S&P Global
Market Intelligence

comScore, Inc. NasdaqGS:SCOR

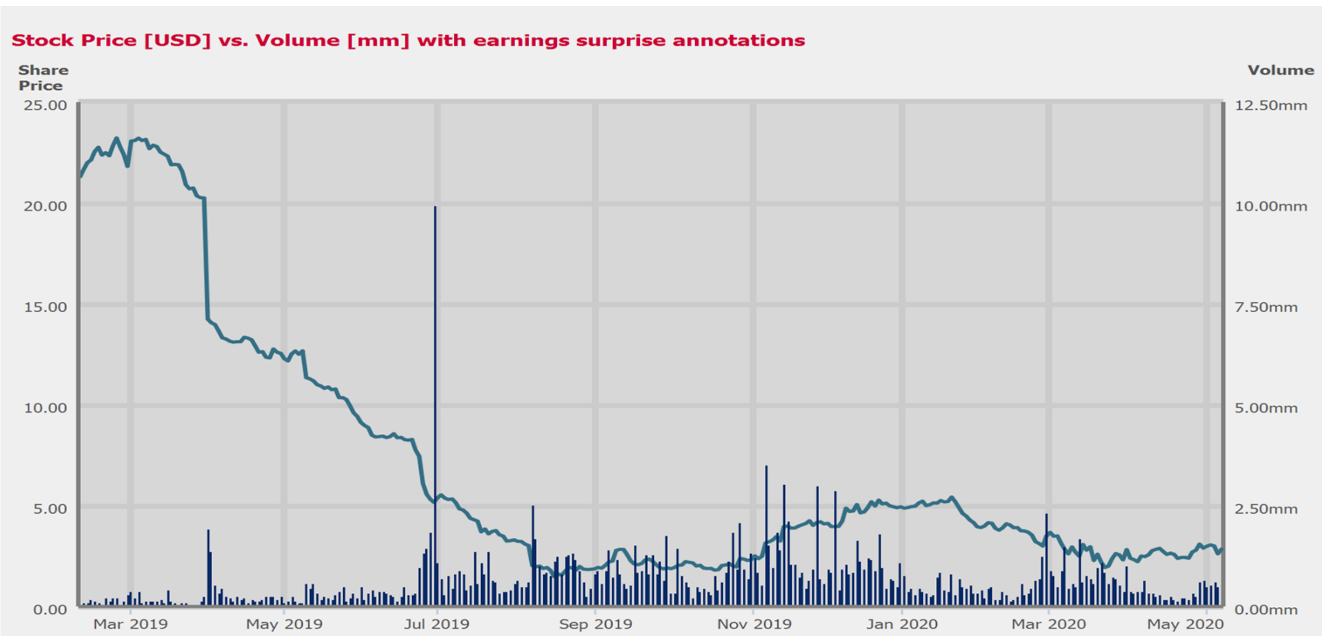
FQ1 2020 Earnings Call Transcripts

Thursday, May 07, 2020 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-	-FQ1 2020-		-FY 2019-	-FY 2020-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.30)	(0.29)	NM	(4.50)	(0.95)
Revenue (mm)	96.09	93.12	▼(3.86 %)	389.49	393.90

Currency: USD
Consensus as of May-05-2020 9:06 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	(0.38)	(0.46)	NM
FQ2 2019	(0.45)	(4.61)	NM
FQ3 2019	(0.42)	(0.16)	NM
FQ4 2019	(0.30)	(0.31)	NM

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Call Participants

EXECUTIVES

Christopher L. Ferris
Director of Investor Relations

Gregory A. Fink
CFO & Treasurer

William P. Livek
CEO & Executive Vice Chairman

ANALYSTS

Benjy Scurlock

Jim Roumell

Unknown Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the comScore First Quarter 2020 Financial Results Conference Call.

At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Mr. Chris Ferris, Director of Investor Relations.

Thank you. Please, go ahead, sir.

Christopher L. Ferris
Director of Investor Relations

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, May 7, 2020. 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. Our actual results in future periods may differ materially from those currently expected because of the number of risks and uncertainties, including those related to the COVID-19 pandemic and its economic impact. These risks and uncertainties include those outlined in our 10-K, 10-Q and other filings with the SEC, which you can find on our website or at www.sec.gov.

I'll now turn the call over to comScore's Chief Executive Officer, Bill Livek. Bill?

William P. Livek
CEO & Executive Vice Chairman

Thank you, Chris, and thank you, everyone, for joining us today. I'd like to start by addressing the extraordinary environment, we are now facing a global pandemic. When we last spoke at the end of February, we could not have imagined how rapidly and life-altering the environment would become. As circumstances evolve, we took early action, initiating contingency plans in early March and continuing to monitor the situation on a daily basis. Our employees are safe, secure and continue to provide our customers with the products and insights they need to navigate what has become a rapidly involving media and consumer landscape.

Because we are a nimble technology company with a mobile workforce, we transitioned very well to working from home. I'd like to thank all of our employees for their hard work, their dedication and their flexibility during this extraordinary time. We -- you have risen to the challenge and the entire team and our customers are grateful. I thank you very much.

As a result of our team effort, our data capture, our analytics and our product delivery have been largely unaffected. In fact, the situation has created new opportunities for comScore, as we deliver new insights on a shifting media consumption and the consumer buying habits that are evolving very quickly as most America is [indiscernible].

We have published many [indiscernible] over the past few weeks, which have led to robust conversations with our partners about ways to help them understanding this changing landscape. We believe the demand for [indiscernible] our third-party measurement without customer and consumer contact will only increase in this environment.

Our results in the quarter reflect the continued product and sales momentum our management team has been building over the past six months. While revenue was lower than anticipated, due to the unforeseen impact of COVID in the month of March, and some of our new contracts and renewals and projects being pushed out of the first quarter, our business performed relatively well. We continue to secure new business across all of our verticals with client contracts comparable with the first quarter of last year. And additional momentum in digital wins and solid performance in our traditional TV business.

In digital, we signed renewed business with American media, Tribune and many others. In national TV, we renewed our agreement with a major television station and network group for both our linear TV and video on demand products. In the local TV, we earned the long-term renewal from [Harper] Broadcasting, Bonneville International, CoxReps and Forum Communication, just to name a few. And our momentum continued in the second quarter. Today we are happy to announce on this call an expanded multi-year partnership with News-Press Gazette NPG there with the owner-operator of 45 television network affiliates across 10 markets. NPG will be using comScore services to sell its ad inventory, heightening the power and depth of our census-based measurement.

While we step back from our 2020 guidance given the uncertainty in the near term environment, we believe our business performance will improve over the course of the year with revenue increasing through the year, driven in part by political advertising kicking back in and the hard work we put into renewing and expanding client relationships. We believe those will bear fruit.

I'm also pleased with our continued focus on expense management. We've told you we would continue to manage expenses sufficiently to grow EBITDA and that's exactly what we're doing. Going forward, we expect to realize additional efficiencies increasing adjusted EBITDA year-over-year and putting ourselves in a position for 2020 and beyond. Greg will go into this in more detail in the financials.

Now I'd like to share how comScore is adjusting to the current environment to deliver additional critical insight to our clients. The crisis has accelerated the pace of change at comScore. The speed of delivery has never been more important given the day to day changes we're witnessing in consumer behavior. As a result, we've been adopting quickly. Over the past two months, we introduced with I believe could be potentially game-changing measurement solutions to help our clients more easily navigate the current environment. First, we introduced QuickScore for local TV in over 30 markets, providing viewership insight for local media within 48 hours of broadcast and in some cases even faster.

Through the combination of comScore's massive near-census television footprint and industry-leading advanced television audience demographics, QuickScore delivers a rapid represented view of local television consumption to help local TV stations proactively manage schedules and to make important sales, programming and promotional decisions more quickly and confidently. Ad agencies also stand to benefit as speed of comScore's information to help them adjust campaigns on the fly, bolstering overall success in this changing view environment.

In addition, comScore now offers two new advance audience segments in our TV service. News viewers by consumption level and heavy viewers of key sports, with live sports themselves being off the year, we're helping our clients find those coveted viewer with our new segmentation system and non-sports related programming.

We believe that these key long-term advantages will help expand our capability and drive new client wins and pricing enhancements in the future. In our digital suite, we rolled out faster reporting in order to highlight the rapidly changing media environment.

Previously, we reported digital data largely once a month; now we're delivering many of these category measurement changes weekly or even daily. Our OTT streaming services which expands across demographic groups in device type in the United States is now a daily delivered product.

In addition, our gaming service now measure top gains across devices in the US on a weekly and some cases, on a daily basis. I believe, after the National Emergency ends, these will remain durable product advantages that our customers are willing to pay for. We also see tremendous potential for our digital applications in the expanded e-commerce market. As we all know, traditional retailing has been losing ground to online for over a decade. This trend has accelerated with the pandemic.

In what may be a new normal, we expect customers rely -- to rely on comScore to understand consumer buying habits and sites versus their site. As you know, our customers know a lot about their consumer from their own information on their site, but they know very little about the competitive landscape. `comScore, in our privacy-compliant measurement system, allows our digital customers to understand how their consumers or what they're doing when they're not on their site.

In our movie business, we're moving closely -- we are more close with our movie customers than ever before that have been hit hard by the shutdown. As moviegoers stay home, we have documented, though, the extraordinary rise in the level of streaming and -- their movies on the on-demand viewing. We're helping our customers understand this trend by engaging with our video on-demand service to help them understand movies that are being purchased geographically and demographically.

As studios plan future releases when the theaters open again, we're also investigating how comScore may play a role in third-party verification if the content creators and if the theater owners want to alter their windows and how all parties can be fairly compensated as studios once used our video store measurement services and our former PPT transaction services.

All that said, we experienced another strong quarter in movies despite the COVID 19 and secured a renewal with a large global studio just recently and a new agreement with a large digital studio and a renewal with an international content creator.

I've always been excited about our movie business and I'm more excited about the future than ever before. I'd also like to highlight our COVID-19 information available on our website where comScore has been a critical source of helping our customers and our future customers alike understanding the changing consumer landscape. We have become the daily source for customers wanting to learn how individuals are changing their consumption habits. Taken together, all of these provide -- products provide an unmatched capability to help customers and prospects understand audience migration during this unprecedented period of time. While the near-term environment is uncertain, our capabilities and our commitments to our customers have never been stronger and the need for independent third-party measurement we provide has never been more critical.

Also today on this call, I am super excited to announce a partnership with LiveRamp to develop new and innovative services in the advertising ecosystem. We will be combining our TV and our video measurement solutions for both of our client bases. This partnership leverages comScore's trusted cross-screen viewer information with LiveRamp's unrivaled identity and data conductivity solutions including its outcome-based measurement platform, Data Plus Math. This partnership will accelerate the path that the media and advertising industry is already on to create more addressability at scale at any platform and to provide better accountability for marketers, better monetization for the sell side, and more importantly, more relevant customer experiences. LiveRamp has been a valued partner of ours for some time and we're thrilled to continue to collaborate with their team that shares our vision and our goals. We look forward to announcing more details and further collaboration in the near future.

I'd also like to take a moment to discuss the integration of the Comcast [households] into our local and national footprint. I'm pleased to report that we're making great progress in our on-track to integrate Comcast data by year-end, strengthening our already stable and predictive audience ratings and ad impressions.

We also are looking forward to continuing discussions with our existing and prospective clients about how this is a game-changing development here at comScore.

Finally, a few remarks on the strategic review. In our last earnings call, we said that the review was nearing an end. Needless to say, COVID has extended this process. But you can rest assured that we continue to evaluate all options to maximize shareholder value. We will update our shareholders when appropriate.

Now, I'd like to turn this call over to Greg Fink, our Chief Financial Officer. Greg?

Gregory A. Fink
CFO & Treasurer

Great. Thank you, Bill. Today, we reported first quarter revenue of $89.5 million compared to $102.3 million reported in the first quarter of last year. While we expected revenue to be lower in the first quarter, revenue was below our expectations. Due in part to the current environment, which impacted the timing of closing contracts in March as well as delayed political revenue in custom projects we expected to recognize.

Revenue from Ratings and Planning in the first quarter was $63.5 million compared to $70.6 million reported in the first quarter of last year. The decrease was largely driven by lower revenue from our syndicated digital and national TV products.

While enterprise renewals were strong, syndicated digital revenue declined year-over-year representing 50% of our Ratings and Planning revenue in the quarter compared to 51% in the first quarter of 2019. As I discussed, in February we expected syndicated digital to decline early in the year, but remain optimistic that it will stabilize and begin to flatten on a sequential basis later in the year.

Due in part to our expectation that we will benefit from new business from the exit of some competitors, our opportunity to acquire those customers in the first quarter was limited, and there was uncertainty regarding when we might expect those contracts to materialize.

National TV was lower as a result of consolidation of certain customers last year as well as the delay in political from campaigns that moved out of the quarter as I mentioned earlier. We expect political revenue to begin in the coming quarter.

Local TV revenue continues to grow from new customers and expansion with existing customers. Revenue from Analytics and Optimization in the first quarter was $15.5 million, compared to $21.5 million in the first quarter of last year. The decrease was due to lower sales and delivery across all of our products in this category.

In the quarter, we experienced lower custom projects as well as being impacted by event cancellations where certain products typically benefit.

Movies Reporting and Analytics revenue for the first quarter was $10.5 million compared to $10.3 million in the prior year. While revenue was essentially flat year-over-year, we do expect theater closures to have an impact on movies revenue throughout the remainder of 2020. Given the uncertainty around when theaters will reopen, we are and we will be working with our customers.

Turning to operating costs. Our core operating expenses, which include cost of revenues, sales and marketing, R&D and G&A declined $25.3 million year-over-year and $5.2 million on a sequential basis. The significant reduction in operating costs relates to the actions we implemented beginning in the second quarter of 2019 and throughout last year. As such, none of those reductions are reflected in the prior year first quarter.

Cost of revenues decreased by $7.6 million in the first quarter compared to the year-ago quarter, due to lower headcount data and professional fees.

Selling and marketing expense declined by over $5.6 million compared to the year-ago quarter and R&D decreased $8.1 million from staffing reductions and decreases in all aspects of our cost base.

G&A expense for the first quarter decreased $4 million compared to the prior year quarter from lower headcount.

Given these uncertain times, we have taken additional short-term actions to improve our cash position and reduce costs further. We have reduced compensation, instituted a hiring freeze, initiated limited furloughs and reduced and travel and other administrative costs.

Currently, we expect these actions to continue through the end of September and reduce our operating expenses between 2 and $4 million. We will continue to reevaluate the need to continue with these actions and should uncertainty regarding the advertising environment change, we will shorten or lengthen these actions, and if need be, take further action.

In the first quarter, we reported a net loss of $13.2 million compared to a net loss of $27.5 million in the same period last year. The net loss includes a $4.7 million non-cash impairment charge related to our estimate that we will be unable to recover our cost for certain properties currently on the market for [indiscernible]. For the quarter, adjusted EBITDA was $6.4 million, compared to an adjusted EBITDA loss of $2.5 million for the same period last year. Although our revenue was lower year-over-year, the significant improvement in adjusted EBITDA reflects our efforts to reduce cost to a sustainable level at which we can generate positive results on a go-forward basis.

Our non-GAAP net loss for the first quarter was $5.8 million which compares to a non-GAAP net loss of $14.1 million reported in the year ago quarter. We ended the first quarter with total cash of $56.6 million compared to $66.8 million at December 31. The decrease in cash during the quarter was primarily a result of interest payments on our senior secured convertible notes and term notes.

Starting at the end of the first quarter as a result of COVID-19, we began to experience some customer payment delays and requests to modify contractual payment terms. We are working with our customers to navigate through this.

Turning to our outlook for 2020, given the pandemic's impacts on our customers and the current uncertainty regarding media industry trends and behavior in the short term, we are withdrawing our prior 2020 outlook we continue. We continue to monitor COVID-19 pandemic closely, take proactive actions to navigate the environment and will update stakeholders at the appropriate time.
Now, let me turn it back to the operator to take questions. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Benjy Scurlock with Arete Research.

Benjy Scurlock

Hi, thanks for taking the questions. I have two, if I may. First, I was wondering if you could provide a bit more color on the partnership with LiveRamp and the impact it could have on the effectiveness of your addressable measurement and whether this is kind of short-term -- we could have a short-term impact or it's a longer-term initiative? And then secondly, I was wondering if you could talk a little bit about the conversations you're having with the client -- with your clients, given the current environment and how you think you could impact from [wholesome] and potential new leads for the rest of the year? Any kind of color on that would be helpful. Thanks.

William P. Livek
CEO & Executive Vice Chairman

Thank you. LiveRamp, I can't tell you how excited I am. I'm excited that we're working with them, they're a great company and they're intrical in this new world, basically measurement around did it actually work, they have schedule, and every customer has their own definition of who their consumer is and the emerging data sets through rely brand. This deal with them, this partnership is going to have an immediate impact, positive impact on our revenue and a long-term impact that's positive for us. So I can't tell you how super excited I am.

In terms of our clients, we've been working closely with all of our clients in all of our verticals and helping them understand how the environment is changing. We're actually in a fortunate place to have been able to secure long-term contracts on so many of our customers, as we're helping them navigate through this and their viewer, their consumer, their digital user has changed quite a bit and they're using us to navigate through that. And it's also interesting to point out on the movie side of the business, even though most movie theaters have been closed around the globe, our customers are using us a great deal as they're building their plans to reopen their releases, so comScore is not just a tool they use for real-time measurement, they also use it for planning purposes. So we're in a good place.

Benjy Scurlock

Okay, thank you.

Operator

Your next question comes from the line of [indiscernible].

Unknown Analyst

Hi, Bill. Hi, Greg. Thanks for taking my call. A couple of questions for you. One, I guess to follow-up on the movies. In the text there you did say that you expect to see some impact through the rest of the year. Could you shed a little bit more light on the contractual nature of that business? If there are no theatres open, is there some sort of clause in that contract that there is no payment, anything you could share on that. That's question number one, please.

William P. Livek
CEO & Executive Vice Chairman

On question number one. Most of our movie contracts are long-term in nature. And as we reported in the quarter, before COVID ended, we have signed up a new and a very large digital studio as a brand new client. Also since COVID happened, we continue to renew customers and one of the large studios just renewed with us. So, we're an important strategic tool for them. Clearly, it's been rough. We announced over the past year a number of additional products that we're selling into the movie ecosystem. I think it's fair to say that it is not business as usual when the whole infrastructure of the globe opens up. So, selling new products I think is going to be difficult for a while, but our base measurement service is critical, it's durable and most of our contracts are long-term in nature.

Unknown Analyst

That's helpful. And then, Greg, nice job on operating margin improvement, quite a nice step-up there. You identified the $2 million to $4 million of additional cost cuts just to adjust to the new environment. Are there other variable costs in there that we could be thinking about? And then, just along the same lines, was this a-- as we think about 2Q, will that working capital anything we should be thinking about as far as-- does that switch back to more of a source of capital?

Gregory A. Fink
CFO & Treasurer

Yes, so on the first point, there are things that we decided that we were going to take some action immediately in the short-term and that will add some incremental savings over the next few months, as I highlighted in my remarks. That said, we've been clear that we continue to be vigilant around expenses, we continue to look at everything we do and how we do it and we've been doing that for quite some time in the facilities area and other places and that is ongoing to continue to drive those costs down. I think we talked about that at year-end and we saw another improvement on a sequential basis even from the fourth quarter. So, we are continuing to become more efficient and effective and continuing to look everywhere where we have cost, as to how we can do that better. So, that won't change, but in the short term, we will have some incremental benefit as I outlined.

On working capital, when you look at the quarter, the first quarter tends to be a little bit unusual in that you have some year-end compensation in the light and you could see in our cash flow statements a big step down in our equities and our AP in the quarter. Some of that annual incentive compensation and the like that gets paid early in the year. As we continue to ramp down these expenses, we should see positive impact from running a company with a lot lower cost base as we move forward.

Unknown Analyst

Great, thanks so much.

Operator

[Operator Instructions] And you do have a question from the line of Jim Roumell with Roumell Asset Management.

Jim Roumell

Hi, Bill.

William P. Livek
CEO & Executive Vice Chairman

Hi, Jim.

Jim Roumell

Hey, how are you?

William P. Livek
CEO & Executive Vice Chairman

Good.

Jim Roumell

Quick question on addressable, can you just comment on two points, where you're at with that in terms of engagements with any potential clients and what if any competitors do you feel are as well positioned as you are to rollout a addressable products?

William P. Livek
CEO & Executive Vice Chairman

Thanks for asking that. Addressable, as we talked about in the past, is super important strategically. In the COVID environment, addressable, I don't believe is as important because of how the world has shifted and the advertising pie has buckled under a bit. So when I look at that on a go-forward basis, we are uniquely positioned for a couple of reasons. First off, by having the operator information that we have with all of the operators, the addressable commercials have to be measured by someone who has access to that information in the way that comScore has it. So, we're in a great environment. The addition of Comcast we think puts us in a great place. Now, I think there is another mega trend that is happening right in front of us. And I can't predict how it's going to play out, but I'm hearing from a number of advertisers that national spot that goes into local markets certainly has changed quite a bit under COVID, but national spot is a small piece of a television stations business and that dollars may go into what they call national addressability, that the television networks may be addressing their commercials out to individual households through the cable spine. If they do in fact accelerate national addressability, we're going to be in the perfect place to capitalize on it.

In terms of the competitive landscape, this is a category that we invented and addressable has to also feed into linear because of the sense measurement nature of both. We believe that advertisers will need those capabilities of measuring all 210 local markets with ratings that-- impressions that feed up to a national total with the network measurement, and then the addressability feeds into that. So we're in a good place and no one has those capabilities quite like comScore has, Jim.

Jim Roumell

Thank you, Bill.

William P. Livek
CEO & Executive Vice Chairman

You're welcome.

Operator

[Operator Instructions] There are no further questions at this time.

William P. Livek
CEO & Executive Vice Chairman

Thank you, operator. Just in closing, we remain excited about the future as we manage through this difficult present. I'm very pleased with the progress that we made as a company in the roughly two quarters that I've been honored to serve as your CEO. The important, yet the difficult cost decisions that comScore took last year put comScore in a position, so we can weather this environment, we think, very well and capitalize in tremendous opportunity that we have as a company. Lastly, before we end, on behalf of myself and the entire comScore team, I would like to send our heartfelt best wishes and a big thank you to the front line workers in this pandemic, whether they'd be first responders, healthcare workers or central employees. In our little corner of the world of comScore, we're going to continue to do our part that helps our customers and communities recover from this crisis.

Thank you all and we look forward to sharing the progress in the near term, or on the next quarterly call. Thank you very much.

Operator
This concludes today's conference call. You may now disconnect.