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SCOR.OQ - Q2 2023 Comscore Inc Earnings Call

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## CORPORATE PARTICIPANTS

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

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Jason Kreyer** *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

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

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

## PRESENTATION

### Operator

Good day, and thank you for standing by, and welcome to the comScore Second Quarter 2023 Financial Results. (Operator Instructions) And please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, John Tinker, Head of Investor Relations. 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, August 8, 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'll 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, Events & Presentations.

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

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

Thanks, John, and good evening, everyone. Thanks a lot for joining us to talk about our second quarter this evening. Our results in the quarter are solid, and while the end markets we serve continue to experience softness, particularly in the ad markets, our results across a number of areas in our business are encouraging. We delivered revenue growth of 2.5% over the second quarter of last year and saw sequential growth over the first quarter of this year. Local TV continues to show strength, and our digital business was up for the first time in 5 quarters, led by strength in our Activation product, which was up by over 30%.

As we've discussed previously, this team is focused on delivering scalable profitable growth, and in the second quarter, we printed adjusted EBITDA growth of 125% after adjusting for foreign exchange, clear signs that we're moving in the right direction. I continue to believe that our opportunity to drive meaningful growth and deliver value for our stakeholders is significant. And the challenges that our clients are faced with that include the

continued fragmentation of media from traditional channels to more digital programmatic channels, coupled with the proliferation of signal loss throughout the digital ecosystem that has created an audience addressability gap approaching nearly 70%; and finally, a lack of accountability across advertising that's fueling billions of dollars in waste. These are all problems that comScore is uniquely positioned to help solve.

Our audience intelligence footprint across digital, video and connected TV as well as web, mobile and linear is unmatched. And due to over 10,000 publisher integrations and the trillions of signals we collect, we have massive scale and a trusted methodology that is both solving the audience signal loss problem and helping close the addressability gap.

Until now, our massive scale has made comScore a stable, reliable audience measurement partner who's more granular and accurate than the competition. But the industry needs more than that in the age of signal loss, and that's why we're invested in making our data actionable.

Our AI-driven Predictive Audiences segment empower advertisers to maximize reach regardless of whether IDs are present or not. In fact, a recent case study that showed our AI-enabled Predictive Audiences product reached nearly double the incremental users versus ID-based segments. Signal loss isn't a someday problem. It's one that every advertiser is dealing with now, and comScore is unique in our ability to help them solve for it.

We also have the linear footprint that can provide both transparent and accurate reach and frequency to our clients, providing data that is 93% accurate to final posting data within 48 hours across all 41,704 ZIP codes and 210 local markets. Our depth in understanding audiences with precision in every market and ZIP code is valuable for advertisers who want to maximize reach and eliminate waste.

While you've heard me speak about our digital and linear data assets many times, we're finding new ways to use them to create value and solve problems for our clients. One of the things that I'm most excited about is the innovation and transformation I'm seeing when we bring our digital, linear and cross-screen capabilities together.

While we're still in the early innings here, results are encouraging. With best-of-breed measurement approaches in both digital and linear, comScore is positioned to make advertisers more efficient and to bring a new level of insight to the delivery of cross-screen incrementality. With our assets, clients can guarantee deduplicated reach across digital and traditional video channels optimizing in-flight campaigns in ways that help them eliminate wasted ad spend and inventory.

I want to be clear. We're committed to delivering products and solutions that help our clients solve the big problems and challenges facing their businesses. The product capabilities that we've talked about, coupled with the continued execution like we had in the second quarter, gives me confidence that we're focused on the things that matter most to our clients and our stakeholders.

With that, let me turn it over to Mary Margaret to discuss our second quarter results in more detail.

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

Thank you, Jon. Total revenue for the second quarter was \$93.7 million, up 2.5% from \$91.4 million the same quarter a year ago. Cross Platform Solutions revenue of \$41 million was up 3% from \$39.8 million in the second quarter of 2022, primarily driven by double-digit growth in local TV and the continued strength of our movies business, which grew 5% to \$8.8 million from \$8.4 million a year ago.

Revenue from Digital Ad Solutions of \$52.6 million was up 2% compared to \$51.6 million a year ago, primarily driven by an increase in usage of our Activation product. We also saw an increase in revenue for certain custom digital products as a result of higher deliverables for our enterprise customers.

As Jon mentioned earlier, the end markets that we're serving are challenged evidenced by recent earnings reports from some of our biggest clients and softer-than-expected upfront this year. We're certainly not immune to these macro factors, and these may have an impact on our business as we move into the third quarter.

Adjusted EBITDA was \$8.8 million, up 35% from the prior year quarter, resulting in an adjusted EBITDA margin of 9.4%. If you exclude the foreign exchange impact from adjusted EBITDA, this year's second quarter results of \$9 million is up 125% over the prior year. This result is a testament to our continued focus on cost execution. Our core operating expenses were down 4% year-over-year, with a large part of that due to lower employee compensation.

We are continuing to execute on the restructuring plan we put in place last year as evidenced by the restructuring charge of \$4.1 million we took in the second quarter, which is and will continue to contribute to lower operating costs as we move through the year. And we're not done yet. We're diligently working to transform our business operations and to simplify our tech stack to drive additional efficiencies in the latter part of 2023 and into 2024.

Regarding our full year guidance, we noted last quarter that there was pressure on the high end of our revenue growth range. Based on our current expectations, we're tightening our revenue guidance to the low end of the range with growth in the low single digits. For adjusted EBITDA, we remain confident in and are reaffirming the guidance we previously provided.

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

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

Before we wrap up, I 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've executed on or spoke about today would be possible.

Thanks to everyone on the call for joining us this evening. We've got a tremendous opportunity in front of us, and I couldn't be more excited about our growth prospects and the value we can create for our shareholders.

With that, operator, let's open it up for questions.

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## QUESTIONS AND ANSWERS

### Operator

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

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**Jason Kreyer** - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

And in the quarter you decided to delay the dividend payment, it looks like probably until the end of the year. Just curious if you can unpack that decision, why you delayed that, the benefits of that and maybe any near-term uses of those funds.

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

Jason, yes, thanks for the question. Yes, we -- as part of our ongoing conversations with our preferred shareholders around flexibility and freeing up capital to reinvest back in the business, they agreed to push the dividend out. They also agreed to give us some optionality in terms of how that was paid for in one of our earlier releases. We made that announcement as well.

All that just points to giving the company greater flexibility to execute the restructuring and transformation plan that's well underway. That's where the bulk of that investment is going toward, things like improving our tech infrastructure, making the investment in resources and engineering and analytics and shoring up our product capabilities so that we can continue to deliver on some of the things that I spoke about at the top of the call.

**Jason Kreyer** - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. Perfect. And then you've talked about Proximic over the last couple of calls. It seems like you're seeing good results there. Can you talk maybe more about what the vision is there? I would imagine it's not a meaningful contributor to results today. But is there a point in time where you expect that to be a more meaningful contributor?

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

Yes, it's certainly not an insignificant part of the revenue profile, and it's growing rapidly. I think we're just on the cusp of what that capability is when paired with our broader measurement solutions across both digital and linear. I think the pairing of the flywheel of insights and planning to activation to measurement, it just fits so nicely into the solution set that we're delivering for our clients. And I think we're at the tip of the spear in terms of the integration of what Proximic can do in terms of advanced audience segments coupled with advanced audience segments that we deliver in our linear comScore TV product and then, broadly speaking, what it can do to better position comScore digital more broadly in the wake of broader signal loss in the marketplace.

So I like the progress that we're making there on the product front, and our integrations that we announced in the second quarter are starting to -- excuse me, earlier in the first quarter have really kind of positioned us well here, which has contributed to some of the growth that we were able to unlock in the second quarter result.

**Jason Kreyer** - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

John, one more just in terms of clarification. Last month, we saw a deal struck between Comcast and Nielsen. I think they expanded their relationship, and that included some local markets. I was under the impression that you were doing a lot of the local market stuff for Comcast or at least for NBCU. Curious if there's any change with your relationship with Comcast or NBCU after that deal was struck.

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

No, not at all. I think, in fact, NBC has leaned in quite a bit in terms of them leveraging comScore in market for currency across their local suite. Let's remember, Nielsen has had that Comcast data for the better part of 5 years. And so for us, this wasn't a surprise that stated that they've had access to for, gosh, last handful of years easily. So our relationship with NBC is very, very strong, and we're pleased with the progress that we continue to make across not just local but other areas of their business in terms of helping them more broadly as it relates to cross-platform measurement capabilities.

**Operator**

Your next question comes from the line of Laura Martin of Needham.

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

You guys have done a great job of shortening the window between 2 weeks to, for now, 48 hours, and your accuracy at 93% is really impressive. However, a lot of your competitors in the marketplace are now doing real-time in-campaign measurements. Is that your next step? Do you have to get to that point in order to compete?

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

I think that the big difference is certainly in some of our digital products, where we've got the ability to deliver a lot closer to real time. But as it relates to in-flight linear optimization within 48 hours across all 210 markets, there's really nobody that stands up to that capability. And if you think about the ability within 48 hours to effectively be able to deliver as close to 100% accuracy to final posting, when you think about guaranteeing a buy or guaranteeing audiences against that, it allows our clients a tremendous amount of flexibility to optimize in real time. And then you start taking -- you start adding on the capability to drive incremental reach, leveraging that 48-hour optimization to extensions to digital, including connected TV. Do you want to add anything, Carol?

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

Just to say the tie to local and national is really important.

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

That's an excellent point. Carol's point is that our -- we've got a singular methodology, which is a big differentiator when we start talking about every single one of our markets rolling up to a national number. So it's not just the ability in all markets, but it's the ability to optimize within 48 hours on the national campaigns as well.

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

Okay. And then my second one is on the strikes. So you have this wonderful monopoly, my word, in the movie business, and it went through COVID, and I felt like it was coming back. And now we're in strikes for, depending on who you ask, anywhere from another 4 to 6 months. So the question is does this actually structurally hurt your movie income stream sort of forever. What's your point of view on that?

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

Yes. I mean it's unfortunate that we're in -- the industry is kind of going through what it's going through. As it relates to our business, we don't see an immediate impact to the financial profile of what our guide implies or even into next year. I think should the strike start to carry out for long periods of time, and that ultimately impacts production at some point in the future, that may bleed into renewals that are out in those years. But it's not a remainder of '23 or even a '24 kind of issue for us, our business at least for now. Certainly something we're watching closely.

**Operator**

And your next question comes from the line of Surinder Thind of Jefferies LLC.

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

Start with a question around the use of AI for kind of filling in the signal loss and enhancing the measurement techniques here. When you take a step back, how much of an advancement is this over previous data and analytics techniques? Like how should we think about the point of competitive differentiation here?

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

Well, I think if I -- thanks for the question, Surinder. I think you've got kind of 2 parts to that. You've got kind of AI as it relates to our predictive audience capability and then that product in and of itself, what is the differentiator in the market. I would say the simple explanation in terms of how we're differentiated for other kind of what I would consider more run-of-the-mill basic contextual audience activation plays is that we've got

a significant digital panel that gives us a tremendous amount of insight that allows us to get at the 70% addressability gap that exists in the digital ecosystem. That is audiences without IDs.

We leverage our panel to play a big role in our predictive audience capability, which is a big difference. No one else has got the size of the panel that we have nor would the economics of investing in something like that make a ton of sense for others. So that business benefits from the fact that we're grounded in our -- in the panel, in the measurement standard that comScore has always been, and we bring that benefit to the Activation business.

As it relates to AI, I think any time you think about AI, I think you have to start with the scale of the data that you have to train against. And I think that's where we've got a massive differentiator as it relates to at least other players in the measurement space, is that the scope of data that our AI capabilities have the ability to train from is a massive differentiator. And that extends to not just our predictive audiences, but if you think about planning and leveraging AI and planning to better inform outcomes when it gets to measurement, leveraging AI algorithms is a massive play that Jon Lieberman and his team are building out as it relates to our measurement capabilities leveraging AI.

So for me, the AI piece starts with the first question is what's your data set, what kind of scale do you have because that's what you've got the ability to kind of train from. And then given our size and scale, that's massive back data. That is massive kind of ongoing data from digital, from linear. And so I think that's our biggest differentiator when it comes to overall AI capability.

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

Got it. And then when I think about the cross-platform measurement more broadly and I kind of look over the revenue trajectory over about the last 6 quarters or so, relatively stable. Can you kind of unpack the different moving pieces underneath? Obviously, you're seeing strong double-digit growth in some areas. But any additional color on what the puts and takes are?

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

Yes. I think really encouraged by the momentum that we continue to build across our local capabilities and those local capabilities are, from my perspective, a real differentiator as it relates to how we deliver cross-platform and overall incrementality to our clients. So think about an advertiser that's running a campaign nationally across a suite of markets. Our local foundation allows us to take that campaign that's being run by an advertiser and highlight over or underperformance down to the ZIP code level. We can take that linear audience, suppress it, use it to inform better connected TV, purchase behavior through programmatic channels.

That cross-screen incrementality capability is a big differentiator, and it starts from kind of this local foundation that comScore has always been rooted in. And so I think we're just at the tip of the spear in terms of what our opportunity is on that front. But it's showing up in our local performance. It's showing up in our performance in aspects of our digital business, which grew for the first time in the last 5 quarters, really, on the backs of activation and some of the early wins that we're starting to get against what I just spoke about.

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

Got it. And then final question on -- you called out syndicated digital as a bit of a headwind. Any additional color there or how we should be thinking about it quarter-over-quarter?

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

Yes. It's still a significant business and an important part of I would think -- I say this to the team all the time that our syndicated digital business is probably more important now than it ever has been in the history, maybe going all the way back to the beginning in terms of signal loss that's happening across this ecosystem and our client penetration and our ability to work with them to surface their audiences in a world where signal

loss is proliferating, CPMs are getting completely depressed. Our digital business is really well positioned for future growth. And we're just -- it's -- we're just in the very, very, very early innings of what that looks like, and I expect you'll hear from us over the course of the next quarter on some of the things that we're doing with that asset as it relates to the industry more broadly.

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**Operator**

Thank you so much. And presenters, there are no further questions at this time. This concludes today's conference call. Thank you for participating, and you may now disconnect. Have a good day.

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

Thanks, everybody.

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