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AOL - Q3 2014 AOL Inc Earnings Call

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Co. reported double-digit revenue growth for 3Q14.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to AOL's third-quarter 2014 earnings conference call. My name is Frances and I will be your coordinator for today. At this time, all participants are in a listen-only mode. Later, we will facilitate a question-and-answer session. As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to Mr. Eoin Ryan, Senior Vice President of Investor Relations and Corporate Communications. Please proceed.

Eoin Ryan - *AOL Inc. - SVP of IR and Corporate Communications*

Good morning. Thanks, Francis and everyone for joining us for our third-quarter 2014 earnings call. You can find our Q3 earnings press release and accompanying slides and trending schedules on our Investor Relations website. On the call with me today is our Chairman and CEO, Tim Armstrong, and our Chief Financial and Administrative Officer, Karen Dykstra. We will make some brief remarks on the quarter and our overall strategy, and we'll then open it up for Q&A.

But first I'll remind you that during this call, we may discuss our outlook for future financial and operating performance, corporate strategy, marketing and product plans, technology improvements, cost initiatives, planned investments, as well as our expectations for the economy and online advertising in general. These forward-looking statements typically are preceded by words such as we will, we expect, we believe, we anticipate, or similar statements.

These forward-looking statements are subject to risks and uncertainties, and our actual results could differ materially from the views expressed today. Reported results should not be indicative of future performance. Some of these risks have been set in our annual report Form 10-K for the year ended December 31, 2013, filed with the SEC. All information discussed in this conference call is as of today November 6, and we do not intend and do not undertake any duty to update in this information to reflect future events or circumstances.

We will also discuss certain non-GAAP financial measures, including adjusted OIBDA and free cash flow. I'll refer to the press release on the Investor Relations section of our website for all comparable GAAP measures and full reconciliations. Finally, from time to time we post information about AOL on our Investor Relations website at IR.AOL.com and our official Corporate blog at blog.AOL.com.

And with that, I will turn it over to Tim.

Tim Armstrong - *AOL Inc. - Chairman & CEO*

Thanks, Eoin and thanks, everybody joining the call. I'm very pleased with the progress at AOL. This is our seventh consecutive quarter of revenue and OIBDA growth.

During Q3 we saw strong growth in consumer engagement and in the most important areas within global advertising. Our strategy has been consistent, and we have built a Company that has significant platforms in content, video, mobile, and programmatic advertising.

We told you on our last call that we wanted to be both an excellent operating Company and partnership Company. Today, AOL is leaner, stronger, and more focused, and that allows us to operate more effectively and to execute more meaningful partnerships. We see a clear opportunity gap in the market, a market that will be transformed in the next two to three years, and we are building AOL to go directly after the billions of connected consumers and the 500-billion-plus spent annually on media.

In 2010, our strategy of connecting great content and video platforms with big advertising platforms, the barbell strategy, wasn't highly recognized, but today, the market has come to our strategy and we have the ability to partner with the best companies in the world. AOL is serving almost 220 million consumers, with almost 50% of our traffic being mobile.

Q3 has many highlights in our mission to simplify the Internet for consumers and creators and to unleash the world's best builders of culture and code. Here are some of the things our very talented team of AOL has accomplished in Q3.

At AOL core, which includes products like the homepage, membership, and mail, homepage's average monthly mobile UVs grew 35% year over year and 12% quarter over quarter. Aol.com grew revenue by double digits. AOL had double-digit pricing and revenue growth in Q3. Membership churn of just 1.4% was our second lowest rate in years.

On the consumer brand side, we also have a lot of strength. Huff Post surpassed 100 million multi-platform UVs and has become a global media brand. Native ads on Huff Post are growing at over 100% and now are a significant driver of domestic revenue for the property. We won the IAB Mix and [OMA] awards during the quarter for our native advertising with Chipotle.

In August, Huff Post Live, our owned and operated channel, with an average of 12 hours of live original programming per day, celebrated its second anniversary and surpassed 1.7 billion video views. There has been over 24,000 guests to date from over 100 countries on Huff Post Live.

TechCrunch grew 18% quarter over quarter and just concluded a standing-room only TechCrunch disrupt in London, which was very exciting for me to see personally, and a great signal of how large TechCrunch and our tech brand can be.

Engadget our other major tech brand, grew its cross-platform users by over 30% and is hosting its own conference in New York City this week called Engadget Expand. And we've had 15,000 tech fans register to come.

MAKERS UVs have grown 76% since launch, and we have successfully launched six new documentaries on PBS in Q3. MapQuest remains the number-two mapping provider, with 35% market share in the US and 26 million UVs.

In platforms, ad pricing was up across AOL and AOL Platforms by double digits in Q3. Programmatic revenue continued to grow at more than 100% year over year. AOL Platform premium format revenue grew more than 100% year over year.

We saw a significant shift from our networks-based business to programmatic platforms business in Q3; 37% of our non-search revenue is now programmatic versus 12% last Q3. And 42% of AD.com revenue is now programmatic, up from 18% last year.

We launched cross-device recognition ad solutions with the highest accuracy rate in the industry at 93% match rate, according to comScore. Our new linear TV business is small but growing rapidly, and it represents a huge opportunity for AOL and our partners. In Q3 we added 10 new clients to our linear TV product.

We continue to expand our global agency relationships. Technology partnerships were signed with Havas for their global programmatic to linear TV advertising, and we also signed with Publicis global referred DSP for Publicis VivaKi and preferred video private marketplace partnership with Publicis' Digitas. The entire business made significant progress to profitability, and was essentially breakeven in Q3, and would have been profitable if not for incremental investments we made during the quarter to improve our overall video player experience.

Video continues to be an area of strength for AOL. Q3 total video revenue grew at almost 100% year over year. We were number two in ads served in video in September, with over 5 billion video ads served. We are a top-three player in content videos and video viewers and number one in 16 comScore video categories. AOL ON is now on Google's Android TV, bringing our coverage to 16 total connected devices for OTT.

During the quarter, we released a number of AOL originals, including Laugh Lessons with Kevin Nealon, True Trans with Laura Jane Grace, and City Ballet just launched this week. We have now sold 12 out of the 16 slates and are seeing great traction.

And mobile is just as exciting. Close to 50% our global audience is now mobile. We are the fourth-largest mobile publisher domestically, with over 100 million mobile users, and we are the fastest-growing. Network and programmatic mobile revenue grew at over 125% year over year, and 50% plus of our clients are now running across multiple screens, including mobile targeting.

Significantly, during Q3, we also brought all of AOL Platforms' offerings to cross-screen ability. And we launched the Road Devil Interstitial to bring further innovation into mobile monetization experiences, and clearly, video is a big opportunity for us to improve mobile monetization even further in the future.

At present, we are organizing the Company for 2015 and have reviewed our strategy, assets, regions, and products. We have a strong set of data that tells us 2015 is going to be a year in which the move to mechanized media and advertising will change rapidly. We see long-term structural change across the industry that requires short-term and meaningful changes to capture market share.

The thread in our industry has been pulled. The force of the consumer and advertising of changes that will reshape on-line and off-line media technology have started, and it is moving at an accelerated rate. AOL's assets will allow us to be a valuable principle and partner in these coming changes.

As we look out to 2015, our strategy and decisions will be driven by the following organizing principles. Number one, we'll focus our capital allocation resource management and management time against scaled assets and platforms. Two, we will organize our asset portfolio around scaled value and scaled growth assets. Three, we'll simplify everything that can be simplified.

Starting in 2010, we made bold moves as a Company to become an end-to-end platform for the media and advertising industry, and in 2015, we'll be fully moved AOL into being a platform Company. The management team at the Company is currently working through a series of simple steps that will advance the Company and our strategy in 2015.

The first area is an increase in the value of AOL branded services by simplifying the service offerings and focusing on increasing subscription revenue opportunities. The second is an increase in the value and growth of our global content brands by simplifying the portfolio of brands and increasing our share of video and mobile in key content areas. The third is an increase in the strength and scale of our global video platforms by deepening our syndicated distribution across the Internet, mobile, and OTT.

Fourth is an increase in the strength of our advertising platforms, with a unified ad platform called ONE by AOL that covers omni-channel advertising and allows clients to go from planning through multi-touch attribution. And fifth is to simplify our corporate structure, our go-to-market structure, and more deeply calibrate our resources and capital allocation process.

In closing, you should come visit AOL. You will find a Company that has Silicon Valley talent in our global offices and has the culture of the best cities in the world at our front doorsteps. The barbell strategy we have, connecting the best of culture and code, works inside our offices, it works on your mobile machine, it works on your tablet, it works on your laptop, and it works on your favorite OTT device. And with all that, let me turn the call over to Karen.

Karen Dykstra - *AOL Inc. - EVP, CFO & Chief Administrative Officer*

Thanks, Tim and good morning, everyone. Third-quarter results represented another solid quarter for AOL, our seventh consecutive quarter of year-over-year revenue and adjusted OIBDA growth, and our second consecutive quarter of double-digit top-line growth. Additionally, solid adjusted OIBDA trends were underscored by strong free cash flow generation. On a consolidated basis, growth continues to be driven by video, higher pricing across our owned and operated brands, and strong trends in our platforms business.

I couldn't be more pleased with our shift to programmatic and cross-screen platforms. During Q3, 37% of non-search advertising revenue was programmatic versus 12% last year. Meanwhile, over 50% of campaigns on our systems were cross-stream, which is triple-digit growth and driving triple-digit growth in mobile revenue. AOL's growth is coming from areas where we have invested in significantly during recent years, and Q3 serves as a solid data point that those investments are driving current and future growth for AOL and returns for our shareholders.

Now I'll turn to the segments. At the brand group, revenue grew 3%, excluding the impact of shuttered brands, compared with the prior period. The brand group display revenue grew 1%, excluding this impact, driven by increased penetration of premium formats, including video across our properties.

Brand group search revenues grew 8%, driven by search-marketing-related efforts. Adjusted OIBDA for the brand group increased 56% year over year, driven by our continued efforts to run a more focused brand portfolio.

In recent years, we have significantly improved results in the brand segment by focusing on fewer brands with larger growth profiles, while shuttering brands which do not offer the same potential. This has, at times, impacted reported revenues, but at the same time, it has improved our focus and profitability and yielded healthier underlying revenue trends.

We've raised the threshold for our investment in brands, and we look -- as we look into Q4 and beyond, we expect to narrow the focus even further, which could impact reported display revenue by a few million. But you should also see improved profitability and double-digit OIBDA margins.

Turning to platforms, we had another strong quarter, building strong product, gaining customers, and improving profitability. Revenue grew 44% on a year-over-year basis, driven by strong growth in programmatic revenue across all programmatic offerings.

Growth continues to be driven by powerful trends from essentially every one of our programmatic offerings: Adap.tv, AOL, and Marketplace. Results include just over two months of benefit from Adap.tv, which we acquired on September 5th last year. Excluding Adap.tv, AOL Platforms third-party revenue grew 23%, so really showing organic growth trends.

AOL is increasingly becoming cross screen, with over 50% of the campaigns we run now cross screen, and to that end, we are beginning to gain traction with linear TV. And during Q3, we added 10 new customers. Our linear advertising partners include some of the more most well-known flagship brands. This is still new and small revenue stream for AOL, but one with enormous potential.

Q3 was an inflection point for platform profitability, which was close to breaking even compared with the loss of more than $7 million last year. Revenue growth is driving improved overall operating margins, and we continue to invest for future growth through the build out of ONE by AOL, which remains on track for a Q1 2015 launch.

Revenue, net of TAC margins declined to 33% this quarter, primarily due to a shift mix within our different products. However, we still expect to maintain third-party after-TAC margins in the mid-30% range going forward.

Moving to the membership group, trends continue to improve with a 4% decline in revenue, the lowest rate of decline to date. Results reflect a 5% decline in subscription revenue, aided by an improved churn rate of 1.4% in the quarter, partially offset by strong growth in display revenue at AOL Mail.

Membership group OIBDA declined by $11 million, with the year-over-year rate of decline negatively impacted by a favorable legal settlement in the third quarter of 2013. We are exceptionally pleased by the team's continued efforts to improve this business and put it on a track towards growth.

Turning to overall profitability, our cost of revenues increased $61 million year over year, driven primarily by a $65-million increase in TAC, reflecting the growth in our Platforms business and our search-marketing-related efforts. Clearly, our cost of revenue, excluding TAC, continues to decrease, and we're very happy with our improvements here.

Adjusted OIBDA grew 2% year over year, with the growth rate negatively impacted by the favorable settlement received in Q3 2013, which I just mentioned. Absent this impact, adjusted OIBDA grew 6% year over year. We remain optimistic that we will deliver at least $500 million in adjusted OIBDA for calendar-year 2014.

Our interest expense rose slightly during the quarter, due to impacts from our credit facility and convertible debt offering. Also, our 34% Q3 tax rate was significantly lower than the prior year, with the benefits realized from additional deductions that produced favorable benefits during the quarter.

Turning for a moment to the balance sheet, we ended the quarter with $458 million in cash and equivalents. We had a number of puts and takes getting us to this number, which is all outlined in the press release, including the receipt of approximately $369 million of cash from the issuance of convertible debt, net of expenses. We also repurchased $40 million worth of shares, or approximately 1 million shares outstanding, for an average price of $42.46 per share, bringing our remaining repurchase authorization to $110 million as of the end of Q3.

To conclude, we are growing revenue and profit, we had a solid free cash flow yield, and in the most recent quarter we took advantage of near record low interest rates to improve our capital structure. As Tim has said, we're a Company bridging the gap between culture and code, and this is a large strategic advantage with an extensive product set, which few others can match.

And with that, I'll open it up for questions and turn it to the operator.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Brian Pitz, Jefferies.

Brian Pitz - *Jefferies & Company - Analyst*

Tim, in your remarks you mentioned something about the thread in the industry has been pulled. Obviously, there are some interesting dynamics occurring both on and off-line. But is this comment suggestive of opportunity thread or actually both?

And maybe you could answer a quick question on mobile. You're seeing rapid growth in mobile and cross-platform users. Can you give any color on the monetization plan and timing in terms of real monetization of mobile? Thank you.

Tim Armstrong - *AOL Inc. - Chairman & CEO*

Sure. So Brian, just to give you context around the thread comment, it's really -- I think there are a set of undeniable trends in the industry. One is there's an undeniable consumer behavior thread change, which I think is going to change everything. And I think it will force a lot of companies to come into the industry overall, which I think is both an opportunity and going to put more competition in. But I think with our properties' tech stack and consumer property, it's a very big benefit to us, because the consumers are coming in our direction.

The second piece is the mechanization of Madison Avenue. Having spent 20 years doing this, I think there's been quantum changes at points in how advertising gets done online. And I think there's a very significant change towards the assets that we have put together on the advertising sides. And all of the customers I know are moving to programmatic more quickly than they were a year ago, and the changes are dramatic overall.

And then, the third piece is to be successful in the industry. If you look forward a year or two, you're going to have to have scaled distribution, scaled content, and scaled monetization, and AOL has all three of those things overall.

So internally we chat about the fact that as a Company, we're in a good position to shoot the gap to more growth. And what I mean by that is if you were to draw on a piece of paper on the left-hand side of the paper, you have a lean-in coming from off-line media from cable, from wireless, from the holding companies trying to get into the spaces that we're already in.

And then second of all, you have traditional web. And traditional web companies are split into two different companies: there's companies that have programmatic and video heft and those things, and there's companies that don't. And then the second piece on the traditional web companies is the international companies are looking to come to the United States also.

So if you look at that giant landscape, at the top of landscape, you have 3 billion to 5 billion consumers and 500-billion plus of spending that's going to go in this direction, and we're one of the few companies that actually has the full suite of assets to be able to do that. So I think when I talk about the thread being pulled, that thread is going to cause basically there to be 10 or so major systems in the world in the future, and we believe we're going to be one of those and we're well ahead of a lot of the other people in the industry around it. So we see it as an opportunity.

And then your second question on the mobile monetization piece, mobile is growing very, very quickly for us overall. We focused on the consumer side of mobile, and that's where you've seen us be the fastest grower on the consumer side and the top five companies in the US.

And then second of all is you've seen us very methodically pull a couple of the product things together that are allowing monetization to grow quickly. One is, we already talked about on the last earnings call, was the cross-platform ability to put budgets in cross-platform; that was step one. Step two was really the identifier ad solution to recognize people who are on mobile devices that we recognize who are also on the web, who are on OTT devices. And the third one is really about the format.

So if you look at the fact that we have 100-million-plus users, plus we have the whole network of mobile that we're doing overall, we're able to serve three very unique things to them. One is video, one is native advertising, and one is premium formats overall. And if you look at our ad pricing what we did with Devil on the web, you should assume we're doing the same things for mobile overall.

So context-wise, we have big mobile users for consumers, very fast-growing mobile revenue, and we've done a very good job on the product side threading the budgets, the device mechanizations in terms of targeting, and the formats together overall. So I think we're in a bit good position, and again, I've said this 100 times: video is a huge part of our mobile strategy.

Operator

Ross Sandler, Deutsche Bank.

Ross Sandler - *Deutsche Bank - Analyst*

Great, thanks, guys. I had a couple questions on platform. So if you look at Adap, and you put in $45-million run rate for a year ago, looks like it's growing about between 20%, 25%. But I know that includes some inter-Company eliminations, so can you give us the update on what the gross-to-gross run rate is for Adap?

And then Karen, the third-party ex-Adap TAC rate delevered by three or four points in the quarter. Can you flesh out what's going on with [3Q] TAC? And then remind us what the long-term EBITDA margin goal is for the platform business and when we are likely to achieve that? Thanks, guys.

Karen Dykstra - *AOL Inc. - EVP, CFO & Chief Administrative Officer*

Thanks, Ross. The growth rate of Adap, when you take into account the eliminations, is really about 60%, consistent with last quarter.

As it relates to the TAC rate and the decline in the TAC rate, here's what we're seeing. We're seeing strong growth in the use of our DSVs to bid across external marketplaces. And while that our internal marketplace continues to grow very strongly, the mix shift to the lower margin offering impacted the overall mix for the quarter. At the same time, we're seeing strong growth in our high-margin private marketplace, which is growing rapidly, and over time, should improve margin and the mix and the combination should improve.

On the long-term, it's really about building global scale platforms, and we'll have the benefit of larger relationships, larger agreements with agencies, advertisers and publishers, and we'll get the benefit of a combination of revenue streams, including licensing revenue, the typical percentage of media revenue, and managed services fees. So it really was about the mix within the Platforms business, and the business in general and all of those are growing very nicely.

As it relates to expectations, as I said in my opening remarks, we still believe that our net-of-TAC margin will be in the mid-30%s; sometimes it will be a little higher, sometimes it will be a little lower. Profitability and overall margins for the Platforms group, we've said previously that we're looking for high single-digit margins. I think that we've also said that we're going to be profitable in the second half of 2014, and we remain confident that that will be the case.

And as we evolve, without saying exactly when we'll get to that high single-digit margin, we continue to improve. I think if you look back at our profitability story, we've continued to improve this quarter in particular, versus $7 million lost last year.

Operator

John Blackledge, Cowen and Company.

John Blackledge - *Cowen and Company - Analyst*

Great, thanks. Karen, I think you mentioned narrowing the focus on the brand group, and it could have -- just wondering if you could provide some more detail. I think you mentioned the $15-million hit to revenue. Is that in the fourth quarter, and how should we think about an annual impact? And also, how would that improve the margin profile? I think year to date, we have brand EBITDA margins at about 6%; for the year we're looking for a 9% EBITDA margin. Thank you.

Karen Dykstra - *AOL Inc. - EVP, CFO & Chief Administrative Officer*

Sure, thanks. I don't think we mentioned a $15-million hit. We've quoted the reductions in revenue from previously shut or shuttered brands, which include Patch, to be in the $10 million-ish range this quarter. The comments were around raising the threshold for investment in the brands group, as well as continuing to narrow our focus.

And that's something that we've done. I think we've been doing that for at least the last year, and we're going we are going to continue to do that, which does -- has caused some disruption in revenue, as we just talked about, the $10 million year to year. That impacted this quarter. Without getting into the specifics about which -- the impact to revenue, it clearly could have an impact on display revenue in the fourth quarter or going forward as we do this.

But the important part to take away is we are narrowing our focus to bigger brands, bigger global brands, that can really scale and be open and make an impact in mobile. And this is going to improve our margins. I think our margin was very solid this quarter. I'm confident that we'll have double-digit margins next quarter in the brand group, and I think we can maintain those margins through our very, very focused efforts.

John Blackledge - *Cowen and Company - Analyst*

Great. Could I ask one follow-on for Tim? Tim, if you could talk about the competitive environment for the platform business. With some competitors like Facebook ramping up their ad tech stack, how is AOL differentiated amidst the rising competition? Thank you.

Tim Armstrong - *AOL Inc. - Chairman & CEO*

Sure. Basically, in the ad platform business, one is having a complete stack right now is a very, very important asset. And AOL is probably one of two people right now with a complete stack.

So that -- when I was saying the industry is moving faster, in general I think from a competitive standpoint, I think you could break the industry into two groups: point solutions and people with full platforms, and we're in the full platform bucket. So I think from a competitive standpoint, if you look in the industry, if you go to the average agency or client, what they're doing is they're basically setting up programmatic buying groups where they are working with multiple sets of programmatic platforms.

And I think we're very, very strong in the competitive nature of that and in discussions with very significant advertisers and agencies. And if you saw the deals we cut with the global holding companies, and we've talked about that pretty extensively, we're able to do those deals because we bring a full platform to the table.

The second piece is when you think about the mix shifts that are happening with mobile and video, and some of those other things, if you go back a couple years, having display platforms in general were really important; today it's multi-platform, multi-device, multimedia-type platforms. So that's why you've seen us -- we did the Adap acquisition. We did Convertro. We did Gravity on personalization.

So I think we are in a -- there's probably a handful or less of companies that can compete on a global scale for platforms, and we're one of the companies. So there's that side.

The second side of it is, which you guys don't see as much as I see, is the shifting that's going to happen here over the next couple years is -- I believe is going to be very, very significant. And if you don't have those platforms set up, it takes a long time to do that, and it takes a long time to either engineer them, even if you try to acquire them, it takes a long time to integrate them. We've done a very good job over the last four years of very methodically building out the advertising and publisher pipes to help other publishers overall. So we look at our growth rate of growing over 100% in programmatic; it's because we have a very viable and strong offering in the marketplace.

By the way, the more competition there is in the marketplace, think about the fact that 4% of the entire industry is programmatic, 96% isn't. So you have roughly $500 billion that needs to come over. Even if there were 10 players in the marketplace going after it, every single client on the earth needs to be educated and pushed in our direction. So it's a benefit for us the more people are talking about it overall.

Operator

Ron Josey, JMP Securities.

Ron Josey - *JMP Securities - Analyst*

Thanks for taking the question, two please. First to Karen, just curious following-up on any comments around shuttered changes, I think growth in brand would have been 7%. I'm wondering if you can help us understand what the comps are for 4Q. Is that another $10-million headwind or is it seasonally stronger for the holidays?

And then for Tim, given your comments around the transformation that's going to happen over the next several years, I was really intrigued with the partnership that Adap.tv struck with MCN in Australia around linear TV and running a marketplace there. I'm wondering how far away are we from that happening in the states? And can you talk about the challenges that exist from implementing this private marketplace, versus traditional online video private market places, meaning linear versus online? Thank you.

Tim Armstrong - *AOL Inc. - Chairman & CEO*

So we'll start with MCN and our move there. So at a super high level, if you took the global TV business and said 10% of it was going to transition online, it was be larger than online video overall. So from a market opportunity, it's a very significant marketplace. And we're very interested in it, because we believe we have unique assets and are already in the market delivering value to consumers -- to advertisers and suppliers.

The level underneath that is if you -- I just had dinner this week with one of the large CEOs from the holding companies. When you discuss these type of changes in programmatic for mobile and online video and those things, the next thing that is immediately apparent is that television is the next most likely area that programmatic will work for overall. So if you are a buyer of media, whether you're an agency or a client and your overall pushes as a programmatic automation push in general, television is the most next likely media, other than online, to fit into that mix.

And underneath that marketplace, you have two dynamics: on the supply side you have the television people that are interested in putting more demand onto their lower-value inventory. At our programmatic upfront in Q3, we had Linda Yaccarino from NBC on stage with us, basically committing to go programmatic with the NBC inventory overall. So you're seeing big people in this country start to think about it overall. And that dynamic on the supply side is basically working with them to make sure that you can lift their revenue per impression. The same thing we've done online about having growing ad prices; you have to be able to deliver the same thing to the TV marketers as well.

On the demand side, we're basically in a mode right now helping agencies and clients get the multi-touch attribution from digital and TV. And although it's early, the signals are promising there as well.

So when you look at the MCN deal, it's a deal that allows supply and demand to come together in linear TV and monetize the linear TV assets better, and also give clients the ability to do multi-touch attribution that combines web marketplace and TV marketplace overall.

So I think the thesis here is giant market, very closely linked to how programmatic works on the web can work on TV. And you're seeing big players interested in it. And we're at the forefront of it, and I think leading that integration effort. And you've seen us be aggressive about it, and we'll continue to be aggressive about it.

Karen Dykstra - *AOL Inc. - EVP, CFO & Chief Administrative Officer*

And I think, Ron, the first part of the question was around the impact of the shuttered brands that we would anticipate for Q4. I think that number is probably a little higher, more in the $12-million range for Q4, because remember, last year, Q4 of 2013 was a particularly strong quarter for us. So figure around $12 million.

Operator

Anthony DiClemente, Nomura.

Anthony DiClemente - *Nomura Securities Intl - Analyst*

Hi, back to that point, Karen, on the brand group display. If you exclude the impact of those shuttered brands, in the quarter, revenue was up 1%. And I was wondering where that could go the next few quarters, fourth quarter and 2015?

And then, within that, more broadly, if pricing was up in the quarter, it seems like despite the cross-platform impressions growth, or I should say volume growth that you saw that impressions sold were down within that plus 1%, I would think. So I guess that raises the question for Tim, what can change that and what's more important within your P times Q? Is it the pricing growth or the impressions sold over time? Thanks.

Karen Dykstra - *AOL Inc. - EVP, CFO & Chief Administrative Officer*

So again, on the shuttered brands and the impact and the exclusion of that, as I said, we're continuing to focus on our brands and being more selective about investment and looking to hone in and just focus on a very select bigger brand that could be global in open-scaled platforms.

Without giving specific guidance about how that impacts '14, the fourth quarter of 2014 and into 2015, it could mean some revenue display disruption, as we've been talking about all year. But without being very specific about it, I think that that ultimately will get through that transition, and it will be while the revenue growth may not be consistent in the next quarter or the next quarter after that, it will lead to healthier margins and healthier revenue within the brand group. And then I think the next --

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Tim Armstrong - *AOL Inc. - Chairman & CEO*

Yes. On the P times Q, I think basically, one is I'm very excited about where things are going in terms of the future overall. And I think there is a couple things to really dissect. One is we had higher ad prices, because number one is, we didn't dump inventory like crazy into the marketplace. And number two is, when we monetize, we monetize very, very carefully with a very high yield matrix and very good ad products, so things likes things like premium formats and video and some of the things that we've invested in overall.

So I don't think we have a massive gap between the inventory and the pricing overall. We have a very, very methodical way to go through that overall, and I think that's been positive.

I think when you go to mobile, overall, which is really the basis of your question is the growth in impressions is going to really come from mobile over time. One is our mobile traffic has come up. We have mobile UVs were up 55% year over year, and really had almost 60% in multi-platform UVs were mobile overall

So we are doing a good job growing the impressions in UVs in mobile, and I think we're doing the same thing we did on the web and with video, it's just being very careful about what products we bring to the marketplace. So we're bringing native and video and premium formats that are all high CPM ad units.

So look, having lived through 20 years of the Internet, I remember back in 1994, 1995, 1996, 1997 where people were saying, the monetization is not going to catch up with impressions, and you're going to have to charge more for the ads, overall. But I think what happens is when there's a marketplace like this where consumers leave the market and they change formats, the advertisers and all the media companies and Internet companies catch up over time. And I think we're in this catch-up period. So our job on the yield has been yield manage our traffic impressions; don't devalue our impressions by dumping them into mass scale devaluing the total inventory.

And then two is to really focus in on where the mechanization in media is going with private marketplaces and those things. So right now in Q4, we're heavily testing private marketplaces for mobile and some of those other things. So net-net you need growing consumers, growing impressions, and growing ads overall. And I think in our dynamic right now, we're very carefully yield managing. I'd expect us to put more impressions on the marketplace over time and to monetize them at a good level with strong products.

Operator

Mark Mahaney, RBC Capital Markets.

Mark Mahaney - *RBC Capital Markets - Analyst*

Two questions: could you review again that unique visitor growth of 14% year over year? Could you peel, again, that back a little bit and what were the biggest contributors to that?

And then secondly, I know it's less important, the subscription part of the business. I think you had churn falling while ARPU was rising. I think that was because of a price increase, which you don't normally see that combination. Does that say something to you about the pricing power of some of the subscription services you offer? Were you surprised that you have a price increase, and it didn't negatively impact basic subscription metrics like churn? Thank you.

Karen Dykstra - *AOL Inc. - EVP, CFO & Chief Administrative Officer*

I'll take the membership one first and the subscriptions. It's not like we do a pricing action all at one time; I think we started some MVP bundling rollout sometime in the middle of the third quarter. So we had some of the effect of that in the second quarter. And so then we saw the full effect of the pricing in the fourth quarter.

So it's not necessarily a surprise that we're seeing that combination of good results. I think it also speaks to the number of products that are being adapted by our loyal customers, and all of that combined helped the churn rates stay low in the 1.4% range. And as I said, you saw the full-quarter impact of the MVP actions hit in the third quarter.

As it relates to the drivers of the UV growth, I think the biggest driver is most likely mobile. And Huff Post just knocking it out of the park with over 100 million UVs.

Operator

Peter Stabler, Wells Fargo Securities.

Peter Stabler - *Wells Fargo Securities, LLC - Analyst*

Good morning. Tim, you talked about the importance of the end-to-end platform. One other area that seems to be getting a lot of traction among the large-scale players is the battleground around data, proprietary data. Could you talk a little bit about the types of data assets that AOL has, what you can collect across your user base, and how do you protect that data and make it more valuable and create a reason for advertisers to come to you? Thanks very much.

Tim Armstrong - *AOL Inc. - Chairman & CEO*

Thanks, Peter. We -- I would say that data is very important. As a matter of fact, I think it's the oil for the economy, in terms of where things are going overall. And at AOL, we have two different -- first of all, we have at the senior level, at my table on the management team, a project, an ongoing project which will be ongoing forever, which is basically a data group that strategically and tactically works on our data assets and looks at the partnership possibilities around data.

So I think on one side of that are the data assets that we have. And being a very significant top-five Internet player we have very, very large amounts of data as a Company, and those data assets take multiple different formats. Some of them are owned and operated properties, some of them are on registered users, some of them are on mapping, like with MapQuest, and some of the range across new assets like the video and mobile-type of data that we're getting. So we have a pretty significant pool of data on our owned and operated assets.

The second piece is we do a lot of off-network targeting and partnerships as well, so we have a pretty significant flow of data coming from partners and also from third parties there overall. One example is we just won the retail award overall for having a partnership with Datalogics, and with AOL basically designing a new retail experience for advertising, which essentially takes full advantage of our data and third-party data to help retailers very deeply target people overall. So I think top-level data is a huge, significant importance in the future of the industry and for our business and other platform companies.

Second piece is we're actively engaged in managing it closely and doing partnerships, and we've had public areas that we have come out with partners to show what we've been able to do, which has been very meaningful.

And then the third piece, which I think is going to be important also is part of the reason we did the Convertro acquisition and we did the cross-linked device targeting is mobile does not use cookies overall. So we've put ourselves into a leadership position between mobile targeting and web and video targeting overall.

And really what customers are looking for on the data side right now is multi-touch attribution targeting for their omni-channel dealings with consumers. And we've been very, very much at the forefront of that. And I would say that at Convertro acquisition, very talented team, very talented product has really helped us leap into the forefront of that. And that's why with the announcement that just got made with us basically being able to match Facebook in terms of targeting capability with data is important. And only 50% plus of our campaigns now are cross-platform.

So data's important, we're working on it, and we have real proof points in the marketplace, and I'd expect us to go even further with it in 2015.

Operator

Laura Martin, Needham.

Laura Martin - *Needham & Company - Analyst*

Hey there, Tim. On the linear networks, I'm really interested, you said you added 10, so I'm really interested in reminding me what are the total number of linear TV client you have. And then whether the value proposition of the guys that are adopting now, like in the third quarter is changing or different and evolving over as you get new clients compared to the ones that adapted originally on the linear network side?

Tim Armstrong - *AOL Inc. - Chairman & CEO*

I think, Laura, basically what's happening, I think if you look at the top level, the TV supply players are interested. They know that basically digital's coming, and they're starting to do more cross-platform stuff. So they realize that programmatic on the digital side is important, and they realize that on the TV side, if they can hook programmatic up to linear, it may help them get more demand.

And the important step behind supply I think is that we've met with a lot of the heads of the major media companies, off-line cable and those type of companies around this. And I think they understand the fact that their supply can get better monetized over a longer period of time by using programmatic, because it's more precise, more calibrated and unlocks more advertiser attributions of what people are trying to target.

On the advertiser side, the 10 people that we signed up, what they're looking for is probably three simple things. One is an automated process to buy linear and do it in a more realtime basis. Number two is they're looking for the ability to tie digital, and I say digital and TV are the two most important things they spend money on. That's my opinion; they may have different opinions, but from what I hear from them, that's what I'd say. And the ability to allow them to link up attribution and ROI measurements along with the automation is really, really important for them over time.

And then if you look at what's happening in the consumer side, the third point is you look at what's happening in consumer usage of digital video overall, and you look at what's happening in the linear TV space in terms of more people announcing OTT things in general, I think the clients, the advertisers are basically internally, I'd say you can see the end of the movie now. A year ago, two years ago, you couldn't. But you can see the fact that you're going to have a massive movement to make a lot of things OTT. And as an advertiser and a supplier, you're going to want platforms to basically be able to yield-manage both sides of it and both sides of the marketplace.

So I think the interest level is people can see the end of the movie, and they know they need to get in the chairs now. And that's why we signed up 10 clients overall, and there's a high level of interest in it.

Operator

Eric Sheridan, UBS.

Eric Sheridan - *UBS - Analyst*

Thanks for taking the questions. First one for Karen, on AOL ONE, just curious as that gets implemented and rolled out whether there's anything you're calling out for people on expenses that might be incurred either in Q3 or as we move into the first part of next year on AOL one?

And then Tim, a bigger picture question from you, you mentioned MapQuest, talked about its strength in the marketplace. How do you think about that asset longer term and how that fits in with the longer-term strategies with your brands? Thanks.

Karen Dykstra - *AOL Inc. - EVP, CFO & Chief Administrative Officer*

So knocking off the question around ONE, nothing specific really to add about how that impacts expenses in the fourth quarter or even in early next year. I think we've been pretty consistent in our investments. Even though we are launching in Q1, there's still additional features that we'll be adding throughout the year. There's global enhancements, and so I think if I would think about the level of investments specifically around ONE to remain consistent with what we've been seeing in the last two quarters.

Tim Armstrong - *AOL Inc. - Chairman & CEO*

And then on MapQuest, I'd say MapQuest is a very, very interesting asset for where the world's going. We all know location services is more important, data is more important, and the ability to do mobile is more important.

I think there's three or four really good things about MapQuest overall. One is the team on MapQuest, we've consolidated operations down to one location; we've got some of the best mapping people in the world working on MapQuest. And you've seen us rollout probably more new products in the last year on MapQuest than the prior 10 years on MapQuest. And that's really significant, things like the commute app and other aspects like that.

And as I think the overall industry is going from human to machine to machine to machine, MapQuest is a great asset on the machine-to-machine side where we can proactively help people with commutes and all those type of things. So I think that's one big benefit for us in terms of the assets.

The second one is MapQuest overall is a very strategic asset. For us, and potentially for other people, overall, I think the more we've improved it and the more we've been able to do more partnerships around MapQuest, I think it's one of those assets that people probably don't pay that close attention to overall, but we do internally; we have a great team of people working on it.

So I'd expect MapQuest to keep improving the product. It's got great market share, it's got a great brand, and it's got good ratings in all the app stores. I'd expect us on that, I'm guessing your underlying question is whether or not MapQuest is part of the portfolio or those things.

But if you take a big step back from what Karen was talking about earlier, all of the portfolio changes that we thought about making all that stuff, it's all strategy-driven. It's where is the world going, what assets work in the strategy, and what's going to focus on to my organizing principles of the biggest -- how do we focus on big assets? MapQuest is a big asset overall.

And I think it's a sneaker asset, meaning people in the world don't pay a lot of attention to it, most likely and outside of our other portfolio. But it's a great asset, and I think we're going to continue to make it better and better and better, and there's probably strategic options for us in the future with it with more partnerships.

Operator

Mark May, Citi.

Mark May - *Citigroup - Analyst*

Hey, guys. Good morning. Thanks for taking my questions. First on mobile monetization, I'm wondering if you could help shed some light on what portion of your media brands available in inventory is on mobile? And then how sell through differs today between mobile and desktop for these brands?

And then, secondly, I know that Publicis is an important platform partner for AOL. Just wondering how you would foresee the Sapient deal affecting your relationship with Publicis, and is AOL today do any business with SapientNitro? Thanks.

Tim Armstrong - *AOL Inc. - Chairman & CEO*

One on the mobile side, I'd basically say we had very strategic decisions about mobile and what inventory to use and how to use it. And the decision we made on mobile is a good fraction of our inventory is available on mobile now. But what we're doing strategy-wise right now is really thinking deeply about private marketplaces and how do we yield-manage mobile very, very carefully overall?

So what we've done for our inventory in mobile is used native and video, and now we're starting to use private marketplaces. My assumption is we will get all of the mobile inventory into one of those three areas as we go through the end of this year and first half of next year overall.

So net-net is over 50% our inventory is mobily enabled for ads, and I think we'll improve that amount, but do it in a yield-effective way over the next, call it six to nine months. And we're doing a lot of testing right now on it in general.

And then the Publicis-SapientNitro acquisition, I e-mailed with Maurice Levy about the acquisition, and I'm very pro on the acquisition for the following reason: if you go out and talk to customers right now, customers have two really big needs. They need to go towards programmatic and video and those things. The second one is they need a lot of content created and a lot of different types of content at scale created.

And I think SapientNitro does a couple of things. I think one is they're a good content partner, meaning they're very good at enabling brands for the digital landscape. I think they're good system integrators overall. And I think when we talked about the programmatic buying units and you talk about some of the things that are happening in the industry, connected to that is how do you get clients at a very big scale system integrated, creative integrated and those things? And I don't know what the exact number is, but I would bet there's a big crossover in terms of our customer base and the customers of SapientNitro overall.

So it feels like we're -- that feels like a long-term benefit for us that they did that, because it's probably going to lead to more partnerships.

Operator

Youssef Squali, Cantor Fitzgerald.

Youssef Squali - *Cantor Fitzgerald - Analyst*

Thank you very much. Karen, just a quick clarification, something you said earlier. I'm not sure I got it. The brand group display up 1%, given all the puts and takes that go into that number, are we troughing here or do you expect Q4 to potentially see further deceleration?

And then you also talked about focus on capital allocation for 2015. I was wondering if you can flesh that out a little bit more for us in terms of OIBDA margins improvement or lack thereof for 2015? Thank you.

Karen Dykstra - *AOL Inc. - EVP, CFO & Chief Administrative Officer*

Sure, again on brand and the focus on display and some of the comments, I think there is a couple things we have to keep in mind. One is last year was an extraordinary fourth quarter, with a lot of budget dollars coming in at the very end and very end of the year. As we continue to focus and hone in on brands that are going to be global, video-based, open, that means that we won't be investing as much in some of the other brands. We haven't been explicit about exactly what that means Q4, but we've also given you the information that from the brands that we've already shut or shuttered, the impact of those in Q4 is around $12 million.

So looking forward, our comments around focus and capital allocation is we're investing in video, we're investing in programmatic, we're investing in platforms. And I think that you're going to see us be even harder and stronger on investments, particularly on programmatic.

Those are the scaled platforms that we have, the advantage that we have with our tech stack and our assets, we're going to be very honed in and focused on continued investment in those areas. And it's a high bar to get investment dollars. The capital allocation strategy is going to the biggest opportunities. And that means we have to focus and some of the other areas that we are currently investing.

Operator

Tom White, Macquarie.

Tom White - *Macquarie Research Equities - Analyst*

Great, thanks. On the broadcast TV budget opportunity, there's debate about whether we're close to an inflection point of those dollars coming to online video. I was curious with what you guys are doing in linear TV about trying to help those players maximize their yield, is that a way that you guys could potentially accelerate your ability to penetrate some of those broadcast TV dollars? Or am I not thinking about it the right way? Thanks.

Tim Armstrong - *AOL Inc. - Chairman & CEO*

So one is that we have pretty significant partnerships with most of the major cable companies overall, and obviously we have huge partnerships with the advertisers. So our thesis in the marketplace is to help basically both sides of the marketplace. Both transition towards online, which I would say both sides are definitively transitioning to online. Every major customer I've spoken to is trying to move TV dollars towards digital video.

The second piece of it is within both sides of the marketplace, TV and digital video, there are yield maximization opportunities which will help the linear TV people and help the advertisers. So I think the answer is yes, it will help the migration path towards video. That migration path has already started.

And two, I think it will give more control, both to the linear TV people and to the advertisers to make sure that transition happens, that they're able to optimize the full amount of linear TV supply and web video supply overall. And I think when you see the large linear TV people making their OTT announcements and those things, it's a natural progression out of where the consumers and demand is going. So yes, it will facilitate it, and yes we will help the advertisers and suppliers both move to the web.

And I think that will do it for the Q&A session overall. At a very high level I think for investors, we are very, very carefully planning 2015. We are going to invest in AOL services on a value-creation standpoint. We're going to be investing in bigger, more strategic assets in the I-brands side and simplifying the overall portfolio, and we will be really continuing to put the gas pedal down on the programmatic side, and also bringing that to profitability on the platform side.

And then as a Corporation, we're really looking at simplifying the structure, both in terms of our go to market and sales and simplifying the structure of the overall Corporation. And we have significant projects right now aiming towards 2015 to make sure we have a very good 2015.

And I would just end up by saying after seven consecutive quarters of revenue growth and profit growth inside a changing industry, we have done that, unlike many of our competitors, at a lower headcount ratio and in a more efficient level. So we started with our goals of being a great operating Company and great partnership Company, and I believe the Company's doing both of those things.

And for the structural changes that will happen in the marketplace over the next two to three years, we have our had our hands at 10 and 2 and really our eyes on the prize about how we are going to increase the value of the Company to our employees, to our customers, to our suppliers, and really to our investors overall. So we are extremely focused. Thanks for joining the call, and we'll see you on the next earnings call.

Operator

Ladies and gentlemen, this concludes your presentation. You may now disconnect. Enjoy your day.
