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Q2 2022 Comscore Inc Earnings Call

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## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

**Surinder Singh Thind** *Jefferies LLC, Research Division - Equity Analyst*

**Cal Bartyzal** *Craig Hallum*

## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the comScore Second Quarter 2020 Financial Results Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker for today, Mr. John Tinker. Please go ahead.

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### 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, August 9, 2022. 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](http://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](http://www.comscore.com), under Investor Relations, and Events and Presentations. I'll now turn the call over to comScore's Chief Executive Officer, Jon Carpenter. Jon?

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

Thanks, John, and thank you all for joining us this evening. While what an honor stepping into the role of CEO, and I couldn't be more excited about the prospects ahead for this company. I want to thank the comScore Board for this opportunity and their confidence in me and to our clients and employees for their warm welcome over the last couple of weeks.

Having been the CFO for the last several months, I certainly understand both the challenges and opportunities that lie ahead for the company, which is no doubt help me get a head start on the work we need to do in order to unlock the value that I believe this company has the ability to deliver on.

I want to take a moment to thank Bill Livek for his tireless work over the past 3 years and for building a complete measurement product that gives us a very strong foundation for future growth.

I'm joined today by Mary Margaret Curry, who was recently named Chief Financial Officer; as well as Carol Hinnant; Tania Yuki; and from a product standpoint, David Algranati and Greg Dale are here with me this evening.

Finally, I'd like to highlight Nana Banerjee as the new Chairman of the Board. Nana brings extensive operating experience in big data and technology, having served as CEO of McGraw Hill. His vast experience leading large product and technology organizations will be immensely helpful to me personally as well as the entire management team as we execute on our strategy.

There's no doubt that this is a critical time for the industry. We're committed to and focused on delivering innovative products and solutions that our customers want, while driving the growth and profitability our shareholders expect. This is the second quarter we're

reporting on our new revenue solution groups, and as a reminder, our focus is on measuring content and ads and enabling the planning and activation of media in a privacy forward way across all screens.

This quarter, we reported revenue growth of 4% to \$91.4 million and a near 150% increase in adjusted EBITDA to \$6.5 million. We're also tightening our guidance, calling for 5% to 7% revenue growth, coupled with an increase in our full year adjusted EBITDA margin that we now see exceeding 9% on the year.

I wanted to take some time to provide everyone with the sense for how I think about the business, the opportunities we have, and where we're going to be focused as an organization. We've got a strong foundation built on a diversified business, with over 1/3 of our revenue coming from growing local and national television business lines. Nearly 60% in digital, rounded out by almost 10% from our leading movies business.

Our client base is also diverse, with almost half of our business coming from media companies, 1/3 from agencies and advertisers and nearly 10% from both local TV and movie customers. The diversity of our business across the client set is a big advantage as we position the company to tackle the challenges our industry is facing.

Finally, roughly 3/4 of our revenue is generated from our syndicated offerings, which provides a sustainable recurring revenue stream. We're anchored by a broad set of strengths. We operate within several large end markets with room to grow in each. We've got a proven ability to create scalable syndicated products. We've got best-in-class data assets and methodology. We measure 1 in 3 households nationally in the linear TV space in addition to our massive digital census network.

Finally, as I just highlighted, we've got a strong, long-standing relationship with industry-leading clients and well established -- and we're a well-established trusted brand. Perhaps our biggest strength is that we have one of the most complete data sets in the industry, just more than 50 billion events per day across digital, linear TV, on-demand, connected TV and theatrical, all coupled with advanced audience insights. In linear TV, we measure more than 1 in 3 households on more than 75 million screens via our MVPD partnerships, supplemented by 13 million smart TV screens. Additionally, our digital census-based data collection measures content in a privacy-forward manner across more than 200 million mobile devices, 150 million desktop screens and more than 50 million connected TVs via a combination of tagged content and direct integrations with publishers. Our census level TV and digital data is augmented by an opt-in panel with more than 600,000 global active participants, adding additional context and details for the audience that we measure.

It's that combination of TV, advertising, digital data that positions us incredibly well as we think about solving cross-platform measurement.

In summary here, across the roughly 120 million house -- video households in the U.S., we've built a data set and methodologies that capture viewing from multiple scaled sources, and that is a massive differentiator from others in the measurement space. Given everything I just laid out, it's reasonable to ask why we're not growing faster? Why we haven't made more progress? And over the last couple of weeks, I spent time listening to our clients, our employees, feedback from shareholders, and I definitely heard plenty of positive feedback. But I've also heard what isn't working, and what it is they need us to be focused on. And I wanted to share some of that feedback with you, and let you know how we plan to address it.

First, we're not fast enough. We're not fast enough -- we haven't been fast enough to innovate, we haven't been fast enough to deliver the data that our clients need in order to own their businesses effectively. So we're going to focus intently on speed in the ways that matter most to our clients. And one of the first tangible results of this initiative will be our move to deliver preliminary data in comScore TV within 48 hours, which we plan to have in market by early Q4 of this year.

While this is a significant step forward, we're not going to stop there. We'll continue to find ways to move even faster on behalf of our clients. Second, I've also heard that we have complex solutions, complex deliveries, and we can be hard to work with sometimes. One of the ways we're going to address this is by having an increased focus on execution on what we do and don't do, and on making sure that we're executing in a way that doesn't just produce the right data, but also produces it in a way that's easier for our clients to work with. We're going to simplify our offerings. We've got some amazing products, but we need to make sure they're more accessible. We're going

to work to deliver more scalable and interoperable solutions because we know that the value comScores can deliver to our clients goes way up as the complexity of working with us goes down.

Finally, it's no secret that our costs have been high. Not cheap to have the most complete data assets and measurement. But I'm focused on building a comScore that's more profitable. I'm committed to pursuing scalable growth that expands our margins and increases our free cash flow, providing value to shareholders and enabling the development of the pathbreaking solutions that our clients tell us they want and expect from us.

In terms of our opportunity, one of the things that I've heard consistently is that we've got a compelling offering in multiple measurement, and it's a place we should be winning. There're a lot of reasons for that. One is that comScore is the only measurement provider that has a common methodology for both local and national measurement. Simply put, our national measurement numbers are the sum of all of our local markets, unifying 2 of the largest silos of programming and ad inventory, which nobody else in the market has done. This lets the national advertisers see how their ad was delivered down into the local markets, from the biggest markets to the smallest ones. And this single methodology also gives us a massive advantage in delivering the complex cross-platform measurement solutions that our industry is seeking.

You couple that capability with the fact that the opportunity for us in local is a significant one. There's somewhere around \$24 billion in local advertising spend right now, and the market has been comfortable with roughly 2% to 3% of that ad spend going towards measurement. Our estimates are that the leading player in local measurement is somewhere between \$400 million and \$500 million in local measurement revenue today. comScore has about 10% of that amount. The gap between our 10% and that \$400 million to \$500 million is significant in a near-term opportunity for us in a place we expect to win.

First off, it starts with speed, and we've got to get this right. As I mentioned a minute ago, we're addressing speed of data delivery in early Q4 when we plan to release 48-hour preliminary data in the market. Second, we must drive further penetration and demand on the buy side with our agency and advertiser clients. We've made a lot of really great progress here with recent announcements from Verizon Media and others about testing comScore as a new currency for local advertising. And third, we're working on expanding our partnership with the sell side, adding a greater share of station groups as [contour] clients. Recent wins in this area include our relationship with Scripps as well as Egreat Television.

Finally, our path to growth in local measurement is going to require us to focus on embedding ourselves more deeply in our clients' existing workflows, adding things like advanced audiences for local advertising, which requires a thoughtful approach to make sure that buying on those advanced audiences is as easy as possible.

Moving on, obviously, the biggest battleground in the space today is around solving cross-platform measurement. No one has done it yet. But it's here where I believe we are uniquely positioned to get it done. When we talk about cross-platform, we're talking about following and measuring content and ads wherever they're distributed, linear, both local and national, ad supported on-demand and subscription on demand. When it comes to measuring content across these means of distribution, comScore has one of the most complete data sets, again, measuring 75-plus million screens, 30 million smart TVs, more than 600,000 panelists, coupled with tagged content and direct publisher integrations across hundreds of millions of mobile devices, desktops and CTVs.

More importantly, we know that each type of data has unique attributes, positive and negative, that must be accounted for when combining these data sets to produce accurate, reliable and stable measurement. comScore has years of expertise and the patents to prove that we know how to use this data effectively. And the good news here is that our clients know we're uniquely positioned to deliver on cross platform because of these data assets. If anything, I've heard some frustrations from clients that we haven't delivered fully on their demands for cross-platform measurement given the assets we have. We have a data advantage, the market has been waiting for us to deliver, and we're going to make sure we do just that.

As an example of recent progress, we're revamping our comScore Campaign Ratings, or our CCR product, to start delivering on cross-platform ad measurement today. CCR is our cross-platform ad measurement product, that provides deduplicated person-level reach and frequency for ads wherever their viewed across linear, CTV, desktop and mobile, including walled gardens. On that note, our

CCR partnership with YouTube continues to progress. In June, comScore and Google released insights from the 6-month 20-plus campaign study run exclusively on CCR to highlight findings of the overlaps of linear and CTV for the largest ad-supported CTV platform. The results and highlights covered by this slide cover campaigns across diverse brand verticals, including travel, automotive and CPG. We're encouraged by the results and what they mean for our clients and industry in moving towards reliable, independent cross-platform measurement.

Having a campaign measurement solution, combined with the depth of our linear TV data, both set-top-box and connected TVs, provides one of the most powerful solutions in the space. This past quarter, we made progress with more of the largest walled gardens to begin formal CCR integrations, and I anticipate sharing our progress here in the upcoming quarters as we complete our work.

Digital is a big part of our solution set and the integrations we have with publishers across the ecosystem uniquely advantage us as we evolve as a measurement company to deal with the convergence of audiences and media consumption across the platforms. As I just covered a minute ago, the data and integrations that underpin our digital product are also essential to our ability to deliver the cross-platform measurement that our clients are asking for. It's no surprise to this group that as a stand-alone offering, our digital product has languished. It's one of the reasons that we purchased Shareablee. We're actively taking steps to enhance our digital products. One of the first steps we're taking is combining our social platform packed with real-time insights from Meta, TikTok, YouTube and Instagram with our Media Metrix products. This critical step makes our digital data easier to use and unlocks new insights.

Second, comScore has led digital measurement through disruption in the past. We're intent on doing that again as we help the industry build a bridge to the third party cookie-less future, whenever that become a reality. Lastly, we're working hard to drive product synergies, create products that are simpler and bring together the data sets that our clients tell us are most important.

Moving on, as many of you've heard me say before, it's critical that we drive greater profitability as we deliver on the opportunities I've been highlighting. To do this, we're committed to transforming how we operate in order to increase our margins and bring added value to shareholders, employees and customers. We believe that by better aligning how we work to our strengths and what our clients demand of us, along with other steps to optimize our business, that we're well on our way to delivering on our 15% adjusted EBITDA margin goal in 2022.

As I wrap up and to summarize, I'm focused on 3 big things. First, culturally, we're going to be obsessed with our customers and what they need. We're going to be faster, leaner. We're going to be disciplined in our innovation, making sure that we're innovating in the areas that will yield the biggest impact for our clients. Second, when it comes to execution, we'll be laser-focused on investing our time, money and resources into expanding as a local currency, delivering on cross-platform and maintaining our market-leading position in movies. These are all things we're more than amply equipped to deliver on.

And third, while no company cuts their way to growth, we know we've got work to do to optimize how our capital is put to work. Capital allocation is a full-contact sport and companies that get it right almost always come out on the top. We're taking measured steps to hone our focus or our top line growth scale profitably, and we've set aggressive goals to improve our adjusted EBITDA margin so we can hit our goal of 15% in 2023.

With that, I'll turn it over to Mary Margaret.

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

Thanks, Jon. And let me add how excited I am to be here as CFO as we focus on becoming more financially disciplined. As Jon mentioned, we reported another quarter with solid results. Revenues of \$91.4 million were up 4% versus the same quarter a year ago. Adjusted EBITDA of \$6.5 million was up 147% versus a year ago. When we look at revenue growth by solution growth, cross-platform solutions grew 13% from \$35.2 million in the second quarter last year to \$39.8 million this 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 12% from \$7.5 million in the second quarter last year to \$8.4 million this year as the business continued to rebound following the pandemic.

Revenues from digital ad solutions of \$51.6 million declined 2% compared to \$52.5 million a year ago. The decline was largely due to a

pullback in digital ad spend that impacted activation and other digital products. Given the uncertainty in today's economy and the unknown impact inflationary pressures may have on ad spend in the short term, we're updating our full year revenue guidance to reflect a growth rate of 5% to 7% over 2021.

We expect our growth rate to continue to be driven by double-digit growth in cross-platform solutions, with digital ad solutions remaining nearly flat compared to the prior year. However, as Jon mentioned, we're putting the wheels in motion to become more fiscally disciplined, which we believe will allow us to achieve an adjusted EBITDA margin in excess of 9%, an improvement over the prior year.

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

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

Well there's so much work to be done, I'm excited and energized about the opportunity that we've got ahead. I want to thank you all for your support and for trusting us with your investment. Operator, we can go ahead and open up the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Surinder Thind from Jefferies.

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**Surinder Singh Thind *Jefferies LLC, Research Division* - Equity Analyst**

Jon, Mary, congrats on the promotions. I'm going to start with a question about just balancing the need with investment for increasing profitability. Jon, can you talk about that a little bit in the sense of where you guys have been in the past year or so, and where you guys are heading? And what I mean by that is, when you talk about things like investing to -- for speed in terms of getting data and solutions faster to customers, decreasing the complexity of your solutions, it seems like you would want to increase investment spend. But yet it seems like you're going to -- you're looking forward to large margin improvements over the next coming year or so.

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

Yes. Surinder, thanks for the question. I think the good news is much of the investment that has been needed to roll out a lot of our cross-platform solutioning has already been made, right? The investment in the data asset is done. It's about stitching these things together in a way to solve the problem for the marketplace. So I think, in large part, much of the investment on that front is behind us. I think what I will say is, as an organization, we have the opportunity to be a little bit more disciplined and focused on what parts of the ecosystem we continue to serve.

And I think what you heard in my comments, our priorities are going to be around cross-platform measurement. We're uniquely positioned to solve that. Winning in local. And then I think that there are some things that we can do around the organization to be more disciplined that will drive improved profitability, and that work is well underway.

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**Surinder Singh Thind *Jefferies LLC, Research Division* - Equity Analyst**

Understood. And then in terms of just -- when I look back over the past year or so, and I look more recently in terms of all of the partnerships announcements, the pilot programs, how should we think about the top line growth on a go-forward basis here? It just seems like there's been a lot of positive announcements, but we really haven't seen the needle move at this point. And so are we approaching an inflection point related to maybe investments that you've talked about kind of being there at this point? How should we think about the top line?

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

We feel pretty good about, I think, what you're seeing and if you kind of unpack the growth a little bit, Surinder, I would look at cross platform as an area where we're growing double digit. We expect that to continue as our offerings continue to scale nicely there. Where we've kind of been short has been in our digital solution as a stand-alone product. That product is immensely important as we think

about our cross-platform solution set. But in terms of the near term, the growth rate on that business is likely, as Mary Margaret highlighted, to kind of be more flattish than anything. And we'll leverage the asset to really roll out our cross-platform solutioning, which, again, where -- is where we see the accelerated double-digit growth that we talked about in the narrative.

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**Surinder Singh Thind *Jefferies LLC, Research Division - Equity Analyst***

Got it. And then one final question here. Just related to the near-term picture, can you talk about how much of headwinds or maybe your sensitivity to the digital ad spend at this point? And then, obviously, we're in an election year. So it sounds like there's anticipation of significant or record political ad spend this year, and I assume that's where a lot of the back half growth is coming from, or a big chunk of it?

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

Yes, I think that -- just to take the last part of that, that's certainly a tailwind in the second half of the year in terms of the accelerated ad spend. I think from a digital standpoint, what you saw in the guide overall is some -- I would say, some thinking around the uncertainty in the ad market for the second half of the year. If you looked at earnings that have been out there, it's kind of been all over the map in terms of what that looks like. It's pretty clear to me that we're in a bit of a pullback. And so I think what you see in the guide, at least on our digital ad business, is some pullback in our expectations around the growth rate on that side of the business.

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**Operator**

(Operator Instructions) Your next question is from the line of Jason Kreyer from Craig-Hallum.

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**Cal Bartyzal *Craig Hallum***

(inaudible) here for Jason. I was just curious if you had any feedback on recent upfront, and kind of how you feel about your ability to increase the use of comScore as alternative currency moving forward?

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

I'm going to let Carol talk about what we're seeing in terms of the upfront.

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**Carol Hinnant *comScore, Inc. - Chief Revenue Officer***

I think that the feedback that we've heard from our core media clients has been that the upfront went the way of the traditional, meaning that they didn't move to new currencies as fast as the marketplace would like. However, there was progress and movement kind of across the board from small networks to large networks and almost activity across all of the agency holding companies.

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**Cal Bartyzal *Craig Hallum***

Perfect. And then, Jon, just real quick. Any specific areas of strategic focus from your perspective? And how should we think about your regime being a little different from sales?

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

Yes, I think what you heard in the narrative is we're going to be focused on our opportunity in winning currency and local. That's a very clear path to near-term opportunity for us. Cross platform, as I said, again, in the narrative, there's no company in my mind that's more uniquely positioned to solve that problem for the marketplace than comScore. And so those are the 2 areas from a growth standpoint that we're focused on. And then as I mentioned in my comments, the financial profile of the company will be improved as a result of, obviously, that growth coupled with more disciplined approach on the bottom line.

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**Operator**

There are no further questions at this time. I would now like to turn the conference back to our presenters for closing remarks.

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

Thank you very much, everybody.

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**Operator**

This concludes our conference. Thank you for participating. You may now disconnect.

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