and compare and contrast that to how 2023 ended up versus where your expectations were?

Jon Carpenter ***Comscore Inc - CEO***

Sure. I think the low end of the range appropriately accounts for kind of the risks that we see at this point in the macroeconomic stuff, just in terms of where linear ad spend is in the marketplace. And so I think we've got that contemplated in the low end of the range. I think what we're most bullish about is how quickly our Proximic and cross-platform capability scale.

For example, the deal that was announced a little over a week ago with The Trade Desk, that will go live here this week or in the next couple of weeks. And deals like that, they take a little bit of time to scale. But there's -- quite frankly, we see upside against what we've got contemplated. So we feel like the $375 million to $390 million revenue guide has got it appropriately booked and based on what we can see here on March 6.

Surinder Thind ***Jefferies LLC - Analyst***

Got it. And then I guess when you think about just longer-term assumptions and the model for the business, like how do you account for things like linear ad spend? I mean, is that going to be an accelerating drag? Or how do we think about some of the dynamics of changes in the industry?

Jon Carpenter ***Comscore Inc - CEO***

I think for the most part, I mean, where we feel that is in the custom book of business, which -- we've dealt with some of that. And I feel like we've got, again, in the low end of the guidance, the lumpiness there accounted for. So we feel kind of the pressure that the major traditional media networks feel.

We see that in our custom business. We see that in some of the renewals that quite frankly, in the first half of last year were tough. But I feel like we've got most of that accounted for. We took most of what we, I think, saw there and have got that factored into the into the guide.

So the good news is that the print -- if I look at our local business, obviously, there's -- those teams are exposed to a linear ad model, and we're growing double digits in that space. And obviously, our digital business, if you look at Proximic and cross-platform, we're exceeding growth that the marketplace is seeing, if you look at some of the ad tech comparables there.

Surinder Thind ***Jefferies LLC - Analyst***

Got it. And then maybe just a final question on syndicated digital. Sounds like you're more comfortable that things have bottomed at this point. Is that fair? Or I just feel like we've heard this story before where we start the year with a bit more optimism that we're kind of seeing light at the end of the tunnel, but we don't quite get to the end of the tunnel.

Jon Carpenter ***Comscore Inc - CEO***

Yeah. I mean, we like -- as cookie deprecation further permeates throughout the market, we like the strength of our digital business against that backdrop. The metrics that we monitor in terms of overall client churn rate, ARR, those things have been extremely encouraging in terms of what we're seeing on our end in terms of the way that we manage the business, which gave us a lot of really good insight in terms of how we thought about guidance for the year related to the syndicated digital business.

Surinder Thind ***Jefferies LLC - Analyst***

Okay. Thank you, guys.

Jon Carpenter ***Comscore Inc - CEO***

Thank you.

Operator

Thank you. I would now like to turn the call back over to Jon Carpenter for any closing remarks.

Jon Carpenter ***Comscore Inc - CEO***

Thank you, everybody, for joining the call, and we look forward to speaking to many of you soon.

Operator

Thank you. Due to issues with the webcast, the presentation will be available on demand one hour after the conference call. Thank you for your participation. You may now disconnect.