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Q1 2023 Comscore Inc Earnings Call

EVENT DATE/TIME: MAY 09, 2023 / 9:00PM GMT

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## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the Comscore First Quarter 2023 Financial Results Conference Call. (Operator Instructions)

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

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### John Tinker *comScore, Inc. - VP of IR*

Thank you, operator. Before we begin our prepared remarks, I'd like to remind all of you that the following discussion contains forward-looking statements. These forward-looking statements include comments about our plans, expectations and prospects and are based on our view as of today, May 9, 2023.

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, which we have provided reconciliations in today's press release and on our website. Please note that we will be referring to the slides on this call, which are also available on our website, [www.comscore.com](http://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?

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### Jon Carpenter *comScore, Inc. - CEO & Director*

Thanks, John, and good evening, everyone. Thanks for joining us to talk about our first quarter tonight. Before we get into the businesses, I wanted to touch on our first quarter results. It's clear that the end markets we're serving remains soft, particularly as it relates to custom deliverables, coupled with a more cautionary ad spend environment.

As a result, the financial print for the quarter came in below our expectations. That said, the operational progress we're making is significant. And despite the challenging environment, the strategic wins we've announced and will announce in the future give me great confidence that our strategy is on point and positions us well for the balance of the year and going forward.

As it relates to our full year guide, we're maintaining our revenue range. However, we do note pressure on achieving the top end of that range. And from an adjusted EBITDA standpoint, we remain confident in the guidance we previously provided.

With that, we've had an action-packed first quarter with meaningful progress in areas critical to transforming our business. For starters, YouTube selected Comscore Campaign Ratings, our cross-platform ad measurement product, as their solution for NFL Sunday Ticket. Measuring campaign performance for the multibillion-dollar investment they've made in Sunday Ticket says a lot to me about the

progress we've made with CCR.

Building on our success here, Tubi also announced Comscore Campaign Ratings is now available to their advertisers for the measurement of campaigns on their streaming service. And we've recently reached an agreement with Roku that is tied to both CCR and our Brand Survey Lift products, which we're now just getting off the ground.

YouTube, Tubi and Roku joined a number of other major media clients signing up for CCR so far in 2023. We've also had no shortage of progress with cross-platform, and we're just getting started. I anticipate that we'll see that progress continue to accelerate, and I'm looking forward to sharing that with you in future quarters.

Also this quarter, Proxemic by Comscore, our targeting and activation business has added several platform integrations for our privacy-safe Predictive Audiences product, including one of the largest and most important platforms in the market. We now have thousands of advertisers using Predictive Audiences.

Warner Bros. Discovery announced that Comscore was one of their 2 currencies for national advertisers to transact on during '23-'24 upfront season. And last Thursday, IPG Mediabrands announced the renewal of our agreement, which adds local TV data and Advanced Audiences across all 210 markets to our expanded partnership. This move complements our steady progress for holdco adoption of Comscore's currency offerings.

We've also continued to build out our team. In this past quarter, we added another industry veteran, Adam Lowy, to our commercial and leadership team as we continue to position Comscore for meaningful growth. Adding leaders like Adam is an important part of our strategy.

We've definitely packed a lot of progress into the first quarter, and we're just scratching the surface as we remain focused on providing clients with the most complete view of audiences regardless of device or platform for both content and ads. That's our vision, and that's what I and all of our employees wake up each morning excited to deliver on.

With that, let's jump into some updates across a few areas of the business, starting with TV. Scale and interoperability are key tenets to our success. Both are essential to our ability to deliver value for our clients to innovate and to win in the market. And we believe that one of our biggest differentiators is our big data scale.

Through our set-top box integrations, we're measuring linear TV across 1 in 3 households. We've got data for more than 150 million Connected TVs along with hundreds of millions of mobile and desktop devices. It's worth every now and again stepping back and reminding ourselves and the market that collecting the raw material is one thing, but turning it into a product that can be relied on to transact billions of dollars of advertising is a completely different ball game.

And it's at the core of what Comscore does every day to what makes us unique and positions us to deliver for both the buy and sell side going forward. You may recall that I mentioned in my first earnings call as CEO that we need to be easier for our clients to work with, and that's what interoperability is all about, eliminating the friction for our clients.

One area that I'm excited to talk about when it comes to interoperability is our efforts in the area of personification. And today, Comscore TV measures consumption and households to a measure that's critical to many use cases for our clients. For example, this includes Advanced Audiences where clients like Dentsu and others are using Comscore's currency.

However, we also recognize that our clients have historically planned and transacted based on measurement where people are the unit of measure rather than households. We're committed to meeting our clients where they are, and we will continue to make it easier for them to use Comscore data to drive their businesses.

This effort is well underway. We'll have initial data in clients' hands this month, and we anticipate having it in Comscore TV for clients later this year for both national and local, starting with the largest markets. This is a critical milestone for Comscore and our clients.

Shifting gears, we realize that our digital business has underperformed the last few years, and that's simply unacceptable to me. Our digital capabilities and offerings are a critical piece to our cross-platform execution, and I'd like to spend some time taking you through our strategy and how we plan to unlock growth.

Comscore digital has been the leader in independent audience measurement for well over a decade. Fundamentally, our value proposition has always been about enabling publishers to monetize their audiences and for advertisers to reach their desired audiences with confidence.

That value proposition has helped produce a business that has driven more than \$200 million in annual revenue, across 3,500 clients and more than 10,000 publisher integrations. In fact, Digiday recently reported Comscore as the leading currency for this year's NewFronts, up substantially from a year ago, highlighting the progress we continue to make.

Comscore is still the leader in digital measurement in so many ways. That hasn't changed despite the evolution of how digital advertising is transacted. We know that today, nearly all of digital advertising is now transacted programmatically, and privacy is changing the foundation of how audiences are measured and targeted.

That's important because all of those changes have resulted in an audience addressability gap that I think is worth taking a second to fully understand. Because of signal loss from privacy changes like third-party cookie deprecation, accurate audiences are increasingly hard for advertisers to reach. In fact, 60% of programmatic inventory doesn't have an ID from a third-party cookie or from an alternative ID associated with it.

That's 60% of digital ad inventory that is incredibly hard to target. This means advertisers and publishers need to find ways to take control of their inventory and embrace new ID frameworks and measurable contextual solutions at scale. This signal loss isn't just making things harder to do. It's cutting ad revenue for publishers by a third to a half.

That's a problem that Comscore is well positioned to help solve, and solving it is a key part of our strategy moving forward. It's with that backdrop that I think about our strategy for growth. And first, it starts with measuring audiences. This is core to who we are and what we've always done.

Second, it's about enabling our publishers and advertisers to transact against those audiences programmatically. And finally, it's about enriching their audiences to make a publisher's inventory more valuable and help advertisers reach the consumers they need to target.

On the measurement side of things, we're investing in the methodology that drives Comscore Total Digital. This new methodology is a privacy-centric approach to measuring audiences without things like third-party cookies, ultimately helping our partners mitigate the impact of the signal loss. This work has been done in partnership with the ANA and clients that include some of the biggest publishers in the world, and Comscore is leading the innovation here.

When it comes to transacting programmatically, our strategy is to leverage the more than 10,000 publisher integrations we have to directly assist our clients' ability to transact programmatically in the absence of third-party cookie data. One of the first steps that I'm incredibly excited about is a partnership we're launching with The Trade Desk.

With this strategy, we will nest Unified ID 2.0 into our publisher integrations. This will ease the integration for publishers with a leading identity framework and represents one of the largest expansion opportunities for UID 2.0 to date.

By partnering with companies like The Trade Desk to support the advancement of alternative ID frameworks, Comscore is enhancing our core products, ability to deliver value for our publishers and maximize their audience monetization opportunities, while at the same time, providing advertisers visibility into the audiences they're trying to reach through privacy-compliant executions.

The third leg of our strategy is creating value for our publisher clients by leveraging our proprietary technology to add value to their

audiences. Our Predictive Audiences product already used by thousands of advertisers also enables us to enhance a publisher's inventory where they lack sufficient first-party data. It also uses the same taxonomies as the advertisers who are trying to reach those audiences.

But this ultimately means is that a publisher can assign Advanced Audience traits despite not having the first-party data needed to do that. These traits are things like an interest in baseball, a holiday shopper for young children or interest in buying a new car, audience definitions that advertisers are looking to reach.

These 3 elements of our digital strategy will make Comscore digital stickier with our clients and align the buy and sell sides around common contextual taxonomies. Execution here and leaning in with partners like The Trade Desk and others will reestablish our digital offerings in the marketplace as continued must-have solutions for our clients.

Having discussed TV and digital, it makes sense to bring it all together and talk about cross-platform measurement. I believe in our strategy for growth and leadership in the industry is predicated on the idea that what matters more than ever is accurate cross-platform audience measurement. After all, GRPs and impressions don't make purchase decisions, audiences and households do.

With audience fragmentation accelerating, our clients are looking for scaled, interoperable solutions that help them demonstrate the value of their audiences, the frequency they're reached and the outcomes delivered regardless of screen. This is what Comscore is focused on every single day.

And with our TV and digital audience assets, we're not just focused on the projected 67 billion in TV advertising, we're focused on creating value in the context of the full \$400 billion TAM and projected ad spend in the U.S.

Seizing that opportunity comes down to our focus on listening to what the market needs and executing to help clients drive revenue and advertise effectively. Reaching the right audience and delivering the right outcomes matter far more than the screen the audience is on.

I'm bullish on our ability to drive durable growth and win in this market. Comscore covers a scale of measurement that's unmatched. We're measuring at least 1 trillion events per month across mobile, Connected TV, laptops and set-top box devices. And we're measuring those events in nearly all 41,704 ZIP codes across the 210 markets in the U.S. It's this precision down to a hyper-local level that I believe differentiates our approach.

The combination of those 2 things is why we can deliver the most complete view of audiences and are so well positioned to deliver the cross-platform measurement that the market is looking for. It's for these reasons that industry leaders like YouTube for one chose Comscore Campaign Ratings to measure a cross-platform performance for their investment in NFL Sunday Ticket.

In the months since I stepped into the CEO role, we've been focused on execution. With the wind we have so far this year, I'm confident we're well on our way to delivering for our clients and our shareholders. With that, let's talk about the first quarter results in more detail. And for that, I'll turn it over to Mary Margaret.

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**Mary Margaret Curry *comScore, Inc.* - CAO, Controller, CFO & Treasurer**

Thank you, Jon. Total revenue for the first quarter was \$91.6 million, down \$2.4 million from the same quarter a year ago. Cross Platform Solutions revenue of \$41.1 million was slightly up from \$40.8 million in the first quarter of 2022, primarily driven by double-digit growth in local TV and the continued strength of our movies business.

National TV revenue declined in the first quarter due to a onetime custom deliverable in the prior year. Revenue from the movies business grew 7.3% to \$8.8 million from \$8.2 million a year ago. Revenue from Digital Ad Solutions of \$50.4 million was down 5.1% compared to \$53.1 million a year ago.

Similar to what we've seen in the last couple of quarters, this decline was primarily driven by a soft advertising market, which resulted in lower custom deliverables for our digital products. This trend, while down, is an improvement over the last 2 quarters. We expect the current macroeconomic conditions to continue to challenge our digital business as we move through the first half of the year.

Adjusted EBITDA was \$5.2 million, down \$1.6 million from the prior year quarter, resulting in an adjusted EBITDA margin of 5.7%. I want to take a minute to unpack adjusted EBITDA and touch on a few contributing factors that are important to call out. When I look at the results year-over-year, there was an almost \$2 million swing in the impact of foreign currency transactions. If you exclude that impact from adjusted EBITDA, this year's first quarter is actually up 4.7% over the prior year.

This result is also a testament to our focus on cost execution. Our core operating expenses were down 6% year-over-year with a large part of that due to lower employee compensation.

We're continuing to execute on the restructuring plan we put in place last year, which is and will continue to contribute to lower compensation cost as we move through the year. We've also identified and are accelerating other initiatives to transform our business operations and drive additional efficiencies in the latter part of 2023 and into 2024.

Regarding our full year guidance, I'll reiterate what Jon mentioned at the top of the call. We're maintaining our guidance for revenue growth of low to mid-single digits over 2022. However, we do note pressure on achieving the high end of that range. Even with the top line pressure, we remain confident in the guidance that we previously provided for adjusted EBITDA.

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

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**Jon Carpenter *comScore, Inc. - CEO & Director***

Thanks, Mary Margaret, and thanks, everyone, for joining this evening. We continue to have a tremendous opportunity in front of us, and I couldn't be more excited about our growth prospects and the value we will create for shareholders.

I also want to take a moment to thank our employees who work tirelessly every day to deliver for our clients. Without them, none of what we spoke about today is possible.

With that, operator, we can open it up for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question will come from Jason Kreyer of Craig-Hallum Capital Group.

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**Cal Bartyzal *Craig-Hallum Capital Group LLC, Research Division - Associate Analyst***

This is Cal on here for Jason. So just a couple from me. First question, can you just kind of talk through maybe the cadence of the quarter and maybe go a little deeper on where you kind of saw business soften a little more than you expected?

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**Jon Carpenter *comScore, Inc. - CEO & Director***

Yes, I can take that. Thanks for the question. And then Mary Margaret can add in. I think it's a continuation of what we were seeing in the second half, where generally discretionary custom deliverables have continued to be put on hold coupled with, quite frankly, a softer than I think anyone expected ad market.

I mean the reality is we're selling into a pretty difficult end market. And we're seeing pressure on things that end up being discretionary, particularly around bespoke custom deliverables specifically.

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**Cal Bartyzal *Craig-Hallum Capital Group LLC, Research Division - Associate Analyst***

Perfect. And then second one, Jon, you talked a lot about the wealth of consumer data that Comscore has. And it sounds like you're starting to tap into that with Proximic and some industry partnerships. So can you just talk a little bit about where you see that progressing from here?

**Jon Carpenter comScore, Inc. - CEO & Director**

Yes. As I mentioned in my comments, those partnerships are critically important as we think about not just measuring audiences for our clients, but enabling our publisher ecosystem to transact programmatically with ease. And the partnerships that we've struck in the quarter and will continue to announce here going forward are critical for our digital ad business and that publisher network.

I think from an economic standpoint, the more of those partnerships that we stand up, the more sticky we are. The more always-on inside those big platforms means we continue to participate in the ad economics that flow through those platforms on a regular basis. So critically important to our success here in digital.

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**Operator**

Our next question will come from Surinder Thind of Jefferies.

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

So Jon, the first question I'd like to ask about is just you were talking about having measurement at the household level. And then it sounded like you're beginning to add measurement at the individual level. Can you maybe provide a bit more color, if I heard you correctly, on that in terms of the test market, the time lines, scheduled rollouts, anything like that?

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**Operator**

One moment please.

(technical difficulty)

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**Jon Carpenter comScore, Inc. - CEO & Director**

Later this year and in the September timeframe.

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

I apologize, Jon. I don't know if something happened on the phone, but I literally heard the last word that you just said. So we can take that offline, I guess. I'm not sure if there's a technical difficulty, but...

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**Jon Carpenter comScore, Inc. - CEO & Director**

Can you hear us okay, Surinder?

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

I can hear you now, but it literally went...

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**Jon Carpenter comScore, Inc. - CEO & Director**

Yes, not sure what happened. The way I would think about our personification is you've got a set of clients that obviously like to transact on an Advanced Audience basis at a household level. You've got still a large portion of the marketplace that likes to transact on traditional demos. And that's what we mean by personifying our data set.

And so by enabling personification in our offering opens up the optionality for our clients to really choose how they want to transact with us. And as I mentioned, our data -- that data will be available largely for test purposes and for planning purposes later this month and then fully available in Comscore TV in the kind of early fall time frame.

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

Got it. That's helpful. And then you also talked about kind of the headwinds from kind of -- I guess it was characterized as signal loss, right, as we move towards more privacy-centric walled gardens or just in a broader environment more broadly speaking.

Can you talk about, is there a secular headwind here that you can actually fully counter? Or is there going to be some level of signal loss that you can't recover, and therefore, the amount that advertisers are willing to pay for is going to be lower than it has been historically?

**Jon Carpenter comScore, Inc. - CEO & Director**

Yes. No, I think from our perspective, our offering is pretty unique in terms of our ability to help our publisher network counter the impact of signal loss and the degradation in value that they're seeing from an eCPM standpoint due to that signal loss.

We feel like those integrations by nesting in the UID framework gives them the ability to participate in economics inside those platforms that don't exist for them today because they've got no first-party data. We can -- and so our products are kind of the vehicle that allow them to unlock that opportunity, if you will. [Steve], would you add anything to that?

**Steve Bagdasarian comScore, Inc. - EVP, Growth & Business Development**

No, I think that's exactly right. Being able to identify and measure, I expect, we can provide additional enrichment, but oftentimes transacting with us basis ultimately, there's some obligation as well to help validate measurable audiences to also being able to participate along for ease of transaction, especially around these new IT frameworks that are starting to emerge and continue to proliferate the market.

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

Got it. And then just one other quick one for Mary. There was talk of driving additional efficiencies beyond what you already had. Any color where you can quantify or what is actually being pursued to generate those efficiencies?

**Mary Margaret Curry comScore, Inc. - CAO, Controller, CFO & Treasurer**

Yes. I mean I think we're still in the planning and then early implementation phase of these additional initiatives. So I think it's still a bit too early to really put a number around it. A lot of what was built into the restructuring plan that we implemented last year were related to very specific initiatives and actions that we wanted to take. And those were based on some of the analysis that we had done at that time.

As we've moved into looking at some of the additional details and really understanding and taking a step back and looking at how our business operates, we have identified additional ways to become more efficient as it relates to cleaning up our tech debt as it relates to how we're ingesting data, the cost of the data that we're getting, the cost of some of our other vendors and whether or not there are opportunities to find just similar services for lower costs.

We're scrubbing really hard. I think we've got a healthy list of additional initiatives that we've started working through, and we're hoping to really start implementing in the back half of the year.

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

Got it. And then just a point of clarification here. Versus the original plan, how much is in the run rate and how much is left that you can still take out?

**Jon Carpenter comScore, Inc. - CEO & Director**

For the -- you're talking for restructuring, Surinder?

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

That is correct, yes.

**Jon Carpenter comScore, Inc. - CEO & Director**

Yes. So I think we've -- through the first quarter, what would you say were -- we kind of identified everything...

**Mary Margaret Curry comScore, Inc. - CAO, Controller, CFO & Treasurer**

\$7 million as far as what we've actually taken from a cost perspective. I think we -- I think our updated range of where we think we're going to land is somewhere between \$10 million and \$15 million. So we've still got between \$3 million and \$8 million left.



**Operator**

(Operator Instructions) Our next question will come from Laura Martin of Needham.

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

So one of the things you've always had an advantage of, you have a big cost structure in the set-top boxes. And my question is, as linear becomes less important, can you give up some of the 75 million of 1 in 3 U.S. set-top boxes or get a lower price because their value is becoming less important over time as audiences move to CTV?

**Jon Carpenter comScore, Inc. - CEO & Director**

Laura, thanks. I think in some cases, our contracts contemplate minimum requirements on household deliverables. So some of what your question is yes, but it depends on the contracts. In many of our contracts, we also have access to additional rights beyond just what's coming in through the set-top box feed.

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

Okay. So you're paying for other things. Okay, that makes sense. And then I thought the slide that you have that breaks out like the growth in local versus digital, I thought was really helpful. And I guess my question is, is the downdraft in digital still that -- is the downdraft in Digital Ad Solutions, is that still the old media -- Comscore Media Metrix project -- product?

Or is there something -- because it looks like local is still growing and movies are still growing. Or is there something -- I sort of digress that we would have been really low now in that old Media Metrix product suite. So I'm surprised it's still shrinking 5% year-over-year. Is it still that product or other -- is that weakness leading into other products from the digital side?

**Jon Carpenter comScore, Inc. - CEO & Director**

Yes. So it's -- you're talking about the Media Metrix business, obviously, high 9-figure business. I think there is churn in some of the smaller clients for sure, no doubt about it. The clients that are more enterprise in nature are very sticky -- continue to be very sticky and rely on us heavily for digital measurement.

I think where we've historically augmented our digital offering is with some of the more kind of bespoke one-off custom deliverables in digital that complement the syndicated offering.

And I think really since the second half of the last year, that's really where we've seen downward pressure and softness. And that's definitely continued here in the first quarter. So anyway, so obviously, cookie deprecation in the mix there, too, complicates this further, which we try to address in the comments I made during the call.

**Operator**

I am seeing no further questions in the queue. I would now like to turn the conference back to Jon Carpenter for closing remarks.

**Jon Carpenter comScore, Inc. - CEO & Director**

Thanks, everybody, for joining, and we look forward to talking to everyone soon. Thank you.

**Operator**

This concludes today's conference call. Thank you all for participating. You may now disconnect, and have a pleasant day.

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