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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the comScore Fourth Quarter 2022 Financial Results Conference Call. (Operator Instructions) 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.

John Philip 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, February 28, 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.

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've 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 presentation -- Events and Presentations. I'll now turn the call over to comScore's Chief Executive Officer, Jon Carpenter. Jon?

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

Thanks, John. and good evening, everyone. There have certainly been plenty of changes taking place in the environments where we compete, especially over the last year or so. And when I look back on the last year and in particular, the last 7 or 8 months or so since I've been the company's CEO, we've continued to make changes to comScore to better position our company for profitable growth and to better solidify the comScore offerings for the future, and I'm proud of the progress we are making.

It starts with building out a world-class team, and we've done that by adding to our already talented team and have added Greg Dale as our Chief Operating Officer; Mary Margaret Curry as our Chief Financial Officer; along with many others that ladder throughout the organization as a result of those changes, including the addition of Steve Bagdasarian, a very talented digital executive who we're excited to have lead Growth and Business Development for comScore.

In addition, we made a bunch of really great progress executing on some key product deliverables that are super important to our growth going forward. We expanded key currency deals, delivered 48-hour TV data in every market. We're now the only measurement company to have this capability. And we rolled out the first major update to our digital product in many years. We launched innovation in CCR, where we are now able to deliver a cross-platform product with display and video, across desktop, mobile, linear and CTV all in one report.

Our comScore TV product now includes millions of virtual MVPD households ensuring our product offering continues to capture all the ways in which we, as consumers, are engaging with content, including linear TV content, which commands more than 55% of the viewing and still a significant piece of the total advertising spend. And on top of it, we delivered solid results. We grew our top line and delivered

$376 million of revenue that yielded $37 million in adjusted EBITDA and our highest margin rate in 5 years.

We're focused on execution, building on our momentum, and I'm more excited than ever about what's ahead. Before we get into 2023, I'll let Mary Margaret jump in and take us through more specifics on 2022.

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

Thanks, Jon. As Jon just mentioned, we had a great year and achieved growth in both revenue and adjusted EBITDA for 2022. Revenue for the full year was $376.4 million, an increase of 2.6% over $367 million in 2021. Adjusted EBITDA was $37 million, up 16.1% from $31.9 million in 2021, resulting in an adjusted EBITDA margin of 9.8%.

When we look at revenue growth by Solutions Group, Cross-platform Solutions revenue grew 13% year-over-year from $145 million in 2021 to $163.9 million. This revenue growth was driven in large part by our local and national TV businesses, which grew nearly 26% and 13%, respectively, over 2021. We also saw growth from our movies business with revenue of $33.9 million, up 10.8% from $30.6 million in 2021 due to a rebound in the business as theaters reopened following the pandemic.

Revenue from Digital Ad Solutions was $212.5 million, down 4.3% from $222 million in 2021. The decline was primarily driven by a few factors. In 2021, we recognized revenue related to a multiyear contract for digital measurement in Europe that did not recur again in 2022. Additionally, our Activation business was down nearly 15% from 2021, which we really started to see playing out late in the second quarter as the broader advertising market continue to soften. We also saw a bit of pullback during the last half of the year in our custom digital solutions, which tend to be discretionary and more bespoke in nature.

We mentioned these trends in last quarter's earnings call, and you'll see that they've continued into the fourth quarter as we review those results. Total revenue for the fourth quarter was $98.2 million, up 1.8% from $96.5 million in the same quarter a year ago. Adjusted EBITDA was $12 million, down 3% from $12.4 million a year ago, resulting in an adjusted EBITDA margin of 12.2% for the quarter.

Looking at the fourth quarter revenue growth by solutions group, Cross Platform Solutions revenue of $42.8 million grew 15.4% from $37.1 million in the fourth quarter of 2021. This growth was again driven by double-digit growth in our local and national TV businesses. Growth in our movies business began to level off in the fourth quarter, growing 1.8% year-over-year to $8.6 million since the majority of movie theaters have reopened in the fourth quarter of '21.

Revenue from Digital Ad Solutions of $55.4 million was down 6.8% compared to $59.4 million a year ago. As mentioned before, this decline was primarily driven by the softening of the advertising market, which impacted both our Activation business and our custom digital solutions. We expect that macroeconomic environment may continue to impact revenue from these products as we move into 2023.

Turning now to our operating expenses for 2022. In line with our expectations from last quarter's earnings call, our core operating expenses for the full year of $371.9 million came in flat compared to 2021. Looking at our core operating expenses for the fourth quarter, you can see the decline we'd expected as a result of our restructuring efforts announced in late Q3 as well as our continued discipline around cost management.

Our core operating expenses came in at $87.9 million in the fourth quarter, down 5.4% from $92 million in the prior year. We're encouraged by the momentum that we're carrying into 2023 as we continue to focus on bringing more to the bottom line.

With that, I'll send it back to Jon to talk about where we're headed.

Jonathan Carpenter *comScore, Inc. - CEO*

Thanks, Mary Margaret. Today's consumers are cross-platform, viewing whatever they want, whenever, wherever and however they want, which means as someone who leads a company that's trying to keep up with all the ways in which today's connected consumer is engaging with content and measure it completely in accuracy with speed and in ways that are easy to deliver, it's certainly a massive task.

For one, the traditional way in which viewing happens largely via pay TV is definitely facing headwinds. That said, there were more than 80 million households with a pay TV subscription in 2022. While that's under pressure, by 2024 we're still talking about more than 75 million households or nearly 60% of the U.S. based on industry projections. This stat alone is one of the biggest reasons why comScore is differentiated.

We have built the biggest, aggregated views of linear TV audiences across the largest portion of the viewing audience in the measurement game today, and man, we're glad we did. Others have tried for years without success. Others can certainly buy the raw material, but only comScore to date has figured out how to stitch it together and create a viable, currency-grade offering. Furthermore, not all linear TV viewing is shrinking. In fact, parts of it are growing and growing rapidly, with the rapid growth in virtual MVPDs. More than 11% of U.S. households had a virtual MVPD subscription last year, and that's expected to accelerate.

At comScore, we see this trend and as of January, have included virtual MVPD viewing in our comScore TV offering. This viewing, along with traditional linear viewing is available on our comScore TV product today in all markets, available nationally and delivered within an industry-leading 48 hours. We also recognize that Connected TV viewing is a big piece of how we as consumers engage with content. And as more of that viewing becomes digital, we believe more of the ad spend will start to transact even more programmatically.

In addition to our offerings on the linear side, we have a massive footprint on the digital side as well. To put this in perspective, we measure viewing on more than 2/3 of all connected TVs in the U.S. That viewing includes direct integrations with many of the major D2C providers across media as well as ACR technology. Our direct integrations with publishers give us a more accurate, stable and reliable view of the Connected TV viewer.

As a result of the shifting ways in which consumers are engaging with their content across devices and platforms, keeping up with how to measure all of that across content and ads has become increasingly more complex. Clearly, traditional means of measuring the activity no longer hold up and media clients are demanding more. From our perspective, solving the challenge requires a couple of key things. First, scale. That is you have a scaled view of audiences across devices and across platforms.

Second, interoperability, are you easy to work with and workflow and platform agnostic and finally, speed. Is your offering capable of producing a result in a reasonable amount of time that is actionable. At comScore, we're solving all 3, which ultimately allows us to provide our clients with the most complete view of audiences regardless of device or platform for both content and ads.

As I've alluded to throughout my comments, it all starts with our unmatched audience scale. We're measuring 1-in-3 U.S. households through our set-top box integrations. And through our partnerships, we have visibility into Connected TV viewing across more than 150 million screens. We have built a product that is differentiated. Not only do we have the raw material, but we've built currency-grade products that can be relied upon to transact billions of dollars in advertising. These are the inputs, if you will, into the most complete view of audiences in the market today.

Again, having the raw material is different than knowing how to aggregate it and turn it into a product offering. At comScore, we've done both, which means, from our perspective, we are the company that is best positioned to help our clients solve the challenges with today's measurement offerings.

And we're doing it in a massive, addressable marketplace. The industry is projecting more than $400 billion of U.S. ad spend by 2024, with 2/3 of it addressable in nature. It's clear to me that the future is all about audiences, whether you're creating content or activating advertising against that content, you're trying to reach audiences. And at comScore, we believe we have the most complete view. It's not far-fetched to imagine a world in which all advertising is transacted digitally and that it will be done even more programmatically.

Our ability to leverage our audience scale, be interoperable meaning we're platform agnostic to how our clients want to transact is a critical part of our strategy, and we have a massive digital footprint that can and should fuel the programmatic ecosystems. All of this adds up to meaningful short-, mid- and long-term growth shoots, including currency expansion across both local and national, which ladders nicely to our cross-platform offerings.

We're also delivering on privacy for digital and programmatic solutions. And ultimately, what we've built extends beyond the current client base into new channels, think gaming and retail media networks. I'd like to think of an example of a national brand advertiser who's running a linear campaign across the top markets and a retail media network who are saying, hey, we can provide additional incrementality and performance if you ship part of the budget. Our data, the comScore footprint, across all markets can help that advertiser understand whether or not they actually got the incremental reach they were looking for and give them insights on how to adjust their campaign mid-flight across markets. That's an example of the power we've built.

Look, retail margins are super thin and the role that measurement can play in helping determine the effectiveness of the dollars put to work can be incredibly impactful. On currency expansion, we've talked about our opportunity here starting with local. We've been crystal clear that this is a big opportunity. We grew by more than 25% in 2022 and have an installed base across the vast majority of the major station groups that command the bulk of local TV advertising.

We estimate that just right now 20% of it is transacting solely on comScore as the currency, which means there's plenty of greenfield here for us to continue to grow, and we are laser-focused on unlocking that opportunity. Our priorities and growth drivers remain clear and we know what we need to do. Our path forward this year is consistent with what we have been sharing in the last couple of quarters, and we feel great about the momentum that's being built.

We clearly talked a lot about our local story, but the reality is our capabilities extend far beyond local. The strength of what we've built supports our national business as well. In 2022, this part of our business grew 13%. We work with nearly all of the major network players, 85% of them subscribed to our offerings today. Similar to local, our national strategy looks very similar and our opportunity is equally as large.

I look forward to sharing many of the exciting things that we have in the works across our client groups as we go throughout 2023. There's no doubt a lot of focused execution and product development is well underway that is in support of what we're talking about today. Our priorities are clear, the growth opportunity over the next 12, 18, 24 months is significant, and we're laser-focused on delivering for our clients and our shareholders.

So look, our focus in '23 boils down and it's pretty simple, and it's building off of what we've done to date. It starts with currency and cross-platform expansion that builds on the foundation we have with our local and national clients and the progress that we've made. Second, we're also focused on growing our digital business, which includes accelerating our digital video and programmatic offerings. And finally, there is ample opportunity for us to expand our offerings to new channels, where we can engage the segments of the market that aren't directly thinking about traditional measurement at all but care deeply about reaching their target audiences across screens and platforms.

So before I hand it over to Mary Margaret, from our vantage point, comScore is the only company with a complete view of audiences that is able to power the future of audience-based advertising and we are heads down focused on delivering and monetizing against that capability. With that, let me turn it over to Mary Margaret, who will share the financial profiles we're keying up for 2023. Thank you.

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

Thanks, Jon. Based on current trends and expectations, we believe our total revenue for 2023 will grow by low to mid-single digits over 2022. As Jon just laid out, there are a number of factors driving growth in 2023, including our continued focus on currency expansion in local and national TV, the return of consumers to movie theaters following the pandemic, the continued growth of our predictive audience products as well as cross-platform and new channel opportunities. All of these are anchored by our proven, syndicated revenue model that provides a predictable, repeatable revenue stream.

For adjusted EBITDA, we expect the margin rate to be better than it was for 2022, crossing into the double digits for 2023. We believe this will put us on a path to meet our goal of exiting 2023 with a 15% quarterly margin run rate, enabling us to generate free cash flow to reinvest in the business. With that, I'll turn it back over to Jon for closing remarks.

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

Thanks, Mary Margaret, and thanks, everyone, for joining this evening and online. 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'll create for shareholders. Thank you. And operator, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Laura Martin with Needham & Company.

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

So my first one, Jon, is about time. So you guys have gone from like 2 weeks to 48 hours, which is a big job, and that's really impressive. My question is, is it enough? Because a lot of your new competitors are real time in the midst of the ad campaign. So do you need to continue to shorten that window?

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

So we'll look to continue -- thanks for the question, Laura. So look, we're always going to look for ways to continue to be faster. But in terms of delivering things like our comScore TV product in all markets within 48 hours, we've gotten pretty great positive feedback on that from our clients. And we believe that, that generally fits the need of the vast majority of our clients. But of course, we're always going to be looking for ways to improve speed, but we love the position that, that 48-hour delivery puts us at in market with the vast, vast majority of our client base.

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

Okay. And then my second. Sorry, go ahead.

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

One thing to add is some of the like adjusting in-campaign ad measurement is very different from thinking about ratings like meeting real-time ratings is sort of a little different to wanting to monitor a campaign. So I think on the ad side of our business, certainly taking a lot of real-time approaches to that. But really on the rating side, it's just a little bit of a different animal. So getting -- to Jon's point, getting the right speed for the right product and use case.

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

Okay. And then my second question is on product fee. So I think it's cool that you're adding ratings of the virtual MVPDs into the product, but it feels really late. And that sort of brings me to a question for you, Jon, which is -- it feels like product development at this company, it's not been a product-first company, it feels like. So am I wrong about that? And if so, like how close are you to getting to the speed of product design and speed to market that you feel you're [competitive] (added by company after the call).

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

Thanks, Laura. Greg, do you want to take that?

Gregory T. Dale ***comScore, Inc. - COO***

Sure. For comScore, one of the changes we're making with the management team that we've brought in is really getting us back to that product first and product-led mentality. I think in the past, comScore was known for innovating and really driving kind of changes in the marketplace. And that's a focus for us as we move forward in having the needs of the market and what we need to be driving from a product perspective come first. So I think you're going to see more of that and those types of changes coming as we move forward.

Operator

Our next question comes from Jason Kreyer with Craig-Hallum.

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

Jon, I wanted to go back to that 24-hour topic. So how does the benefits of this manifest in the business? Like does this allow you to do a better job of bringing in new customers? Or is this going to help with client retention? Or are there some other benefits that maybe we're not thinking about?

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

Yes. Thanks, Jason. I mean, forgive me for the simple answer, but it really is all of the above, right? Speed matters across the board. And so everything that you just pointed out it benefits across the landscape for us from a client perspective.

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

And then maybe one for Mary Margaret, but on the expense side of things. Just as we move from Q4 into '23, should we assume there are incremental cost reductions from here? Or was most of that already absorbed in Q4?

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

Yes. I think we're still looking at that. That's still a focus for us moving into '23. I think if you look at the restructuring plan that we put in place in Q3 of 2022, there's still a bit of work left to be done there. We're also, as we're moving forward, looking at ways to strategically continue to manage our costs, which are going to help us get to that increased adjusted EBITDA margin for 2023.

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

Okay. And I want to sneak in one last one here for Jon. Just wondering if you can talk about the fundamental trajectory you're seeing in the business today? And then how you feel about your -- the ability to satisfy existing obligations on the balance sheet as you move forward over the next couple of years?

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

Jason, just to make sure I understand. Your first question is just around the growth profile of the company. How do I feel about that, except the one being about the balance sheet.

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

Yes, it's all kind of wrapped together. I mean it seems like fundamentals are starting to trend a little bit more positively. As you look at the obligations you have against the preferred stock, how do you feel about those options that you have today?

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

So look, I feel like we've got a better run company today than we've had in a long, long time. We are laser-focused on growing both the top line as well as creating a more profitable company going forward. And both of those things fuel cash flow generation that's going to go back into the business and allow us to reinvest in areas where we want to invest that are going to move us forward. And so I feel, overall, I feel really, really bullish on where we've come from and where we're headed.

Operator

Our next question comes from Matthew Thornton with Truist.

Matthew Corey Thornton ***Truist Securities, Inc., Research Division - VP***

Maybe 2, if I could. Going back to the prior conversation around the way to think about linearity around margins in '23, I think you talked about aspiring to that 15%-plus exit rate for the year. Obviously, we just did about 12% in the fourth quarter. Should we extrapolate the [12%] (corrected by company after the call)? Or is there some linearity that we need to think about from a cost and margin perspective as we think about '23.

And I guess just related to that, Mary Margaret, you talked about free cash flow in '23. I think you alluded to that being positive. Is there some type of conversion that you're working towards when we think about adjusted EBITDA conversion to free cash flow. I guess that would be the first question.

And second question, maybe for Jon. there's a lot going on in the competitive landscape, and you alluded to that as well. You've got probably your largest competitor is now the private competitors out there face a very different capital environment than where we were maybe 12 or 24 months ago. So I guess the question there is, what are you seeing just in terms of change in behavior from competitors given the new environments that they are in.

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

Why don't I take the first one and Mary Margaret, you can jump in on -- yes, look, from a competitive standpoint, we like the way that our company is positioned. From a competitive standpoint, we view ourselves as a player that's got the most complete view of audiences across this ecosystem, which sets us up incredibly well when you start thinking about where the future of this is all headed.

So from a competitive standpoint, we're always going to bump into other players in the space that have got solutions. But we like the position that we're in and the completeness of our offering, I think, is what really differentiates us from the competitive set from where we sit. So that's what I would say about that. Just a comment on the margin profile for the business. Look, I think if you look at 2022, the adjusted EBITDA kind of ramped throughout the year. Our guide on the year fully contemplates kind of a similar trajectory. I don't know, Mary Margaret, if you want to add anything to that, to round out the discussion.

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

Yes. No, that's right. I think that's right. I think you should probably look at historical trending. I think that is true that just because we ended the year with a 12% margin in Q4 doesn't -- that's not where we're likely going to start for Q1 just based on how our -- cycle by cycle and timing of our business operations.

And then as it relates to generating free cash flow, we are working towards the goal of getting to a place where we are generating a decent amount of free cash flow to unlock that cash flow to be able to reinvest in the business. We had a bit of free cash flow in 2022 that went towards those restructuring efforts that we put in place in Q3, during Q4, it's critical for us to have moving forward, which is why we're so focused on getting to that 15%, that goal of that 15% run rate by the end of 2023.

Matthew Corey Thornton ***Truist Securities, Inc., Research Division - VP***

Okay. That's helpful. Maybe I'll sneak one more in and then I'll jump back in the queue. The cost -- Jon, you talked about macro impact on the business, particularly around some of the transactional and project-based revenue. Can you remind us that the cost rationalization program, did that have any impact on revenue? I mean, meaning were there product lines that were removed or markets that were removed that we should think about when we think about the long-term kind of revenue base? Anything you'd call out there.

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

No. I mean, the actions that we've taken, not impacted the top line. And the way that we're approaching this as we go throughout the year is it's really about allocating the resources and optimizing the tech architecture and infrastructure around the priorities that we've laid out, and that's where we're focused. That's where our cost initiatives are centered around so that we can scale this thing more profitably and the actions that we've taken are aligned to that and the stuff -- that the actions that you'll see throughout 2023 will be aligned with that kind of broad objective.

Operator

Our Next question comes from Surinder Thind with Jefferies.

Logan Schuh ***Jefferies LLC, Research Division - Equity Associate***

This is Logan Schuh on for Surinder. Going back to your 2023 guide of low to mid-single digits, I was just wondering how the growth cadence looks throughout the year, if it's going to be more second half or kind of consistent throughout?

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

Yes. I think that you'll see more weighting of that growth in the back half of the year for sure.

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

And I would just -- the thing that I would add there is if you think about the ad-supported side of our business, it tends to scale throughout the year, right, where you've got at least from a programmatic and digital standpoint, a quieter period and say, the first quarter through early part of the second quarter, and that side of the business will start to ramp throughout the year.

Our syndicated TV products tend to be pretty stable throughout the year. What drives kind of the ebbs and flows through the quarter would be custom work that we would be delivering on behalf of clients, and that can create some ebbs and flows quarter to quarter. But otherwise, the syndicated TV offering is pretty stable throughout the course of the year versus the digital stuff that has a ramp to it just based on the cyclicality in the ad market.

Operator

Thank you. And that concludes our Q&A session. I'd now like to turn the call back over to Jon Carpenter for any closing remarks.

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

All right. Well, look, thanks, everybody. We really appreciate the time, and we look forward to talking to you all soon. Thank you.

Operator

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