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PARTICIPANTS

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Stephen Hasker – Global President & Chief Operating Officer, Nielsen Holdings Plc

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Matthew C. Thornton – Analyst, SunTrust Robinson Humphrey, Inc.

MANAGEMENT DISCUSSION SECTION

[06W27S-E Matt Thornton]
All right. We're going to go ahead and get started here. This is the 9:25 fireside chat with Nielsen. From Nielsen we are fortunate enough to have with us President and CEO – excuse me, President and COO, Steve Hasker. Nielsen is of course the global leader in measurement of TV, radio, and cross media advertising as well as of retail commerce. And with that, Steve, thanks for being with us. Good morning.

QUESTION AND ANSWER SECTION

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: We'll start there. Maybe starting with the Buy segment of the business, which has probably been capturing a lot of the headlines I think in the last 6 months to 12 months here. Maybe just walk us through Buy. Let's start with developed Buy. For those who may not be familiar, maybe walk us through again what the segment entails? What developed Buy in particular entails? And the pressures that that business has faced and faces at current? And what the responses have been to those pressures?

<A – Steve Hasker – Nielsen Holdings Plc>: Right. Well, thanks, Matt, for having us. So I think as most people know, our business has two major parts. The Watch part measures what people watch and media consumption in about 45 countries. And the Buy side, which measures market share of consumer packaged goods, fast-moving consumer goods in 106 markets.

The Buy side really comprises a couple different components. One is the retail measurement service, which is a service we run in 106 markets. The next biggest competitor I think runs about 10 to 12 markets. And that really is the lifeblood of the fast-moving consumer goods industry. It provides the market share data to the brand managers, the sales executive, the chief executives, and all of the analytics resources within both the manufacturers and the grocery retailers. So that's the first part of the Buy segment.

The second part is a set of products around innovation. The leading innovation and product testing of businesses.

And the third is a whole series of analytics around things like marketing spend effectiveness, price and promotion, assortment, basically in-store and sales execution analytics. So those are the parts that we really think about when you think about the Buy segment.

The business itself has been a very consistent, healthy business. It has a very significant competitive advantage, which is it's the only global footprint. So we have all of the major global clients under long term contract.

What we've found in the last sort of nine months or so is real pressure in the U.S. So the U.S. Buy business is less than 20% of our revenues. But a combination of the pressure on the segment, particularly the major clients where we've specialized. We're less penetrated into the second, third, and fourth tier of manufacturing clients. The biggest of the FMCG clients have really faced some headwinds particularly in the U.S., firstly.

Secondly and related is the whole sort of zero-based budgeting phenomenon, associated with the folks from 3G and Kraft Heinz and so forth. But that's really permeated a lot of the sector.

And I think the third is we have put in – we put in place last year when I first got involved in the Buy side of the business a comprehensive product overhaul plan to build the Connected System. And I think there's a little bit of a sense of our version of the iPhone 8 issue, which is waiting for the new system.

So those three have conspired to put some pressure on the business. But we are just as convinced as to the global – the power of the global footprint. The data itself, the retail measurement data, is the lifeblood of that industry. And it's just as valuable, just as essential. But you have a couple of headwinds that we've faced into that we think will alleviate over time. But nevertheless have been – have caused some turbulence in the last six months to nine months.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: That's a great segue in your Connected System. I think that's the most important response to the pressure that you've talked about. I think it's the number one priority in 2017.

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: I think you guys have said that. Can you walk us through the big question we get? Can you walk us through the Connected System and how the model will morph as that becomes the product, the platform?

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah. Yeah. Yeah. So today we have – when we serve clients, as I said, particularly these large multinationals, we'll have a couple of different components to our relationship. The first is we'll have a measurement contract, which is typically anywhere between sort of five years to eight years.

And then on top of that, we will have separate arrangements around analytics. And they'll be part of the same contract, but they're disconnected. So in other words, the measurement data flows continuously in through the client systems. And the innovation studies or the price promotion studies, those are mainly people based analytic projects where the data and the service is disconnected from the core retail measurement market share data.

That's the situation today. What the Connected System does is at least three things. The first thing is it involves a very, very significant set of investments we're making in e-commerce measurement to make sure that we're measuring the full consumer purchase landscape.

The second thing it does is it connects the market share movement to the explanatory analytics. So it moves us from a situation we have disconnected market share analytics to a data as a service platform.

Where a brand manager, as one example, can on any given day look at movement in their market share in a particular geographic segment against a set of competitors. And then double-click on that and understand, was it as a result of better product innovation? So changing a pack size, whatever it might be. Was it as a result of better marketing spend effectiveness? Which is where all that Watch data feeds into the system. Or was it as a result of better sales effectiveness, price promotion in-store?

And so all of a sudden, this somewhat static retail market share product set becomes a very dynamic data research service tool. It becomes relevant directly in the hands of sales executives and brand managers, not just the analytics and research group. So it'll both serve those people, but we think that the much broader set of users within the client base will get value from it.

And then the last component of it, which I think has probably been one of the most popular amongst the pilot clients, has been we've created our version of an app store. And we've put – we've now certified 25 independent third party app developers that basically work off of the system. So in other words, they can tap directly into the data at the most granular level and drive their apps from that. And we think that what that will do is both add value to most importantly the clients. If a client like a particular analytic app that they want to bring, it'll enable them to do that.

But equally, it adds value to our data. So more and more third party developers are accessing the data directly and increasing the utility of that data, the more value it becomes.

So what that enables us to do is move from a situation where we have disconnected measurement and analytics in underneath the contract, to a situation where we've got a data as a service business where the analytics are seamlessly integrated. But our own analytics and third party analytics are seamlessly integrated as part of a service that is more relevant to a much, much broader range of users.

So when we describe this as our single biggest strategic bet, I think it's one of the reasons why it not only transforms the product, which in my view is overdue. But equally importantly, it transforms the business model around the Buy side of the business and the utility to our clients. And so that's why we're so excited about it.

And where are we? Well, from the middle of this year to the end of this year, we'll have 25 to 30 clients using this every single day, focused on the U.S. and Western Europe. And we'll then from there really ramp it up for both retailers – grocery retailers and manufacturers. And so we're pretty excited based on everything we see about where it's going to take us.

What we haven't done, similar that we didn't do with Total Audience on the Watch side, is provide you guys with really, really, pointed guidance as to what the financial implications of this are going to be. Because we wanted to be very conservative. We were conservative with Total Audience. And that I think served us well. We're going to do the same thing here, because we want to test and learn as we go.

But what we see the net impact being, we think this is going to be not only relevant for our largest multinational clients and their most sophisticated power users, but it's also going to enable us for the first time to do two things. One, serve those clients with a significantly reduced head count. So it's much more flexibility in terms of our ability to scale up the product without adding heads firstly.

And then secondly, it will be relevant to and has really utility for the mid-tier clients, where typically we have been less relevant with – we haven't had as deep a penetration. So we think there's both a growth opportunity there and certainly a margin expansion opportunity there.

And as we learn more and as we go, that's where Sara [Gubins] and I and others will be providing increasing guidance around what we think the implications of that will be going into next year and beyond.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: And I mean you alluded to it, but I guess just even higher level. I think the margin expansion makes sense. You could look at a current model or a Gartner on what people centric models and private service model.

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: You're talking 20% type margins. Versus the FactSets are up in the 35% type margin. So you can kind of see the runway there.

The revenue side is a little bit softer, because there's a bunch of puts and takes there, right? The ASP could be lower. But you could be accessible to more clients now, because it's a lower price point. You've got the third-party asset you could take a commission on. Maybe you could talk to the puts and takes of high level there.

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah. I mean I think you've summed it up well. On the margin point, we really – we obviously spend a lot of time comparing margins of our Watch and our Buy side. And to move the model to something more akin to the Watch side and to add the value of the data and the stickiness and the ability to have a long term contract with a price escalator, that's where we would like to go.

I think in terms of the puts and takes when you sum them up, Matt, we've got the chance to penetrate deeper into the client set firstly both in terms of smaller to mid-tier clients. And eventually be able to take this and scale it up across our developing markets. I think that's a couple of years away. But that is in its design to do that. So deeper into our client set, more mid-tier clients, eventually more countries, more markets.

And I think secondarily, the chance to serve a much, much broader set of client executives within our client base directly. Today, a lot of our data and our analytics flow through the research and analytics group and then are then permeated. And that's one of the sort of transitions that we'll be working through is how much to empower our senior research and analytics client leaders. But also make sure that all the brand managers, all sales people. and ultimately the C-Suite get direct access to the data and can make use of it without an enormous amount of work. Because there is budget pressure on those research groups and the head count associated with those research groups. So this is also an efficiency play for our clients.

And then I think the – we want to be able to provide the value at a lower total cost to our clients, particularly some of the larger clients. So that's probably a take. But against that, the margin characteristics are in any scenario very significantly more attractive.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: Got you. And just in terms of timeline, I think you've got 25 app partners. That may have actually increased recently. You're targeting 25 to 30 additional clients this year with broad rollout next year. Is that still...

<A – Steve Hasker – Nielsen Holdings Plc>: That's exactly right.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: Great.

<A – Steve Hasker – Nielsen Holdings Plc>: We're on track for that. We actually – if anything we're sort of more bullish in terms of our – what we're seeing and thus, the appetite from our client base to adopt the system to start to proliferate it within their own organizations. And it's a nice problem to have. It is a problem to have because we have many, many clients in the Buy side of the business. But that's – the signs are very positive.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: Got you. All right. And the last one on Connected System. I guess just long term, the full conversion to me is pretty significant. Is this a two-year process, a five-year process? I mean how do you think about that?

<A – Steve Hasker – Nielsen Holdings Plc>: Well, it's not a...

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: [indiscernible] (13:15)

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah. I mean it's not a shrinked wrapped product.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: Yeah.

<A – Steve Hasker – Nielsen Holdings Plc>: So in other words, there's not going to be a point at which somebody stands on a stage and says, ta-da, here it is. What you're talking about is a system which moves from using only our data to incorporating third party data, only our apps to incorporating third party apps, and integrate the data and analytics. That will be an ongoing process.

We're going to be marching down that path for the next decade. Right? And it's going to get richer and richer in terms of its utility to the client base. And so I don't think it ever ends. We have many of the features and functionality being used by clients today. I mean many of these data as a service apps around things like assortment and pricing and promotion, clients are using that today. So it's well and truly underway. And I don't think it ever ends.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: Fair enough. And maybe just briefly, jumping over to your emerging Buy segment, which has remained very healthy.

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: Can you walk us through again what that segment entails? And one of the big questions we always get is, why would the pressure that we're seeing in the developed Buy not creep in to the emerging Buy? Any thoughts?

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah. I mean so the developed Buy pressure, just to put a finer point, is they are in the U.S. So our – the clients in Europe, particularly Western Europe, reset their businesses a number of years ago. And we're actually seeing sort of reasonably healthy conditions in Europe, particularly in Western Europe. Eastern Europe has always been a source of growth. So just to calibrate where we sort of – our soft spot is very much in the U.S. Buy rather than across developed or lead as we call it.

In the developing markets, there's a couple of sort of tailwinds there. One is the multinationals, as they continue to bid on developing markets. And obviously that bid has sort of waxed and waned a little bit over the last five years. But it's still a primary source of growth for a Unilever, for a Procter [& Gamble], and so forth.

And they take their analytics provider with them. So whether it's because the country manager in China is someone who's grown up on Nielsen data, or whether it's because their centralized analytics group wants to see how China is performing relative to the rest of the world, the Nielsen data gets sort of taken with them and used in very much the same ways as it does elsewhere.

And then secondly, our biggest growth client segment is amongst what we call the local giants So players like Yili in China, who are achieving spectacular growth in the dairy segment on the basis of superb in-market distribution and performance. And one of the things that many of these clients have done is moved to Nielsen data. They've said, we want to play in the main game. We want to compete and win in our local markets. We are here to stay. And then what they're starting to do now is they're starting to have regional or even global aspirations.

So Yili has bought a lot of assets in New Zealand, and I think big bets in Indonesia. And they want our data to go with them into those markets. And they want to be able to understand their performance in those markets relative to their home markets.

So that's really been an exciting area of growth for us. And those dynamics, that growth play, I mean if you look at this is a bet on the development of the middle class in the developing world. And of course it waxes and wanes. But the overall trajectory is upward. And we don't see any end to that. So we don't see the kind of pressure in those markets that we've seen in the U.S.

Bear in my mind in the U.S. you have many of these brands under significant pressure from private label. Many of these brands have sort of struggled to find their way versus new or more nimble labels that are organically focused, that are getting more and more space on shelves, that perhaps are a bit more digitally savvy, have figured out e-commerce a little bit better, have figured out social media and social marketing a little bit better. And so those dynamics are a long way from developing markets. I think we just don't see that kind of pressure. Instead it will continue to be a growth play for some players more than others. But overall, a positive for us.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: Okay. Maybe last question on Buy. Could you quickly just compare and contrast the competitive landscape, developed versus emerging?

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah. I mean it's really – it's to some extent night and day. I mean our biggest competitor on the Buy side of the segment is in sort of 10 or 12 countries. And those are by and large, all lead or developed.

So as you move from developed to developing, we may have isolated competitors in different individual countries. But we don't have a player with anything like the size and scale. Right? And again the dynamic that's favorable around that composition of countries for us is more and more local players are trying to become regional, trying to become global. And to manage their businesses effectively and compare and contrast the performance of different markets, they need a consistent data set.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: Well, fair enough. Maybe jumping over to the Watch side, which is the segment that used to get all the attention. So let's jump over there for a second. And stay within audience measurement and the TAM framework, the Total Audience measurement...

<A – Steve Hasker – Nielsen Holdings Plc>: Yes.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: ...framework, which obviously has lots of components to it. Let's kind of walk through a couple of these. [ph] You almost have to (18:41) start Digital. On the DCR side you added syndicated late last year. Do you think you're making any inroads there against kind of the incumbent, which I guess is comScore's Media Metrix? Do you see any inroads there? Or is that even a focus?

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah. I mean, look, our focus is meeting our client needs. Right? And so whether it's – and how have some other sort of product that's been around for many, many years is doing relative to that I think is of interest to us for obvious reasons. But the focus is client needs.

And so what does DCR do? Well, DCR and TCR, so Digital Content Ratings and Total Content Ratings, enable a media seller to get an understanding for planning purposes as to what their entire audience is across all video screens or their entire audience is across a digital screen. This is a product that comes out daily. This is a product that is all from the same system across any platform. This is a product that measures an impression down to a single person all the way up to tens of millions with the same accuracy.

This is a product that's MRC accredited. And this is a product that is the exact mirror image of Digital Ad Ratings, which has run the table in terms of ad measurement and Total Ad Ratings, which has run the table. So I don't mean to trivialize any particular competitor. But there is no comparison between the product set and what's in the marketplace today or what is planned from any competitor.

In terms of our reach measurement, I think we are truly without peer. And as each day goes by, I think there's more and more evidence of that from the marketplace in terms of the utility that our clients are getting from the data and increasingly even some of our equity analysts are getting from that, from using that data as a basis to see how different media companies are performing..

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: Got you. Because you mentioned TCR and D-A-R or DAR.

<A – Steve Hasker – Nielsen Holdings Plc>: Yes.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: Let's talk about those really quickly. The TCR, you're talking full syndication. I know it's a partial syndication right now, and you're kind of waiting for the client to get rolled out. When will we see that go full syndication this year?

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah. I mean, look, the message that I've been conveying for a while now is we're ready. I mean we've been ready for a long time. The system works. It works flawlessly. It measures every single impression it needs to measure. And we were ready headed into the up-fronts. We were ready at the start of the year. We're even more so now.

I think the hesitation is amongst some of the clients, not all. We have clients like CBS and Turner who are using this every single day and writing their businesses off of it. We have other clients who, because they have an instrument at an SDK or they're hesitant about the result. So they haven't had a chance to really think through what some of the implications of that – those data sets might be. They are more nervous and want some more time before they adopt.

But I think there's a dynamic here, whereby as some players start to really benefit from having a Total Audience measure in the marketplace in front of advertisers and agencies and have this done. And it puts those who don't in a pretty uncomfortable position, where they've really got to get on board in order to be comparable and in order to have – to truly represent their full audiences.

So I think we'll get there. But what we're not in the business of doing is beating our clients up or getting so far out ahead of them that we sort of lose their confidence. And so we've been trying to sort of walk that tightrope a little bit in the last couple of months. I don't know that we've done it well. I don't know that we've done it poorly. But we're sort of trying to be as sensitive as we can be.

Actually it is a nice thing in a sense to be at least with a number of our clients and potentially out in front of a few others. I think if we had this conversation three years or four years ago, the opposite would've been true.

And so the thing that internally we really play out and we're proud of is our product development innovation cadence has increased on the Watch side from when we started this process in 2010. Every year, every quarter, we're getting faster and faster at doing product releases. And that of course we accumulate more historic, more [ph] vec data (22:56) around it that adds the value. And that same sort of product innovation, development ethic is what we're porting across to the Buy side, because I think it's been missing in the Buy side. Or at least part to the Buy side has been missing.

So bring that across and making sure that we get on a quarterly and then monthly release cycle around the Connected System. That increases the functionality in third parties and so forth. We want to do the same thing. And I hope that there will come a time pretty soon where we can sit on a stage like this and talk about how we're ahead of the needs of our Buy side clients too.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: A couple more for me and then we'll open it up to our audience Q&A here. Coming back to DAR, obviously it has really good momentum here. Can you talk quickly about the Oracle Moat acquisition. Moat was one of your partners and continues to be for DAR.

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: But any thoughts there? And then the OpenAP industry today. What's the read through or implications today?

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah. Yeah. Sure. So with regard to the – your question around Oracle Moat. So well, we made a decision a few years ago when we looked at this sort of emerging theme of viewability [ph] was an add-in view circle (24:04).

We made – we took a point of view that that was something that we wanted to rent, not buy. Right? And so we crafted arrangements with Moat, with Integral Ad Science, DoubleVerify, and integrated them into our DAR product.

And the reason we did that was, we felt the viewability itself would be in many cases offered by the ad servers, in many cases offered by – for free too. One thing we sort of said, it's not a useful set of metrics for an advertiser or for a publisher. But more that we didn't see a viable economic model firstly. And secondly, this space has been very fluid in terms of whose solution works best at any point in time, particularly as you've gone to video and you've gone to mobile video. And so we felt we would focus very much on audience measurement and get that right around Total Audience. And we would rent the best available solutions for viewability.

I think as we sit here today, I know that in the wake of the Moat acquisition, one or two players have announced their viewability solutions will be free. I think that sort of indicates [ph] how they feel (25:13).

I think the only thing that's perhaps a miss from our point of view is there's been a lot of conversation around viewability. And as someone who doesn't own or operate their own viewability player, we haven't necessarily been part of that conversation to the extent that perhaps we'd like to be. And as we certainly are an audience measurement type, puts and takes there.

We're very confident with where we sit though. We're the only player that has this comprehensive reach platform in the market today. Our product, which combines our in-person recruited panel with all of the devices in the household and out of the household measured and wired up. Combining that with the best big data sets like the Facebook registration data set. Makes that product set without peer and puts it many years ahead of any competitor. Many years ahead of any competitor.

So we like that position and we'll watch the viewability space as it evolves. But we think that that audience measurement component will continue to be the most important component both for our clients more importantly but also for us.

As it pertains to OpenAP, audience based buying. Among the systems, we think there's – it's an interesting way for media companies to differentiate their inventory and our data will be a key ingredient to those systems.

Again when you're the only player that has the reach data, that needs to feed in as one of the major platforms on which audience based buying can occur. And so we're already in the audience based buying business ourselves. We provide data segments into many of those platforms, one of which is Simulmedia, probably sitting here. But there are a number of them out in the marketplace. And we expect to do the same with OpenAP.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: We're about out of time here. But any questions in the audience for Steve?

<Q>: What's on the wish list for you this year?

<A – Steve Hasker – Nielsen Holdings Plc>: What's on the wish list? I think continued momentum with the Connected System is a big part of the wish list. And we've had a pretty good track record of acquiring small sort of tuck-in acquisitions that bring a particular technology, that bring a particular supplement to our data sets, Repucom, eXelate, most recently Gracenote. So to the extent that there's an M&A related wish list, it's very much those sort of small tuck-ins that seamlessly add to our product set.

Total Audience, I'm increasingly confident, so just more momentum there. Connected System, Total Audience and M&A to supplement those both.

<Q – Matt Thornton – SunTrust Robinson Humphrey, Inc.>: Any last questions for Steve? I'll give you one wrap-up question here. This Total Audience measurement framework, remind us again how we should be thinking about the financial impact as this fully gets implemented over the next 12 months, 18 months? Just talk about that.

<A – Steve Hasker – Nielsen Holdings Plc>: Yeah. So, well, so what we – the business model we love and the one we have in place on the Watch side is multi-year contracts with our clients big and small. Right? So for example, Google is one of our major media clients now. Facebook has been a great partner. We've done more and more work with Snapchat, in addition to the major traditional media players. So we like multi-year contracts.

We like all of the value of our services in those contracts and a price escalator over time. And so what Total Audience enables us to do is to enrich that model to make sure that the contracts stay multi-year, they stay very consistent. and that the escalator is providing – reflects real value provided to the clients. And that's Total Audience is very much a play to ensure that that model continues in perpetuity.

[06W27S-E Matt Thornton]
All right. I think with that we're out of time. I want to thank Steve for joining us here this morning.

[0B7BHY-E Steve Hasker]
Thanks, Matt.

[06W27S-E Matt Thornton]
And that concludes the fireside chat with Nielsen. Thanks, everyone.