

Royal Bank of Canada Capital Markets Global Technology, Internet, Media and Telecommunications Confe

Company Participants

- Stephen Hasker

Other Participants

- David Bank

MANAGEMENT DISCUSSION SECTION

David Bank

Okay. Well, thank you very much. We're going to get started here. We're honored to have Steve Hasker from Nielsen today. Steve's title is Global President. I live and breathe media and advertising and services and Steve is the guy that's really responsible for having basically invented all these products in the modern era that measure audiences across platforms. And I think this is really his and Nielsen's moment in the sun as we're starting to roll these products out.

Q&A

<Q - David Bank>: So I guess with that as an introduction maybe you could talk a little bit about Nielsen Total Audience Measurement and how you're measuring across platforms and how measurement has evolved over time in that context? Thanks again for being here.

<A - Stephen Hasker>: Thanks for having me and for having us, David. So Total Audience is pretty simple idea, it's the ability for us to be able to measure consistently using the same methodology, any [ph] cycle to (01:13) a piece of content or an ad together or separately no matter where it's seen by who and what time period and what platform. And we've set out to sort of do this three or four years ago. The first piece of the puzzle was to launch what we called at that time OCR what we now call Digital Ad Ratings, the ability to measure digital ads no matter how many people see them and where they see them, in a way that's perfectly consistent with our TV rates, so that was the first piece.

And the second piece, we've built on that. We've done all kind of things to sort of supplement and enrich that product set, but the second big piece is the content ratings, digital content ratings which we launched a couple of weeks ago and we're rolling out through the fourth quarter and we'll have it syndicated when we go to the first quarter of next year.

So Total Audience I think is our big bet, it's very much in demand by the industry, so the chief marketing officers of advertising agencies need a look at the reach of [ph] this (02:16) particular campaign across all forms of media, all forms of video, all forms of audio and all forms of text, can you hear me? No. [indiscernible] (02:26) Is that better?

<Q - David Bank>: Well, that's me so.

<A - Stephen Hasker>: Is that you?

<Q - David Bank>: That's me. Maybe I'll give you the microphone because I think what you have to say is more important than what I have to say. Now, we can hear [ph] either (02:50). Okay, we're [ph] not (02:58) going to [indiscernible] (02:59-03:08). Okay, [ph] we're going to have (03:10) one last shot.

Okay, so that was interesting. So first off it would seem that as you – is this the first sort of time in history where all these products have come together like this is kind of the seminal year, right and that we are measuring across all platforms. In and of itself, you would think it's a competitive advantage, but can you talk about now the difference between being able to measure these audience levels and sort of being the currency of measurement in the marketplace for the sort of uninitiated. Like I could measure, it may not be as good as what you have, maybe someday I'll come up with something better, but the reality is, what's the difference between a measurement and a currency and why does that mean so much for investors in Nielsen?

<A - Stephen Hasker>: Very collegial up here. So the difference between – yeah, there are lots and lots of measures in the marketplace and they increase every day. So there are sellers of media who have their own proprietary datasets and increasingly there are, whether they be the largest advertisers or the largest agency buying groups who have their own dataset. The key and the differentiator to what we do is we are an independent third-party [ph] currency (05:13). So the first part is independence, we do not represent the buyer, we do represent the seller and we have no vested interest in that transaction firstly.

And secondly, our measurement is perfectly covers the entire market. So we're not just looking at one set-top box dataset or one server log dataset or one purchase dataset, we're looking across all forms of media and all forms of media consumption and that puts us in a unique position. There is nobody else in the marketplace who has that independence and has a methodology which is consistent across TV measurement and digital measurement, so we use the same panel which is a cross platform panel and we use the same big datasets and the same accredited methodology and nobody else is even close to that. So without appearing sort of arrogant or overconfident, we do believe we've got a unique set of assets and as the marketplace moves to a more complicated place, the need for a single independent measure, at least of reach if not effectiveness, grows, doesn't diminish.

<Q - David Bank>: And the landscape is evolving somewhat in terms of the competitive marketplace, so and I do think that nobody has the product necessarily that you have, but do you think that competitive landscape has evolved from the comScore, Rentrak merger, I guess I'll kind of start with that, how does it change the marketplace if at all?

<A - Stephen Hasker>: We are not sure it does, I mean, we sort of welcome competition from all places including from separately and combined comScore and Rentrak, its good for the marketplace, it's good for them, it's good for us. Having said that we're very focused on executing Total Audience, getting digital content ratings instrumented in as many clients as we can in the fourth quarter and then moving it to syndication, combining it with the TV ratings to produce Total Audience ratings in the first quarter of next year.

We think if we do that, we're going to meet clients' needs and the rest will take care of itself. Contrast that to, for example, comScore and Rentrak, I think they made announcement earlier this week or last week about their product roadmap. They have to build that product set, they've got to roll it out, they've got to test it, they've got to do all those things, so I wish them well, but our product set is here and now and we have the only cross platform accredited panel and we have access to some datasets that nobody else has. So without, again, appearing over confident, I think we're just quite very focused on executing. And if you look at our track record of execution in the last couple of years, we have done what we've said. And so we're very focused on continuing to build that track record and that reputation.

<Q - David Bank>: How much viewership of television today is on an over-the-air basis?

<A - Stephen Hasker>: I think if you breakdown sort of the number of households in the U.S. you've got roundabout sort of 15% to 20% do not have multichannel television, so they've got sort of digital broadcast with or without a broadband ancillary connection and that has grown in the last couple of years. So as the sort of cord shaving, cord nevers, cord-cutting has become something that many people talk about, what people haven't talked about is growth in broadcast-only homes.

<Q - David Bank>: Right.

<A - Stephen Hasker>: I can't give you an exact percentage, our research folks certainly can, but I do know it's grown, and it's grown because – particularly for non-sports fans, they see it as a viable way to sort of put together a collection of content that they like.

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<Q - David Bank>: Well, I guess the reason I asked the question is that I'm imagining at kind of, let's call it, 15% or something like that, I think it skews for different demos, it skews higher or lower, but how – if you kind of start from that premise, if your measurement is set-top box alone, how is that a viable kind of competitor in the marketplace?

<A - Stephen Hasker>: Well, it's not viable in a couple of different ways. Firstly, as you point out, you're not covering 15% and growing of the population. And to the extent that you're using set-top box data to extrapolate as to what the behavior of that 15% plus is, you're getting it wrong because the facts suggest that households with multichannel television consume more television than households without. So if you take one and extrapolate to the other, you're over estimating the viewing, firstly.

Secondly, the set-top box data is – measures a device which is called the set-top box. It does not measure the behavior of a person. And advertising and increasingly programing is traded on person's level data. So you have to somehow get from the set-top box to the person and the only way to do that, certainly the only way that the industry knows of is to have a representative in person recruited panel and that takes three to four years to build and is very expensive to build and maintain. So there is some real frailties with the set-top box only approach.

We like set-top box data as an additive and we've certainly been in discussions to incorporate set-top box data in our product set. We've been working with set-top box data in different ways for about five years. But as a standalone data source it requires too much modeling, too much extrapolation and too much estimation to get to a reliable in person rating. And the last problem is there isn't a single provider in the country today, and I think this will change, that can provide that data in time to produce overnight ratings.

<Q - David Bank>: So you do like some set-top box data though, right? There is a use to having set-top box data and can you talk about – so Steve you invented the – what we used to call the OCR ratings product that we now call the digital ad ratings product which really takes – I think the way it got traction and credibility in a world of an unlimited number of websites with kind of a fairly limited number of sample is that you extrapolated the data that you got from Facebook in a way that advertisers found extremely credible and publishers found credible. How do you see the world evolving potentially with Nielsen using set-top box data in the same way for television and is that just like a pretty easy answer in your view for all the talk of the panels needing to be big or like how does that change the equation?

<A - Stephen Hasker>: So what we did with the invention of Online Campaign Ratings now Digital Ad Ratings was we invented a methodology that is in essence the following, it's less about extrapolation David, it's more about the following. It is taking a big dataset, in this case the Facebook registration data which tells us age, and gender and hometown of 1.6 billion people across the planet. And using a panel to calibrate and correct that. So in other words there are younger women on Facebook who pretend they're older, there are older men on Facebook who pretend they are younger. There are people who are using the same device, but have different Facebook accounts, we're able to sort of calibrate and correct all that to produce very, very accurate ratings. And because of the size of the Facebook dataset, there is not a lot of extrapolation required, it's actually it is in many senses a census measurement product. We see every single impression to an ad and we are able to go back and find the age and gender and hometown in a huge portion of occasions.

So that system of taking a panel that is accredited, that is cross-platform, that is recruited in home and is maintained by quarterly visits to the household. And using that dataset to calibrate and correct a big dataset is exactly the approach we will take to incorporating set-top box data. So we will never be entirely reliant on any one set-top box provider nor are we entirely reliant on any big dataset, because it's the panel that's at the center of the system. But the two together, we really do see – and I think your point about [indiscernible] (14:18) we really do see one plus one is equal to three. A panel plus a big dataset put together properly in an accredited way leads you to a very significantly better answer than either alone.

<Q - David Bank>: And so if I guess as an epilog to that when you – could you talk to us about eXelate as a data management platform? Can you talk about why you bought eXelate, how it changes the company, what you can do with it, how it gives you a competitive advantage? It's a relatively small deal. So I think a lot of people probably aren't even really aware that you've added this platform to the product.

<A - Stephen Hasker>: Yeah. Right. So the reason we bought eXelate was we saw eXelate is having three interesting assets. The first interesting asset was eXelate had this enormous repository of data on all kinds of digital behavior. So they have a big cookie pool, they have a big device ID pool and it tells them all kinds of things about consumer behavior both on the web and in terms of their purchase, in terms of other characteristics. And we liked the look of that to enrich our own datasets. That's the first thing.

The second thing is we felt that eXelate were if not the best around, then certainly amongst the best around at integrating disparate datasets, so in other words, taking a dataset around purchase, taking a dataset around media behavior and being able to put them together in sensible ways and that's something that we've been working on for a number of years with our NBI product and our Nielsen Buyer Insights which uses credit card data and then Nielsen Catalina Solutions product but we really liked what the eXelate team had built and the way they went about that.

And then thirdly and maybe most importantly, eXelate have built a great set of pipes to the programmatic buying and selling systems, the agency trading desks or the programmatic players. And what we wanted to be able to do and what we have subsequently done is taken all of our datasets and piped it through those pipes All right? So you now have Nielsen data in a sense being a huge ingredient of programmatic buying and selling.

And so we looked at the asset, we liked the price, we actually quite liked the size, and I think – so we went and bought it and we've just had nothing but positive surprises with the eXelate team and with the power of this asset. In essence what it enables us to do is connect buyers and sellers using our data and using the eXelate software. So far example eXelate has been signing up major advertisers as their data integration platform and what this enables us to do is pipe Nielsen data and other datasets direct to those advertisers to better inform their marketing decisions.

It also allows us to go to our media clients and saying we can pipe you in as well. So it's a connective tissue between buyers and sellers and really does represent a big step forward for us in terms of the strategy of putting watch and buy together. So nothing but positive surprises so far with the eXelate dataset. I think the challenge for us is there are so many places where we think in the Nielsen world where we can plug in the eXelate team and the eXelate software but the risk is we get that team stretched in too many different ways and we're just managing our way through that.

<Q - David Bank>: So I have another question. I'm going to open it up after this one. This is I think the toughest question which is – so we also – we cover the media business as well. And we hear commentary from media operators that it's that darn Nielsen measurement, they're not measuring our viewership and we're getting [ph] rucked (18:12) at a lot of revenue. At the end of the day, I don't think Nielsen is trying to [ph] ruck (18:18) anybody out of any revenue. I think at the end of the day, the advertisers seem to be demanding a particular measurement and the operators are asking you to perform that measurement, because that's how they transact.

How does the – how do you change – like what is your role in changing this dynamic, because the spot loads have to be identical for the ratings to count as part of the base show? And these are things that you can't control unless the client tells you to change them. What can you do in this ecosystem? And by the same token is it – privately is the dialog different than what we hear from the media operators on our earnings calls? Like how does it differ?

<A - Stephen Hasker>: Yeah I mean the dialog...

<Q - David Bank>: Very important from an investor perception of Nielsen.

<A - Stephen Hasker>: Yeah. The dialog is different. And look there are various sort of criticisms and you'll hear them all. I think there have been in my time at Nielsen times when they've been legitimate, we moved too slow or we've got something wrong. And I think it's only fair that clients call that out. I'd like to think that our track record of executing against those things is significantly better today than it was last year, than it was the year before.

But here's the essential misunderstanding and you pointed to it, David. There is a difference between what we measure and the currency metrics. What we measure is Total Audience. So we have put the pieces in place to measure everything, no matter where it is seen, by whom and what time period, with what business model behind it. That is what we measure, right?

As of the launch of DCR, we measure everything and what we need is the clients to participate in terms of installing SDKs and tags and instrumenting for the system. But if they do that, everything can and will and is measured, distinguish that from, for example, the national television ratings which is C3 and in many cases C7, so that's live viewing plus playback of commercials of three days or seven days. And what you'll often hear is, well, Nielsen only measure three days or Nielsen only measure seven days. I just want them to be clear, we measure 35 days of TV viewing.

<Q - David Bank>: And you could measure 90 days.

<A - Stephen Hasker>: And we could measure 90 days, we could measure 100 days, we could measure the entire year, right? That is not the constraint. In 2006, the industry came together and said what is the currency metric going to be and they settled on this compromise called C3, and we started to produce at the same time C7, and they started trading on that. So we've started a process whereby we pull together 25 senior executives from our client base but buyers and sellers and basically ask them a question, how would you like us to update that metric because it has become antiquated. Right? It doesn't include flexible ad loads. It doesn't go beyond seven days, so on and so forth and that dialog started.

When that dialog comes with a new answer, I wouldn't be prepared to speculate but I think the needs are such of both the buyers and sellers that it will happen sooner rather than later, and it'll probably happen faster this time than it did in 2006, 2007. But that's the process we've started because we have the machinery to measure everything and we're ready to move to whatever buyers and sellers want.

But as you can imagine, buyers want more days, sellers want few. Right? Buyers want more flexibility in terms of ad insertion; sellers, some do some don't. Right? everyone wants [inaudible] (22:06). So there is a series of compromises which are important and there is real economic consequences of where those compromises end up being resolved and that's the process that we facilitated and that's the set of conversations that we are now in the middle of.

<Q - David Bank>: Sure. I'm going to give the audience a chance to ask questions, if anybody wants to, I'm happy to jump back into the fray. Yeah.

<Q>: [inaudible] (22:36) one thing I guess I'm trying to understand and maybe you can help me with it, so the traditional [inaudible] (22:45) invaluable because when we're [inaudible] (22:53) usually that signal is being picked up, so having a [inaudible] (22:57) give you a census of where the show is being watched but YouTube, Facebook, [ph] whatever, (23:05) when it's digital, there is much more exact data [ph] about knowing (23:09) who is consuming that media.

And as you pointed out though there could be some skewing of that based on how somebody opted in to watch that but where I'm going on this, how is your [ph] role (23:26) different when you act on trying to your measure the audience [inaudible] (23:29) versus an additional [ph] world (23:32) where it sounds like [inaudible] (23:34) Facebook and YouTube, Google [ph] could only tell an advertisers (23:38)

<A - Stephen Hasker>: Yeah.

<Q - David Bank>: [inaudible] (23:40) [ph] certify their data. (23:42)

<A - Stephen Hasker>: Yeah. Let me sort of try to better explain it. So it's not a case of putting a rubber stamp on someone else's data. Because I'll come back to the [ph] DIR (23:52) example in a second but there's a couple of problems with some of the datasets you referred to, right? One is it's not independent. Secondly, it's not comprehensive, it only measures one point of distribution. And thirdly and most importantly, it measures a device, it doesn't measure a person. So this is one of the great sort of, I think, confusions out there.

You go to any media conference, you sit at any panel at Adweek and everyone's talking about this new big dataset and it's very easy to think, well, that – gee, that sounds like the answer. And the more you learn about this big datasets, the more you realize that they don't do what an advertiser needs them to do in order to make a independent thoughtful comprehensive allocation decision, they just don't because they're measuring a device, they are not independent and they only measure one form of distribution, a YouTube or a Facebook, firstly.

Secondly, let me be clear about how we use the Facebook dataset. So what we do is we have a piece of content or an ad tagged and we have an SDK, a piece of software in the player. So for example when someone watches a video ad or watches a video program, our SDK which is effectively a meter picks up exactly what that is, we get a census count of that. So that's a Nielsen generated dataset, it's not a Facebook generator or a YouTube generator or an ESPN or anyone else. It's a Nielsen's census data, every single time somebody watch that piece of content. Where we use the Facebook dataset is to find out who it was, and we also use our panel to calibrate and correct that. So, we're not sort of saying okay, Facebook is saying that 15 people saw our particular content, is that right or wrong?

What we are doing is we're saying okay, let's go see if we can find that person in the panel, and if we can't, let's then go to the biggest registration database in the world and see if we can find them in that. And if we can, let's calibrate and correct that and then put that back in the rating. So, it's a long way from sort of taking a third-party dataset and saying do we think it's right or not. It's actually this is a Nielsen generated system that just draws in that dataset.

But I think your question is a very good one because it's so easy to read some of this material and listen to different presentations and think, well, this mobile analytics company have got this [ph] server log (26:19) data and this device ID database, but they have got the problem solved, and they don't. There is not a single big dataset that gets anywhere near solving a problem when you want to produce David's first question, independent third-party comprehensive industry-wide ratings.

David Bank

All right. I'm afraid we have to break it up there. Thank you very much for bearing with us during our technical difficulties, to everybody out there and thank you Steve.

Stephen Hasker

Thanks, David.

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