13-Jun-2012

Nielsen Holdings NV *(NLSN)*

William Blair Growth Stock Conference

CORPORATE PARTICIPANTS

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

OTHER PARTICIPANTS

Keane McCarthy
Analyst, William Blair & Co. LLC

MANAGEMENT DISCUSSION SECTION

Keane McCarthy
Analyst, William Blair & Co. LLC

Okay, I think we'll get started. My name is Keane McCarthy. I'm the associate under Rob Riggs, coverage responsibility is information services. I ask you to please refer to any disclosures. And happy to have Nielsen Holdings here to present. Presenter will be Brian West, CFO.

And with that, I'll turn it over to him.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

Thanks, Keane. And I'd also like to introduce Liz Zale, who is on the podium, our Head of Investor Relations, as well as John Lewis. John runs our North America Buy business, happens to sit just a little bit to the north of here in Schaumburg. And he is a big part of the company, a big leader, and we are privileged to have him join us today.

So Nielsen, for those of you who are not familiar with the story, we have a mission and that mission is to help our clients understand, in the most complete way, consumers, all around the world. And we think that there are things in that mission that really differentiate us around the Watch and the Buy platforms that we offer and doing it all around the world.

And we also think that we differentiate in our space with our values, and I'll talk about two of them. Open, more and more we have an open culture where we look to work with all players in the industry, and there is a handful of them and it's many more. So we can work with other providers in the space so we can help our clients be more and more effective.

And integrated, integrated on behalf of clients trying to bring these big Watch platform and this big Buy platform together so that we can take the next step of helping marketers with the effectiveness of their spends, very important values that we think about and work on every single day to stand the test of time.

And lastly, our brand, in a world where privacy is front and center and the need for third-party measurement is higher and higher, this plays to our brand of neutrality and it's been around for 90-plus years and we're proud to be associated with it and it's even more relevant today than ever.

Our investment highlights, I mentioned this comprehensive understanding of consumers. We wrap ourselves around two fundamental engagements with the consumer: what they buy and what they watch. And believe it or not, both are important to advertiser/marketers and what's more important is how they work together. And we are the only company that has the two of those franchises and the opportunity to bring them together; unique in our space.

Secondly, our platform. We are in 100 countries, again, a differentiator. The next closest competitor is in 8, we'll talk more about that. But we have a big global platform that's been developed over decades.

Our data is also considered mission-critical, meaning that every day our information is embedded in our client workflows to help them make decisions. So in a typical client engagement, thousands of people use our data every single day to help them make a wide variety of choices and decisions as they compete and grow their businesses.

We like syndicated products that are scalable. We are not interested in doing custom studies. And that's important because when we go into new territories, it's always with the eye on making sure we can scale them. We'll talk more about that later, particularly with new products in the digital world.

We have big macro trends that we're following, particularly developing markets as well as media choices. And we'll talk more about them, but these are big trends that we're right behind that drive growth going forward.

And we've got a proven track record in markets that are tough and markets that are more robust. Our business model holds up and I'll show you and it's resilient.

The reason why this is so resilient business model is really it's the fundamental way that we go about with our clients, both in the Buy side and the Watch side. So I'll give you two examples of how our business works. On the Buy side, a typical engagement with a client like Nestle. We've been doing business with Nestle for decades; doing it with them in 80 markets around the world. About 70% of that relationship is where we help them understand their market share for all of their products all around the world every single day, every single moment. And it's that retail measurement that helps them understand how they're doing versus the next guy. That's largely wrapped around a long-term contract and that's what makes it withstand over time.

We also have another 30% of that relationship in general around helping give them insights, how to make that information come alive to help them look around a corner, whether it's how to think about a new product forecast or a pricing study or an assortment study, things that help them compete and optimize their channels every single day. A big part of our business, two thirds of our business is in the Buy side. And again, it's got that resilience because it's fundamental data with some of the best clients in the world.

Similarly, on the Watch side, CBS is a good example, another many-decade relationship. We have worked with CBS of how they basically monetize their content. And about 80% of that relationship is one where it's supplying them TV ratings, and there is another 20% that helps them bring that to life to help them think about optimizing their inventory and helping them be more successful. So, again, fundamental franchises built on big data sets and then grow with insight practices. And it's this business model that holds up over time and, again, embedded in how our clients make decisions.

In terms of where we are at this moment in time, important business update for everyone of how 2012 is shaping up, our Buy business, as I mentioned, is more global than any of them and we've got headwinds. The operating environment in Europe for our clients is very difficult in Western Europe. There's no doubt about it. It's tough. The Information business, that retail measurement part that holds up under long-term contract is fine. It's that Insights piece that does more discretionary. And anyone right now in Western Europe is looking to save every nickel and its pressured. The good news is the Information business is much bigger, the insight is smaller, but it is a headwind.

On the Buy side, we also have global multinationals, certain multinationals that are just being very deliberate in how they invest around the world. They're investing, but they're being more deliberate.

And finally, I'll take you through a little bit of the foreign currency impact that's rolling through as a headwind. Now, it's important to note, we operate and measure ourselves on constant currency, but the reported phenomenon is a reality that we're trying to be helpful with. So, those are headwinds.

Now I compare that with the tailwinds that we feel terrific about in the company. Particularly, we're proud that our Walmart data has been given out to the marketplace. That is basically taking the U.S. retail measurement data and including the Walmart data. It is now live and it is now being rolled out in the hands of clients after six to nine months of very intense effort.

We also feel great about a new product in the digital world called Online Campaign Ratings. Adoption continues, I'll give you more about that later.

And developing markets broadly speaking, developing markets is still a big opportunity that we see over the next several years if not decades as more people move into the middle class in these emerging markets. It's important to our clients, right? Over the long-term, that's where they're investing and it's important to us to invest as well.

And finally, ad solutions. I mentioned that we have a value of integration where we're bringing Watch and Buy together. I'll show how we're getting excited about a small, but fast-growing component of our business where we actually bring those data sets together on behalf of clients to help them be even more effective.

So we balance out headwinds at this moment in time as we close the first half of the year and then we think about turning the corner in the second half of the year with these known tailwinds that we know are coming for the second half and beyond. We net it out to a revenue expectation that'll be 5% to 6%, which is just a notch lower than our original guidance which was 5% to 7%.

EBITDA margin expansion is the same of 30 to 50 bps. We expect an FX impact for the total year of a 325 basis point drag on reported results and on an EBITDA standpoint, that's just under a 300 basis point impact for the year. And we're reaffirming our reported EPS of a $1.76 to $1.82. So headwinds you wouldn't be surprised at this moment in time, tailwinds as we head into the second half and feel great about.

I'd like to talk about currency. I'm going to start with everyone looking at the takeaway; right, because constant currency is what matters in our business. I don't take on economic exposure. I don't take on a lot of transaction exposure. This is all translated in my reported results, and it's a reality. It's not how we run the business, but it is a reality and when we have so – when we derive so much revenue from so many different currencies, it all moves around and in this moment in time, there's lots of fluctuation. So we want to be very helpful to investors and analysts so they can understand exactly what the impact is, what we expect over the course of the year.

So, what on the graph I'll remind everyone is last year, the first three quarters of the year, we had FX tailwind. On the second quarter last year, we had a 500 basis point benefit to our results. I reported 10% revenue growth, constant currency was 5% and we talked about 5% constant currency.

In the fourth quarter last year, we had our first quarter of a drag. In the first quarter, we had a similar drag. As we look at where rates were as of Monday, if they stood there for the rest of the year, this chart of the 2Q through 4Q is what the impact is on our results, so second quarter 475 basis point drag, similar to third quarter, less than the fourth quarter and the full year at 325.

We're trying to be helpful here because, again, lots of currencies, lots of people trying to understand this for us. At the end of the day, it's all about constant currency. That's how we manage the business; that's how we run the business, and that's the way you should think about the operating performance of the business. But we want to try to get this out there so again we can be helpful.

So that was all the reported impact results but here is the resilience of the underlying model. And as you can see over the last four years on the chart on the left, our revenue, 5% consistent resilient steady, EBITDA expanded margins. That's what this model does and it's because it's built on those big foundational Watch and Buy businesses.

If I think about the Buy segment for a minute, the Buy segment, the bigger of the two segments, $3.4 billion last year. Again, over the course of the last three years, steady consistent growth. It's got those long-term contracts. The average for the information side of my business is between three and eight years; average is around five. It's got proprietary data. I do it all around the world and my objective is to always expand coverage because I continue to differentiate and have a competitive advantage as I continue to expand my ability and capabilities in developing markets as well as places like the U.S. where we now have new data from a big retailer by the name of Walmart.

About 70% of this Buy business is this information side. The 30% – and that's under contract. The 30% is with insights. That's what's not under contract; that's discretionary. That's where you're asking – you're answering question from clients of how they compete and win. That's the piece, when it's robust, it'll grow. And when things are tougher, that's where clients are going to exercise more discretion. And that's we're seeing in certain geographies as we speak, particularly Western Europe.

The thing is, while they typically can hold that back over short periods of times, overall over the long-term, clients will invest here because that's where the growth is coming from. That's where they need to fund new products or how to think about new pricing strategies or assortment strategies. So, at a moment, it can go down or it cannot grow as fast, I would say, but over time that'll grow and it'll help our clients, those benefits will attribute to us. So, important part of our business.

If there is one chart you remember, one idea you remember, it's this one because for Nielsen every blue dot represents where we do business. And that Africa section wasn't as blue a year ago because we're building it out. We're trying to put – plant more flags around sub-Sahara Africa. It's this footprint that differentiates our ability. The next competitor has eight countries, we have 100.

So if you're looking for a global view of the world, we help our clients do that. And it's one that we will continue to invest in because if you think about where the future consumption is going to happen and where the growth will come from, it will be these emerging markets and we got to get out there. And we are and we're investing behind it and we feel great about our progress this year and into the future.

The other point here is that while this all started with us measuring on behalf of multinationals as they went from the west to the east, what'll happen is there'll be big clients in the east that'll want to distribute into the west. And when that happens over years, perhaps even five to 10 years, they'll come right back from our footprint and they'll need the data. And it will help them go the other way. So it's a great platform. It's a franchise we think about every single day.

The big trends I mentioned, you've got lots of people that are going to enter the middle class. Any demographer would tell you that. It's going to more than double, notwithstanding the purchasing power they bring with them in that middle class is going to almost triple. So this is the opportunity that's in front of our client and one that we help give clarity to, as well as all the demographic shifts that are happening around the world in both developing markets and developed markets. All of these shifts are what's important to our clients as they try to find their consumers to sell and promote their brands. So developing markets is a big deal for us.

And over the last few years it's now $1 billion plus franchise. It's been growing. We are focused on three big markets: Africa, rural China, and rural India. This is where our investments are going. And this is what is going to be a focus for us and has been as we continue to rev that developing market engine.

Moving on to the Watch segment; Watch segment, about $1.9 billion. Look, on our Watch segment, if you look historically, the underlying growth rate is 4% to 5% and it's steady as she goes. Any particular quarter might be up or down, the first quarter this year was 3%. But for a year, it's a 4% to 5% growth business. It's steady, and we expect it to look the same exactly going forward.

It's, again, long-term contract in nature, three to seven years is the range, and average is a little over five, very proprietary data sets. And right now, our whole focus is around how we make sure that we can measure across platforms as video consumption moves to the digital world, whether it's online, to the PC or how to help clients look across multiple platforms. The big deal for us. I'll talk more about it. We've introduced new products in the last 12 months that are making good traction in the marketplace and we're confident on its future.

Ad solutions is how we bring Watch and Buy together. We'll talk more about that. And we chase global opportunities every chance we get.

On our Watch business, the thing to remember is that consumption of content has changed dramatically over time. It's gone from just over the air back long time ago to cable, to satellite box, to set-top box, to over-the-top, to analog digital, time-shifted, we measure all of that, right. And we don't measure how it gets distributed to you, but how it gets consumed, right. Who is watching it? And how they are watching it? And as long as we keep on measuring that consumption regardless of how it gets to you, regardless of the device, this model holds up and there is growth behind it.

And you think about what we're focused, a big part of television, it's a big part of the franchise. It's still big. It's important to marketers and then it's how do viewers move and audiences move to the other screens, online and mobile? And we've got assets and products and capabilities that are focused on this and that will be a long-term growth as we help our clients better measure the return on investments as they think about managing their brands and spending their advertising across these platforms.

Let's talk about one of the newer areas around trying to understand these audiences are moving at different places. One is called Online Campaign Ratings. It's a product that is bringing more fidelity and better measurement to the digital world for video and display advertising, just like television, right, where people have more accountability on the audiences that were supposed to be delivered by a publisher and the audiences that were actually delivered by a publisher. And then, when it's not, there is a reconciliation, right. That's the capability of this metric and it's early days. We've got great progress on it. There's now over 900 campaigns that are being run on OCR. We've got 60 advertisers, 60 publishers. And as we build this towards a standard, we continue to make progress and just look at some of the up-fronts that were in place, a good testament to the product and the Online Campaign Ratings to help bring clarity and better standard of measurement.

It's got terrific features, including all the things around making sure that it's got good verification, good brand safety, good viewability. And more importantly, we not just measure the reach of that audience in terms of who saw the ad, but also who remembered it. Was there any recall? Did my brand breakthrough? And this is all integrated in the product set and again it's making good progress, terrific progress in the marketplace and we're confident as our clients develop their own use cases around the product.

The next piece that we're hooking onto is called Cross-Platform Campaign Ratings. And this is where I've got the Online Campaign Ratings and I match it up with the TV rating in order to get a very easy cross-platform view. And the thing about this is not only is it now live and we expect to commercially release in the fourth quarter, it now is able to bring an unduplicated view of TV and online in a scalable way. This is meant to be scalable. We can scale it and we feel good about the prospects as we head into the back half and this is something that's very unique and differentiated because no one's got these two assets.

And then finally, I talked about how we bring together our Watch and our Buy assets. So, the chart on the left give you a little license. I know it's a little consultants-like, but the pyramids of our business are foundation Buy and Watch business. We both measure things on both sides of the Buy and the Watch side, whether it's TV ratings or retail measurement. The foundation is the information and the measurements that we provide that's so important to how our clients do business every day. And then we go and we work on analytical products to help make sure that we're not just a data provider, but someone who can be an informed advisor for our client and then really have them think about their strategies as they go out and compete. They both are very similar on each side of those pyramids, both on Buy and Watch.

The opportunity is when you bring them together because every big market or CMO out in the world wants to figure out, did I get the audience exposure I was looking for and then did I get the retail lift that I expected, and then get more and more precision so you can get higher and higher yield on your spend. And we've got these assets in a way to bring them together. Now this is a small part of the company today. It's growing fast, we're investing resource, but we've got these unique assets. We know a lot about retail data. We know a lot about audience data. And bringing them together on behalf of our marketing clients to help them more effective, to help them find their audiences is something that's in front of us that we're investing in and we're looking forward to the growth prospects.

One example is a media client recently at a TV upfront showed not just the typical Nielsen TV ratings, I'm able to, with this programming, get this demographic, women 18 to 25, but we're also then able to integrate retail data with that audience data and then show not just is this programming more likely to get this demo of women 18 to 25, but they are more likely to stay at a Hilton or a Marriott or to shop at a Target. That information and that precision when you introduce it, is very powerful, both for the media company to help differentiate their inventory and for the advertiser to make them more comfortable that they'll improve the return on investment. And again, increase the yields and grow the total size of the pie. So it's something that's young in the company, we're working on it, it's growing fast and we think there's open space for us.

In terms of looking ahead, look, the most important thing is to remember that the business model and the franchise is built on resilience, right, regardless of what the economic climate looks like and we feel good about that. And in terms of where we're headed going forward is around this whole intent to make sure that we're measuring the developing world on behalf of manufacturing buy clients. It's important, we're continuing to invest in it and the prospects in front of us are very compelling.

Secondly, this whole idea of bringing cross-platform solutions to the marketplace on behalf of advertisers, it's a big deal for them. It's important to them. We think we have a role to bring more clarity to that, particularly as it pertains to bringing it together across multiple platforms, TV and online for sure.

And then, finally as I mentioned, the next integration is being able to help that marketing effectiveness by taking unique assets like Watch and Buy and bring them together.

So again, that's a little bit about the Nielsen story and I thank you for the opportunity to tell it. And I guess I'm going to turn it back over to Keane for some questions.

Keane McCarthy
Analyst, William Blair & Co. LLC

Yeah? Brian, [inaudible] (22:45)

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

Yeah.

Keane McCarthy
Analyst, William Blair & Co. LLC

Brian, you guys issued a press release this morning where you brought down the high end of the constant currency revenue growth for 2012. I'm wondering if you could maybe frame out the expectations for revenue with first half versus second half. And then with the -- appreciate the clarity on the FX, but you also maintained the EPS guidance. But I'm wondering how that works out despite the FX headwinds? Thanks.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

Sure. So I think the first thing that our objective is to make sure that everyone understood first and foremost that a headwind I talked about, which was FX. So first objective is to make sure that for all of you can understand that FX volatility to results is going to be significant as we go through the course of the year.

Secondly, our objective is to let everyone know that yes, Western Europe is a pressure point for sure and it's one that is going to make us have a 5% to 6% versus 5% to 7%. That's really what it is about, is this Western Europe pressure for our Buy business on the Insight space and these multi-nationals that are being more deliberate. That was, as I mentioned, all around the context as why we did that and we had the visibility to be able to do that.

In terms of how the halves will look, look, the first half will be about a full – as we stand here today and I'm not done closing the books, but I estimate that the first half will be about a full point below what we had expected because of Western Europe Buy and because of these points I mentioned.

On the other hand, I also remind you that there are known things that'll happen in the second half that we feel every bit as good about and that gets to a point where 5% to 7% is the right number to think about for us for 2012. And again, it's that resilience that hopefully is showing up and our ability to deliver and execute on some things we've talked about all year.

As it relates to the EPS range, we have – notwithstanding the FX impact, we have a combination of cost management and the trending of below-the-line items that, when you add it all up, we're comfortable at the $1.76, $1.82. And as we close the second quarter, we'll be able to report back on all the components of that, but that's the genesis. So again, that's one reason why we put it out there. We want to be helpful to the investment analyst community on how they should think about us for the rest of the year. And, again, it's the power of the model that holds up, I think, is the one fundamental that can't be lost on anybody.

Keane McCarthy
Analyst, William Blair & Co. LLC

We're going to open it up for questions.

QUESTION AND ANSWER SECTION

Q

[Question Inaudible] (25:35)

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yeah, sure. So the question is, what's the need to standardize behind one or two measures as it relates to the online measurement world? So, look, I think if you ask anybody in the industry, they always want clarity and consistency of a standard. We believe that the unmet need is in today's offerings historically, Nielsen included, measuring companies that were just giving estimates. They weren't allowing for real, robust buying and selling trading, and that is what has prevented big advertisers to come into the space because they weren't quite sure what they got. They weren't quite sure of the accountability the way they get it in television.

So our objective was to have a very unique product that's differentiated in the marketplace because I've got a terrific data set that's powered by a data provider on Facebook. I then have the ability to do it very quickly overnight so I can scale it, right? I can measure things across the Internet, not just a site. And then, I can compare it to television. Those are very unique differentiating components that we bring to bear and we're excited about the prospect.

We think that there's room for a standard. But ultimately, the marketplace will tell you that. Right now our focus is to work with advertisers to help them understand their own use cases so they can begin to get more confident. And as they spend more money in the digital space and they go after those consumers and those audiences, that there's real accountability there because they still get measured on return. And most importantly, they don't necessarily derive a campaign for one platform. They derive a campaign across a platform and they want to see that shift and that impact.

So we think all that leads to a standard that can get creative. Whether or not it does, the marketplace will tell us. But, as we stand here today a year later, we have passed many milestones, mileposts along the way to a standard that we feel better and better about, whether it's publishers like Hulu and AOL at the latest new front, digital upfront, basically saying that they're going to guarantee their audiences using our Online Campaign Ratings metrics, big deal.

Whether you've got agencies like GroupM making sure that they are out there in front of cross-platform, in other words, the ability to match online and television data, that's all powerful. But everyone's kind of coming in and testing it and looking around, and we feel confident. And the big news for us is, it's not big news for many of you, but we'll be very patient because it takes time for standards to get created. Ultimately, the industry deems it a currency, not Nielsen. And we're just going to keep marching down the path. But again, every time we look at it, it's got more momentum.

Keane McCarthy
Analyst, William Blair & Co. LLC

Q

Yeah, in the back.

Q

[Question inaudible] (28:45)

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

So, the question is around how do we think about measuring cross-platform audiences, so, like the tablet and television and how we're going to go do that, and is there opportunity for competitor, and does it create margin pressure? So, for us, this is one where having a consistent measurement of audience as it moves from television to a PC to a tablet, the media company's best interest to have us help them march down that path because they need to get credit for their content.

And a year ago, we introduced the second screen measurement, which is TV plus PC, to make sure that media companies could get credit for that audience. That's out there in the marketplace and we're working on that. And the next step is to do something similar for the tablet device, I should say, and we're working on that one, too. Matter of fact, not only are we working on it, it's being tested by big media companies.

So again, this is one where technically we can do it. It is in the hands of clients for them to understand how it works. But ultimately the industry, between content providers, distributors and the advertiser are going to basically agree on, yes, that's how we're going to measure it, they've got to agree on all the rules of all the crediting and how that's going to work. And we facilitate that, but technically not hard. We believe that that's the natural extension for us in terms of our being able to measure audiences as it moves.

And then the margin pressure, it's not going to be very meaningful at all. Matter of fact, the margins are going to be just fine, very consistent with how our Watch margins hold up. There's not a whole heck of a lot of incremental investment and we are working with clients to basically help them monetize their content. So we feel pretty good about where we stand.

The thing on that one is that nothing moves fast enough in this space, and you've always got to facilitate constituents that have different viewpoints. But you got to be the referee some time, and that's the role we play and we're perfectly happy to do that.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

Okay. Great. Thanks, everybody.