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Nielsen Holdings NV *(NLSN)*

Raymond James Institutional Investors Conference

CORPORATE PARTICIPANTS

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good morning everyone. Welcome to the Nielsen presentation here at the Raymond James Institutional Conference in Orlando. With us today from Nielsen is Brian West, Chief Financial Officer; and Liz Zale, Head of Investor Relations.

Okay. We're having a couple of technical issues. So, we're going to go ahead and the slide presentation will be loaded in a few seconds. But we're going to go ahead and start, anyway, with Brian.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

Thank you. Great. Thanks, everyone, and thank you for your time this morning. We'll catch up with the charts when they get here. But for us, Nielsen is about two things. First of all, we wrap ourselves around the consumer. All right. It's what they buy and what they watch. And the things that they buy are staple goods, things that they need in their everyday lives. And it's a great global business. It's two-thirds of the company. And we also wrap ourselves around the consumer in terms of their media exposure, what they watch. So, these are big markets that we represent on behalf of our clients, but ultimately aimed at understanding the consumer.

The other dimension to think about Nielsen on is I'm an info services company. So, whereas my end markets, my end customers might have a little bit more volatility with ad markets and the ups and downs of staple goods kind of companies, CPG companies, the model, info services, because I'm a [ph] database of (1:40) information services, is very steady. It's very consistent. So, I'm not exposed to the ups and downs. It's consistent, it's compounding. And that's a wonderful thing as we think about investing for the long term.

So, we talk about the consumer, it's unique, because no other company wraps themselves around the consumer quite the way we do, what they buy, what they watch. Because for a marketer, ultimately, you want to know how those two interact with one another.

We also do it in 100 countries, all around the globe, a very big global footprint that's been around for a long, long time. We didn't plant many flags in the last five or six years under our tenure. Those flags were planted by the second-generation Nielsen family a long time ago. So, we've been in these markets for a very long time and no one else is in 100 countries.

We like syndicated products, things that are repeatable, just like many info services companies. And it's that repeatability with a low-cost scalable platform that gives the ability to grow margins, while reinvesting in the business.

We also think a lot about two big growth trends and we'll talk about those two growth trends because that's all about where we're headed. And the growth trends are, simply on the Buy side of our business, emerging markets and population growth into the middle class. All right. And on the Watch side, it's the fragmentation of media.

As I mentioned, because of our model, very resilient in the economic environment, whether it's good or it's bad or somewhere between, it's held up very consistently and I'll show you some evidence of that. And we're happy to say that we're at a pretty good moment in time for the company. At this moment, in the last few months, after six years of hard work, we've gotten the business where we want it in terms of the simplicity of our messaging, Watch & Buy, and investing on behalf of our clients.

Two, we've got the capital structure where we want it. There was a day when we were 9-times leverage plus. We're now under 4, and we have a target of where we want to get to. And then between now and then, we'll start returning cash to shareholders in the form of dividend.

So, we feel very good about where we're at, but more importantly about where we're headed. We think about our strategy, again, in the two big dimensions I discussed. But when we talk about our Buy business, representing consumers on behalf of consumer product goods companies, we think about coverage, right, because I want to go cover consumption, no matter where it's happening in the world, because for CPG companies, whether you're a big multinational, like Unilever, or you're a local manufacturer or retailer in an emerging market, you want to know all about what's being consumed, where it's being consumed, the shifts and the changes, and we represent all of that.

So, for our Buy business, it's all about coverage of consumption. And it's a very important investment we make all the time and it's one that's been made for decades that we're just continuing. And we do it all over the globe.

On the Watch side, the Watch side, very similarly, I want to make sure I cover all the consumption of video and media. We'll talk more about how that definition is broadening. But again, it's making sure that we can represent all the eyeballs on behalf of our media company clients, so they can monetize their content and then go sell advertising to the advertisers, who ultimately want to find the consumer, right. So, you can sell their goods and products and services.

And as I mentioned, people have referred to the Holy Grail. Right? You saw people were exposed to an advertisement and then they reacted. They went and bought something, right? And understanding the connection between what they saw and what they did, or what they bought, is really important for marketers. It is complicated, it's not clear, it's a lot of inefficiencies, but we've begun to structure the company so that we can do just that, because we've got all of the data. Right.

I've got lots of data on what people are exposed to in the advertising world, what we – what they reached and also what they bought. And bringing those two together are things that we've talked about, but we're just organized where we can do it and we're just getting started on that chapter of the company and that's going to create some growth opportunities going forward.

So, very simply, that's how we think about the company. This is probably my favorite expression of the company, because it is our global footprint. Every blue dot is where we do coverage, primarily around the Buy side. So if you are a consumer and you're buying something, toothpaste, shampoo, whatever, in any parts of these dots, we cover it.

Now, we're in 100 countries. The next competitor that does something similar is in eight. Eight. So, if a client wants a global view of the world, we help them with that. All right. We help them with that. And as you can think about the global nature of the world, where manufacturers have to go to go grow, we help all the big guys, most of the big guys and as well as other regional guys. Because what happens is, when we collect that data, we get to sell not only to a multinational, but also to a local competitor as well.

Let me just step back. Do we have a slide, Liz, on the business model in terms of the Buy and the Watch? Is that in here? No. Okay. So, before I get into then – let me go back one. Before I get into this one, our Buy business, I don't want to jump too far ahead. We have a business that's two-thirds of the company. All right? 75% of that part of the business is retail measurement, where I'm telling Proctor, Unilever, Coca-Cola, all the big manufacturers, how they're doing every week, how each one of their products are doing every week against their competitor's [ph] stat (7:38), and I do it all around the world. Every week, every product, all around the world, one manufacturer, how they do in market share versus another.

Those contracts are typically three to now 10 years, where I have arrangements with these big clients where we go and do that all around the world for long terms. And that's what gives this part of the business resilience, because whether things are up or down, they need that data; because that data is being used by thousands of people and our clients; because it literally is embedded, it's in distribution, it's in pricing, it's in sales, marketing, manufacturing, you name it; because that data is kind of where they're headed and where they need to go.

So, it's – and these relationships with these clients who contract with me for these periods of times, I've been doing that for decades. Right? So, whether it's Nestlé, Unilever, P&G, very similar in how we think about contracting with them. But that's what gives that part of business resilience. It's a big pillar.

On top of that, the other 25% of the Buy business is where I seek to do a little bit more for them than just be a data provider. I want to give them an insight. I want to help them look around the corner. And that part of the business isn't under a long-term contract, but it's important for me to get closer to my client, so I can help them with bigger decisions. So, that's about my Buy business, how it works, how we make money. And it's very scalable, as you can imagine, because where I collect the data, right, and I can sell it many times to many manufacturers, that's a syndicated model; it's a network effect; it gives me an ability to drive margins.

On the media side, so I'm [ph] going to move to (9:12) our Watch business. If I think about the similar idea of coverage, all right, in the Watch side, today, I cover around five hours of the consumers' day as they're exposed to media, all right, and television. I'll also add another hour when they are online or in a mobile device. We also signed an agreement to acquire Arbitron, which does, in radio, what we – similar to what we do in television and that adds two hours.

So, think about coverage. I'm trying to cover more of the consumer and their media exposure, eight hours, after we close Arbitron, eight hours. That's a pretty high amount of knowing a lot about what a consumer does in their everyday life. So, that's important to us, to be able to represent that and then help give clients value of what to do about it.

On this side of our business, the Watch side, similarly, it's about a third of the company's revenue and 85% of the Watch business is under long-term contract, ranging from three to seven years, clients like CBS, NBC, all the big media companies. And that business is where I deliver ratings overnight to help them, basically, establish the value of their programming so then they can go sell it to advertisers. Our ratings are known as a currency. And the relationship with those clients has been as long as TV has existed in this market. Primarily, U.S. market, I also do it in around 34 other countries, 33 other countries. It is global nature, but the lion share is here in the U.S. market. Okay?

The other 15% of the Watch business, similarly, where I help look – help my clients look around corners, how to price better, et cetera. So, the pillar is the TV ratings business.

What's happening in these markets, if you think about going forward, are lots of dynamics that are underpinning both my Buy and my Watch business. In the Buy business, it's all about the developing world. There is no doubt that the middle class is going to double in the next 20 years. All right? And what that means is you're going to have people becoming new entrants to middle class, new purchasing power and they're going to want to go buy stuff.

So, just yesterday, you hear about China and wanting to talk about stimulating domestic consumption and urbanization. All of that is trying to get people from parts of the economy into the middle class and our clients all see that. And that's where all of our clients want to go grow their brands. We help give them the headlight or the lens by which to look through to go help drive that growth. And not just China. But it happened in Africa, it's happening in India, all of the developing world and we invest behind that.

And we invest three years ahead of our clients paying me a single dollar, because I know they're going to need that and I've got to get ahead of it, so that I can invest in the long term and keep my models going forward for as far as the eye can see. When you think about consumption, broadly speaking, the opportunities feel endless in some ways, very steady growth.

The other part that I would tell you, that I'll spend more time on, is the Watch side. Now, the Watch side, similarly, the dynamic changes there are you're viewing video content in more ways with more devices, in more places than just sitting in the front of the television in the living room. There's no doubt about it. And my responsibility is to go measure all of the ways you're consuming that video, no matter how you're doing it, whether it's over the air, over the top, satellite box, set-top box, any way you're consuming it, live, time-shifted, DVR. We have to represent all of that. And not what got sent to you, but what you watch and how you watch and how you engage with this.

So, really important point is that as there's fragmentation in the space, that actually works to my advantage, because it allows me to just continue to represent those audiences to my clients, so they can go grow their businesses. So, it's really important, we'll talk a lot about it.

And here's kind of a representation of kind of what's happening in that media fragmentation world. So, you can see lots of choices and platforms. There's lots of TVs in the world, almost 300 million, it looks like. People get high definition; they get satellites; they get tablets; they get lots of things, is the point, in lots of different ways. My job since the very beginning has been to represent this perfectly, right, represent it perfectly.

There was a day when there were only three broadcast networks in television universe in the U.S., right? And from that point till today, I've measured every typological change every step of the way, because I have to and because what I'm going for are big, huge advertising buckets. So, here you can see, call it, $0.5 trillion of ad spend. Everything, but the purple, we represent between TV, internet, radio. In those, TV, internet, radio, which is roughly 70% of it, all of those have attributes for growth. All of those have attributes for growth, because advertisers ultimately are trying to find consumers with exposure to these kind of media properties and we feel great about the position we have in all of them.

After we think about not only representing audiences on behalf of our clients, the next question is, how do we activate that? How do we help give it more insight to clients? So, we think about what we call the three Rs. We reach lots of audiences and consumers, right? We reach like television, online, soon-to-be radio. But having reached metrics to help our clients establish those currencies and trade is fundamental and it's the bedrock of the business.

But then the next question is, not only did your program reach your audience or your advertising reach your audiences, did it resonate? Any brand breakthroughs? Anyone remember what they saw? Lots of different models around that one, we have an ad effectiveness business. It's in association with companies like Twitter, like others, to help figure out was there a breakthrough. And lastly, the ultimate question is did they do anything? Did they react? Did they change their purchasing behavior?

And linking all these things together is really important to a marketer as they think about building their brands, and getting the – and measuring the return of their investment on advertising. And where we – we're heavy into reach, foundational. And then we want to extend that way to help grow the business out. And that's what we think about Watch and Buy coming together.

This – the business model we've been around is pretty compelling. I come from a world where I'm used to seeing cycles in businesses; things go up, things go down. This one is a steady as she goes. And I know that, because for six years, I've watched it through some pretty stressful moments in the economy where it just keeps going. We haven't had a down quarter, right, since I've been around. And that's been, I guess, 24 or 26-some quarters, it's just steady because of those fundamental Watch and Buy businesses where clients need the data to run their businesses.

We've grown [ph] up (16:28) 5% in the last – from 2008 to 2012. The growth, going forward, is going to be developing worlds, all right, it's going to be my ability to continue to expand my digital properties and it's how I bring them together on behalf of clients to the Watch and the Buy proposition. My revenues is high visibility. When I walk into a year, 70% of it I have line of sight to. 70% I have line of sight when I walk into the year. So, very steady and, again, it's because of those long-term contracts, both in my Buy business and my Watch business. And the relationship with these clients has been going for a very long time.

I've got 20,000 clients, not one of them from risk standpoint has more than 4% of the company's revenue and they're very broad and they're very long and deep.

We're unique in our mind, because we operate a bit differently in terms of scalability of our model. So, we've done a lot to rationalize the platform to do all of the things you'd expect around cost leadership, which we think is a value, and get to a point where we've got great efficiency, so we can go grow margins.

Now, we can grow margins, but we also have responsibility to reinvest some of that margin back into the business because, for us, the success of the model is expanding coverage. And I'm always going to expand coverage; I'm always going to seek to, on the Buy business, extend where the distribution is going and consumption is happening and make sure I'm always covered. So, I extend that advantage I have today.

Similarly, on the Watch side, very similar proposition. So, we reinvest part of that margin expansion for the long term back into the business. And from a capital efficiency standpoint, we'll talk more about it. But we've had a good story on deleveraging and we've now talked about and now we have announced a return – a policy to return cash to shareholders.

So, for us, it's all about if we can do this well, because we're adding client value and sustaining the business model on the top line, here is where we sustain shareholder value, because I think the model is designed for it and a nice cash return for shareholders over the long term.

Here's the revenue, so it's a $5.6 billion company. As you can see, the Buy business in blue, it's two-third of the company, $3.4 billion. That's the one that's bigger, that's the one that's more global. Inside of that $3.4 billion is about a – over $1 billion developing market business. So, developing markets aren't small and growing, they're big. It's a big franchise. Our Watch business is a little over $2 billion that's largely the TV ratings, and then we have a third segment called Expositions, which is smaller. On the EBITDA side, you can see the profit dimension of the revenue; again Buy in the blue, Watch in the orange. So, very nice consistent steady revenue growth, nice margin expansion over time.

Capital allocation, as I mentioned, we spent a lot of time over the last six years executing a policy of derisking and delevering the balance sheet. So, we started as an LBO with around 9-times leverage, all right. And through the course of the last several years, through a lots of economic ups and downs, we're proud that we've got this under 4-times leverage, 3.75.

I'll also point out that in terms of my maturities stack, I have really nothing in the next three years. There's no big financing in front of me. And the 2016, 2018, my intent is to be investment grade ahead of this refinancing. Okay?

If I think about allocating capital now that I have a long-term target on my debt side, which is 2.75-times to 3-times leverage, that gets me to the point where I'm investment grade by about right here, in 2015.

My priorities for cash flow are as follows. First, I got to make sure I'm reinvesting for growth. As I mentioned, we reinvest in both margin expansion as well as CapEx, in our pursuit of the long-term growth of the company. We're going to pay down some debt. And then we're going to return some capital to shareholders. And nothing will get in the way of my target to get to investment grade.

Capital return, my dividend, 2% yield, about a 30% payout. We just announced it last month. We'll pay it, right around the corner, at $0.16 per share. And as I mentioned, we're targeting capital structure just in the 3-times. This is a heck of a place to be versus 9-times, but we're still moving forward, as I mentioned. It's a moment in time, more work to do, but you feel really good about this.

Recently, we refinanced this $2.9 billion debt. So, we refinanced that a few weeks ago. We got about 57 basis point reduction in the rate as we refinanced it. Now, [ph] what we do (21:14) is reprice it and it gets you about a $15 million cash interest benefit or about $0.04 per share. It also took the only real maturity I had in 2013, which is in August and it put it in the 2016 stack.

So, it cleaned up a little bit this year; not a big deal, but that's done. And in terms of guidance, my net book interest is now going to be $320 million to $325 million, basically $15 million lower than it was. Back in our earnings call, we talked about pre this deal and our adjusted net income growth on a constant currency basis is up now at 15% to 19%. Now, my EPS guidance for the year on a reported basis is $2.13 to $2.19. I'm not going to change that, because in that number is the ramifications of foreign exchange. Now, foreign exchange for me doesn't mean much economically. I don't take on any local economic exposure. I don't take on transaction exposure. I'm well matched every market.

But I've got to report back for reporting reasons and I have translation impact. And with rates moving around in a global business, it does impact my reported numbers. Again, doesn't change the way we run the business, doesn't change the economics, but it is something that we have to live with, and that – currencies in the last four weeks have moved quite a bit. Where I thought I was going to have about an 80 basis point tailwind on the top line, it's now a 40 basis point headwind.

So, that's basically the full year on the bar chart and that change and the associated EBIT impact basically has me saying, you know what, I'm going to leave the reported EPS right where it's at and then [ph] we get close to (22:51) the year and we look at this FX impact, we can adjust it. Because that FX impact assumes rates stay where they are right today or a week ago for the rest of the year. So, that's always going to move around. Point is we're really happy with our ability to basically improve $0.04 a share, based on a very economically attractive repricing.

Again, long-term financial framework. This business is steady as she goes. It's a consistent mid single-digit growth company. We want to expand margins, while reinvesting. We like developing markets. We think over the long term, they have double-digit prospects. We've got adjusted net income growth which will be 2-times to 3-times EBITDA growth, because I will have the benefit of the debt unwind as well as the very favorable tax position and then I talked about my debt ratio target as well as my capital return.

With that, I'll open up to some questions.

QUESTION AND ANSWER SECTION

Q

Excellent. So, we have time for about five minutes of questions. I thought I'd start out with one myself. Just ask about the Expo business in the fourth quarter performance and then also if you could comment on the strategic fit of that business?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yes. So, we have that little segment in the financials is exposition trade shows. It's a wonderful business. All right? This is one that's got very attractive EBITDA margins, very attractive cash flows. It's stable. I think you were referring to, in the fourth quarter, the revenue was down around 19%. That will happen because of trade show timing. One trade show gets scheduled one quarter and the next show it gets bumped a few days or a week or a month and it's in the next.

So, primarily, in the fourth quarter, basically, there's not a lot of activity. So, that's probably a representation. But that will happen from time to time. It's not reflective of the business. The business grew, last year, a couple points. That will happen again, matter of fact, in the first quarter, I think, because of trade show timing. And I know this because the trade shows are literally happening. That is likely to be down 6%, but it will be higher in the second quarter, because literally one show staged March of this – last year, April of this year.

So, that's it. But don't worry about that. That business is going to grow faster in 2013 than it did last year. It's a wonderful little business.

Q

Other questions?

Q

[Question Inaudible] (25:18)?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yeah.

Q

[Question Inaudible] (25:21)?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Great.

Q

[Question Inaudible] (25:22)?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

So – great question. So, we want to represent audiences in the digital space. We invest behind – in a product called Online Campaign Ratings. The intent is basically to measure the digital world for advertisers, very similar to the way it's measured in television, because ultimately clients want to know the impact of multiplatform programming in campaigns.

I saw it on TV; I know what that looks like; I know how that gets rated and how does it perform in the digital world. And this product's been around for probably a year-and-a-half or so. Whenever you try to change a metric in an industry where you've got buyers and sellers, there's always noise. I'm happy to say that as we have been progressing towards introducing this better measurement to the world, that you at least got lots of industry people basically weighing in. And as a matter of fact, a week or so ago it was Unilever that talked about weighing in, very happy with it. And then, two days ago, I guess, Monday, ABC/Disney announced that they were going to use as their announcement, they were going to use basically our Online Campaign Ratings in conjunction with our TV ratings, as they head into the upfront.

So, when you've got big players in the industry, talking about how this metric is helping them make better decisions, different decisions and they're leaning into it, that's telling us that we're onto something. And we're going to be very patient, because we're not betting the bank on it; the investment's behind us. But what it's reminding us of, anytime you change measurement, it takes time. But we're very proud of the progress we've made on this particular metric. And I think ABC tells you everything you need to know in terms of how they are thinking about going – in a very big way, heading into the upfront, of how they are going to basically allow for them to make good on properties beyond TV and use the digital inventory. It's a big deal. Yeah, in the back?

Q

When you think about television and movies more towards the holistic view of how people watch it [indiscernible] (27:30) what about your view that you'll know more about [indiscernible] (27:35 – 27:45)?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Well, the selling proposition is going to be up to the buyers and sellers. So, they've got to determine that market.

Q

[Question Inaudible] (27:50)?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yeah.

Q

[Question Inaudible] (27:53)?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Exactly. And that's why the digital space has been, in my view, undervalued, because it hasn't had a robust metric that could create a standard that allowed a buyer and seller to make that exact conversation, know well, what should the CPM be? They haven't had that here before, we now – because it wasn't measured. It was measured on estimates on who might show up. There was never the accountability; who actually showed up. And until you can show the advertiser who writes – who pays all the bills, who actually showed up and did they get the audience they paid for, really hard to do that.

So, the intent of this metric was to do just that; is to create more fidelity around a better measurement to give advertisers and publishers the ability to say, here's the audience you're likely to get, and by the way here's who you got; and if you didn't, I'll make it up to you. Just like in television, so they can create a sense for what the value really is and how to price for it. And then the next one will be how do you price between platforms? Right. And that's a whole other area that some big agencies actually are moving out there faster than others. GroupM is a public example. They came out almost a year ago this time and talked about how they were going to be the first guys to do that and they did with their top clients in the fall TV season.

So, another good indication that people see what the opportunity might be. It's just one of those things that's going to take a little bit more time. I think that as we head into this year's upfront, you'll probably see different discussions than there was last year and I think that's just another good mile marker as we head toward the – down the road of helping create a better standard that helps clients go grow their businesses. Yeah?

Q

[Question Inaudible] (29:32)?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yeah.

Q

[Question Inaudible] (29:40)?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yeah. So, our Buy business, call it $3.4 billion-ish, about $1.1 billion, $1.2 billion, so call it a third of that business, is developing markets. So, we talk developing markets in my world, it's Buy, and that's really what we're talking about. And in terms of China, we've been in China for decades. And we've a very robust business there. That's our business.

We represent, back to manufacturers, all the consumption that happens in that market and the reason why we've been there so long is that it's one thing in these markets, a developed market to measure a big box retailer. You get the cash register; you get the point-of-sale information; it's fairly straight forward. When we're in the emerging world, the measurement challenge actually is a real competitive advantage for me, because it takes tens of thousands of foot soldiers to go find where the retail consumption is happening in a world where the retail establishments are very tiny, right? They're little storefronts.

And my ability to measure that and represent that is a big deal. And we've been doing that for a very long time.

Q

[Question Inaudible] (30:49)?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Well, the one that we're investing behind, the biggest is Africa. There's no doubt that Sub-Sahara Africa is the place where our clients are leading us to invest very quickly, to help them with that verging opportunity.

Unverified Participant

Thank you very much. The breakout session is downstairs in five minutes in [ph] Cordova 4 (31:16). Thanks.