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Nielsen Holdings NV *(NLSN)*

Q1 2012 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for holding, and welcome to this Conference Call of the First Quarter 2012 Results for Nielsen Holdings N.V. Please note all lines are in listen-only mode at this time.

I will now turn the call over to the host, Liz Zale, Senior Vice President of Investor Relations. Ms. Zale, please proceed.

Elizabeth A. Zale

Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

Thank you. Good morning, everyone, and thank for joining us to discuss Nielsen's first quarter financial performance. Joining me on the call today from Nielsen is David Calhoun, Chief Executive Officer, and Brian West, Chief Financial Officer.

Before we begin our prepared remarks, I'd like to remind all of you that the following discussion contains forward-looking statements within the meaning of Safe Harbor provisions of the Private Securities Litigation Reform of Act of 1995. These forward-looking statements may include comments about Nielsen's outlook, expectations and prospects. These and other statements that relate to future financial results and events are based on Nielsen's view as of today, April 25, 2012. Our actual results in future periods may differ materially from those currently expected because of a number of risks and uncertainties.

The risks and uncertainties that we believe are material are outlined in Nielsen's 2011 Form 10-K and other filings and materials, which you can find on ir.nielsen.com. We encourage you to consult these documents for a more complete understanding of these risks and uncertainties. We disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as may be required by securities laws.

A slide presentation that we'll use on this call is available under the event section of our website at ir.nielsen.com. We use certain non-GAAP measures to evaluate the results of our operations. We believe these non-GAAP measures provide useful information to investors regarding financial and business trends when viewed in conjunction with our GAAP results of operations. Further definition and a reconciliation of these non-GAAP measures to our results under GAAP is available at the end of our press release within the appendix of the webcast slide presentation and also on our IR website.

And now to start the call, I'd like to introduce our CEO, David Calhoun.

David L. Calhoun

Chief Executive Officer & Executive Director, Nielsen Holdings NV

Hi, good morning, everyone. We'll start off with the big numbers in the first quarter. Revenue grew 3% on a reported basis, 4% on the constant currency basis. Adjusted EBITDA grew 4% on a reported basis and 5% on a constant currency basis. Net debt leverage of four times, and we completed a secondary offering, and I guess everyone knows, increasing our float 34.5 million shares.

With respect to business conditions, in light of what I consider to be the toughest comp we would face at least since I've been here, and the pause related to of course the incorporation of Walmart data, I feel very good about the business and about the revenue performance. I consider it both resilient and positive with respect to client points of view.

If you break down growth, you'll see our developing markets grew roughly 11%, that's versus a 19% comp a year ago. It was interesting. If there's any phenomena going on there that might take that number down a bit relative to the past, and it's hard to actually put your finger on it, it would be that global multinationals are just a little more selective than they have been about country and category combinations as they continue their global development. But I don't see them letting up at all, it's just being selective.

With respect to investing for growth, we remain very much on track. Walmart continues to go well. Most of the operational risks related to the data incorporation into our metric, all those things that we're doing with and for Walmart for their insight and benefit are going very well. We continue to be on plan, and I would say most of those risks are behind us.

Global reach and read, we continue to invest in very strongly. This again hits rural China, rural India, and broadly in Africa, and momentum in those markets continues to support those investments. We continue to invest in online campaign ratings. It's going very well. I'll talk about that a little later. And then marketing effectiveness, which is really – feeds our insight practices and combines the Watch and Buy data that we have across our enterprise.

All in all, I feel very good about again, the revenue performance, where we are situated with clients and the prospects [audio gap] (04:36). We will reaffirm both our revenue and adjusted EBITDA for the year and raise our earnings per share $0.06.

With respect to key initiatives, I mentioned the U.S. retail expansion, which is Walmart, which is the single biggest coverage expansion we've had in certainly my history, but I think over a couple of decades. It is still on track for late second quarter delivery. With respect to manufacturing negotiations and customer negotiations, we are complete, and that's reflected in our 2012 guidance. And importantly, as I mentioned on the last call, we are beginning to see the re-emergence of insight opportunities related to the incorporation of that data.

With respect to online campaign ratings and cross-platform measurement, which was introduced over that first quarter, we really do have commercial traction for what is the only accredited measurement in online advertising. Importantly, you saw two big publishers announce that they would guarantee audiences on the basis of that metric. That was very important to us. And we saw that one significant agency interest talked about the incorporation of both OCR and XCR cross-platform into their work with advertisers.

Viewability has now been solved for inside the metrics, so we meet all the standards that are necessary to account for viewability. We like the momentum with advertisers. And XCR, which is a very important metric because it identifies the unduplicated reach across both TV and online, becomes in a central metric for most advertiser campaigns because it allows them to seamlessly manage the campaign across both mediums and again, we look forward to the prospects.

So with that, I'll turn it over to Brian. Of course I'll answer whatever questions you have at the end. Brian?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

Thanks, Dave. If you turn to page 8, as Dave mentioned, another consistent quarter for the company. Revenue came in at $1.340 billion, that's up 4% on a constant currency basis. We saw it across just about every part of the company. Adjusted EBITDA came in at $332 million, that's up 5%. Adjusted EBITDA margins expanded over 20 basis points. So again, that's also in the light of reinvesting, as Dave mentioned, while still expanding our margins. Adjusted income came in at $113 million and $0.30 per share, benefited by both lower income taxes as well as lower interest charges.

And free cash flow was a usage of $85 million, so good quarter. In terms of the FX impact, there was 130 basis point FX unfavorability on both revenue and EBITDA as we rolled – finished up the quarter.

Turning to page 9, segment revenue, the Total Buy business was just shy of $800 million, that's up 5% constant currency year-over-year. As Dave mentioned, our developing markets were up 11%. Our North America, broadly speaking, where we collect revenues across the company, was up 4% and then there is other developed markets that were up 1%, primarily pressured by Western Europe. If you look at Buy business, information, developing markets up 10%, developed up 1% that's again largely driven by that Western Europe pressure.

Our Insights business was up 7% year-over-year, that's 14% developing markets and 3% in the developed world. On the Watch side, revenues were $480 million, that's up 3%. Expo, it's just over $60 million, up 9% and that rounds you out at the $1.340 billion in total.

On page 10, profitability, adjusted EBITDA by segment, Buy $121 million, that's up 3%, reflective of the investments that we're making particularly in global reach and read with Africa, China, India, still being priorities as well as the Walmart data. On the Watch side, EBITDA came in at $185 million, that's up 5%. And then we also continue to invest across the capabilities of audience shifts in our ability to measure it across multiple platforms. Expo's at $36 million, up 9%, again, rounds you out to the 332, up 5% for the total company.

Turning to page 11 on cash flow, in the upper left-hand corner, free cash flow was a usage of $85 million, that's in line with the seasonality of the business. CapEx came in at $82 million, that's higher than last year, but more representative. Last year was just artificially low. Cash taxes for the quarter was $23 million, that's a little bit lower based on both timing and some planning work that we've been working on, and then restructuring of $25 million.

On the balance sheet, net debt came in at $6.273 billion, and the ratio, as Dave mentioned, was four times. On the cap table, couple of highlights, the loan debt was up basically $120 million based on short-term revolver to one adjusted seasonality, I mentioned as well as take out mandatory debt paydowns, which were some EMTNs that were due. On the weighted average interest rate in the bottom, it came down from 4.68% – I'm sorry, 5.68% to 5.6%, eight bps, that was benefited by lower LIBOR versus year-end, as well as paying down that mandatory debt, as I mentioned.

On page 12, addressing guidance. So as Dave mentioned, we're reaffirming our revenue growth at 5% to 7% constant currency. Again, the first half will be the low-end, the second half will be the higher-end driven by the Walmart. Adjusted EBITDA margin of 30 to 50 bps constant currency. As you saw in the first quarter, less expansion first-half driven by the investments we're making, and acceleration in the second half as that Walmart comes through. Adjusted income growth is 15% to 20% constant currency. That is up versus what we had out there, which was 13% to 17%, driven by interest expense favorability, talk more about that in a minute.

The deleveraging was still on track for about a half a turn of deleveraging. And in the reported earnings per share, if we look at rates as of Monday, so April 23, we would expect the range to be $1.76 to $1.82. That's up $0.06 versus what we had addressed with everyone in February. There is about $0.035 for foreign exchange that's moved, and about $0.025 for interest, which I will talk about in a moment.

With this earnings per share guidance, explicit in that is that there is an unfavorable impact on revenue for about 180 basis points, that is down versus what we thought, so it's less negative. And about 150 point unfavorability based on EBITDA. So rates are getting better than we thought, but they will still be a drag on the reported results. Again, we measure ourselves on constant currency, because that's the right way to evaluate the economics of the business.

On the bottom, the only thing I would highlight, CapEx and depreciation are still within the range that we had talked about in February. The book interest is, we have revised that lower. That was 430 to 440. We've taken that down to be lower interest based on one, the first quarter actuals as well as the update of the forward LIBOR curve. That forward LIBOR curve was 60 bps as we turn the corner into 2012 and that's now down to 29 bps, so that favorability will come through when we expect it, thereby raising the guidance.

Cash taxes, $150 million to $160 million, that is trending toward the low end of that range, and we'll update more as we get into the second quarter when we see the first full half, because there is timing associated with cash taxes as there always is, and there's no change to cash restructuring.

With that, I will turn it over to Liz who can open up Q&A.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

Absolutely. Operator, we're ready for the first question.

QUESTION AND ANSWER SECTION

Operator: Absolutely. Our first question, and pardon the pronunciation, comes from Brian Karimzad from Goldman Sachs. Please go ahead.

Brian Karimzad
Analyst, Goldman Sachs & Co.

Q

Hi, good morning. Dave, a couple questions on emerging markets. I guess first can you give us a sense of where, if there's anywhere in particular, the multinationals are being more selective in the category and country development? And then maybe for Brian, if we were to look back at the K where you give disclosure on geographies, in 2011, you actually showed some nice margin expansion in the Americas excluding the United States, which I presume a big part of that is Brazil. Can you give us some color as to whether that was driven by Brazil maturing as a developing market, and maybe a sense for how many years ahead they are versus some of the other places you're investing like India and China?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Well, let me start with respect to country SKUs, if I read our results and implicit in that is being selective, Southeast Asia seems to be the one that has sort of taken the biggest hit. Again, it's still growthy, but it's not double digit. And broadly speaking, that's the soft spot. China, India, and while Africa is small, the outlook for Africa remains very robust.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yeah, in terms of margin expansion, so our Latin America business overall is very profitable. And as you mentioned, Brazil is a place where it doesn't require a lot of investment and you've got great competitive dynamics, and as Dave mentioned, it's growing double digits. So those benefits will accrue to us. How farther ahead is Brazil than the other markets? I always describe it as probably Brazil is in the late innings of the game, and China is in the early innings, Africa is just getting started.

Brian Karimzad
Analyst, Goldman Sachs & Co.

Q

Thank you.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

Thanks, Brian. Operator, our next question please?

Operator: Our next question comes from Michael Meltz of JPMorgan. Please go ahead.

Michael A. Meltz
Analyst, JPMorgan Securities LLC

Q

Two questions for you. Brian, I know – or Dave, I know you don't like to give quarterly guidance. Can you give us a sense, is Q1 going to be the low point of constant currency revenue growth for the year? And then I have a follow-up.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Well, like I said, we don't give quarterly guidance. But we have said is that if you think about the 5% to 7% growth for the year, we always said that the first half was going to be towards the lower end, and that the second half will be towards the higher end. And I will – you know as well as I do, is the first quarter comp as Dave mentioned was one of the tougher ones. So and I think that will all play out through the course of the year, we still feel confident in the revenue guidance.

Michael A. Meltz
Analyst, JPMorgan Securities LLC

Q

Okay.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

And we have a consistent seasonal progression, Michael.

Michael A. Meltz
Analyst, JPMorgan Securities LLC

Q

Okay. And then there's a small company you might have heard of called Google that announced some new measurement initiatives. Can you talk a little bit about how you see the online or digital measurement landscape shaping up, please?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Yeah, look, it's – we've always said and I'll repeat it 1,000 times, because this will happen about every nine months. This market is loaded with captive measurements, it just is. Everybody who has a major publishing interest, anybody particularly who has of course the DoubleClick interest in their case, are going to try to build a metric around it that supports their case. I get it, it'll always be that way. Our job is to build a metric that crosses all forms of distribution, all forms of publishing. That is what we try to do, that is what advertisers pay us to do, that's what agency interests are. So we still feel very good and confident that we're going down the right path here.

And I still believe that as captive metrics develop over time, there will be something complementary in what they do relative to what we do. But for now, I don't consider them – I don't consider that one to be a face-off for one simple reason, and that is because it represents that single form of distribution or in this case, publishing site. And I believe our metric and underlying demos are at least as good, and frankly better. So I'm not – I just don't – I don't think about it as a direct threat.

Michael A. Meltz
Analyst, JPMorgan Securities LLC

Q

Okay, thank you.

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Yeah.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

Thank you, Michael. Operator, next question please?

Operator: Absolutely. [Operator Instructions] Our next question comes from Suzi Stein of Morgan Stanley. Please go ahead.

Suzanne Stein
Analyst, Morgan Stanley & Co. LLC

Q

Hi, can you just give us more of an update on OCR adoption in terms of how many customers you have interested and signed up? Do you have paying customers, and kind of when would you expect to see an impact on revenue?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Yeah, Suzi, so we're being very deliberately patient on this one. So I know I'll frustrate you on it, but we are. The good news is we're up to 750 campaigns. I think the last time I spoke to anyone, it was around 600. We've got 50 advertisers and agencies involved. That was a smaller number last time we talked. And we've got 60 publishers and ad networks. So the use of it and the incorporation of it into sort of their campaign planning is actually going beautifully. And as I always said, the use cases are being developed. So if you sat down with our team and sort of interviewed them about the value component of this product, they all are feeling very good about it.

As I mentioned before, getting the industry aligned around it is the toughest hurdle and we're just going to continue on this deliberate path. We do have paying customers and it's going well. We do have now two publishers who have issued guarantees around the metric itself. You may recall when we kicked this off second half of last year, that was our hope, that someday that would happen. To be totally honest with you, I never expected that to happen this year. So things are going well on that front. When it becomes a meaningful revenue number, we'll be the first one to tell you, raise our hand and feel good about it. But so far, we have seen no lull in the adoption, the use, and the case work that's being done by the advertisers.

Suzanne Stein
Analyst, Morgan Stanley & Co. LLC
Q

Okay. And then I'm just trying to understand the currency issue a bit more. In your filings, it looks like revenue and operating costs are pretty well paired. So I get that while fluctuations in currency would affect revenue, why would adjusted EBITDA be impacted almost as much?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV
A

Well, we're not – have a reporting phenomena for translating all that all back. It hits both revenue and your cost, and the result is EBITDA. So believe it or not, they're more likely to be aligned. And our historical pattern has been that they are pretty close. There might be 10 or 20 bps off, but generally speaking, the impact is fairly close. So in this case, the first quarter, I think it was 180 bps of revenue pressure and 150 bps of margin pressure, so that's just the way it works.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC
A

Actually, for the first quarter it was 130 bps.

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV
A

Sorry, 130 bps, I'm sorry, Ii gave you full year numbers, I'm sorry. 130 bps roughly for both and the numbers I gave you where what we expect the trajectory for the full year to be.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC
A

Right.

Suzanne Stein
Analyst, Morgan Stanley & Co. LLC
Q

Okay, all right, thank you.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC
A

Thanks, Suzi. Operator, next question please?

Operator: Our next question comes from Eric Boyer of Wells Fargo. Please go ahead.

Eric James Boyer
Analyst, Wells Fargo Advisors LLC
Q

Great, thanks. Hey, Dave, could you talk about the progress you're having in bringing on additional demographic data sources for the OCR offering?

David L. Calhoun — A
Chief Executive Officer & Executive Director, Nielsen Holdings NV

Well, we're doing well. We do have at least one other significant publisher who is embarked on the sort of the technology roadmap to get there and inform the tag, that'll be very important to us. So the progress is good and I can't name names, so I apologize for that. But we're through tough hurdles and now it's actually just implementing and incorporating it into the metric. But everyone including advertisers will be happy with where we are.

Eric James Boyer — Q
Analyst, Wells Fargo Advisors LLC

Okay. Then as we look out past 2012, how should we think about the levels of investment in the Watch segment, considering cross-platform and OCR have been launched already?

David L. Calhoun — A
Chief Executive Officer & Executive Director, Nielsen Holdings NV

I think you'll find it – our need for investment there will decrease somewhat. There will be some global investment that we're going to embark on for activities that are yet to be announced, but it won't be the same order of magnitude that an OCR program would require. So I guess whatever guidance I can give you is I expect it to be somewhat less, but not quite as much as just flipping the switch from OCR to nothing. We still have other growth opportunities.

Eric James Boyer — Q
Analyst, Wells Fargo Advisors LLC

All right, thanks a lot.

David L. Calhoun — A
Chief Executive Officer & Executive Director, Nielsen Holdings NV

Yep.

Elizabeth A. Zale — A
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

Thank you, Eric. Next question, Operator?

Operator: Our next question comes from Sara Gubins of Bank of America Merrill Lynch. Please go ahead.

Sara Rebecca Gubins — Q
Analyst, Bank of America/Merrill Lynch

Hi, thanks. Good morning. The Insights business reaccelerated, which maybe was a bit of a surprise, given that you're still working on getting the Walmart data in there. Could you give us an update on what you think drove that? Was it Walmart related or was it something else?

Brian J. West — A
Chief Financial Officer, Nielsen Holdings NV

Yeah, our Insights business, as I mentioned, in the developing markets were up a healthy 14% in the quarter. Western Europe actually was pressured, I think reflective of some of the economic points Dave was making. North America was up a very nice growth rate, and we are starting to see the impact of Walmart. So we do feel good about the prospects for Insights business, and we think that Walmart, when it gets fully integrated, would create more momentum, not less. So we feel good about where we're positioned for Insights.

Sara Rebecca Gubins
Analyst, Bank of America/Merrill Lynch
Q

Okay. And then switching gears a little bit, if you could just give us some updated thoughts on the competitive landscape in Watch, and maybe how you're thinking about the use of set-top box data over time?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV
A

Well, I don't think a lot has changed on the competitive landscape. We talk about local, which is really where set-top box will – or has taken effect. You'll recall that most of the progress that is made on that front has been for sell side interests, not buy side interests, which is significant. We love set-top box data, and we will incorporate set-top box data into our metrics on local markets because we believe it will improve stability, and that is what they need in a pretty big way. We know that.

And we like the game plan we have in place to deliver on that promise, but we're going to do it exactly the right way. As a standalone, we do not believe set-top box meets the test. We don't believe it is – will ever be an accredited metric for the market. And so we're just going to continue on our path, and I believe our competitive position will actually be improved, it won't be worse than where it is today. I feel very good about that.

Sara Rebecca Gubins
Analyst, Bank of America/Merrill Lynch
Q

Thank you.

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV
A

Remember we're talking about a very small part of the market.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC
A

Thanks, Sara. Operator, next question?

Operator: Our next question comes from Doug Arthur of Evercore. Please go ahead.

Douglas M. Arthur
Analyst, Evercore Partners (Securities)
Q

Yeah, on developed markets growth of 1% in constant currency, I mean you've talked about some of the factors. Can you sort of elaborate on what specific areas drove that? And is there – is the 1% vulnerable to slowing down, or how do you see that playing out?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV
A

Yeah, really that was the other developed markets, primarily Western Europe. And Western Europe for us, as we've talked about, it's sluggish, it's pressured, it has been, we had contemplated it being pressured. So for us, it's really no surprise. And we think as that economic outlook gets better, that that will improve. I think in the U.S., we feel very good about our Total Buy business. And as I mentioned, we're feeling nice progress in our Insights business, so that all feels good. I think it's literally discrete economies, primarily Western Europe, that pressure it.

Douglas M. Arthur
Analyst, Evercore Partners (Securities)
Q

Okay, thank you.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC
A

Thank you, Doug. Next question please?

Operator: Our next question comes from Matt Chesler of Deutsche Bank. Please go ahead.

Matthew Todd Chesler
Analyst, Deutsche Bank Securities, Inc.
Q

Hi, a couple of questions. Within the Watch division, can you give us an update on the trends there that you're seeing? The division was up 3% constant currency, but TV was up 3.6%. So how much longer do you think you will see pressure in some of those print tracking revenues in Europe? A question around the timing of the Walmart delivery, you've highlighted that it's a late second quarter effect. Should we expect that your entire customer base is going to be moving there in unison, or may there be a phased-in of that delivery?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV
A

Well, let me – I'll start, let me just start with the Walmart one. Of course it's never in unison, so we won't hit the start button. But actually from your guys' point of view, it might look or feel that way. And so 3Q will get a reasonably bigger impact because of the way the commercial terms have been negotiated. So I – it's – no, it doesn't start in unison, that's not the way it is. On the other hand, you will see an appreciable move in that quarter for sure.

Matthew Todd Chesler
Analyst, Deutsche Bank Securities, Inc.
Q

Will there be any revenue recognition in the second quarter the way that it structured commercially?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV
A

No.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV
A

No.

Matthew Todd Chesler
Analyst, Deutsche Bank Securities, Inc.
Q

Okay.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV
A

Nothing meaningful, Matt.

Matthew Todd Chesler
Analyst, Deutsche Bank Securities, Inc.
Q

Okay.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV
A

On the Watch side, we've always talk about our Watch business is being a 4 to 5% grower. The quarter's always vary, if you remember last, first quarter Watch was up 7% because of some of timing. But think about 4% to 5%, it's pretty consistent through the course of the full year.

In terms of our TV business, very steady as you mentioned. There are some pressure points around different geographies we are in outside the US and more developed markets. I also think that we have a ton of confidence in OCR, and there is other parts of the online products that we just are going to let move into planning mode, and we are going to let pretty much run off. And that's just something as we transition to a bigger, better product, we feel very comfortable with. You'll see some of that.

Matthew Todd Chesler
Analyst, Deutsche Bank Securities, Inc.
Q

Okay, thanks.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC
A

Thank you, Matt. Next question please?

Operator: Our next question comes from Kelly Flynn of Credit Suisse. Please go ahead.

Kelly A. Flynn
Analyst, Credit Suisse (United States)
Q

Thanks. Actually kind of building on the last question. Related to the back half acceleration. You explicitly called out Walmart as the key driver ,but I'm wondering, do you actually expect Watch will accelerate as well as Buy in the back half? And then related to that, I know you are being kind of conservative on OCR, but are you thinking about OCR as something that could drive incremental growth points or does it more just kind of keep you in the range that you've historically guided to? Thanks.

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV
A

Yeah, so on the first one, the answer is yes. I'd say modestly the case, so the back half is favored somewhat. With respect to OCR, the word conservative, I'm just going to switch to deliberate. We really want this to get the extensive kind of use cases that it is – that it is getting. And we're going to be disciplined about the contracts that we ultimately take for this service. And we have been – I feel very good about that.

So yes, we expect this to be a contributor to our revenue and we expect to be able to talk about it with you guys on a regular basis. I don't think this year you're going to see meaningful moves, and our plan and our guidance has always contemplated that. So that we would give ourselves ample room to do this the right way. But we get into next year, we can't see numbers begin to move, then obviously we'll be disappointed.

So yes, we do expect it to be meaningful. As Brian said, in many ways we ate our young on this one, we knew this was going to be the product, so we've allowed other parts of that former online measurement service that we've been running for years, in effect to depreciate. But that's okay, we did this very consciously.

Kelly A. Flynn
Analyst, Credit Suisse (United States)

Q

Okay. And just I mean not to be nitpicky, but on Watch accelerating potentially slightly in the back half also, do you think that because you're assuming a little benefit from OCR? Or are you assuming some of these macro headwinds in Europe weighing a bit?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Yeah, both.

Kelly A. Flynn
Analyst, Credit Suisse (United States)

Q

Okay.

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

No, I wouldn't say macro factors. I would just say seasonal factors that we know that we see. I wouldn't call them macro factors. And then, yes, we do expect a very little bit of lift coming out of that OCR product.

Kelly A. Flynn
Analyst, Credit Suisse (United States)

Q

Okay, perfect. Thanks a lot.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

Thanks, Kelly. Next question please?

Operator: Our next question comes from Bill Warmington of Raymond James. Please go ahead.

Bill A. Warmington
Analyst, Raymond James & Associates

Q

Good morning. Question for you on if you could talk a little bit about the exclusivity of the arrangement with Facebook for OCR? And then also on Walmart. If you could help us think a little bit about how that flows through for information versus insight? And then a housekeeping question for Brian just on the tax rate going forward, how we should look for that.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

I'll do the tax rate, just to get that one out of the way. Our cash taxes at $150 million to $160 million range put us in that same range we've been talking over the long-term, it's the 20% to 25%. If anything, that might get, as I mentioned trend towards the lower end of that range just based on some plenty of things that we are working on, but it's still pretty consistent over the long-term.

I think relative to – we feel terrific about our relationship with Facebook. No one else is working with them, no one else has got TV, and we are very proud of which we have and which we continue to have. So we feel like we are the only one who's got this product and we are working hard on making sure we can get out in the marketplace.

And at Walmart, Walmart is something that was never an exclusive data arrangement deliberately because when you start to get exclusive in the cooperative world of retail, it all falls apart. So both of those, we feel good about the commercial relationships and the progress, and working our tails off with regard to introducing products to the marketplace.

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Yeah, I'll just repeat. We really do have policy, we don't, we just don't like big exclusives, it's not good for our industry. We like our products to stand on their own because they've been designed the right way and they support the partners. And in this case in both cases, I believe we will stand that test and that will be good for everybody. So that's really the way we approach all these business opportunities. I don't want to build something around pure exclusivity just not, it's not good for our game.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

We'd rather lean into unique capabilities, and that's really what's the differentiating factor that Nielsen brings to the party.

Bill A. Warmington
Analyst, Raymond James & Associates

Q

Thank you.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

Thank you, Bill. Next question please?

Operator: Our next question comes from Tim Nollen of Macquarie. Please go ahead.

Tim W. Nollen
Analyst, Macquarie Capital (USA), Inc.

Q

Good morning, thanks. I'd just like to expand a little bit on some of the questions already been asked. One is on your traditional TV measurement business. If you could talk a little bit more about further time shifting if C plus 3 could potentially expand to a greater time period. And I guess this feeds into the OCR question, I guess, how do you envision this business evolving over time? Will it be a single ratings across Internet and TV both? Or will you probably keep them as separate businesses?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Yeah, so good question. So time shifted has been a phenomena that's gone on for quite a while. The percentage change toward time shift will actually slow down somewhat just because so many people already incorporate it into their viewing habits. And it, of course, got incorporated into C3. Our users will look at this every year, every quarter, and pressure us to incorporate more time shifting viewing, if they think it's right. And if the accreditation standards can be achieved through that process, which I know and believe they can.

We actually have paying sell side clients, who actually want the data that we already have past C3 and almost C7. And so we work on programs with them for that. So it's just that it's not "the accepted currency." So there are all kinds of insights we can provide for sell side interest on that front or buy side interest. It's the way the technology platform is set up, we can incorporate it. I just don't want to guess where it goes. Our clients will actually – they'll tell us where it goes over time and it will all be done through the accreditation process. I'm sorry, what was the other question?

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

The second question was around will there be a single rating across platforms...

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Oh, yeah. I don't believe there will be. I think there are still represented interests from the publishing side to want to know what their contribution is, and from the TV side who want to know what theirs is. On the other hand, that unduplicated reach number is a very important number for campaign interests, who pay everybody's bill.

So our view is the XCR, which will give a firm grounding on both a TV metric and an online metric, and then allow for that unduplicated reach number to get completed, I think is the approach that most users tell us they want. And it accommodates the kinds of objectives they have in mind. So I feel, I think, I feel good about that. I don't see this one going down to a single currency across all.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

And just to be clear from when Dave is referring to buy side and sell side, he is talking about the media content owners being the sellers versus the buyers of that platform, the advertisers.

Tim W. Nollen
Analyst, Macquarie Capital (USA), Inc.

Q

Yeah, thanks.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

Great, thank you. Next question please?

Operator: Our next question comes from Todd Juenger from Sanford Bernstein. Please go ahead

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, good morning. So couple of questions regarding restructuring, one sort of tactile and one more strategic. So just tactically, we see your guidance for the year, thanks. Just wanted to explore a little bit the difference between cash and GAAP charges. I think we understand why those can be different in the timing but just so the GAAP charges quarter was I think $37 million, so a lot higher than cash. Do you think that will sort of converge over the year or should we be thinking about the GAAP charges a lot higher than the cash for the year?

And then sort of more importantly and more strategically, just a question, so over time, there has been a fair amount of restructuring every year as you guys do productivity initiatives. I think, we all get that. Just looking at the buy segment just want to think about, if you've been taking costs out there through restructuring programs at a fairly significant rate, then we think about the reinvestment.

I mean I guess by definition you're reinvesting not only sort of in the growth result through the revenue, but you're also replacing the cost of construction. So other words, should we be thinking about the reinvestment in the buy business as the sum of adding back the stuff you took out from restructuring plus the investment in growth such that the investment is actually maybe higher than it looks like? If that's clear.

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Yeah, I'm not sure it is, but I'll describe for you at least the way we approach this thing. So our investments, there is clearly, reasonably big components of our investment, the capital and operating expenses in technology platforms that support the Buy business. I mean I think if you recall, we invested in AOD, a new technology platform, that's now up and running with three major clients, three of the most sophisticated ones in the world.

We still have the rest of our commercial enterprise and the rest of our platforms around the company to converge into AOD over time. So we have created an opportunity to restructure over time our business towards that end. All of that which improves both the cost position and the utility of the service that we provide. So – and we feel very good about that.

Now the size of restructuring amounts, i.e., the things that we do to accommodate now greater utilization of technology, et cetera. They do decline over time there is no question about it. This year actually we took a bigger chunk in restructuring than we probably intended a couple of years ago, simply because we were dealing with the European flat line, if you will, and we want to get ahead of it. So we actually accelerated a few things on that front. But as I think about pace of restructuring, it does decline over time. And it's mostly to accommodate sort of downsizing around a higher profile technology platform.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

And to the timing, Todd, if you just – I pointed to 2011 where our accrual was around $84 million and cash out was around $82 million. So quarter-to-quarter there could be differences based on when you're required to book the charge versus actually when you need to pay it out and that will always be floating through the financials quarter-to-quarter. But over time obviously, they converge and typically on an annual basis, they get pretty closely aligned.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

Todd?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Todd, I hope [indiscernible] (38:58) on that.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

No, I wanted to be courteous to other people on the line.

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Okay, thanks, Todd.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

Thank you. Next question please?

Operator: Our next question comes from Robert Riggs of William Blair. Please go ahead.

Robert Riggs
Analyst, William Blair & Co. LLC

Q

Good morning. Thanks for taking my question. I just wanted to get a quick update on the ad solution business. How big is the contribution there, growth rates and is there anything in the pipeline over the next few quarters that we should keep an eye on that could accelerate the growth there? Thanks.

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Yeah, it's a great question. It is a focus within our Insight world, it's a couple of $100 million business for us. It's growing at a healthy double-digit pace. It will continue to do so. And, yes, we will probably do some small acquisitions in that space because they are out there, and because there are few platforms that we think can differentiate themselves in our world.

So we're going to move aggressively, continue to move aggressively into this space. We like it. It actually – it circles itself around this XCR metric TV and online ratings in a really interesting way and because of how we're situated with both the advertiser world, as well as the Watch world, we feel like we've got a real advantage here in terms of reach. So yes, it's an emphasis, we'll continue to see probably disproportionate investment going its way and its performance so far has been terrific.

Robert Riggs
Analyst, William Blair & Co. LLC

Q

Great, thank you.

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Yeah.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

Thanks, Rob. Next question please?

Operator: Our next question comes from William Bird of Lazard. Please go ahead.

William G. Bird
Analyst, Lazard Capital Markets LLC

Q

Thank you. Could you talk a little bit about what your growth expectations for developing markets for the balance of the year? And then, as we turn into 2013, I just want to get a sense of whether plus 30 to 50 basis points is likely to be kind of the margin formula? Thank you.

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Yeah, so developing markets, let me just take that one straight up. Anybody who might have extrapolated 19% forever is wrong. That's not the way any of us have ever contemplated our investments there. Coming off a tough comp, recognizing that multinationals, which is still unfortunately the majority of our developing market business is that you'll recall. The way we set up these developing markets businesses, they start with a significant disproportionate share of multinationals. That's who get us started and local nationals began to build. There is no decline in the robustness of the local national interest in this product. That's going well, it's just a smaller part of the pie.

I do believe that the multinationals are going to stay selective here for a while, it's just their some trepidation around the world, it's just – it's life. But for us, these businesses will stay in that double-digit realm as the comps get a little easier, we'll probably increase somewhat. But I'm not worried or intimidated at it being 11% in the first quarter, or even 16% in a different quarter. We feel very good about health of the business and that the prospects of it, and as local nationals become a significant – increasingly more significant part of our mix then that "economic issue" that surrounds multinationals I think will subside.

At any rate, that's a long way of saying I – I don't want to give you guidance towards the high side of double-digits, because I just don't – that's not what we are betting on and it's not the way we run the company. We expect a double-digit performance out of our emerging markets year in and year out and feel good about that. It will – it could range, just like you've seen, 11 to 19. That range doesn't intimidate us and I hope it doesn't intimidate you.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

In terms of margin expansion, we love the fact that we get to reinvest 50 to 70 basis points in this particular calendar year. And we hope that is what the future brings us. On the other hand as we think about – right now we are simultaneously investing in three of the biggest markets in the world, Africa, China, India. And we won't be simultaneously investing in all of those three with this kind of intensity forever. And as we walk out of 2013 the investment intensity of those markets will subside. We completely hope there is something else it gets replaced by, but there will be a reduction in intensity of investments in that particular part of our business, no doubt about it.

William G. Bird
Analyst, Lazard Capital Markets LLC

Q

And just from the CapEx perspective, are you likely to see CapEx come down in 2013 and if so how much?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Again, our governor of CapEx is always going to be our reinvestment ratio. So the range we have out there today keeps us in that governor, where we are never going to allow that ratio above one. Because our view is that, you never bring fresh capital on to the business faster than it was coming off in the form of operational D&A. And that's always going to be the governor and we like where we are at with that and we continue to be able to work and run the business in that kind of framework.

William G. Bird
Analyst, Lazard Capital Markets LLC

Q

Thank you.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

Thanks, Bill. The only thing I'd add to that is that, as we've talked about, due to that framework, it's not likely to rise. So I think that's important.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yeah, it's not a function of revenue. It's really a function of that reinvestment ratio, very important to us because if you get too far afield of that, you have a long-term cost problem that we're not going to get into.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

Thank you, Bill. Next question, please?

Operator: Our next question, and pardon the pronunciation, comes from Ashwin Shirvaikar of Citibank. Please go ahead.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets (United States)

Q

Hi, thanks. Many of my questions have been answered. I just wanted to revisit – you said a couple of times in developing markets buys are staying selective. Is it selective by particular geographies or did you mean particular product lines? Could you provide some color on that?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Yeah, the truth is it's by client. When I think about sort of the phenomenon, we have some clients, who for lots of different reasons, could be performance or for other reasons, have just decided to be little more selective about how quickly they penetrate with new country category combinations, right, new products bringing to markets, et cetera. So that just happens. And it seems to, at least in our case, as we measure it, effects the Southeast Asian perimeter more so than the big countries China, India, et cetera.

So that's sort of our phenomena. But what I would say to you is that is pretty much client-centric. We have some clients who are still going gangbusters on that front, but if I tallied it at all up and aggregated it, some of the bigger ones are actually being a little more selective. And as a result, we just haven't seen the rate of penetration that they had been accustomed to the last couple of years. I just think there is some trepidation on global growth, that's all.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets (United States)

Q

And do you think local buyers, local regional companies step up any time to fill the gap?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Totally. Yeah, that's still very robust. It's just that for us it's still the smaller end of the stick, right, but that's still very robust. As they get comfortable with using data to support their businesses and enterprises – and remember, we're educating them on how to do it and what to do it with. But if you look at our resourcing, you'll find out that most of the people we're adding are actually being added to service, local nationals as opposed to multinationals. That's just that's the nature of the beast and that part of it's robust. And I can't wait until, as we've talked many times in this call, that's more than half of the equation for us. When that happens, it gets very healthy.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets (United States)

Q

Okay. One last question. comScore's vCE product is it becoming more competitive to you guys as it evolves? Any commentary there?

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

More competitive? No. Look, it is a very different product, right? If you measure so "sample sizes" or the metric itself, you'll find out that these are two wildly different products. We happen to have a product that looks like that one. And as I said to you, OCR is meant to displace it for us for us in our world. So no, I don't feel so much that way, they definitely have that viewability advantage in the – for the first couple of months but we've taken care of that, in fact we think we have the viewability advantage. So – but that was really a smaller dimension of it. I think between demographic profile and reach of the metric itself, ours is significantly more advantaged.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets (United States)

Q

Okay, understood. Thank you, guys.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

A

Thank you, Ashwin. Next question, please?

Operator: Our next question comes from Bishop Cheen of Wells Fargo. Please go ahead.

Bishop Cheen
Analyst, Wells Fargo Advisors LLC

Q

Hi, everyone. Thanks for all the updates. To the balance sheet, you guys have done a great job of extending all your maturities. There is – near term this year and next year maybe $900 million, I'm rounding. Is that something you would just do with free cash flow and can you remind us again of your availability?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV
A

So, we'll provide some of the high coupon notes, we think about that all the time and what for us, what it means is that, as the markets stay robust and as every day gets closer to that call date, I'm looking at it. And whether we do that with free cash flow or we refinance them, I have all options at my disposal and just know that we are focused on it. And that actually is going to be something that, as we think about the next 12 to 8 months, will materially reduce the weighted average interest costs of this company and we just can't wait for those things to come callable, or they get so attractive the economic NPV, we just do it.

Bishop Cheen
Analyst, Wells Fargo Advisors LLC
Q

And then your availability currently?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV
A

Availability in terms of our revolver capacity?

Bishop Cheen
Analyst, Wells Fargo Advisors LLC
Q

Yeah.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV
A

So we've got a revolver that's, probably $688 million, we lean into a little bit as I mentioned, about $120 million as the seasonal cash flows would dictate, but we've got plenty of capacity. For us, we view the capital markets as being very flexible to the Nielsen name and they've been there before and we would expect them to be there in the future. But we don't really worry about it.

Bishop Cheen
Analyst, Wells Fargo Advisors LLC
Q

Thank you.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC
A

Thanks, Bishop. Next question please?

Operator: Our next question comes from Aaron Watts of Deutsche Bank. Please go ahead.

Aaron Lee Watts
Analyst, Deutsche Bank Securities, Inc.
Q

Dave, in the past, you've talked about a desire to march the company towards investment grade status. Curious, as you consider your various options for uses of cash going forward, investments obviously you've laid out on this call, debt pay down, dividends, et cetera. Does achieving that IG status still remain a priority, and if so perhaps when you envision maybe getting there? Thanks.

David L. Calhoun
Chief Executive Officer & Executive Director, Nielsen Holdings NV

A

Yeah, so I'm still on the mission because that's what the company has been designed to do. As everyone has noted our free cash flow is getting better and better every day that goes by. I don't see a big change with respect to acquisition philosophy has nothing to do with our desire, we're always desirous of good acquisitions. It's just within our space they tend to be small, they tend to be add on, they tend to be tuck-in, we are going continue down that path and you will see, we will continue to do it in mostly the measured way we have so far. So I don't see breakout things going on there, at least at this stage of our life.

As we get closer and closer to that investment-grade status, there is always an economic trade-off that I'll rely on Brian to evaluate day in and day out, and we'll always be efficient with respect to what we do for shareholders. So – but that decision set for us is still a little way off, I consider a couple of the hurdles to be the retirement of these high-priced notes. That's one thing I'd just like to get done because there is a real economic advantage in getting that done sooner rather than later. At any rate that's, again, I'm sure I'm leaving it open ended for you but I guess the real message is no change in my objective or my philosophy or the way we are running the place at this stage.

Aaron Lee Watts
Analyst, Deutsche Bank Securities, Inc.

Q

That's helpful, perfect. Thank you.

Elizabeth A. Zale
Senior Vice President-Investor Relations, Nielsen Co. (US) LLC

Thank you, Aaron. Before we close, I just want to make sure that everyone is aware we have a number of investor events that are coming up in May. Our annual shareholder meeting is Tuesday, May 8, we will be participating in the JPMorgan TMT Conference on Tuesday, May 15 and also the Bank of America Merrill Lynch Conference on May 24. We've published our first annual review, year in review, in print and online versions, which you can access on our website at ir.nielsen.com. And we look forward to the opportunity to connect with all of you in the investment community through these and other events throughout the second quarter. With that, we'll say thank you and turn it back to the operator.

Operator: Thank you. This concludes the Nielsen Holdings N.V. First Quarter 2012 Call. A replay of this call will be available on Nielsen investor relations website shortly. Thank you.