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Q3 2022 Comscore Inc Earnings Call

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PRESENTATION

Operator

Hello, and thank you for standing by. Welcome to the comScore Third Quarter 2022 Financial Results Conference Call. (Operator Instructions) Please keep in mind this conference is being recorded.

I would now like to hand the conference over to your speaker, John Tinker, Vice President of Investor Relations. Please go ahead.

John Tinker ***comScore, Inc. - VP 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, November 8, 2022. Our actual results in future periods will 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, 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 and Investor Relations Events and Presentations.

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

Jonathan Carpenter ***comScore, Inc. - CEO***

Thanks, everyone, for joining us this afternoon. We've got a lot packed into the 3 months since our last call, and I'm excited to update you on the progress that's been made across our organization. As I discussed in the second quarter earnings call, comScore has got an unmatched data set, which enables our entire business, allowing us to measure media consumption across platforms and enables our clients to drive insights and outcomes based on what we as consumers are up to.

We're adjusting data from more than 200 million mobile devices, 150 million desktops and more than 50 million connected TVs. Additionally, we've got data coming into us daily from 75 million set-top boxes, and we're also the world's movie measurement company, tracking box office results across more than 175,000 screens at more than 30,000 theaters across 75 countries. All of those devices and screens give us an unmatched view into the hundreds of billions of hours of content consumption so far this year in the U.S.

Through the first 9 months of this year, U.S. consumers viewed more than 170 billion hours of linear TV and spent over 1 billion hours watching movies. That's not at home on our couches, but back at the theaters. Audiences generated more than 200 billion engagements on social media, yielding more than 40 billion hours spent, scrolling Instagram, tweeting and going viral on TikTok. Consumers are also gaming more than ever, more than 1 billion hours, proving just how vital that medium is for marketers and advertisers.

It's clear that today's consumer is more interconnected across all of these mediums than ever before. And at comScore, we've got a lens into all of it. It's that holistic view of the consumer that allows us to understand and unpack the interconnected ways in which we, as consumers, interact with media that gives comScore a unique advantage, and we're working hard to turn that advantage into growth.

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You'll recall from our second quarter earnings call that I talked about 3 primary arenas where comScore needs to win in the near term. First, in local TV currency, in stabilizing our legacy digital products, and in innovating in the cross-platform space, and I'm excited to highlight the progress that we're making in all 3 areas.

In the local TV measurement space, on our last call, we laid out the scale of the opportunity in the things that we needed to focus on in order to win, starting with the product side and delivering faster data, driving demand on the buy side and expanding within the existing station groups that work with us today and expanding and converting those who aren't working with us yet.

We also know we need to be more interoperable, integrating things like advanced audiences, into workflows on the buy and sell sides of advertising transactions. Before I get into some of the specific updates on those items, I was pleased that yesterday, we were able to announce an extension of our preferred relationship with Charter under the terms of our data license agreement. Charter will continue to be a great partner in solidifying comScore as the currency of choice for local audience measurement.

On the product execution front, we knew that we needed to get faster when it comes to delivering our data to clients. In early September, we had our initial release of our Pulse data, delivering content measurement data within 48 hours to all local markets. With this improvement, comScore is the only measurement provider doing this. We heard our clients loud and clear that we need to deliver data faster so that they can optimize campaign delivery, and we've executed. I'm pleased to how quickly we responded in my short tenure, but don't get me wrong, we aren't at the finish line. This is the first step as we continue to get faster and more nimble as an organization.

When it comes to driving demand with agencies and brands, we've also made solid progress. In September, we announced an industry-first local TV currency partnership with Dentsu that will have them buying campaigns for their clients using advanced audiences rather than standard age and gender demos. While buying advertising on advanced audiences has been happening at the national level for a few years now, comScore is the only measurement company that can offer this in all local markets, and we're incredibly excited to partner with our friends at Dentsu to break new ground in local TV advertising.

For those of you not familiar with what I mean by advanced audiences, until recently, publishers and advertisers have transacted ad campaigns based on age and gender. So they target, let's say, women between the ages of 18 and 49 as an example, versus more intent-based or affinity driven signals such as what someone watches, what they search for, what social platforms they may be engaged on. And through their partnership with comScore, Dentsu will be able to leverage more intent-based signals, giving their clients a much clearer picture of their audiences, allowing them to optimize creative executions and drive better outcomes.

Moving on and with regards to our efforts to build momentum and traction with station groups. I'm excited to announce that we've reached an important expansion of our agreement with Scripps. This agreement expanded our relationship to include all of their local stations, adding 16 new markets to our existing partnership. The trust that the team at Scripps has placed in comScore goes beyond buying comScore TV for all of their local stations. They're also using it as currency across all those stations.

With 85% of all local advertising spend coming from station groups inside the top 30 are partnerships like the one we just announced with Scripps, along with many others, are critical to our growth. This is exactly the kind of progress that's going to fuel our growth going forward, and I appreciate the leadership team at Scripps and their trust that they placed in comScore, and I look forward to us delivering for them over this 3-year agreement and beyond.

So look, hopefully, this goes without saying, but I'm more bullish than ever in our prospects in local TV measurement. We've remained focused on the 4 things that I mentioned at the top, product execution, buy-side adoption, station group expansion and interoperability. And as a result, we made tangible progress in a very short period of time. We expect to deliver close to 25% year-over-year growth in local this year, driven by the hard work and focus of our teams and what they put in. This is the fastest growth rate we've had in local over the last several years and points to the momentum we're building. We're in the early innings still, but we're not slowing down.

On the digital front, we've got 3 priorities that I talked about on the last call that we're focused on. First, executing on the integration of social to bring to market our total digital product suite. Second, we're focused on delivering industry-leading cookie-free solutions. And finally, we've got a reenergized focus on the customer distributed by a product-led strategy that has us automating for the future and

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delivering faster data.

And on the topic of product synergy, we've launched and continue to enhance our total digital offering. Total digital brings together digital, connected TV and social data in 1 place to deliver a more complete view of audiences to our clients. As an example, on this page, we're indexing TikTok users across popular streaming platforms, showing which streaming platforms TikTok users are most likely to be active on. As the hundreds of billions of hours in front of screens become more and more matrix and interrelated reaching, audiences requires an omnichannel approach that only comScore has the data to power. This capability is up and running and is being leveraged today by many of our clients.

In our Activation business, comScore is also leading the way creating a completely new kind of targeting that helps fill the void created by third-party cookie deprecation and privacy changes that are taking place in the market. Our predictive audiences product delivers privacy safe, cookie-free targeting that performs just as well as cookie-based targeting. In fact, in a trial over 2 quarters, our work with IBM and their agency EightBar found that comScore's predictive audiences outperformed all other targeting tactics. That innovation and performance has seen predictive audiences more than double year-over-year, and we expect that to continue.

Building on that solution set here, you may recall that last summer, we announced that the ANA had selected comScore as the third-party measurement provider that they partner with on a proof of concept for cross-media measurement post third-party cookie deprecation. This effort included the ANA, VAB and the MRC, along with many market participants on the buy and sell side as well as the walled gardens. We recently delivered this proof of concept, and I'm pleased to let you know that it showed that this privacy-forward approach that we're taking to measurement has been successful.

In addition, this pilot was in line with our innovative approach that we're taking internally to cookie-less measurement, and you can look forward to us providing updates on the product outcomes as we head into 2023. So whether you're talking about measurement or activation, we're actively innovating and collaborating with the market to ensure that the post-cookie world is when the comScore is positioned to lead.

Moving on to talk about cross-platform innovation for a second. You've heard me mention a few times already today that comScore has a complete holistic view of audiences across devices and platforms. This positions us uniquely to deliver cross-platform measurement for our clients. In addition to the hundreds of millions of devices that we're collecting census-level data from, we also operate panels. Many folks are familiar with our digital panel that have long been part of our Media Metrix suite of products. But beyond that, we also have our Total Home Panel, which is made up of more than 7,500 households and more than 100,000 devices. It captures all of the digital activity that's going on in the home from traditional desktop activity mobile devices to connected TV, gaming and all manner of smart devices.

This holistic view of the household activity combined with comScore Census and big data assets provides unique insights into consumers' evolving digital behavior. As we move into an increasingly privacy-conscious world, the context that the total home panel provides is an amazing advantage for comScore as we work to deliver a complete omnichannel view of audiences for our clients. It's an asset that has historically been under-monetized and under-recognized and it provides comScore with a unique lens into the household. It's one that we intend to personify and leverage more thoroughly in our methodology, and I expect you'll be hearing more from us on this capability as we evolve our cross-platform solutions.

Within cross the platform, of course, our flagship product is the comScore Campaign Ratings, or CCR and we passed an important milestone this past quarter. As a reminder, CCR provides deduplicated reach for display and video advertising across desktop, mobile, linear and Connected TV across all the platforms that you see listed on the slide here, along with many more.

With the release of our new user interface this past quarter, CCR is now the only cross-platform campaign measurement product in market that can provide deduplicated reach across desktop, mobile, linear and Connected TV in one single report. No one else is doing this.

Why does it matter? Well, look, if you plan a campaign to run across linear and Connected TV in YouTube, you want to be able to see that 1 view of that campaign and its reach, not in 3 views that aren't deduplicated. And again, comScore is the only 1 that's doing this in 1

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singular report. We continue to enhance our product offering, and the feedback in the market has been positive. We'll continue to update you on the progress in the coming quarters.

Look, before I turn it over to Mary Margaret for an update on our financial results, a result of our efforts to get more focused. We've also made improvements in the profitability profile of our business. I've said this before, but we know that cutting our way to growth is not a sustainable strategy to achieve long-term success, but neither is growth at all costs. We're committed to becoming a more profitable company and delivering free cash flow that can be reinvested back into the business in order to achieve our long-term growth objectives.

There's more to do here, but we're committed to doing the hard work and the results of these efforts are visible in our third quarter results and in the adjusted EBITDA margin rate goal that we've provided for 2023. This is a key strategic imperative, and we look forward to updating you on our progress as we move forward.

With that, let me turn it over to Mary Margaret.

Mary Margaret Curry ***comScore, Inc. - CFO***

Thank you, Jon. Total revenue for the quarter was $92.8 million, slightly up from $92.5 million in the same quarter a year ago. Adjusted EBITDA was $11.7 million, up 4% from $11.3 million a year ago, resulting in an improved adjusted EBITDA margin rate of 12.6%.

When we look at revenue growth by solution group, Cross Platform Solutions revenue of $40.4 million grew 14% from $35.4 million in the prior year. This growth was driven in large part by double-digit growth in our local and national TV businesses.

We also saw continued growth in our movies business, which was up 10% from $7.9 million in the third quarter of last year to $8.7 million this year as the business continued to rebound following the pandemic. We expect revenue growth from the movies business to level out in the fourth quarter as most theaters had reopened by the end of last year.

Revenue from Digital Ad Solutions of $52.4 million was down 8% compared to $57 million a year ago. The decline was primarily driven by a couple of factors. The first, our activation business was down nearly 20% year-over-year, building off of a trend that we started to see late in the second quarter as the broader advertising market continued to soften. In addition to activation, we saw pullback in the quarter in our custom digital solutions, which tend to be discretionary and more bespoke in nature. The combination of these 2 factors created a larger-than-expected drag on our Digital Ad Solutions revenue for the quarter.

Now let's turn to operating expenses, as there's a bit to unpack there. We reported total operating expenses of $149 million for the quarter, which were primarily driven by 2 items. The restructuring costs of $5.8 million that we incurred in connection with the workforce reduction in September and a noncash goodwill impairment charge of $46.3 million. Our core operating expenses of $90.4 million were flat compared to the prior year and were down 6% quarter-over-quarter.

We expect our core operating expenses to further decrease in the fourth quarter as we start to realize the cost saving benefits related to the restructuring plan which should position our full year 2022 core operating expenses to be roughly flat compared to 2021.

Given the current macroeconomic environment and the impact it's having on discretionary ad spend, we've lowered our full year revenue guidance to reflect a growth rate in the low single digits over 2021. We expect our growth rates to continue to be driven by double-digit growth in cross-platform solutions as we continue to see further adoption and strong momentum in our TV products at both national and local level. Unfortunately, we anticipate continued softness in our Digital Ad Solutions revenue, which we now expect to be down by low single digits from 2021 as a result of our reduced expectations for activation and our custom deliverables that are more discretionary in nature. However, as Jon mentioned, we're making intentional strategic decisions and are diligently taking actions to protect our bottom line, which we believe will keep us on track to achieve an adjusted EBITDA margin in excess of 9% for the year.

With that, I'll turn it back to Jon.

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Jonathan Carpenter ***comScore, Inc. - CEO***

Thanks, Mary Margaret, and thanks, everybody, for your time this afternoon. Operator, if there are any questions, let's open up the line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jason Kreyer of Craig-Hallum.

Cal Bartyzal ***Craig Hallum***

Here for Jason. Just a couple of questions from me. First, just wondering if you could help us better understand your path to profitability and kind of the levers that you control and don't control. You're cutting costs and renegotiating contracts, but there's also some macro pressure on the top line. So just trying to get a better sense of the risk -- some of the profit targets you've laid out.

Jonathan Carpenter ***comScore, Inc. - CEO***

Yes. I think it's consistent with what you said in terms of a more disciplined focus on the cost line, coupled with the syndicated nature of our product offering, especially when it comes to our syndicated digital product as well as our syndicated comScore TV products, the mix of revenue coming from those product lines, coupled with the efforts that we've made to focus the business more intently and stay disciplined on the cost line. I think, are the key factors there that provide us through the path to profitability that we've outlined.

Cal Bartyzal ***Craig Hallum***

And then lastly, just wondering if you could kind of give us a sense of the cadence of digital here over the last few months? Just trying to better understand how much of that has been macro related versus how much is more of just comScore specific?

Jonathan Carpenter ***comScore, Inc. - CEO***

Yes. I think the -- and Mary Margaret can chime in here, but the lion's share of what we've been seeing has largely been macro related. Again, our Activation business, we commented on the second quarter call that in the second half of June, we started to see a bit of a pullback across the platforms on the audience targeting side of the business. That carried over into the third quarter, and we're expecting that to continue and be lower than our expectations were originally in the fourth quarter. That, coupled with some of the custom work that we do that is arguably more discretionary in nature, our expectations are that the custom digital work there that we'll do will remain soft as we kind of work through year-end kind of macroeconomic concerns.

Operator

Our next question comes from Dan Medina of Needham.

Laura Anne Martin ***Needham & Company, LLC, Research Division - Senior Research Analyst***

It's Laura Martin sitting with Dan on his call. So maybe I'll ask a couple. Really, excellent cost control here. I guess one of the questions I have is do you think you can maintain that kind of cost control sort of flat into next year? Or do you think that you have to hire? It does feel like there's a lot of talent coming available from Twitter, Google and Facebook as they start to lay people off around now. And so there might be some good talent available next year. And then my second one is on movies. This movie number is really an upward surprise. So it's up 10%, and I assume China hasn't opened. So do you think the darkest days on movies are behind us because up 10% is pretty impressive.

Jonathan Carpenter ***comScore, Inc. - CEO***

Laura, thanks for the questions. Yes, look, on the talent front and on the cost front, we feel pretty good about the path that we laid out in terms of the restructuring plan that we announced, which did contemplate, if you will, a rebalancing across the organization that did afford us the ability to make the right investments in the right areas, including areas around engineering talent, for example, data scientists, for example. Those are areas where we know we want to continue to invest in.

But the cost plan that we outlined in our announcement back in September really contemplated the balance of readjusting the portfolio on that front. And so we feel good about our ability to deliver on the margin goal that we've outlined for next year. That's one. And then

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on the movies, look, we feel really good about our positioning in the movies business. It's rebounded nicely. And the feedback that we've gotten on some of our recent product rollouts has been really positive. And so we're excited about the position there. As Mary Margaret commented, we're likely to see a little bit of a -- we're not anticipating that kind of growth rate in the fourth quarter, just given we'll be comping some of the post-pandemic rebound. But again, the strength of that business, coupled with our focus on the product front there, I feel really good about how we're positioned.

Laura Anne Martin ***Needham & Company, LLC, Research Division - Senior Research Analyst***

And I assume all -- we're not getting any money from China, so we don't have a downdraft from that in our future, right?

Jonathan Carpenter ***comScore, Inc. - CEO***

That's right.

Operator

This concludes our Q&A session. I would now like to turn it back to Jon Carpenter for closing remarks.

Jonathan Carpenter ***comScore, Inc. - CEO***

Thanks a lot, operator. Thanks, everybody, on the call, and I'm sure we'll be talking to many of you soon. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the program. You may now disconnect.

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