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Q2 2024 COMSCORE INC EARNINGS CALL

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REFINITIV

CORPORATE PARTICIPANTS

- **John Tinker** *Comscore Inc - Head of Investor Relations*
- **Jon Carpenter** *Comscore Inc - Chief Executive Officer*
- **Mary Curry** *Comscore Inc - Chief Financial Officer, Principal Accounting Officer, Treasurer*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Surinder Thind** *Jefferies - Analyst*

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Comscore second quarter 2024 financial results Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. (Operator Instructions) Please be advised that today's conference is being recorded.

I'd now like to hand the conference over to John Tinker, Head of Investor Relations. Please go ahead.

John Tinker *Comscore Inc - Head of Investor Relations*

Thank you, operator. Before we begin our prepared remarks, I'd like to remind all of you that the following discussion contains forward-looking statements. These forward-looking statements include comments about our plans, expectations and prospects and are based on our view as of today, August 6, 2024.

Our actual results in future periods may differ materially from those currently expected because of a number of risks and uncertainties. These risks and uncertainties include those outlined in our 10-K, 10-Q and other filings with the SEC, which you can find on our website or at www.sec.gov. We disclaim any duty or obligation to update our forward-looking statements to reflect new information after today's call.

We will be discussing non-GAAP measures during this call, for which we have provided reconciliations in today's press release and on our website. Please note that we will be referring to slides on this call, which are also available on our website, www.comscore.com under Investor Relations, Events and Presentations.

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

Jon Carpenter *Comscore Inc - Chief Executive Officer*

Thanks, everyone, for joining us this evening. Look, there's no way to get around the fact that 2024 has not played out as we had expected, and certainly frustrating for our stakeholders, especially our employees who bust their humps every day to deliver and that certainly weighs heavily on me. And as I know it does the rest of the leadership team.

Despite that frustration and the financial results here in the quarter, we are making progress with the turnaround of this company. The path we're on is one that will take us from being a company that was heavily reliant on syndicated revenue from products

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focused on legacy markets, undergoing tremendous disruption to a company that drives growth via transactional model tied to solving the rapidly growing problems that will define the future of media measurement.

It's fair to say that the pace of that turnaround isn't what we expected it would be at this point in the year. However, given what we're seeing in the market, we're convinced that we're moving in the right direction as we execute our playbook.

The pressure that we've seen on our clients and what I'd refer to as the legacy media segments with our syndicated digital and TV products being down in the first half, certainly helps point to the rough first half we've had, but it also highlights why the turnaround we're executing is the right one.

While much of the industry is obsessing over yesterday's problems, Comscore is unapologetically focused on the emerging areas that will enable the future of media and advertising measurement, areas where Comscore has a unique set of assets and capabilities to deliver durable value within a rapidly changing media environment.

We're seeing encouraging strength in our cross-platform offerings, specifically our Proximic business, and in terms of our cross-platform ad campaign measurement product, CCR. The pace of of adoption isn't accelerating as quickly as we had hoped or as quickly as we needed it to, to offset some of the weakness we see in certain parts of our traditional business. But while we fully expect CCR to ramp up, as we move through the back half of the year, it's clear that the time line for that ramp is going to look a bit more similar to the activation business when we integrate a new platform than what we had originally anticipated.

To give you an example of what I mean by that, we launched our Predictive Audience segment as part of Proximic in a major programmatic platform in May of 2023. Our first month with the product in that platform, we saw a relatively small revenue bump, which remains the case for several months before it started to scale meaningfully.

Today, the monthly revenue from Predictive Audiences as part of Proximic in that platform is more than 100 times those early months, and we're now closing in on nearly $1 million per month in that one platform alone.

I bring that up as an example because there are some significant parallels to CCR being integrated into these same platforms. In both cases, we're integrating value-added differentiated products into some of the most important channels within the programmatic ad ecosystem.

I'll have more to come. But with that, let me just turn it over to Mary Margaret here to speak about the second quarter results.

Mary Curry ***Comscore Inc - Chief Financial Officer, Principal Accounting Officer, Treasurer***

Thank you, Jon. Total revenue for the second quarter was $85.8 million, down 8.4% from $93.7 million the same quarter a year ago. Content and ad measurement revenue of $72.2 million was down 6.7% from 2023, primarily due to lower revenue from our syndicated audience offering.

As Jon mentioned earlier, the pressure that our legacy media clients are under has created headwinds for our syndicated offering, and the impacts have been felt most notably in our national TV and syndicated digital products.

Our movies business remained solid in the second quarter with revenue growth of 5% over the prior year. Cross-platform revenue did decline in the second quarter, primarily driven by a decline in CCR revenue due to a pause in usage with a large enterprise client, while we work to integrate across their ad platform.

The CCR decline was predominantly offset by growth in Proximic revenue, which also came in slightly lower than we expected. Proximic is integrated inside Oracle's ad platform, and we benefit from the campaign flowing through there, which significantly reduced in number during Q2 when Oracle announced they're shutting down their ad business.

As Jon will highlight later, we view this as a short-term setback that bigger picture should be another revenue catalyst for Proximic. Research and Insight Solutions revenue of $13.6 million was down 16.5% from 2023, primarily due to lower deliverables of custom digital solutions and less products as a result of the pullback that we've been seeing on discretionary ad spend from certain clients.

Adjusted EBITDA for the second quarter was $6.9 million, down 22.8% from the prior year quarter, resulting in an adjusted EBITDA margin of 8.1%. Our disciplined cost execution, fueled by the restructuring efforts we've made over the past couple of years, allowed us to maintain a reasonable adjusted EBITDA margin for the quarter, even though revenue came in lower than we expected.

Our core operating expenses in the second quarter were down 6.1% over the prior year. As we continue to focus on operational efficiency, we're also investing in new products and capabilities, including enhancements to existing products, upgrading our tech

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stack and providing faster data delivery as well as some promising new areas, which Jon will speak to shortly.

Although we're optimistic about where we're headed, the reality is that 2024 hasn't lived up to our expectations. Given the roughly $13 million of revenue decline we saw in the first half of 2024, coupled with what we expect to be continued pressure on our syndicated audience offerings in the back half of the year, along with our expectation that we'll see further softness in revenue from our more bespoke custom offerings in the coming months, it is necessary for us to reset expectations for the remainder of 2024.

Based on our current expectations, we are revising our full year revenue and adjusted EBITDA guidance. We now expect full year revenue for 2024 to be between $350 million and $360 million, which is a decline of 3% to 6% over 2023. As Jon mentioned earlier, the slower-than-expected pace of CCR scaling is one driver of this change, which has delayed some of the revenue growth needed to offset the impact of the weakness we've seen from our traditional media clients.

As such, we expect revenue for the third quarter of 2024 to be down 4% to 6% over 2023. However, we do expect the revenue decline to moderate towards the end of the year as revenue from Proximic and CCR ramps. Given these lower revenue expectations, along with the need to make investments in areas of the business, where we feel we have the most opportunity for growth, we're now targeting a minimum adjusted EBITDA margin of 10%.

Finally, before turning it back to Jon, I want to take a moment to give you an update on our progress, as we work to strengthen our balance sheet, where we've made significant progress since our last earnings call. In conjunction with the extension of our credit facility in May, we paid down $6 million of our outstanding balance, leaving $10 million on the balance sheet. We're currently evaluating alternative financing options for the company.

We've also paid approximately $12 billion towards our restructuring plan efforts over the past couple of years. With that plan now largely complete, we do not expect any significant related cash obligations going forward. You may have also seen that we reached an agreement with our preferred shareholders in July to issue additional Series B preferred shares in exchange for the cancellation of the 2023 and 2024 accrued dividends, which totaled approximately $33 million, and we're accruing at a penalty rate of 9.5%.

The balance was canceled an effective conversion price of $49.44, well above our current trading price and allowed us to return to our standard dividend rate of 7.5%. We also received a credit against the Series B special dividend threshold for this issuance, resulting in a current threshold of approximately $47 million.

Finally, we've paid down nearly all of the contingent consideration related to our 2021 acquisition of Shareablee, which was due and payable over three years from the date of the acquisition. Our final payment will be due at the end of 2024. I'm pleased with the progress we've made here, but also know that there's plenty more to be done. With some of these cash obligations now out of the way, we plan to focus our cash flow on the things that will most effectively and efficiently drive growth.

With that, I'll turn it back over to Jon to give his thoughts on our longer-term outlook.

Jon Carpenter *Comscore Inc - Chief Executive Officer*

Thanks, Mary Margaret. Looking ahead, I'm confident in the direction we're taking the company as we target a return to growth in the coming quarters. We're focused on solving the biggest, fastest-growing problems facing the market, and we're already seeing tangible evidence that we're making real progress. The solutions that we're taking to market here require new ways to think about things, both for Comscore and for our clients. And that kind of change does take time. As we look to the second half of 2024, and as Mary Margaret mentioned, we expect that we'll see the rate of decline slow as we move deeper into the second half.

And looking specifically at our cross-platform products in the second quarter, we did see a few important things to point out. First, we introduced a comprehensive cross-platform YouTube audience measurement that includes desktop, mobile and connected TV to a major milestone with an important client.

Additionally, we've integrated CCR under the Trade Desk, putting our solution for cross-platform advertising measurement into one of the most important channels in the programmatic ecosystem. Finally, our Proximic business has made significant strides with major holding companies with multiple preferred partnerships in the works, and you'll see these announcements on this front in the very near future.

We've got great momentum building behind this turnaround. It's possible that if we see this momentum continue and accelerate a bit that we could see a return to growth as early as the fourth quarter of 2024.

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To give you some more color around that momentum, we currently have 5 of the top 10 auto brands in the US, leaning in to onboard our cross-platform ad measurement product, where our one-of-a-kind market-by-market view of campaign delivery is incredibly impactful for national advertisers whose businesses depend on their campaigns driving actions at the local level.

Oracle's announcement in the second quarter is having a negative impact on Proximic revenue in the short-term. However, big picture, it represents a significant opportunity for us. In the aftermath of that announcement, we've seen predictive audiences start to gain additional traction and we've also seen clients look to establish more direct relationships with us for our data, in some cases, moving Comscore from a wholesale relationship with our clients to direct relationships, which we fully expect will drive accelerated revenue.

We'll have some other announcements about significant developments for Proximic in the near future as well, and I'm excited by the progress we continue to make in this part of the business.

Moving forward, as we look at how we drive syndicated audience value, we're seeing that it's not by chasing problems in the past, but it's by leaning into Comscore only capabilities to solve the emerging problems that are facing media companies today.

This will include a number of new products and services, which we expect to release over the next few quarters. They include things like a new offering that provides insights into consumers' expanding usage of AI tools and Comscore's ability to measure that.

We also plan to release an omnichannel content measurement offering, which will help clients move their planning out of silos, take advantage of the holistic view of audiences and platforms that only Comscore can provide.

And finally, the Comscore Watch Report, which will provide both a national and market-by-market view of the consumption of ad-supported media spanning broadcast, cable and streaming.

We know we've got a lot of work left to do, and our teams are innovating and delivering cross-platform solutions that meet our clients' most pressing needs. We're intent on moving quickly as we continue this turnaround and return the company to growth.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Surinder Thind, Jefferies.

Surinder Thind *Jefferies - Analyst*

Thank you. Just a really big picture question here. Given all of the changes and the challenges in the legacy business, what really is the path forward here given that the newer products that you're focused on are much more part of the business at this point?

Jon Carpenter *Comscore Inc - Chief Executive Officer*

Hi Surinder, thanks. I mean big picture, we're focused on areas of where comScore has got significant opportunity, and that's going to continue to be in our cross-platform capability and building out the solutions that our clients are asking us for, and that includes expanding CCR integrations.

It includes our cross-platform, content planning product that I mentioned, and it includes continued investment in sales and product development inside Proximic, and that's where we're going to continue to focus the lion's share of our investment, because that's where we see the most significant growth going forward as we look out over the early the remainder of this year and certainly, they're a part 2025.

Surinder Thind *Jefferies - Analyst*

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But I guess from a headwinds perspective, what's the risk that these headwinds remain material for a significant period of time and just masking the other parts of the business. I guess that's kind of what I was trying to get at. And are there maybe strategic alternatives or options that you can think about, for example, the movies business or anything else where it may be able to separate out some of the parts of the business?

Jon Carpenter *Comscore Inc - Chief Executive Officer*

Yes. I understand the question. I'm not going to comment onsome of the strategic points that you mentioned . If we've got an announcement to make, we'll certainly make that available. But I think when we look at the balance of this year, what we think about 2025 as it relates to the traditional businesses, outside of custom, which does get choppy, and in the guide, we've really stripped out any kind of risk to account for any unknown in the custom business in the guide.

But as it relates to the traditional products, TV, in digital, I think by the time we get to the end of this year, we'll have revised a lot, I would say, churn that we've seen in the digital product, we'll have reversed some of the big major renewals that we have this year and that we had in parts of last year. So just in terms of the visibility to that side of the business as we exit, certainly the third quarter and the early parts of the fourth quarter, we've got pretty good line of sight into what that -- how that business kind of stabilizes itself.

Surinder Thind *Jefferies - Analyst*

Got it. And final question, just you kind of gave an example of the ramp in Proximic and then you kind of transition that to commentary around CCR. How should we be thinking about that? Is that -- are we measuring that in quarters or how should we talk about where you want to be at a certain point in the target?

Jon Carpenter *Comscore Inc - Chief Executive Officer*

Yes. I mean I think what we've learned here with CCR is that, we're integrating with some very big platforms. And much of the time line that we're talking about here is not always in our control in terms of the pace with which these things start to become visible inside those platforms.

I think we can look back and learn from Proximic, and that was the example that I used, where it took some time. We're now 15 months into that integration. And as I mentioned on the call, we're doing over $1 million a month in one platform.

And looking back on it, it took 3 to 6 months to really start to see meaningful momentum build. If you look at where we are with CCR, for example, The Trade Desk, which is one that we've talked about publicly, it really didn't get into the platform until the early part of July, and that was certainly delayed from when we had initially expected it to be. But that gives you a sense for CCR is still in the very early innings inside that platform specifically.

And so, I think we're talking about months and quarters as these things start to get scale, we tried to account for that in terms of resetting our expectation for the growth that we can count on from that specifically in the balance of the second half.

Surinder Thind *Jefferies - Analyst*

Okay. That's appreciated. Thank you.

Operator

(Operator Instructions) I'm showing no further questions in queue at this time. I'd like to turn the call back to Jon Carpenter for closing remarks.

Jon Carpenter *Comscore Inc - Chief Executive Officer*

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Okay. Thanks, everybody for joining. I appreciate everyone dialing in to the call, and I'm sure we'll be talking to many of you shortly. Thanks.

Operator

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

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