Neustar is Reborn

Why the firm may still have a bright future despite a major contract loss

BY ANDREW FEINBERG

For most companies, the loss of a nearly $500 million revenue stream would be a death knell. But NeuStar CEO Lisa Hook isn’t so pessimistic — and some industry experts say that’s with good reason.

The Sterling company lost a $496 million annual telecommunications contract last year that had been the very reason for its birth 16 years ago, work that made up more than half of its annual revenue and most of its profits. NeuStar Inc. was the Local Number Portability Administrator for North America, responsible for transferring phone numbers when customers switched from one carrier company to another — a transaction that now happens more than 100,000 times per day.

But last March, federal regulators opted for another company, Telcordia Technologies Inc., to replace NeuStar in that role. The transition is still in flux amid legal disputes, and that contract revenue is still slated to flow to NeuStar for much of this year.

But NeuStar knew it needed to change direction. And fast.

Today, under Hook’s leadership, NeuStar is charting what it hopes to be a profitable new course. The company, which a decade ago described itself as a communications clearinghouse, has laid enough groundwork to make a name for itself in what analysts consider high-growth areas — data analytics, IT security, top-level domains, the Internet of Things and a major focus on helping businesses more closely target their marketing.

“Market trends are clearly moving in our direction,” Hook said during the company’s third-quarter earnings call with analysts in October. “We have greater tailwinds today than we had a year ago.”

It’s not out of the woods yet, and some critics predict a grave end. It will be an unequivocally different company than when it started, not nearly as big a rainmaker as it was. But its past years of profitability have helped build it a runway — its cash reserves have swelled to $358.4 million as of Sept. 30. And industry observers say even after it loses the $496 million contract, NeuStar’s new suite of offerings will be enough to keep the company in the black and kicking.

“It will be less profitable than the carrier business,” said Deutsche Bank analyst Nandan Amladi, who tracks the company. “But it should be profitable.”

The new sales pitch

The shift has been on NeuStar’s radar since 2010 — the same year Hook rose to CEO — in response to a potential end of the number portability revenue stream.

It was a contract NeuStar, a former communications operating unit that spun out of Lockheed Martin Corp. in 1999, first won in 1996. But in March 2014, the Federal Communications Commission approved the selection and authorized NAPM to negotiate a contract with Telcordia.

In that time, NeuStar has molded a technology suite that includes network addressing, geolocation and managed domain name system services — basically an ability to identify and authenticate users and data — for a different purpose:...
chiefly, laser-focused marketing. As for the rest of its capabilities, they came through acquisitions. “We put together a strategy to be the leader in real-time, authoritative identity derived from networks and to utilize that to provide marketing analytics,” Hook said in an interview. “Marketing is changing dramatically from the old days.”

She points to direct mail, for instance, which has evolved into direct marketing in real time. While today’s marketing analytics can target a specific person, down to his or her beverage preference, direct mail was sent to homeowners whose profiles were based on their geographic area. With direct mail, a business could get the wrong person and still reach someone substantially like the person it wanted to reach, “and that was good enough,” Hook said.

But Hook says “good enough” is no longer good enough in the current era of real-time, mobile transactions. Instead, she said, NeuStar has built a marketing platform and data analytics offering that gives marketers what it calls “nonintuitive insights” with a head-turning level of detail. Its technology can discern, for example, that Lexus owners more often buy Baked Lays and home-pregnancy tests and that Dannon fans also regularly spring for bourbon and Cheetos. That 36 percent of Doritos snackers own a basketball and 53 percent of Bud Light drinkers play board games. And that hardcore gardeners love them some Caribou coffee and Keurig coffeemakers.

NeuStar is pitching this capability to companies as a way to use thousands of demographic and psychographic attributes to home in on the best potential customer. “We’re constantly – 4 billion times a day – updating informa-
Thanks to its healthy profit margins, NeuStar has had the ability to make purchases, totaling more than $1.7 billion in the past five years, that have helped redefine it as a company.

**TRANSACTION NETWORK SERVICES INC.**
- **What it does:** Caller authentication, mobile identity; it was an affiliate of Siris Capital Group
- **Price:** $220 million
- **When:** December 2015

**MARKETSHARE PARTNERS LLC**
- **What it does:** Marketing analytics technology to major brands
- **Price:** $450 million
- **When:** December 2015

**BOMBORA TECHNOLOGIES PTY. LTD.**
- **What it does:** Registry services for 100-plus top-level domains, many in Australia
- **Price:** $86.9 million
- **When:** July 2015

**.CO INTERNET SAS**
- **What it does:** Operates worldwide registry for Internet addresses with the “.co” top-level domain
- **Price:** $114.8 million
- **When:** March 2014

**AGGREGATE KNOWLEDGE INC.**
- **What it does:** Campaign and predictive analytics platform for ad agencies and brand marketers
- **Price:** $117.4 million
- **When:** October 2013

**TARGUS INFORMATION CORP.**
- **What it does:** Provides real-time, on-demand information and analytics services, including Caller ID
- **Price:** $657.3 million
- **When:** November 2011

**EVOLVING SYSTEMS INC.**
- **What it does:** Numbering solutions business (some assets and liabilities)
- **Price:** $39 million
- **When:** April 2011

**QUOVA INC.**
- **What it does:** Provides Internet geography data services that enable online businesses to detect and prevent fraud, ensure regulatory compliance, manage digital content rights distribution and localize ads and Web content
- **Price:** $21.7 million
- **When:** October 2010

**BROWSERMOB LLC**
- **What it does:** Provides on-demand load testing and website monitoring services
- **Price:** $2.2 million
- **When:** July 2010

“There’s more demand than supply … particularly when it comes to the capabilities they have in identify management and targeting.”

Gartner surveys show marketing budgets are growing at a rate of 10 percent year-over-year. “There’s clearly money that companies are moving into the acquisition of marketing technology,” Frank said. “I see no reason why NeuStar couldn’t benefit from that particular trend in corporate spending.”

The new appendages
The shift has taken considerable investment on NeuStar’s part.

Since 2010, Hook has presided over a series of acquisitions to move the company from a niche government contractor to a more multifaceted, marketing and data services one-stop shop.

Perhaps the most notable of those was last year’s purchase of MarketShare Partners LLC, a Los Angeles–based company that provided marketing data analytics and strategies to the likes of T-Mobile and Twitter, MasterCard and Mattel, USAA and Universal Studios.

The $450 million deal, which closed last month, makes NeuStar stand out more in “the cacophony of sales and media channels,” Lufthansa Chief Marketing Officer Alex Schlaubitz, a MarketShare customer, said in a statement. Before, MarketShare products gave “the ability to truly understand what works and what doesn’t, and to clearly link our activities to revenue,” he added. “MarketShare and NeuStar will take that game-change to a new level.”

Two years before that, NeuStar acquired San Mateo, California–based Aggregate Knowledge Inc., a marketing analytics company well known by then for helping Facebook Inc. measure the perfor-
mance of its campaigns, for $117 million.

Amladi said Aggregate Knowledge, while unprofitable at the time of NeuStar’s acquisition, ushered the local company into a “new, high-growth area.”

“In general, I think the company has done a decent job of acquiring business that diversify their revenue, that have good margin profiles,” Amladi said.

The buys helped build a steep ramp for NeuStar’s marketing services business. From a relatively nonexistent $3 million in 2010, it grew to $147 million in revenue in 2014, 15 percent of the company’s total intake that year. That number is slated to rise this year, when marketing services brought in $119 million in just the first nine months. At 438 percent, it’s been the fastest-growing segment of NeuStar’s business in the past five years.

That’s not to say it doesn’t have its work cut out for it. For a 1,500-person company that names Nielsen NV, Adobe Systems Inc. and Oracle Corp. as competitors, garnering market share is an uphill climb. Another rival, Reston-based data analytics company comScore Inc., boasts its own big deals, announcing in September it will acquire Portland, Oregon-based Rentrak Corp. in a stock-for-stock deal. ComScore will make Rentrak, who has partnered with NeuStar in the past, a wholly owned subsidiary in a bid to become a data powerhouse.

Nevertheless, NeuStar is betting big. Last month, it forecast its annual revenue would grow 8 percent to 9 percent to an ambitious $1.045 billion for 2015, with roughly $183 million in net income. That, the company said, is slated to rise to $1.24 billion in 2016 revenue, with $195 million in net income.

The new niches
Aside from its marketing segment, NeuStar hopes it has buffeted itself with investments in other markets as well.

In all, the company counts 6.5 million domain names under its purview as a registrar, including those with the .co, .us, .biz and .nyc top-level domains. Domain name services, website monitoring and protection against dis-
UPDATE

LONGTIME CONTRACT STILL UNSETTLED

The story of the impending demise of NeuStar’s telecommunications largesse may not be over.

Following NeuStar’s loss of the $496 million NAPM contract, the company filed suit in the U.S. Court of Appeals for the District of Columbia Circuit alleging that, among other things, the Federal Communications Commission’s approval of Telcordia Technologies Inc. — a subsidiary of Swedish telecommunications equipment manufacturer Ericsson — violated the Administrative Procedure Act.

NeuStar said the commission failed to issue a Notice of Proposed Rulemaking concerning the selection of a new portability administrator. It also raised concern that Telcordia’s relationship with Ericsson means Telcordia is not truly independent, as the Number Portability Administrator is required to be.

The case is still pending at this time.

Regardless of the outcome of the lawsuit, NeuStar’s revenue stream isn’t disappearing anytime soon from the mammoth contract. The FCC approved Telcordia’s selection last March and ordered the NAPM and Telcordia to come up with a contract for Telcordia’s services. NAPM said it would be done with the contract this past August, said NeuStar CEO Lisa Hook, but there hasn’t been any word on it from either party.

What she does know: The NAPM “negotiated an extension with us when the FCC put out their decision that gives us $496 million in revenues to run the NPAC until they give us a nonrenewal,” she said. That requires a six-month notice. The earliest that could come is this April, she said.

And despite an initial transition plan that was to last 745 days from the signing of a contract, Hook said NeuStar hasn’t received anything from the FCC in terms of how or when to get started.

“If people expect us to help out and to provide transition services, we haven’t seen anything,” she said. “We can’t even begin to plan what we would do and how we would help until we see and have time to question what’s going on.”

Realistically, Hook said, the earliest NeuStar’s contract with NAPM could be terminated is this September.

But Hook argues the timeline could extend beyond that, to “mid-, late 2017.”

“They have made all sorts of commitments and assumptions about what we’re going to do,” she said. “And that’s pretty risky on their part.”

tributed denial of service make up a big part of another growing segment of business for NeuStar: security services.

That sets NeuStar to compete with the likes of VeriSign Inc., based in Reston, and Akamai Technologies Inc., based in Cambridge, Massachusetts. While NeuStar has reported $140 million in revenue from security services in 2014, including its domain name registry, VeriSign has made a billion-dollar business out of those services.

“There’s a growing need for this type of thing,” Amladi said. “Because NeuStar has the capacity in their data center, it’s a natural add-on to their security portfolio.

“Even if NeuStar is smaller,” he added, “that’s a profitable business.”

In addition, NeuStar has made some investments in another, at times unwieldy field called the Internet of Things, which refers to all of the devices connected and communicating with one another, from smartphones to TVs to household appliances and systems. The company, which in June hired Hank Skorny as its Internet of Things senior vice president, is examining the role that connectivity plays in marketing strategies.

In a nod to its massive database management skills, NeuStar also plans to build a “master registry” for Internet-connected devices.

“You know somebody like NeuStar, who knows how to be a neutral broker of information, can manage instruction between devices,” Skorny said after his hiring, “and can do so without bias.”

Despite the business shifts, some are still not convinced. Some investors have continued to short-sell NeuStar’s stock in record numbers, showing considerably less confidence in the company’s future prospects and profitability after the loss of the number portability revenue. Amladi estimates that 40 percent of NeuStar’s current stock sales are short sells.

But Amladi said he thinks those short sellers are overreacting.

“The short thesis is the carrier business is so vastly profitable, that when that goes away, the remaining business has no profit left,” he said. “That’s kind of a doomsday scenario. … Obviously, everyone who shorts the stock believes it’s going down, but in this case, it’s a pretty extreme thesis.”

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