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Nielsen Holdings NV (NLSN)

Q3 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Leann and I will be your conference operator today. At this time I would like to welcome everyone to the Nielsen N.V. Third Quarter 2014 Earnings Results conference call. [Operator Instructions] Thank you.

Kate Vanek, Senior Vice President of Investor Relations, you may begin your conference.

Kate White Vanek
Senior Vice President-Investor Relations

Thanks so much. Good morning, everybody. Thank you for joining us today to discuss Nielsen's third quarter 2014 financial performance. Joining me on today's call from Nielsen is Mitch Barns, Chief Executive Officer; and Jamere Jackson, Chief Financial Officer. A slide presentation that we'll use on this call is available under the Events section of our Investor Relations website at nielsen.com/investors.

Before we begin our prepared remarks, as always, I'd like to remind you that the following discussion contains forward-looking statements within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include comments about Nielsen's outlook, expectations and prospects and are based on Nielsen's view as of today, October 23, 2014.

Our actual results in future periods may differ materially from those currently expected because of a number of risks and uncertainties. These risks and uncertainties that we believe are material are outlined in our 10-K and other filings and materials, which you can also find on our website.

For today's call, Mitch will start with comments on our results for the quarter, and then overview of some key highlights, and he will provide a business update there. Then Jamere will discuss financials and will provide updates on our full year guidance.

During Q&A we ask everyone to limit themselves to one question and one follow-up in order to accommodate everybody and the IR team looks forward to handling any additional questions you have after the call.

And now to start the call, I'd like to turn it over to our CEO, Mitch Barns.

Dwight Mitchell Barns

Chief Executive Officer

Yeah, thanks, Kate, and good morning, everybody. Thanks for joining the call. Jamere and I appreciate the opportunity to update you on our business. In third quarter, we continued along our well-established path of consistent growth, margin expansion and cash flow generation. And we continued to move forward with product innovation, new client wins and new partnerships. All of which serve to further extend our leadership position in the global marketplace.

Let's walk through a high-level look at the quarter. First revenue. Revenue grew over 14% on a constant currency basis, excluding our acquisitions of Arbitron and Harris Interactive. Core top-line growth was 3.4%, driven by strong growth in Audience Measurement; double-digit growth in Ad Solutions; and double-digit growth in emerging markets; offset somewhat by anticipated softness in our Insights business in North America.

Next, adjusted EBITDA was up nearly 20% or 22% on a constant currency basis, reflecting the impact of our Arbitron acquisition, as well as great execution by our operating units. Adjusted net income per share was \$0.66, up 35% constant currency. And our free cash flow of \$289 million was up 17% in quarter versus the prior year.

Turning to two additional financial items. First, as you saw in our press release this morning, our board has authorized an additional share repurchase program for up to \$1 billion. We also have approximately \$400 million remaining under our previous share repurchase authorization, and we'll look to exhaust that capacity by the end of 2014. Our overall share repurchase program reflects our strong balance sheet and strong free cash flow.

And second guidance. We're on track to achieve the revenue and the ANI per share ranges we provided to you back in December. With one quarter left, we're tightening up the ranges, and Jamere will share that with you in a few minutes.

To sum up, we remain committed to delivering value to our shareholders. Our strong business model lends itself to continued revenue growth and margin expansion, and we remain confident about the future.

Moving to slide 6. Our mission every day is to measure consumer behavior around the globe. Our analytics are a critical link in helping our clients understand and act on what's happening in the market, which then helps them grow revenue and profit. And with this in mind, we have a number of key initiatives in progress that I would like to touch on. But before I walk through the specific initiatives in the quarter, I'd like to take the opportunity to put some context around the environments in which operate.

First Watch. The video landscape it's evolving and that's creating growth opportunities for us both at present and as far as we look into the future. Fragmentation continues to increase: behavior is shifting as consumers take more control over when and how they choose to view content. And as they do, we see it's not a zero sum game because video consumption continues to grow. Choice leads to more and this is true across every demographic. And Nielsen is positioned to measure all of that viewing: traditional TV and digital video.

Let me say it again. We're positioned to measure all of that viewing: traditional TV and digital video. Overall, our Audience Measurement revenues both digital video and traditional TV, they grew 6% during the quarter.

Our effort to seize the growth opportunity largely revolves around OCR, and we couldn't be more pleased with the momentum. In 2014, we've seen a surge in adoption of OCR from the entire marketplace: advertisers, agencies, publishers and ad platforms, as evidenced by the nearly 10,000 campaigns initiated year-to-date, more than double the number in 2013.

Most recently, we were selected by the Korean automaker Hyundai to measure their online campaigns and, in fact, they join a long list of automakers and their agencies that are engaging with OCR.

We also recently renewed our contract as the preferred supplier for digital audience measurement services in Australia in a highly competitive process and a major factor in that win was our capability with mobile measurement. Adding mobile coverage has been number one on nearly every client's list and now they have a solution. In fact, they have two Nielsen options to choose from. Recall, that our July launch of mobile OCR was met with strong initial demand and adoption continues to trend well with mobile accounting for nearly 10% of all impressions currently measured by Nielsen and the growth is accelerating.

And then in September, for our television clients, we launched a platform to enable crediting of mobile TV viewing into our C3 currency ratings for the clients who choose to monetize their mobile TV viewing that way.

So just to be clear, we're offering those clients two ways to monetize their mobile viewing: mobile OCR or mobile TV ratings. It's their choice. They can choose whichever one fits their business model best. These flexible solutions are a key part of making comparable cross-platform measurement a reality. And we're alone in our ability to provide this complete view to the market.

We also made some big moves this quarter on Digital Content Ratings, which you'll hear us refer to sometimes as DCR, going forward. We can now offer clients syndicated ratings of audiences for all types of digital content using the same measurement architecture as OCR, which of course measures audiences for ads. Digital Content Ratings complement and strengthen the value of OCR because content ratings help agencies and publishers plan and predict OCR outcomes more confidently.

OCR has been progressing quite well even without that complementary metric of Digital Content Ratings, but with the launch of Digital Content Ratings, OCR only gets better. Earlier this week we announced an important strategic alliance with Adobe, a leading player in the world of digital content. And this alliance enables us to bring Digital Content Ratings to the market more efficiently and also directly linking them to Adobe's analytics for our mutual clients. This is a really big deal, as shown by the enthusiasm of our clients like Univision, ESPN, Turner Broadcasting, Viacom and others. And we're thrilled to be working with Adobe on this.

Turning to local television. This is a topic that's received considerable attention lately. Our clients are looking to Nielsen for an improved measurement of their audience. And we currently have two tracks in place towards that goal. The first track is focusing on upgrading our current measurement system by increasing our panel sizes and adding electronic measurement in more markets. And this is well under way.

The second track focuses on supplying a complementary stream of data, separate from our currency ratings which will draw on our panels as well as other datasets, including set-top box data. This second stream will provide the marketplace a new way to analyze and describe the nature and qualities of TV audiences for the clients who choose to take advantage of it. Local is an important part of our business, and we're fully committed to it and our role as the currency provider for the market.

Next audio. It's now been a year since we acquired Arbitron, and we couldn't be more pleased with the integration of that acquisition and what we're doing to bring better measurement and better analytics to this market. This speaks volumes about the quality of the leadership and teamwork of my Nielsen colleagues in our Watch business. We continue to make progress towards our goal of aligning the market on a digital measurement solution, and we'll be sure to keep you posted on those developments.

Finally, Ad Solutions or marketing effectiveness. As you know a big part of this is about connecting what consumers watch with what consumers buy, which of course we're very well positioned to do. We not only help Chief Marketing Officers measure the ROI of their marketing, but we also help them improve that ROI and there's a lot of demand for this, so it's no surprise that our revenues in Ad Solutions continue to grow at good pace during the quarter, up 12%.

Turning to Buy. We continue to win new clients in our Buy business. They're coming to Nielsen because they view Nielsen as the best partner to help them manage the performance of their business. They like the enhancements we're making to our technology platforms, and they appreciate our strong retailer relationships. One recent example is L'Oreal in the U.S., the latest in a series of new client wins.

We also continue to strengthen our partnership with our existing clients, helping them to improve their new product success rates, their marketing ROI and their sales effectiveness. Our analytics help drive not only our clients growth, but also the growth of their retailer partners.

For example, in the area of sales effectiveness, our assortment optimization capabilities help improve the alignment between product availability and consumer demand to the benefit of both the manufacturer and the retailer.

Next, let's turn to Japan. We don't often talk about Japan because Japan is the one major developed market where we do not measure retail sales for our consumer package goods clients. Well, in recent weeks, we forged a new commercial alliance with a company in Japan called INTAGE, a leading information provider in that market. Under our agreement, we will market their retail measurement data for Japan to our clients outside of Japan. And they will sell Nielsen's global retail measurement data to interested companies in Japan.

Finally e-commerce. This is an area we continue to like because of the powerful long-term opportunity that it represents. On our July call, we discussed our omni-channel service in partnership with Alibaba. As we continue to build out our capabilities, we're seeing growing demand across categories as our clients look to Nielsen for insights on how and where to achieve success on the world's largest e-commerce platform.

There is more, lots more activity in this area in fact, in the U.S., in India, in Southeast Asia and several other markets. But to be clear, the revenue associated is still relatively small so far. So you might ask: why does he talk about e-commerce all the time? Well, the answer is simple: because it's a glimpse into the future. Let's think about it. In an e-commerce world you have watch and buy. It's digital, personal, real-time and when combined with the big trends of mobile device ubiquity and hyper-connectivity, you begin to see the convergence of the offline and the online worlds.

Simply put, today's e-commerce environment is a great context for understanding how Nielsen's strategy and portfolio will play in the broader market of the future. And when we look at it, we like what we see. It's yet another reason for us to be optimistic about the future of our business.

Jamere, over to you.

Jamere Jackson

Chief Financial Officer

Thank you, Mitch. And as Mitch indicated, we had another quarter of solid execution. Revenue was \$1.57 billion, up 14.4% constant currency. Excluding the impact of the Arbitron and Harris acquisitions, revenue grew 3.4% constant currency. Adjusted EBITDA was \$477 million, up 22% constant currency. And adjusted EBITDA margins were 30.3%, up 188 basis points, as we saw very strong margin expansion in the business.

Adjusted net income was \$256 million, up 36.9% constant currency. And diluted adjusted net income per share was \$0.66, up 34.7% versus prior year. Finally, we generated \$289 million in free cash flow, up a very strong 17% versus a year ago.

Look, overall, I am pleased with the execution of our teams around the world and the solid results that we delivered in the quarter.

Next, I'll move to segment revenue and give you a little color on the pieces. As I mentioned, revenue was up 14.4% for the quarter and we saw strength in both Watch and Buy. This also marks the 33rd consecutive quarter of revenue growth for our business, reflecting our continued ability to deliver top-line growth due to cycles. Our Total Buy revenue was \$878 million, up 4.9% in constant currency and up 2%, excluding the Harris acquisition. Our Information business grew 3.7% to \$677 million constant currency.

We benefited from continued demand in retail measurement services, key client wins and double-digit growth in our emerging markets. Our Insights business revenue was \$201 million, up 9.2% constant currency, excluding Harris, Insights was down 3.8%.

Now as we anticipated on our 2Q call, we saw some client tightening in North America. As I've said and we've said many times, Insights is the portion of our business that has more discretionary client spend and this is typically what we see in tighter spend environments.

One bright spot was the growth in the emerging markets as our clients continue to invest to build out their analytics capabilities. Emerging markets were up 10.3%, as we continue to see broad-based growth in many of our markets. In particular, we saw strong growth in Greater China, Southeast Asia, Latin America, Africa, the Middle East.

And this year, we have seen our continued commitment to investing in coverage and capability really pay off for us in terms of revenue growth rates and we remain confident in our strategy.

Finally, our Watch business revenue was \$694 million, up 29.2% constant currency or 5.6% excluding Arbitron. We see continued strength in Audience Measurement, our digital initiatives have tremendous momentum and, once again, we saw double-digit growth in Ad Solutions.

Moving to profitability. Buy EBITDA was \$171 million, up 4.9% constant currency. Buy margins were flat in the quarter and moving in the right direction while we continue to invest in emerging markets. I'll tell you: this is a big focus area for our team. We will continue to invest in emerging markets coverage to fuel long-term growth and support our clients and, as I said, we remain confident in our strategy. There are tremendous growth opportunities for us and we'll keep running the play.

On the Watch side, EBITDA grew 33.8% to \$317 million constant currency, driven by the addition of the Arbitron business, continued progress on our productivity initiatives and solid operating leverage in our Audience Measurement business.

So overall, profitability remains very strong, our teams are executing well, and we continue to invest in our key growth catalysts.

Next, I'll move to foreign currency impact. I want to remind you that we report on a constant currency basis to reflect our operating performance. We generally don't take on transactional risk, so this is strictly the translation impact for reporting purposes. Hence in the quarter, we had foreign currency impact that resulted in 110 basis points drag on revenue and a 220 basis points drag on EBITDA. If yesterday's spot rates held constant through the rest of the year, then we expect a 290 basis points drag on revenue and a 300 basis points drag on EBITDA in the fourth quarter.

I'll move on to the balance sheet and key metrics. On the top left are some of the key financial metrics, which were all in line with our expectations, including the great free cash flow performance that we had in the quarter. On the bottom left is our net debt ratio. Our gross debt is \$6.6 billion, with \$369 million in cash to get to \$6.3 billion in net debt and a 3.4 times net leverage ratio.

On the capital table on the right, there have been no significant changes since our 2Q call. And our weighted average interest rate is 3.86%. We completed the refinancing of the remaining \$800 million of 7.75% notes in the quarter and incurred a charge of \$51 million associated with the refinancing of this debt.

Next, I'll move to capital allocation. As part of our annual strategic plan, we evaluated our capital allocation options. We will continue to have a balanced capital allocation approach. Our strong free cash flow generation gives us the ability to grow our business and return capital to shareholders with a growing dividend and a meaningful share repurchase program. And as Mitch mentioned, today, we announced plans to increase our share repurchase by a billion dollars, bringing our total remaining authorization to \$1.4 billion.

Now we have contemplated execution in two steps. One, execute the remaining \$400 million of our existing authorization by the end of the year; and two, execute the additional \$1 billion by mid 2016. Executing the remaining authorization this year would take leverage up to roughly 3.5 times. We still intend to keep leverage over the long-term in the 3.0 times area.

Our balanced capital allocation approach demonstrates our commitment to drive shareholder returns, while maintaining our ability to drive growth, maintain a strong balance sheet, make strategic acquisitions and increase our dividend at least in line with earnings.

Finally, I'll turn to guidance. We are updating our 2014 guidance. We now see total revenue growth at approximately 12% and core revenue growth in the 4% to 4.5% range. Adjusted EBITDA margin rates remain unchanged. We now anticipate adjusted net income per share in the \$2.50 to \$2.55 range, from our prior range of \$2.45 to \$2.55. Reflective of our updated buyback plans we expect leverage to end the year at 3.5 times, and we're pleased to reaffirm our free cash flow guidance of roughly \$700 million.

On the right-hand side, we lowered our cash tax guidance to \$160 million to \$170 million. And finally, based on our share repurchase intentions in 4Q, our weighted average diluted shares outstanding will go down by almost a million shares.

So to wrap up, we're pleased with our execution in the third quarter. We have exciting growth opportunities ahead. And we're delivering on our commitment to return capital to shareholders in a meaningful way.

With that, I'll turn it back to Kate.

Kate White Vanek

Senior Vice President-Investor Relations

Thanks so much. Leann, we'd love to take questions now.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Todd Juenger from Sanford Bernstein. Your line is open.

Todd Juenger

Sanford C. Bernstein & Co. LLC

Q

Hi, thanks. Good morning, guys. Listen, I'd love to learn – hear a little bit more, if you wouldn't mind, about this new news of the week, the Adobe partnership. And what I'm trying to sort out is as your clients decide whether to use Nielsen in its various measurement capabilities to measure their digital campaigns versus choosing somebody else to do that, what criteria do they usually use? And how does this partnership improve your position in that regard? And I do have a follow-up, if you don't mind. Thanks.

Dwight Mitchell Barns

Chief Executive Officer

A

Yeah, thanks, Todd. Look, it is in fact the biggest reason why we're so excited about this launch of Digital Content Ratings, which is enabled in a big way by this partnership with Adobe. That OCR has been doing really well in the marketplace, even without this complementary metric of Digital Content Ratings. But now, it'll do even better.

And the way to think about it is like this. These two metrics Digital Content Ratings and OCR are very complementary of one another. Let me give you an example of how it might work. For instance, way back in the day I was a brand manager at P&G on the Pampers brand. So if I had Digital back then, here's the way I would have used these tools. I would have used Digital Content Ratings to find the best sites and the best programs to deliver my target consumer, which for the Pampers brand would have been mothers of babies in diapers under the age of 24 months.

So Digital Content Ratings would tell me where to best go find those target consumers. Then I would build my media plan around that. We would execute on the media plan. Then OCR would tell me whether or not I got what I paid for and how many of the people did my plan actually deliver. And so having those two metrics as comparable as they possibly can, the one used for the planning, the one used for the transacting, makes the best overall system; the most powerful system.

And so in that sense, the launch of Digital Content Ratings bolsters the value and the strength of OCR in the marketplace. And that's why we're fired up about this. Now the relationship with Adobe is important because Adobe is a big player in the world of digital content. They touch somewhere in the range of 70% of all content on the Web already through their Adobe Analytics and other services that they provide to the marketplace.

And so by partnering with Adobe, we can get reach of our Digital Content Ratings capability in the market much more efficiently and much more quickly than we otherwise could if we were to just do this on our own, and so very excited about that.

And there's an additional aspect here which is by partnering with Adobe for our mutual clients, they'll have both site analytics that they get from Adobe and also Audience Measurement well integrated in the same system. And this is something that the market has always wanted and now we're going to be delivering it. And I think it's, again, one of the reasons why our clients are so excited about this development, and I mentioned some of those earlier.

Todd Juenger

Sanford C. Bernstein & Co. LLC

Q

Wow. Thanks. Clearly, a lot to talk about there. Listen, I don't want to be greedy with my time, but if you don't mind I can't help – just I have to ask, there's so much going on in the world of TV ratings, would just love to hear your quick thoughts on really the impact of some pretty shocking declines in recorded audiences? And for you guys the question is what does that mean for your priorities, your relationships and the work that you're doing with your television network media clients? Thanks.

Dwight Mitchell Barns

Chief Executive Officer

A

Yeah, thanks, Todd. Well, that has been a topic of conversation in the marketplace: the concern about declining TV ratings. There was some recent news that was more positive on that front where there were some reasons to be encouraged about some of the new fall premiers, where viewing and ratings are reason for optimism right now.

But still taking your question in the broader context, look, I go back to our strategy, which is focusing on the consumer and measuring that consumer across all the environments where they might find and consume video content. And so whether they're watching it through traditional television, which is what the traditional Nielsen TV ratings reflect or whether they're watching it on other screens and other environments, guess what? We're there. We're measuring it across all of those locations. And then our job is to provide that complete view back to our clients, that complete view of the consumer.

And so sometimes I think the focus is perhaps a little bit too narrow just focusing on television and not looking at total viewing. And the reality is total video consumption is growth. Even if TV ratings are flat or perhaps even down in a given quarter, total video consumption has continued to grow. And again, it goes back to that idea of more consumer control, more consumer choice; choice leads to more.

Todd Juenger

Sanford C. Bernstein & Co. LLC

Q

Thanks a lot, Mitch. And thanks for all the time. I will be less greedy next time. I'll give you some minutes back. Thank you.

Dwight Mitchell Barns
Chief Executive Officer

A

Thanks, Todd.

Jamere Jackson
Chief Financial Officer

A

Thanks, Todd.

Operator: And your next question comes from the line of Andrew Steinerman from JPMorgan. Your line is open.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Good morning. Well, Mitch, I'm going to go for your set-top box comment. You made an introductory remark and Nielsen will emphasize other streams for analytics, including set-top box for media measurement. Obviously, Nielsen has had access to set-top box data for years. It just never seemed to be a priority within the analytic mix. But this fall, I know you signed a partnership as well, it just seems like it's a higher priority for Nielsen. What's changed?

Dwight Mitchell Barns
Chief Executive Officer

A

Well, thanks, Andrew, for the question. Look, we've long seen the opportunity related to set-top box data. And in fact, we are actively using it already in a few parts of our business. For instance, in Ad Solutions, our Nielsen Catalina Solutions unit, which has been performing very well, clients are very pleased with what that group does. They're big users of set-top box data, as they look to combine the view of what consumers are watching and what consumers are buying. So we're very comfortable, very familiar with set-top box data, and we find a lot of value in it for purposes of analytics.

Now turning to the question of audience measurement, we've also – we have a lot of experience looking at, working with set-top box data for that purpose, too. And our general sense of it is that as a standalone source of data, it has a number of issues and so it just isn't sufficient, it isn't sufficient quality as a standalone source of data for purposes of audience measurement. But combined with other sources of data that can compensate for some of those weaknesses of set-top box data, then it can be useful. And that's the likely way that it'll continue to unfold in our business going forward.

Still a very important ingredient in our analytics capabilities, and we continue to work with it and look to find opportunities to make it a part of our overall mix for audience measurement going forward.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Perfect. Thank you very much.

Operator: And your next question comes from the line of David Bank from RBC Capital Markets. Your line is open.

David Bank
RBC Capital Markets LLC

Q

Okay. Thank you. Good morning. I have a question and a follow-up after. I wanted to delve a little bit deeper into the traction on the mobile ratings that you guys alluded to. When I think about the opportunity there, there's sort of – there's three constituents: the advertisers; the traditional media players, who you're rating on other platforms right now; and then the new players, the publishers, probably more on the online side who you haven't historically rated. So can you talk about traction within those three buckets? How are they different? How are those constituents all looking at the product? And then I have a follow-up question. Thanks.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah, thanks, David. Look, we're really excited about the progress our mobile measurement suite has made. And I think one of the key reasons is because, yeah, we do offer this choice for certain players in the market where that choice is really important.

Remember, we just launched mobile measurement starting on July 1; that was on schedule. We're very proud of that, that we maintained the schedule given the difficulty that this involves.

And then we brought the mobile TV ratings option, that second option that I mentioned earlier, out to the marketplace just in September. So they're still fairly early, but already the client adoption and the usage is very strong. And I mentioned earlier, it's accounting for about 10% of all impressions that we are measuring across our Audience Measurement business. And it is very broad-based to your point: advertisers, traditional media players and digital publishers.

And I think it really speaks to the strength of OCR just in terms of its product design. By the way, I would even add a fourth group and that would be sort of the ad tech group, some of the segments in ad tech: ad exchanges, ad servers, ad networks. In fact, they were some of the earliest adopters and biggest users of OCR.

And so our mobile measurement and all based on that OCR architecture I think has been very well received all across the market. And that's the way it should be, right. If your metrics are going to really serve an entire market well, it has to work for both sides of the table: the advertiser and agency side; and then also the media player side, both traditional media and also the pure play digital publishers. So we couldn't be more pleased with the progress we're making and how it looks going forward.

David Bank
RBC Capital Markets LLC

Q

Perfect. And I guess, I had a follow-up, I guess it's sort of a follow-up on the first question, which is there has been some controversy around ratings, as you guys are well aware. But the way I look at it is, Nielsen's kind of like the referee, enforcing the rules of the game that other people are essentially handing down to them, I think really the advertisers, frankly. Do you ever get tempted to get involved in the dialogue about what should actually be measured?

Dwight Mitchell Barns
Chief Executive Officer

A

Not sure exactly where you're going with that, David. Do you want to maybe give me a little bit more color or do you want me to give it a shot at it...

David Bank

RBC Capital Markets LLC

Q

Well, the measurement the OC – the C3 measurement is like that's the measurement that the game has asked you to measure, right...

Dwight Mitchell Barns

Chief Executive Officer

A

I gotcha...

David Bank

RBC Capital Markets LLC

Q

And so are you ever tempted to get in the dialogue and say: we'll measure whatever you want us to measure, but maybe you're asking us to measure the wrong thing?

Dwight Mitchell Barns

Chief Executive Officer

A

Well, in the case of mobile, let's go back to mobile, again, we've offered this choice, so mobile OCR, mobile TV ratings. Mobile OCR is, of course, the obvious choice if you're a digital publisher. If you're a TV network and you're going to have mobile content delivered, you can then choose to measure it either of the two ways. And so if that's what you're referring to, no, we don't – we're not advocating for one or the other. We're making both options available.

And then a client will choose one of those two options, based on how they want to monetize that viewing, whatever best fits their business model. So the way it would work, for instance is, let's say I'm a TV network, I'm going to push my content out through mobile apps. People are going to view that content through apps. Before I do that I have to make a decision about how I'm going to monetize that viewing. If I want to monetize it by having that viewing included in the C3 currency ratings, then I have to have the same ad loads, and I'm essentially – yeah, same ad loads as what appeared on linear television, all right. So that would be that model and then that viewing would show up in the C3 ratings.

But if I want to have, for instance, dynamic ad insertion or have a different ad load or target a different group of consumers, then I'm probably going to prefer to have that viewing measured as mobile OCR, in which case it wouldn't show up in the C3 currency ratings, but it'll show up in other ratings that we report to the market. And I think this is something that some people in the market have missed: that there are two ways for this viewing to show up and they're both ratings; and they both are monetizable, in fact, fully. And so we don't preference one or the other for our clients; it's their choice.

Jamere Jackson

Chief Financial Officer

A

Yeah, and the only thing I'd add is that, again, what we're trying to do here from a strategy standpoint is we're going to follow the consumer. And so there are capabilities within the company that give us the ability to do that. So what we actually measure and what actually shows up in the ratings are two different things. And our capability is much broader than what shows up in the ratings.

David Bank

RBC Capital Markets LLC

Q

Okay, thank you very much.

Dwight Mitchell Barns

Chief Executive Officer

A

Thanks, David.

Operator: Your next question comes from the line of Sara Gubins from Bank of America. Your line is open.

Sara Rebecca Gubins

Bank of America Merrill Lynch

Q

Hi. Good morning. Thank you. I wanted to turn to Insights and [ph] just the (34:50) clients that you've seen there. How do you know it's cyclical and not structural? And could you talk about where clients are pulling back their spending? Or maybe spending more?

Dwight Mitchell Barns

Chief Executive Officer

A

Yeah, thanks, Sara. Look, I think you've always heard us say that this is always the lumpier side of our revenues. And a big reason for that is some of these products in our Insights portfolio are more discretionary than other parts of our portfolio, in particular, the core measurement services we provide. When we look at our Insights business over the past quarter, in fact, there are some products in that portfolio that are even more discretionary than others. And it just so happens that those are the ones with the biggest pull back.

They tend to be – well, what we saw was it's the services that are related to helping clients segment the market. So they like to segment the market and then determine which are the best opportunities, the priority segments, and then they focus their marketing activities on those groups of consumers. These are really important, really useful services that we provide our clients, but they're almost never urgent. And so these are the easiest services for the clients to push off or delay until some other part of the cycle that they find themselves in.

And so that is, in fact, where we saw the biggest pull back in our business during the quarter. And I think it is, in fact, a direct reflection of where our clients, especially the CPG clients in North America, find themselves right now.

And I would remind you, as Jamere mentioned earlier, that is where we see the Insights pull back, North America, because the Insights business performed well for us in almost all other parts of the world, especially in the emerging markets. So it really is contained almost exclusively to North America, U.S. CPG clients, where they find themselves in the down part of the cycle right now.

Sara Rebecca Gubins

Bank of America Merrill Lynch

Q

Great. Thank you. And then turning back to Digital Content Ratings, are the content providers paying for DCR? And once they opt in, is it essentially a subscription? I'm just wondering – I know it's early, but I'm wondering what the visibility will look like over time, if they can kind of turn it on and off easily?

Dwight Mitchell Barns

Chief Executive Officer

A

Yeah, both the advertiser and agency side, as well as the publisher side, will be clients of this service. And yeah, the model that we are pursuing is one that will be a subscription model. And not to say that that's necessarily

where everybody will begin, but that's what will make the most sense for the marketplace in my judgment going forward. And so that's the way I would expect.

As far as turning it off, turning it on, I guess I would go back to the idea of it being so complementary to OCR and that it helps you plan and predict OCR outcomes more confidently. Once clients start to see that value, that benefit, then I think they're going to have both of these capabilities in front of them on a continuous basis. It'll just make the most sense.

Sara Rebecca Gubins

Bank of America Merrill Lynch

Thank you.

Q

Dwight Mitchell Barns

Chief Executive Officer

Thank you, Sara.

A

Operator: Your next question comes from the line of Tim Nollen from Macquarie. Your line is open.

Tim W. Nollen

Macquarie Capital (USA), Inc.

Good morning. Thank you. I'd like to follow up again on this question of the ratings and maybe ask a couple of previous questions in a maybe more direct way, which is with some of the issues that have come about with TV ratings and with the kind of slow ramp it seems to me of Digital Ratings, can you do something to get your C7 and OCR systems more firmly established as new standards in the market, i.e. I understand C7 was used by some broadcasters to some extent to make upfront guarantees? I'm not – I think OCR was used for upfront guarantees on digital fronts as well. I'd like some clarification on that. But it seems like they are not being fully established enough yet to really move the ad market. So I wonder if there's anything you can do to actually get those in place? Or is that something you have to leave to the agencies and to the market to decide?

Q

Dwight Mitchell Barns

Chief Executive Officer

Oh, yeah, thanks for the questions, Tim. Let me take them one at a time, so first C7, and then I'll comment on OCR. With C7, what I would remind everybody is we've been providing C7, along with C3, for quite some time in the market. So the market had converged around C3 several years ago as the primary metric, the currency for the TV ratings market. And then it's been in recent years that some of the players have started to advocate for C7 as the better alternative to C3. But we've provided both of them to the market. So we'll continue to do that, so that they have that choice available.

A

And the other thing we'll do to help the market work itself through that choice is we'll provide them data about time-shifting. What percent of households time-shift? How much additional viewing is captured if it's a C7 metric versus a C3 metric? So make sure the market has all the right facts, so that the market can choose for itself and decide for itself, reach its own consensus and best consensus about which is the best metric to trade on.

And as you mentioned, some players are already shifting to the C7 metric, but some are still holding more closely to C3. That's not a decision we make. That's a decision the market makes for itself and we just enable the choice for them to be available.

Then with respect to OCR, yeah, back to your point about were there guarantees made in the up-fronts based on OCR and the new fronts for that matter? The answer to that is definitely yes. How broad-based? It's not to every single corner of the market yet, but I think we'll see that progression continue very steadily, very quickly year-on-year as we continue to go through the cycle. So again, we love the progression and the momentum that OCR is demonstrating in the marketplace and that's just yet another example of it.

Tim W. Nollen

Macquarie Capital (USA), Inc.

Q

Thanks. So is it a matter of kind of just letting the market evolve because there's been such a sharp move in some of the ratings, especially this year. And digital, I think everyone recognizes it's so important whether it's for Google or for CBS or whoever. There's no governing force in the industry that says we will adopt this now. Is there any way that you can force that upon the industry. Force is the wrong word. Anyway you can get the industry to adopt this more actively now.

Dwight Mitchell Barns

Chief Executive Officer

A

Well, we're now passive. I wouldn't want you to think that. But we are neutral and that is very important to the role that we play in the market, independent third-party measurement. That's always been our calling card, always will be, but that doesn't mean we're passive. And again, that's why we take the role of providing choice. And then providing facts around those choices, so the market can make the best possible evaluation and decide where it wants to go. But I wouldn't want you to think that we're sitting back and playing a passive role. But it needs to be neutral for us to be able to continue to use or to deserve our label as being the independent measurement provider.

Tim W. Nollen

Macquarie Capital (USA), Inc.

Q

Yep. [ph] That goes into your role (41:53). I understand. Okay. Thank you.

Dwight Mitchell Barns

Chief Executive Officer

A

Thank you.

Operator: Your next question comes from the line of Andre Benjamin from Goldman Sachs. Your line is open.

Andre Benjamin

Goldman Sachs & Co.

Q

Hi, good morning. My first question is on the high resolution offering, more set-top box data. I know you mentioned potentially offering a second track. I was just wondering if you can maybe help us understand the timing of when you would hope to get that into the marketplace? Help us to understand maybe why you would offer it separately as opposed to fully integrated with your existing rating? Is that simply a matter of stability, given the market options? Or are there some technical or commercial reasons why you would need to keep it separate?

Dwight Mitchell Barns

Chief Executive Officer

A

Yeah, thanks for the question, Andre. Yeah, this one is – let me just go back to the idea of local audience measurement and reiterate how important this part of the market is to us and that we continue to invest in improving our measurement capabilities. And we're fully committed to remaining the currency provider. And a big part of these two tracks is focused just on that. So first one is about increasing the panel sizes and then adding electronic measurement to more markets. And that is for the audience measurement currency ratings that the market continues to trade on.

And this second track, as you mentioned, will leverage data from those same panels, but it'll also blend with that data, data from other sources, including set-top box data. And that is – that'll become more sort of a hybrid metric, is the way I would encourage you to think about.

In other words it'll have the best of both worlds. It'll have the quality and representativity and person level demographics that our panels deliver; the set-top box data does not deliver. But then it'll have the granularity that set-top box data can offer.

And by putting those two together, along with some other data sources and adding some smart analytics on top of it, we'll give clients that second data stream that they can use to maybe better slice and dice, parse the marketplace into finer chunks so that they can think about who they're either trying to sell access to from an audience perspective or who they're trying to buy access to from an advertising perspective. And then, yeah, and hopefully the clients will find that to be very, very helpful.

We already have some services like that that we're offering to the market for instance there's something called Local Buyer Reach that we launched few quarters ago that a number of clients have found to be very helpful, again, in aiding the ad sales process if you're a local broadcaster. And so this second track is yet another capability that we are bringing for much that same reason.

Now you might ask: why aren't we putting it, the set-up box data, in particular, directly into the currency ratings? And it's because – there are a number of reasons, but probably the biggest one of all is because it's difficult to offer, in fact, almost impossible still to offer overnight ratings based on set-up box data. And we actually presented that option to our clients. We can integrate the set-up box data into the audience measurement data with our panels, but you would have to pull back from having overnights. And the clients said: no way. So all right, we listen to our clients. We operate on their behalf and that's where we are today.

Andre Benjamin

Goldman Sachs & Co.

Q

That's all very helpful. And I guess a simple follow-up on the Insights business, given some of the softness and the areas that you described that people are likely to pull back. Within the 12% total growth, I think the last time you gave detailed guidance on Insights was at the Analyst Day last year. Should we simply be pegging to that low end of 4% to 6%? Is that still the right area? Or could that specific segment of the business maybe even be a little softer than that?

Jamere Jackson

Chief Financial Officer

A

Right. You should be thinking about Insights at the low end of the business. Again, as Mitch said, this is the lumpier piece of our business. Where we saw the tightening was in the most discretionary, shortest cycle aspect of that business. But given where we are to-date, targeting at the low end is probably the right zip code.

Andre Benjamin
Goldman Sachs & Co.

Q

Thank you.

Operator: And your next question comes from the line of Paul Ginocchio from Deutsche Bank. Your line is open.

Adrienne E. Colby
Deutsche Bank Securities, Inc.

Q

Hey, it's Adrienne calling for Paul Ginocchio, thanks for taking my question. I was hoping you could update us on how Europe is performing versus your expectations.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah, thanks for the question. Look, Europe is performing largely in line with what our expectations have been for the last couple of years. We've said it's going to be in the minus 1 to plus 1 range and that's where it's tracking to for the year. Our teams are executing well. We have pockets of success, but still you've seen the press as well as we have, the market is still a challenging environment.

Adrienne E. Colby
Deutsche Bank Securities, Inc.

Q

Thanks. And as a quick follow-up on the local TV ratings, I know that last quarter you talked about plans to increase sample sizes in 46 markets. I was wondering if you could address how many additional markets you're looking to make those increases in? And what percent of our total local markets that would represent?

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah, thanks. What we're looking to do is increase sample sizes in 14 of our local People Meter markets. That's 14 out of 25. And then increase sample sizes in 31 of our set meter markets. Those are also electronically measured. That's all of our set meter markets. And then we're adding electronic measurement to 14 of the markets that are currently still measured by the paper diaries. So that's in total what that part of our program is all about.

As far as what percent of our business that represents, [ph] it'll allow (47:52) – that is what is that 28 and it's about 59 markets in total out of 210 DMAs. But it is – those are the disproportionately larger markets. And so I'm going to give you a ballpark here of maybe 75%, 80% of our total revenues represented by just those markets.

Adrienne E. Colby
Deutsche Bank Securities, Inc.

Q

Thank you.

Dwight Mitchell Barns
Chief Executive Officer

A

Sure, thank you, Adrienne.

Operator: Your next question comes from the line of Jeff Meuler from Robert W. Baird. Your line is open.

Nick J. Nikitas

Robert W. Baird & Co., Inc. (Broker)

Q

Yeah, good morning. This is Nick Nikitas on for Jeff. Just with the recent Over-the-Top announcements, including HBO and CBS, could you guys talk about your non-ad supported business, video business? How big of that is that for you currently? And what are the trends that you're seeing?

Dwight Mitchell Barns

Chief Executive Officer

A

Yeah, thanks for the question. Look, these announcements from CBS and HBO about their apps that are coming out to the marketplace, this are exciting developments for the market and certainly exciting for the consumer. And they also really highlight the strength of our strategy, which is to always focus on the consumer, measure the consumer, wherever they're giving video content across any screen, across any platform.

And so when these new apps become available to consumers and they start watching TV content through them, we'll be measuring it and that'll be largely by leveraging our OCR measurement methodology and our mobile measurement that we've talked about earlier.

I'm sorry the other part of your question was?

Nick J. Nikitas

Robert W. Baird & Co., Inc. (Broker)

Q

Yeah, that was most of it, just hitting on the trends and how big of a business that is for you. I can – just one quick follow-up, we've been getting a lot of questions on the on-demand video consumption. And we were under the impression that you guys had that capability and that was being incorporated. But I was given the questions if you could provide added color around what you're currently measuring and also monetizing with VOD?

Dwight Mitchell Barns

Chief Executive Officer

A

Yeah, VOD, again, starting with consumer, we go wherever they're going to be viewing content and video-on-demand is one of the growing areas. We've had a capability in the market for some time and, in fact, we've been investing in that capability to measure viewing through video-on-demand. And we launched an upgrade to that capability just last month. And our capability in the market now allows us to measure and report viewing of video-on-demand content and give C3 credit for it, for not only the most recently aired episode, but also previous episodes of the same season or even previous episodes of a prior season, as long as they carry the same commercial load as the most recently aired telecast.

And so you're going to see more and more of our clients embrace that monetization model and, yeah, that's the measurement capability we have for the marketplace right now focused on video-on-demand.

Nick J. Nikitas

Robert W. Baird & Co., Inc. (Broker)

Q

Okay, great. Thanks for taking the questions.

Dwight Mitchell Barns

Chief Executive Officer

A

Thank you.

Operator: Your next question comes from the line of Suzi Stein from Morgan Stanley. Your line is open.

Q

Hi this is [ph] Toni (50:44) on for Suzi. Just wanted to ask a follow-up question on the Adobe partnership. It sounds like a strong step forward for OCR in terms of being able to reach a significant amount of Web content without having to make the investment yourself. So does that mean that you'll be able to lighten your investment in OCR? Or that the investment in OCR might end earlier than originally planned? And so basically what are the long-term implications for margin expansion in Watch from this?

Dwight Mitchell Barns
Chief Executive Officer

A

We'll continue to invest in OCR and Digital Content Ratings and all of the associated products in this overall Audience Measurement suite. And the reason why we'll continue to invest is because, as you've seen, this market doesn't stand still. So while we might have all of the major needs that the market is looking for right now, addressed with Measurement solutions, there'll be new ones coming out. And we also know that the market still has a need and an opportunity to put these pieces together to harmonize them so that they see that complete cross-platform view of the market and that'll increasingly be a focus of ours in the months ahead.

Q

Great. Thanks. And then one follow-up. Given the large share repurchase authorization, how do you view your future M&A appetite? Is that reduced? Or what is your strategy around that? Thank you.

Jamere Jackson
Chief Financial Officer

A

So given what we've talked on the share repurchase plan, this still gives us tremendous flexibility to number one grow our business organically and inorganically. And you'll continue to see us have a balanced capital allocation approach, which is focused on having a growing dividend, toggling between buyback opportunities and M&A. And with our strong balance sheet and our great free cash flow generation capabilities, we're going to be able to continue to do that going forward.

Q

Thanks a lot.

Operator: Your next question comes from the line of Brian Wieser from Pivotal Research. Your line is open.

Brian W. Wieser
Pivotal Research Group LLC

Q

Hi, thanks for taking the question. On the Adobe news, I was wondering if you could talk through some of the elements of the timing of the launch, key milestones to come and maybe most practically if you have a sense of when you expect that agencies might be signed up and begin using the tool.

And I'll throw my follow-up out there now as well, or my second question. So recognizing that very little TV or buying in general might be characterized as really fully data driven automated/programmatic, do you have a sense of how much of your data or how commonly your data is being used in programmatic TV? I know you referenced the Local Buyer Reach product, which MAGNA and WideOrbit announced that they would be using. But I was just curious if you have seen it, your data more broadly at all being used maybe at the national level where there are attempts to drive programmatic buying in TV?

Dwight Mitchell Barns

Chief Executive Officer

A

Yeah, Brian. Thanks for the question. On the first one for Digital Content Ratings as far as the timing is you know we just announced it to the marketplace two days ago, right. So we're in the process now of working with those major clients, the ones who want to be the first to sign on to start to plan that timing roll-out. And so we'll have more to say on that in the near future. There's not a lot of detail that we can offer to you now. But you can be sure that'll include not only the big media conglomerates and the digital publishers, but also the agencies are a very important part of this mix, and we'll be working very closely with them. So all across the board participation will be broad-based, and we'll make sure that not only the service, but also the way the entire system works is in such a manner that it serves the entire need of the marketplace.

Second on, programmatic. I mentioned earlier about OCR, some of the earliest adopters and biggest users of our OCR metric were from the ad tech world and they don't all employ programmatic, but many of them do, as you know better than I. And so I think that the OCR has proven itself to be very useful to that crowd. And it's in part because even though you've taken a part of the buying process and you've automated it, i.e., programmatic, it still needs to be measured. And it still needs to be improved.

And the role that OCR plays for programmatic buying is just as useful as it is for any other kind of buying for that matter. And the way we deliver it, the way the metric is constructed, the granularity with which it's provided, in fact makes it outstanding to support programmatic buying activities.

Brian W. Wieser

Pivotal Research Group LLC

Q

And what about in traditional TV though where it, again, I recognize that the big opportunity from programmatic is online and you are being widely used, I hear that from players in the industry all the time. But when it comes to traditional TV where it's really nascent, but I guess what I'm getting at indirectly is that where I think a lot of Rentrak's data is being used very practically is for these purposes. And it's very small, but I'm just curious if the MAGNA, WideOrbit announcement was one illustration?

You obviously have more data than most people could possibly need to do any targeting, so I just wasn't sure if you're hearing of any use whether it's NCS or other data sets to inform efforts to drive data-driven TV buying at this point.

Dwight Mitchell Barns

Chief Executive Officer

A

Well, we're in – you can be sure that we're in discussions with all of our big media clients; some are more interested in this topic than others. And we're working with them very closely. So we'll be a part of that. We're sure of that as it continues to unfold. But to your point before, it is still fairly early days for the traditional TV players on this one, but it's coming.

Brian W. Wieser
Pivotal Research Group LLC

Q

Got it. Thank you.

Operator: Your next question comes from the line of Manav Patnaik from Barclays. Your line is open.

Manav Shiv Patnaik
Barclays Capital, Inc.

Q

Hey, good morning. I had one question to Mitch and then one for Jamere. So, Mitch, with the Adobe deal, obviously, it was a great partnership to announce. I was just curious like how we should think about how many more such marquee partnerships are potentially out there for you guys in terms of the way you're thinking about the future? I mean, obviously without giving any names. Like is there, should we be expecting 5 to 10 more key ones, like just a general idea of how you guys are thinking along those lines?

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah, thanks for the question, Manav. This is a part of our strategy to be open to these value-added strategic partners outside of Nielsen. And you've seen us do this a number of times in the past. You're seeing it more recently in this announcement with Adobe and, by the way, also this relationship in Japan that I mentioned on the Buy side of our business with INTAGE.

So there's a number of other ones too. Catalina, we have a joint venture with them. You've seen some news in recent months, recent weeks about Simulmedia, a number of others. Pointlogic we announced that a couple of months ago. This is just part of our strategy to take this open approach to partner with other key third parties in order to provide the best possible solutions to the marketplace.

So yeah, you've seen us do it in the past, you're going to see us continue to do it. And it's because I think that is the way the world operates best when complementary collaborators come together to give the market better solutions [ph] that (58:12) it can do on their own.

Manav Shiv Patnaik
Barclays Capital, Inc.

Q

Okay. Fair enough. And then, Jamere, just a follow-up on Andre's question on Insights. I guess you said the lower end, so 4%, I guess, organic growth for 2014. So that implies that you'll see a pick back up in growth in the fourth quarter?

Jamere Jackson
Chief Financial Officer

A

So here's where we've been. So in the first quarter, we were at 4%; second quarter was 4%. We dipped down this quarter at 4%. And again, what we saw in this quarter was the most discretionary shorter cycle pieces of the business. And while we don't expect there to be material improvement in North America's spend environments, there is an opportunity for some of that short cycle activity to potentially come back. But at the end of the day, we expect to be at the lower end of that range, given where we've been through the first three quarters of the year.

Manav Shiv Patnaik
Barclays Capital, Inc.

Q

Okay. Fair enough and then...

Dwight Mitchell Barns

Chief Executive Officer

A

The CPG clients are in that down part of the cycle right now. That's just the reality. They're having challenge finding growth whether it's unit sales or dollar sales for their business. But they come out of the cycle and then you see this part of the business usually respond.

Manav Shiv Patnaik

Barclays Capital, Inc.

Q

Okay. And then I guess just on the margin side on the Buy business, can you remind us sort of the parts and how that trajectory – I mean, should that just keep showing more and more investments and having that stay flattish? Or how should we think about that?

Dwight Mitchell Barns

Chief Executive Officer

A

Well, I'll throw it to Jamere in a second, but what I'd want to say is the way we think about margins we really manage it at the total company level, Watch and Buy, and also where Watch connects with Buy, Ad Solutions. And the natural scale benefits of our business model allow us to expand margins year-on-year in the range of 40 to 60 basis points, while still continuing to invest back in our business. And we do that largely, of course, focused on those big two trends out in the marketplace: media fragmentation; and then population, population growth, movement, rise to the middle class.

And the way we respond to both of those is coverage, of course; covering new markets, covering new consumers, new platforms with increasing granularity. It's a proven strategy. You've seen it even in our Buy business as we talked about it earlier with the double-digit growth, broad based double-digit growth across our emerging markets in the past quarter. Jamere?

Jamere Jackson

Chief Financial Officer

A

Look, what I will add is that we've invested nearly two points of Buy margins back into the business to support the emerging market growth over the last three or four years. Some of the early investments are starting to scale hence you see margins starting to move in the right direction. We've been vastly underpenetrated and in catch-up mode in many respects and in many of these markets, and now we're investing more in line with market growth. So given these dynamics, you should continue to see margins move in the right direction.

Kate White Vanek

Senior Vice President-Investor Relations

All, we apologize; we're out of time. If you have any additional questions, please reach out to the IR team. Thank you so much for dialing in today and we look forward to talking to you soon.

Dwight Mitchell Barns

Chief Executive Officer

Thanks, everybody.

Operator: And this concludes today's conference call. You may now disconnect.

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