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MANAGEMENT DISCUSSION SECTION

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

I think we're going to get started. Thanks everyone for coming, and good afternoon. I'm Toni Kaplan, the business services analyst at Morgan Stanley. And I'm pleased to have Jamere Jackson, CFO of Nielsen with me and Sara Gubins, the SVP of IRs is up here in the front. But before we get started, I just want to let everyone know that important disclosures including personal holdings, disclosures and Morgan Stanley disclosures appear on the Morgan Stanley public website at www.morganstanley.com/researchdisclosures or at the registration desk.

So I'm going to start by asking Jamere a number of questions and then at the end we'll open it up for Q&A.

QUESTION AND ANSWER SECTION

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

So Jamere I just wanted to start on capital deployment, because that's been a topic recently that I've been getting a lot of questions on. So, during the fourth quarter earnings you mentioned that you might use some of your tax benefits to accelerate the investments that you're making through 2020. You'd announced those investments at the Investor Day. They're relatively sizable related to Walmart and e-commerce. And that will result in depressed margins this year. And so how can you give investors comfort that spending even more money right now is the right thing to do?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. So on our fourth quarter call, we reaffirmed our guidance excluding the tax benefits. We did, however, highlight that we expected our GAAP tax rate to go from 38% to 38.5%, to 32% to 34%. And we said we would update later after we have an opportunity to work away through some of the analytics associated with it. As you all know, the Tax Reform bill was pretty complicated in nature, and given some of the attributes that we already enjoyed on our balance sheet, we wanted to make sure that we sort of have the opportunity to understand the regs a little bit better. There were some clarifications that came out later. So our team is almost working their way through that. What I'll say is that, based on where we are in that analysis today, we expect most of the GAAP tax benefits to fall through the EPS line. We expect from a free cash flow standpoint that the cash tax pieces of that will be neutral to slightly positive.

And so, when we talked about investments and the opportunity to accelerate investments, what we're really referring to here was an opportunity for us to accelerate some of the things that we have talked about at our Investor Day around our Path to 2020, which is going to lead to a full point of margin expansion. We're pretty pleased with where we are, so far in some of those investments. Our teams are doing a fantastic job of executing. So many of the things that we potentially will be talking about from a reinvestment standpoint, we do that within the context of the $800 million of free cash flow that we talked about in our financial framework already. We feel very positive about that, just given all the dynamics associated with it. We feel great about the opportunity to go a little bit faster on some of the initiatives that we laid out.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And when you think about the internal investments or organic investments that you made in the business, how are you measuring that internally like how can investor say, yes, they did a great job on that?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah, it was a pretty rigorous analysis. We have a balanced capital allocation approach, but we go through a pretty rigorous analysis to make sure that those things are producing the kind of returns that make sense for our company. So for example, when we're looking at our M&A transactions we're shooting for a hurdle rate that gives us more than 15% return on invested capital. When we're looking at internal CapEx investments, it's usually a 15% plus sort of IRR. And these were also [indiscernible] (00:04:04) us to be lined up with the strategy that we have to grow our business and expand margins over time.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Great. And in the past you've talked about the framework for capital deployment of 45% of free cash flow to your dividend, 15% for debt and then [ph] that's where you got (00:04:22) paid down and then 40% for M&A and buybacks and so the investments that you're making this year, is that coming out of the 40% M&A and buybacks or where should we think about that?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah, so we talk about that long-term allocation we talk about it in terms of our free cash flow allocation. And our free cash flow is obviously sort of our operating cash flow less our CapEx. So the investments that we're talking about are sort of in that operating cash flow line or in the CapEx line. As we think about investments in M&A for example, we said, listen, we're going to toggle those opportunities between M&A and buyback. That's part of that 40% allocation that you talked about. And that's a pretty rigorous set of analyses that we do as well to make sure that we're generating the kind of long-term returns for the shareholder that makes sense for the business.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Makes sense, okay. And so when I think of that sort of the M&A repurchase bucket, with your stock price at an attractive level right now, what should we think about sort of more of an emphasis on repurchase or how do you think about it?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc
A

I think broadly speaking, our long-term capital allocation framework remains unchanged, right. So when we talk about having roughly 45% of the dividend, growing that in line with earnings, toggling roughly 40% between M&A opportunities and buyback opportunities, the remainder, to service the mandatory debt.

That gives us a lot of financial firepower given where our leverage is, given the free cash flow generating capabilities in our business. So, returning cash in meaningful ways to investors but also to invest in growing our business. And so, really no change to that long-term framework. We've seen us from time to time be opportunistic about buyback opportunities or M&A opportunities and you should expect us to do that from time to time in the future.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC
Q

Okay, great. And I want to talk about sort of the business more operationally now. When I think about sort of where Nielsen was 10 years ago versus today, there was a lot of things that were different. So, media consumption was primarily TV-based, Nielsen ratings were the currency there, still are the currency there.

Now things are – media fragmentation shifting more towards digital as well. When I think of [ph] probably (00:06:49) the retail, brick and mortar was sort of where people were buying more, now it's increasingly e-commerce. So, just talk about how Nielsen's positions then versus now where – how Nielsen has changed to be able to capture this sort of changing trends?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc
A

Yes, so, the one thing that hasn't changed is we've been very focused on following the consumer in both segments of our business. So, if you look on the media side of the business as consumers have migrated to other devices or the platforms to view content – media content if you will, we've innovated to be able to measure that viewing if you will on those other devices or those other platforms.

And that's part of what you see us talking about when we talk about our Total Audience measurement [indiscernible] (00:07:38). It's not about a particular platform or a particular device or a particular distribution, it's about following consumers across those platforms of measuring that viewing wherever it sort of shows up.

And that's what we've been doing. We started down the path of building our Digital Ad Ratings platform, which became the underpinnings for really a lot of the things that we're doing digitally inside the company in terms of measurement. We started down that path of measuring in the 2010-2011 timeframe and that platform has provided the foundation for us to do a lot of what you see us doing in the marketplace today whether it's Digital Ad Ratings, Digital Content Ratings, et cetera. So we've been very focused from an investment standpoint, from an innovation standpoint of A, following the consumer and B, making sure that we have the capabilities to measure that activity no matter what platform it shows up on. The same is true on the Buy side of the business. We have seen some fairly significant changes in terms of the way consumer buying behavior has taken place in the marketplace. We've seen e-commerce be a much bigger piece of the mix in terms of the way that consumers are thinking about buying and consuming fast-moving consumer goods. We did a set of analyses just a year or two years ago that said that we thought 70% of consumers would be buying fast moving consumer goods on an e-commerce platform in a 8- to 10-year timeframe. We've actually shortened that view to say that, that's going to be more like a five-year timeframe.

And so given that, that's the case, we've worked very hard inside the company to start to build our measurement capabilities to capture that consumption activity. So it's a combination of getting electronics POS data from [ph] corporate and (00:09:32) retailers. It's building out consumer panels to be able to measure that. And in some cases using some data science to help us fill in some gaps and I'm pretty pleased with the efforts that we're making. We're in the early innings. There's going to be a lot of work to be done in that space but as long as our strategy remains around following the consumer, then you'll see that's innovate in a way that measures the consumption no matter where it shows up.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

And so I get that question all the time about competition, right. So you sort of [ph] were going (00:10:03) from Nielsen being the measurement provider to there being more than one. Does that necessarily have to be deflationary and why not?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah, well, I think a couple of dynamics that stand out to us is that one, as we move through time, the notion of there being a separate currency [ph] right (00:10:29) across the platform, currency use has sort of morphed into the fact that what publishers want is they just want Nielsen to measure their Total Audience, whether it's on linear television or it's on a digital platform, et cetera. And so what we've done is we built this Total Audience measurement framework that enables them to see their Total Audience on an apples-to-apples basis in a [ph] duplicated (00:10:52) way to help them, add up the Total Audience and be able to monetize that inventory. That same approach is important to advertisers as well, because advertisers want to understand, are they actually reaching the audiences that they pay for and whether that's on a linear platform or it's on a digital platform. They want to know and understand that. And the other thing that advertisers want to know and publishers want to answer is with all of those investments that I've made in [ph] Media has been (00:11:24) am I getting the return on that investment that I move the needle at retail, and you've seen our marketing effectiveness business which we reported in our Watch segment, were double-digits over the last few years, because we're asking – we're actually helping our clients answer those questions around – did I actually move the needle at retail?

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. I just wanted to ask since we're on the topic of advertisers. It sounded like in fourth quarter earnings, a few of the advertising agencies had mentioned maybe some better growth in the environments. And so, I think, it was a little bit of a different characterization and [ph] then state (00:12:04) commentary that you had made on your call. And so I just wanted to – I know you have a different business than the advertising agencies but just wanted to get a sense for would they be getting better first, or is it we're looking at the wrong side of the business?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

If you go sort of one layer deeper in that, I think most of the advertising agencies will tell you that it's very client specific in nature. Certainly there are some clients that are pivoting the growth and are looking to double down on their investments in advertising, in innovation, in data and analytics to help them grow their business. And that is true in some cases but by the same token, there are a number of clients out there that are still working their way through a very tough cycle. In fact, I spent some time recently with an ad agency [ph] exactly (00:13:00) and we talked very specifically about fast moving consumer goods and the environment that we're seeing in terms of it being tough for the next few quarters, it's exactly what they are seeing as well. So there are pockets of performance that's a little bit stronger. But overall, I would say that the environment hasn't changed a whole lot at least for the clients that we serve.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then [indiscernible] (00:13:22) I get a number of questions on the Connected System. And you're basically using that as a platform to be able to provide more data and analytics and increasingly the price point is a little bit lower, so it helps smaller and mid-sized customers whereas they weren't really available. Your products weren't available before given the price point and so talk about how is that versus charging a lot for custom products for the large clients that you have. Is it cannibalistic to Connected System, and basically how do you get to the 1 to 1.5 points of growth that you've talked about?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Sure. So we do expect our Connected Systems drive 1 point to 1.5 point of growth for us. It's a combination of a couple of things. Number one, if we look at the capabilities that we're bringing in the Connected System where we're bringing our retail measurement data along with our analytics, we're also putting our media data inside the Connected System, because as I mentioned before, advertisers are asking a question, am I getting a return on that investment and is it moving the needle in terms of what I'm seeing in my sales and market share data. Having that data in the system is really, really important and that's going to be a growth driver for us there.

And then, the other thing is we're bringing connected partners on to the platform. And these are partners that are helping clients answer questions around business drivers for the business and how to go activate against those business drivers. So when you look at those dynamics, those are all positive for our business and positive for our clients. I think the other big thing with the Connected System is now that we have built this platform and we sort of demo-ed this capability, it's actually helping us in our competitive wins as well and we announced a really big one at our Investor Day with Tyson and we're going to have the opportunity to continue to expand our competitive capabilities because we now have a system that is geared towards helping some of those competitors before would use – some of those clients [ph] I look forward (00:15:31) use our competitor system because there were certain features and functionality we just couldn't offer in a meaningful way to them. So we feel pretty good about the growth prospects that are associated with the Connected System.

And then the other thing as you mentioned is that because we're moving to more of a data as a service or software as a service platform, it gives us the opportunity to go address that long-tail client that before couldn't afford the Nielsen Dataset and a Nielsen Client Services team, they have an opportunity to use a lot more self-service applications and then we have an opportunity to go after that book of business in a much more meaningful way than we have in the past. And so when you add all those things up, we're pretty bullish about the growth prospects just associated with the development that we're doing there. And our teams are doing a fantastic job of executing.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Could it be higher than a 1.5 point of growth.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

I certainly would hope so.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then at Investor Day you mentioned the Walmart and Jet.com announcements, with Walmart basically providing their suppliers with analytics and being the exclusive provider there. Are you able to sort of leverage that product to other retailers and manufacturers as well?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah, the dynamic in the – with retailers is that they all want to be more efficient in terms of how they do business with their supplier base. And if you look at Walmart for example they've got thousands of suppliers every day who are coming in and talk to them about their products and how their products are performing relative to competition and they use that to negotiate with buyers to allocate shelf space and all those kinds of things and so if you have a supplier that's on one set of data and looking at categories in a certain way and you have Walmart or a buyer looking at it in a different way, it makes the conversation have a lot of friction in it, because you're reconciling data and you're trying to make sure that we have a common view of the world, so that we can determine what we're going to do in terms of running the business going forward. And so what Walmart has done is they've moved to this one version of truth program utilizing the Nielsen data hierarchies. We think that's going to drive a ton of efficiencies for Walmart, that's going to drive a ton of efficiencies for manufacturers. We're pleased with where we are today with a program we just launched on February 1. I had a review a couple of weeks ago. We have over 30 clients signed up already including some really large multi-nationals. And this is going to be a growth driver for our business and it's going to be very helpful to the entire ecosystem.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Great. And I just wanted to ask about just [ph] develop Buy in general (00:18:19) declined 5% last year, 3% decline expected this year. So it's driven by weakness in the U.S. And correct me if I'm wrong, but you're viewing it more as a cyclical thing, not secular, but there are certain secular things going on in the market like ship to private label and e-commerce. So how are you viewing private label on the business and then I'll ask about e-commerce afterwards.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yes, so there have been some changes in terms of the marketplace. So if you look, first of all starting with the consumer, the way the consumer is shopping today has changed. We talk a little bit about e-commerce being one of those dynamics, but there are also some changes in consumer taste, if you will, that have driven some of the changes in terms of what's happened at retail and what's happened for some of our clients. And if you look at the strength of our client base, large multi-nationals that we've won over several years, some of which have been with us for 30 years plus, they've been impacted in a significant way and they've responded to that as they've had growth challenges. They've responded to those challenges by finding a way to go trim costs. Some are doing zero-based budgeting, some are on their second or third iterations of zero-based budgeting, and even though our data is mission-critical for those clients, we're certainly not immune to those dynamics. And so that piece of it as it relates to the growth challenges is certainly cyclical in nature, but they're also facing the changes in terms of the consumer and changes in terms of the way consumer shops as being something other than cyclical.

The answer to those challenges for our clients and they all notice is to, A, continue to invest in innovation to drive new products into the marketplace, continue to advertise and make sure that they're top of mind and relevant for consumers. And the third piece is to make sure that they're investing in data and analytics to help them understand business drivers and how to activate against those business drivers and that's certainly going to have a positive lift for our business.

So we're not counting on a snapback in the environment any time soon. That's why the investments that we're making in the Connected System, the investments that we're making in the retailer platforms, the investments that we're making in e-commerce are all focused on helping clients operate in this environment and they'll be a growth driver for us and it'll help our clients sort of pivot to growth as well.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

In e-commerce specifically, is there a different sort of buying behavior for measurement analytics than there is for traditional brick and mortar, like there are different competitive landscape and also like people want to buy different data sources for different parts of it, because maybe they feel like this one's better in this area, this one is better in that area.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah, well, overall there's just an incredible demand for data and analytics around what's happening in the e-commerce space. We've seen, a lot of the growth for some of the fast-moving consumer goods industry is actually coming from that channel. And so to the extent that

data and analytics providers can help understand, A, how much volume is being moved through those channels, and B, give some granularity on what some of the behavioral aspects of that, then that's going to be a business building proposition.

And so, what we've been working on and focusing on is making sure that we invest in the things that are going to give us the capability to go do that. We're making investments in electronic POS data and partnering with Walmart and Jet.com for example. We're continuing to expand the reach that we get through consumer panels. We're looking at other data sources to help us do that. And in some cases, we're using data science to help us understand what's happening in those channels. And over time, as there's more consumption in the e-commerce channel, you'll see our measurement get more and more granular and be more and more useful and impactful to our clients.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Okay. This is a little bit broader but there's been a lot of interest in big data and monetization of big data. You have a ton of data in both Watch and Buy. Are there any opportunities that you're sort of using to monetize this data outside of your traditional [ph] Buy (00:22:52)?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yes. So, there's just a tremendous appetite as I mentioned for ROI-based metrics, both from advertisers and publishers, and so when we look at the marketing effectiveness portion of our Watch business growing double digits, it's driven from the demand from publishers who want as many datasets as they can get to help them understand whether or not they're having a meaningful impact on their clients at retail. So, we've seen publishers double down on their investment in that. It's a big piece of every upfront presentation, not just sort of age and gender and traditional rating data but lift that you can anticipate getting from investing in certain programming and that's happening.

Advertisers are looking for the similar datasets, because they're trying to minimize waste and increase efficiency associated with it. The other dynamic that we see in the marketplace where there is an incredible demand, as you know Nielsen has several thousand segments of data if you will in terms of segmenting consumers and finding audiences, as individual publishers and advertisers are looking to get more specific on the audiences that they're trying to reach. There are more investments coming into buying those kinds of datasets and that kind of capability from us.

So we see tremendous opportunities there. They are helping us grow our business over time, and as those questions come from clients. We find more and more useful applications of the data that, that we have inside the company.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Great. We only have about 5 minutes left. So I want to see if there's any questions from the audience, otherwise I will continue on. So there's one in the front over here.

Q

Hi. I wonder if you could maybe provide a bit more detail on some of the Chinese execution issues that have come up recently, and then more broadly what gives you the confidence that the emerging markets [ph] Buy (00:25:00) growth rate is sustainable at high levels for a long period of time?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yes, so when we look at the emerging markets, there are tremendous tailwinds in the emerging markets. Just the combination of population growth, rising middle classes, urbanization, creating tremendous opportunities for us to go expand our coverage and be able to service the marketplace. In terms of our confidence in the business, we see tremendous volume growth there. We're getting pricing. We're expanding our coverage. We have a diversified mix of business there. So almost 35% of our business in the emerging markets is actually with local clients. They're growing their business with Nielsen in the mid-teens range, multi-nationals, some of which are struggling in developed markets. Quite frankly, are continuing to double down on their investment in the emerging markets. They're growing their business with Nielsen in the sort of the mid singles range. So the dynamics in the emerging markets are very healthy and we have a lot of confidence in the outlook that we provided over the last three years.

We talked about on the fourth quarter that we had some execution issues in China. I'd say overall the markets are in great shape there. Their volume opportunities, their growth opportunities, our teams in China have a tremendous number of opportunities to go after. We quite frankly very simply put, we have things that we were trying to get done in the quarter and closing the quarter that we didn't get done. And as a result of that, we sort of missed our estimate by a couple of points but the underlying markets are in great shape in China and you can expect us to improve that performance in the first quarter and throughout 2018.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Could those deals be closed in the first quarter, or should we expect this...

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Some of which will actually flow through in the first quarter. As I said, we'll see the first quarter be a little bit better than the fourth quarter. I think the broader opportunity for us as it relates to China is again, if you look at what's happening in that marketplace with urbanization for example, you have another 250 markets with 1 million people or so in those marketplaces. There is a lot of consumption that's happening in China. We'll have an opportunity to get more granular on our coverage. It is still the most important emerging market for our clients and they're investing at a healthy clip. The local giants that are in those marketplaces are getting more sophisticated. They're investing more in Nielsen data, so the market dynamics are very strong there and we feel good about the long-term prospects.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

Great. We probably have time for one more. Just one over there.

Q

Hi. Can you help us better understand the economics of the Connected System? I think you mentioned it's going to be pretty high margin revenue stream. So what kind of sort of orders of magnitude are you talking about, and is it also going to be sold on a subscription basis?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yes, so the Connected System will be high margin subscription based revenue for us. The opportunity for us to expand margins will be from the fact that, A, we have a data as a service, the software as a service platform that will typically generate more margins than the service that we're providing the data. There's a little bit more people [ph] as a (00:28:21) service oriented.

The second dynamic that we have associated with the Connected System is we're bringing these connected partner programs on in the Connected System. We have almost 50 of those partners on the platform today. We're generally operating that business with a rev share arrangement. So very high margin profile for us there. And then the third dynamic which we're actually pleasantly surprised with is that as we move forward and have discussions with our clients around the Connected System for our largest and most sophisticated clients not only are they leaning into sort of the data as a service or software as a service elements of the platform but they're still keenly interested in making sure that they have a highly trained, highly qualified set of Nielsen associates that are helping them execute and operate in that environment, utilizing the data that's coming out of the Connected System.

So that actually is going to turn into an incremental opportunity for us that quite frankly we weren't counting on before. So that we feel very positive about what we're doing from a platform standpoint. It's a much more efficient platform, much more efficient way for us to go run the business and there are certainly some high margin revenue opportunities that are coming along with it as well.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Great. Well, I actually have about 20 more questions. We're actually out of time.

[indiscernible] (00:29:41)

I will. All right. Thanks, everyone for coming in.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

All right, great. Thanks.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC

Yeah, I appreciate it.