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Q1 2024 Comscore Inc Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by, and welcome to Comscore's first quarter 2024 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 John Tinker, Head of Investor Relations. Please go ahead.

John Tinker - *Head 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, 2024.

Our 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 you 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.

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

Jon Carpenter *Comscore Inc - Chief Executive Officer*

Thanks, John, and thanks, everyone, for joining us this evening. We made some significant progress as we work to transform the business. And we've seen plenty of changes in the markets we serve. Given the ever-changing nature of the market where audience fragmentation across screens and devices is increasing and the way advertising is bought and sold is becoming more -- both more digital and more programmatic.

Comscore's focused on delivering cross-platform solutions that are built to measure the multi-screen world we are living in. We remain a leading cross-platform measurement choice for advertisers, agencies, platforms, and publishers, and one that is anchored by an MRC accredited TV audience measurement product for both local and national for the only measurement player with this distinction.

We're also certified by the US JIC is one of only two cross-platform measurement companies deemed transactable based on the standards set out as part of that review. While there is clearly work to be done and despite headwinds in parts of the market, we continue to serve, Comscore has made substantial progress already in 2024. Our adjusted EBITDA in Q1 was up 55% versus the same quarter a year ago as a result of our cost discipline and growth in our cross-platform products.

Proximic by Comscore, our cross-platform activation business, saw 75% growth in the impressions we service in Q1 of '24 versus the same

quarter a year ago. We continue to see tangible evidence of the impact that our AI enabled cross-platform audience solutions are having on the market. Recently, Ad Exchanger named Proximic one of their "2024 Programmatic Power Players", another in a series of announcements that recognize Comscore as an innovator and disruptor amid accelerating change in advertising and privacy regulation.

Given recognition like that, it's not a surprise that revenue for our cross-platform products suite was up 28% in the first quarter as adoption continued to accelerate. With several key platform partner integrations underway, we expect rapid growth to continue for these products as we move through the year.

As I alluded to at the outset, we received MRC accreditation earlier this year for both local and national TV measurement, along with JIC certification as a transactable cross-platform currency. That's something that no other measurement company can claim.

Comscore TV is the first big data TV measurement product to receive MRC accreditation - a major milestone for both Comscore and for the industry. We're now the only TV measurement solution with accreditation for both national and local television measurement.

At the end of the day, what these certifications mean is that the industry has decided that our TV and cross-platform products are transparent and can be trusted by the buyers and sellers of billions of dollars in advertising and that Comscore is a leading choice for measuring TV and cross-platform audiences for the industry. We saw more than \$4 billion in advertising trade on Comscore currency in 2023, a number we fully expect to grow in 2024 and beyond.

Looking at the first quarter in terms of results, it was certainly a mixed bag. Revenue was down 5% from a quarter a year ago. And while we did expect Q1 to be softer year over year, as we noted in our last call, we did end up coming short of where we expected. However, adjusted EBITDA for the quarter was up 55% to \$8.1 million, a testament to our continued discipline in managing costs and our work streamlining our products.

And despite the revenue print, there is a lot to be excited about as we continue to transform the business. We see persistent robust double-digit growth in our Cross-Platform products, which is evidence that our strategy of helping clients optimize for a world where Linear, connected TV, and digital need to be managed holistically and that's working.

A meaningful contributor to the shortfall in revenue to note was a number of platform integrations that are currently underway that are just taking longer to scale than what was originally planned. As we continue to transform the business and derive a greater share of our revenue from the usage of our cross-platform products - that is billing on a CPM basis, rather than a syndicated fee - integration delays like this shift the timing of revenue, but not our confidence in it as we execute this transformation.

As a reminder, much of our revenue is made up of syndicated fees from contracts signed in prior quarters and in some cases prior years. For example, approximately 20% of our revenue in the first quarter was directly attributable to contracts that closed in 2024, whereas, more than 30% of it was from contracts signed 2022 or earlier. As transactional revenue becomes a more significant portion of our top line and we anniversary legacy contracts, we expect to see continued growth accelerate.

With that, let me turn it over to Mary Margaret to take you through the quarter in a bit more detail.

Mary Margaret Curry Comscore Inc - Chief Financial Officer

Thank you, Jon. The total revenue for the first quarter was \$86.8 million, down 5.2% from \$91.6 million the same quarter a year ago. Cross-Platform Solutions revenue of \$37.1 million was down 9.7% from 2023, primarily due to a decline in our National TV revenue. There are two drivers of this decline. The first is lower revenue related to contract renewals as a result of the ad spend pressures the major networks have been facing.

The second driver is lower variable revenue related to cloud computing and processing reimbursements we receive from certain enterprise clients. However, the corresponding expense we also incur to service these contracts decreased by the same amount during the quarter, resulting in a net zero impact on our bottom line. The decline in National TV revenue was partially offset by growth in our movie business of almost 5% compared to the prior year.

Digital Ad Solutions revenue of \$49.7 million was down 1.5% from the prior year quarter, primarily driven by lower revenue from syndicated digital renewals executed in prior years. As these contracts begin to approach their anniversary dates, we expect to see the year-over-year variances begin to level out. The decline of syndicated digital was partially offset by the continued growth of our cross-platform products with Proximic and CCR growing more than 28% on a combined basis over the prior year quarter.

Adjusted EBITDA for the first quarter was \$8.1 million, up 55.1% from the prior year quarter, resulting in an adjusted EBITDA margin of 9.4%. We remain focused on making strategic decisions about where we're spending and are continuing to identify ways to operate more efficiently.

Our core operating expenses for the quarter were down 4.5% over the prior year, primarily due to lower employee compensation, as a result of our restructuring efforts. We've also chosen to make investments in the areas where we see the most opportunity for growth, which includes shoring up the data assets and the technology we need as we work to transform our business.

I'll turn it back over to Jon to continue the discussion.

Jon Carpenter Comscore Inc - Chief Executive Officer

Thanks, Mary Margaret. I've heard from many of our shareholders, both large and small that the way we've historically represented our solution groups from a reporting standpoint has made it difficult to understand our business. As the market and our strategy has evolved over time, it's become clear that our solution groups are no longer aligned with how we run the business.

Investors being able to better understand our business is something that's important to us, so starting this quarter we're going to begin reporting our revenue and new solution groups. Fundamentally, Comscore does two things. First and foremost, we measure audiences across both content and ads. And second, we deliver meaningful insights that leverage the big data scale that we have. And that's precisely how we're going to organize our solution groups going forward into two groups built around those two things.

The first solution group is Content & Ad Measurement, which contains our syndicated audience measurement products like Media Metrix, Comscore TV, and Movies, along with our cross-platform offerings like CCR and Proximic. This group accounted for nearly 85% of our revenue last year.

The second solution group, Research & Insight solutions, contains the more bespoke work we do for our clients. Things like custom data feeds, our survey business, our consumer brand health business, and our brand survey business, along with other outcome measurement deliverables. This group accounted for approximately 15% of our revenue last year.

Those two solution groups, Content & Ad Measurement, and Research & Insight Solutions, better align with how we run the business. And we think will make it easier for everyone on this call to understand where we're going and how we're doing.

Taking a closer look at the Content & Ad Measurement solution group we look at this group in two distinct parts. Both parts are focused on delivering differentiated measurement solutions for modern media, measurement that's built for the programmatic world.

The first is our syndicated audience business. This includes Comscore TV, both national and local, along with Media and Video Metrix, our digital offerings, coupled with our movies business. These are our core syndicated content audience measurement products. Looking forward, the expected long-term growth rate for this part of the solution group is in the low single digits.

The second faster-growing part of the solution group is our cross-platform product suite, which you've heard us talk quite a bit about. This includes Comscore Campaign Ratings and Proximic by Comscore. CCR, measures, advertising across platforms, Linear, Digital, social, and connected TV providing clients with a deduplicated view of audiences that enables advertisers to optimize their campaigns while they're in flight.

Proximic, which we referred to in the past as our activation business is a leading source for AI enabled ID-free cross-platform audience

segments for advertisers and audience enrichment services for publishers and broadcasters. The cross-platform part of the Content & Ad Measurement solution group is where we expect to see significant growth continue, with an expected long-term growth rate about 25%.

The next solution group - Research & Insight Solutions - is home to our custom research and insights work. This is bespoke work tailored to the specific needs that our clients have. We expect a long-term growth rate in the low single digits. And the work that we do enhances the value of the products and services that are in the Content & Ad Measurement Solutions group. This includes things like custom data feeds to meet data structure or privacy needs that our clients have, helping them better understand their customers, their competitive landscape, and the outcomes driven by their advertising.

A recent example of this is the deal that we announced with Kochava at the NewFronts last week. This deal highlights our outcome measurement capabilities - where through our partnership with Kochava we are able to show the lift in digital activity that's tied directly to linear TV advertising. This new collaboration is one that we're incredibly excited about as we strive to meet the varied and evolving needs in the market.

With that, let me turn it over to Mary Margaret to talk about our Q1 performance based on these new solution groups.

Mary Margaret Curry Comscore Inc - Chief Financial Officer

Thank you, Jon. Looking at Q1 and these new solution groups, Content & Ad measurement revenue of \$72.6 million was down 5.3% from \$76.7 million the same quarter a year ago. The decline was driven by lower revenue from our syndicated audience offering, primarily related to our national TV and syndicated digital products. This decline was partially offset by growth in our movies business as well as growth in our cross-platform revenue.

Research & Insight Solutions revenue of \$14.2 million was down 4.5% from \$14.8 million in the prior year quarter, primarily driven by lower deliveries of certain custom digital products.

Turning now to guidance for 2024. Based on current trends and expectations, we are maintaining the full year revenue and adjusted EBITDA guidance we laid out in the last earnings call. As a reminder, we previously discussed certain factors that impacts the timing of revenue growth as we move through the year, including the ramp-up of Proximic and CCR, the improvements that we're seeing in syndicated digital churn and the continued impact of spending pressures on national TV and certain custom products. As a result, we expect revenue in the second quarter of 2024 to be lower than it was in the second quarter of 2023, with revenue growth building in the back half of the year.

As we look ahead to the back half of 2024, we remain confident that we'll see things stabilize and see our cross-platform growth accelerate. Specifically for syndicated audience, we continue to see signs that our churn metrics are trending in the right direction. And we see the average selling price continuing to grow as we roll out enhancements for our digital clients.

In cross-platform as we complete the integrations that we mentioned earlier, we continue to see signs that adoption and usage will scale as we move into Q3.

Finally, in Research & Insight Solutions, we expect to see more revenue as data feed deliveries ramp up, as our collaboration with Kochava scales and as US political spend accelerates.

With that I'll now turn it back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jason Kreyer, Craig Hallum.

Jason Kreyer Craig-Hallum Capital Group LLC - Analyst

Thank you, guys. So Jon, I just wanted to see if you can break down or illustrate the confidence that you have in the guide here. You know, we're digging out of a hole in Q1 and Q2, and so that's going to imply a much more substantial ramp when we get into the back half of the year. So can you just give a little bit more detail on what do you think reemerges did to give you confidence in that background bubble?

Jon Carpenter Comscore Inc - Chief Executive Officer

Yes. Thanks, Jason. As you recall from the previous call that we had, we were pretty clear that the first half of the year was going to be a bit softer and that the growth in the second half was going to be based off of the acceleration that we have with our cross platform integrations across the programmatic environments. And we're seeing that -- we're seeing evidence of that scale quite nicely. And we've got a number of platform integrations that are currently in the works that will be ready for second half revenue acceleration.

I think the other thing to keep in mind is that by the second half, we start to anniversary the syndicated deals related to prior contracts that date back to certainly before the first half of '23 and in some cases in '22. And as those deals -- as we anniversary those deals, we start to build on the momentum that we have in the marketplace with things like MRC accreditation and adoption more broadly of Comscore as a currency in the marketplace

Additionally, Jason, we've got political ad spend that's going to scale in the second half of the year. And then specifically with our syndicated digital business, the churn metrics that we monitor internally on the health of the renewal and our client set there has continued to improve, which gives us a great deal of confidence that the back half of the year looks pretty promising for our syndicated digital business, which is -- then certainly a pain point for plenty of quarters now.

Jason Kreyer Craig-Hallum Capital Group LLC - Analyst

Just double-clicking on that, I mean, the cross-platform business, obviously you called out 28% growth. It's a small base, right. It's \$8 million in quarterly contribution today. So obviously, that's only a one component of is the reacceleration you're expecting in the back half of the year. Just given kind of the presentation of new reporting segments, can you maybe walk through how you expect 2024 to progress on the research versus that kind of syndicated audience or the content groupies?

Jon Carpenter Comscore Inc - Chief Executive Officer

Yes. We fully expect that the new solution groups, our syndicated audience business, the back half of the year really starts to flatten itself out for the reasons that I described. Again, we start to anniversary some legacy deals that we've got visibility into and our syndicated digital business, which is the largest portion of our syndicated offering is -- has turned the corner and that gets at the churn metrics that we monitor. The list of clients that we know are up here as we get into the second half of the year.

So those two things, coupled with the number of platform integrations that we're signing up related to cross platform across Proxemic and CCR. We feel really good about what that looks like here in the second half of the year. Let's be honest, that's where the puck is going. The puck is going to cross platform solutions that can be activated and enabled for clients across the media ecosystem in programmatic environments. And that is exactly where we're focused and that is exactly where we're winning.

Jason Kreyer Craig-Hallum Capital Group LLC - Analyst

And so lastly for me, just on that Proxemic side, you called out of the 75% growth in impressions? No, I don't think that correlates directly to revenue. You just gave the cross-platform figure, but I'm just curious, can you remind us maybe the revenue recognition and how that flows in? Is that 75% growth in impressions? Is that kind of the leading indicator for what you're expecting as we move forward this year?

Jon Carpenter Comscore Inc - Chief Executive Officer

Yes. So I think there's a mix shift in there, Jason, but I think I would look at it as a leading indicator for how that part of the business is scaling. And so as we lean into more of ID solutions, which is a fast-growing part of that business the price mix starts to shift in favor of -- growth in the pricing component of that P times Q equation, which is how we recognize revenue in that side of the business.

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

Thanks, Jon.

Operator

That concludes today's question and answer session. I'd like to turn the call back to John Carpenter for closing remarks.

Jon Carpenter *Comscore Inc - Chief Executive Officer*

Thanks, everybody, for joining us this evening. We appreciate and look forward to talking to many of you soon.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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