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MANAGEMENT DISCUSSION SECTION

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

All right. Good morning, sounds like my mic is working and so you guys made the effort to get here on a Friday morning. So we are going to get started and make use of that time. So thank you for coming.

It is with great pleasure that I'm here with the CEO of Nielsen Holdings, Dave Calhoun. This is Nielsen's first time at the Bernstein Conference, at least probably ever or in a long time. And given that, I suspect there are some in this room who are intimately familiar with what Nielsen does and some of you who just have a mild curiosity. So I thought maybe the best way to start was that Dave would take a few minutes and just give us an overview of what Nielsen is and what it does and how that's been going?

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

Terrific. Thanks, Todd. So we worked hard. We've been in a transformation process since the end of 2006, led under a private equity umbrella to simplify our company in a really significant way, but all around consumers and consumer behavior all over the world, and that is our stated mission. We've taken tons of portfolio actions over the course of that period to basically get down to this sort of narrow vision and mission.

We announced two transactions this year yet to be closed. One was the acquisition of Arbitron, which for us just represents two more hours of a consumer's day. Believe it or not, that's how much time they interact with their radio. We like it because of that and we like it because it is usually location-specific. It can be wrapped around retail and sales promotional activities in exactly the communities that we measure everywhere.

So again, that was acquisition built around the consumer. At the same time, we announced the disposition of our Expositions business, which was the last vestige of the original VNU, which is where we came from. And it was a B2B business, tremendous business, a healthy business, but it is unrelated to our mission around consumers. So I feel like we've gotten through almost all of the big portfolio actions to get us narrowed.

Now within that narrow world, it's pretty simple. We measure what consumers watch, and I'll ask you to take great liberty at defining watch. Watch means what they see in their living room on a television screen, what they interact with on the iPads [ph] that you (02:27) have on your laps, or their mobile phones or whatever. It is both what is consumed by way of video and it has the social media component, which is friends talking to friends.

So it's all about the watch side of audience and interaction, and then what they buy. And that's all built around retail data. And retail data of course is mostly around the CPG industry where we, in effect, get retailers to cooperate with us and give us all of their daily transactions where we assign codes that allow for every brand and every product within a brand to get compared to each and every one of its competitive alternatives.

And so it is that – it is that code and it is that long string of codes that allows for that comparison that measures market share for all of them. And those market share numbers are distributed broadly in all the major CPG companies, and I mean all of them, such that they can monitor their performance every week, in every geography, in every zip code with every retailer, find out whether they're winning or losing and then begin to build strategies or reactive tactics to, in effect, cope with that.

So I would suggest, and I think you'd understand, that's a very sticky business, right, because you become very dependent on those share numbers, almost every executive's measured against it, and that usually cascades its way all the way down to the local sales teams and distributors within those companies.

On the watch side, with respect to stickiness, we've also created in the watch world what we call a currency, where audiences are measured and reported overnight and then guaranteed to advertisers. So if you are a content developer or you're a distributor and you have an audience and you're out telling an advertiser they ought to place it with you, you get to guarantee that audience using the Nielsen rating. If you don't reach that audience, which we would then measure overnight, you have to make good. So you have to run the ad again. You have to run it in a different form or in a different place so that you ultimately achieve the audience.

So again, it is a transaction currency that is used by advertisers, by agencies, by content developers, program developers, distributors, et cetera. And therefore the stickiness relates to the way it's used as a transaction currency. So these are very, very healthy, what we call, information businesses. And that's the sort of the two core elements of the company.

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

You used the word, I think, sticky or stickiness multiple times to that and it doesn't take a genius to make the observation, which I'm sure you wouldn't disagree with that your business has been remarkably consistent over time. So if I was an investor or considering becoming an investor in Nielsen, I guess I would really just be thinking about two main questions. First of all is, what are the roots of that consistency so that would have a confidence that it would continue going forward? And you can talk about it more specific what that consistency means, basically mid single type top line growth every year for many, many years...

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

As far as I can see.

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

And so I'd love to talk about that a little bit. And then if I was an investor, I'd say, okay, once I got confident with that, I'd want to think about, is there anything on the horizon that could be additive to that...

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

Yeah.

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

To help break out the upside. So I'd love to just explore those two trains of thought for each of your major lines of businesses. So I don't know, why don't we start on the buy side. And so what is it about – and you've sort of talked about this, but what's – just get that platform out there again, this data that you provide to the big global CPG companies, wasn't the structure of the way that business is organized or your [ph] competitiveness (06:12) that makes it so remarkably consistent for you?

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

Right. So in a buy world, there's retail measurement, let's just start with that one because that's the one that really underwrites the whole thing. The commercial structure of the business is – basically revolves around big multinationals and long-term contracts. So that, in effect, that they can sort of build their market share metrics, drive them deep into the organization, as I said, operate off those market share metrics, day-in, day-out, and not have to worry about whether they are ever going to have to change those metrics and/or have to compete them to something else.

Now the truth is, in most of our markets around the world, we're the only guy who does it. So in the United States, we have our – we faced our biggest competitor, which is IRI, which is a guy who's half our size. And what we try to do with our big multinational clients is we basically say to them, well, if you want some global consistency and you want a global contract, or you want to think about a global relationship with consistent practice across all these geographies, then you probably want to stick with us, and we ought to start working it now for a longer term arrangement to be able to do that; and collectively, we can continue to improve the measure, improve its usefulness to you and the insight that it provides for you, and that's why they're incented to do it.

Now a good litmus test for whether you think that's healthy and robust or not is that the average tenure of these contracts in my short time here, which has been the last seven years, has increased. So we tend to get longer term contracts. We have some that go out 10 years. We've got big ones that were recently negotiated at 8 years, and there's a reason for it. It's that people don't want to actually make a change with respect to something so near and dear to them and something that the operations of the company are so dependent on. And that's really what it is about buy.

Now the growth rate, the growth rate for us I view in this business as a very steady progression upward. And it's not because we got a bunch of razzle-dazzle new products. We always have new products and new insights that we build on this, it's simpler than that. It's population growth, right. It's simpler than that. Our job is to cover new areas and new consumers, and to build the first time metrics for those new consumers. And so that's Sub-Saharan Africa, that's China moving West, that's India, rural, these are massive population centers with first- time consumers. My job is to get out there, measure those consumers, teach manufacturers how to distribute to those consumers, then ultimately teach them what their market share dynamic looks like, and then create insights off of that. But that's a process that takes long period of time.

But we have a big developing market, emerging market business. It's over $1 billion of our total, and it grows at a rate at least double what the developed markets do. And I have a strong belief that that's a double digit business that we have to continue to invest heavily in, so that we create the same competitive dynamic there that we enjoy here, which is big competitive moats and real dependencies with our clients. And that's what we aim for. And I believe we have at least that kind of opportunity in these developing markets that, again, we enjoy from our legacy investments.

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

So that – without naming any names, I know you never do this with your clients, can you think of a major global CPG company who is not a client of this service?

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

No.

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

No, right. So if that's true then, that's probably a good sign of market power. It also suggests that the...

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

Being good. It's being good.

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

Being good. The – I don't want to put words in your mouth, but the – it also says that to grow revenue, right, you have only a couple levers. You can't find a lot of new customers, at least global customers, so you can increase price over time. You can increase the services you sell them or you can increase geography. Can you decompose that any further for us so...

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

Yeah. So it's actually – it's a natural progression. So a big – let's start with the multinational, a big multinational decides it's going to move into India in a really big way. So we'll move in and we will -the way the contracts are structured is every new channel to market and/or every new product category, we will then upcharge based on the service that we'll provide against that. And almost every one of these companies has a roadmap of new forms of distribution that they want to take on and grow with, and new product categories they want to introduce.

So P&G has like probably 10 times the number of categories they serve here as what they would do in China or India, and their objective is to continue to add to these categories over time. And our contracts are built such that every new add represents a new upcharge and opportunity for us. I believe – that is something that's just going on forever. And if anything, it's likely to accelerate for the same reason I mentioned earlier, it's the population growth and opportunity.

So I just got back from China and everybody in the multinational world knows that 80% of their growth is going to come from emerging market, it has to. That's simple math. And so that emphasis will be there. They go in ebbs and flows. They invest based on sort of how they're doing in the developed world. I'm not sure that's a great way to think about it, but that's what happens – that's what happens to us on discretionary investments, but they're going down that road.

Now the second part of this one, which is actually more exciting to me, is every time we basically recruit a new local national client in China, and by the way, there are some very big robust local nationals who know how to go head-to-head even in the premium segments with all the multinational. And they do really well. And they're learning how to use our information for the first time.

So we get to build this new set of local nationals and then every now and then, one of them knocks on the door and says, well, jeez, I'm winning here, why don't I go over there. In which case then we get another whole stream of opportunity, and that's all yet to be played out for us. We have a few but eventually, make no mistake, big global multinationals will emerge from China and they will play bigger roles around the world, and then our footprint of course caters to that opportunity.

So this isn't one that fades away, it's not one that just sort of grinds to a halt, this is one that is consistent. It's maybe slower than people would like, but if you were going to wrap an investment strategy around a pretty solid notion, population growth is a pretty good one and that's what we do.

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

So one sub-segment, if you will, of the buy business which we haven't directly talked about yet is another type of, I don't know – well, you tell us about the insights business, which is a little bit different in its dynamics, I would say...

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

Sure.

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

Maybe a little more discretionary, a smaller part of the overall pie, so tell – what is that business and what's the dynamic in that part of what you do?

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

Yeah. So insights for us is using the data that we provide in the market share numbers and calculations and all the things that sort of tell them how they're doing. Then what we try to do is we analyze it just like they would, we would use it in combination with their data and maybe other sources that we would recruit to, in effect, give them competitive strategies that they can go out, take and win with, right. We do a lot of work in innovation, that's probably the biggest space we're in. I would submit, we're probably five times or maybe even a bigger multiple times bigger than anybody else who does innovation work for our clients.

In effect, when a client lays out a new product and wants a forecast for that product, like where do I distribute it, what kind of retailer reach do I need, what kind of marketing money should I put behind it, and then most importantly, how should I fill the distribution channel to meet that demand. That's usually work that we do for them, and we have a really good franchise built around that.

What I say to people is our business in insights correlates almost entirely with the underlying information we provide, and that's the way we prefer to do it. We don't do one-off custom research as a way of practice because it's not a healthy business, and it's not something that leads to what I think our investment community is used to getting. Insight business, by definition, is more discretionary than the question of how am I doing. So the market share data is, I don't care how bad the world gets, that information business stays solid because they want to know how they're doing. And the harder it gets out there, the more they want to know how they're doing.

The insight business is, okay, is Nielsen going to help me with this competitive strategy or should I throw the dart by myself, right. And so that's what happens in the insights world, it still grows at a healthy rate but it's cyclical in nature. And when a client feels as though they got to cut back on stuff, this is what they're going to cut back on. I don't think anyone should worry if that business ever goes away. I think it's still, over the long run, will grow at a faster rate than even the underlying information assets but it's going to ebb and flow, and that's just the nature of the beast.

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

Given the – one [ph] type of (15:30) question [ph] – this will (15:30) move on to the watch segment, that given this...

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

One last thing for an investor. That insight business in terms of investment characteristics is very small relative to the opportunity. When we make an information bet, that's a pretty big bet. That's something we're going to go out and cover, we got to bet ahead of the market, do all those things. The insight business is one of those ones, it's highly variable, easy to control your cost and very little underlying fixed investment.

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

No, that was just what I was – what I was going to ask is that people who are really close to this, because it is a little bit of a swing factor, would probably love to hear, since you're here – what's going on?

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

[indiscernible] (16:06)

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

Like especially I know in Europe, there was a particularly, and maybe it's emerging markets, I think even globally, it was a little tougher year than usual last year in that business line.

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

Yeah.

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

Any new – how's it going?

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

Yeah. So insights actually has – it really started firming for us as we exited the end of last year. The comps were tough but it's – it feels firm to us and consistent in that way. And so as you progress through the year at least in the numbers you'll look at, it'll feel better because the comps will be better. For us, the penetration with big clients, the use of it still feels robust, believe it or not. So we continue to invest forward in that one and we feel good about the prognosis for it. I think the [ph] Vs (16:52) will feel better for everybody, at least in terms of the quarter-to-quarter measurements that you guys would be interested in.

Europe is a different discussion. So Europe is just – that's been like a ball and chain for me probably like it has been for everybody. So if I looked at the ranges that we've distributed and talked to the investment community about since IPO, the high end of the range is about where we would have been had Europe been anywhere near normal. But Europe's been flat to slightly down for us. It has been a very difficult market since the crash, and I believe it's going to stay that way. So it is hard for us to get the upper end of our range while Europe continues to be such a lead weight, but it is, and it's a billion dollar of our business and it's tough, it's hard.

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

So moving on to the watch business, which anybody who lives in this country is almost by definition familiar with the Nielsen ratings. So you mentioned the television currency before, so I'd like to just now bring us back [ph] and sort of stop (17:53) in the same way. So that has also been a remarkably consistent business, I would suggest.

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

Yeah.

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

People I talk to who maybe are more familiar with that because they see it every day also tend to maybe, I would suggest, worry a little more about, jeez, is it – will it continue to be that solid, because it feels like there's new ways to measure digital things, you hear all this noise about stuff. So what gives you confidence that the base line currency measurement will continue to be valid for you?

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

Yeah. Well, I am highly confident that it will. I think there is really simple couple of reasons for it. The threats that people go home and read about or conjure up on their head are almost always single points of distribution. Now none of us in the Nielsen business or world would ever, ever, ever argue that any single form of distribution, cable, satellite, IPTV, that any single form of distribution wouldn't have more information. Of course, it does, right. Of course it does. It knows more about its clients than of course anybody would. The problem is it's one single point of distribution, right, that's the problem. It has enormous biases attached to whoever it is they serve.

So if you're a set-top box, which has always been perceived as one of the big threats, right. The fact there was an effort to put all the set-top box data together in this country, called Canoe, with a mission to go out and measure more effectively audience, and it collapsed because set-top boxes touches a small part of the population. The socioeconomic bias attached to it is huge. Walmart doesn't want that crowd, they're not looking to advertise to that crowd. It gets too complicated when you're dealing with all of these different biases. And then what happens is, it's fragmenting more and more and more. So the degree of difficulty in trying to put diverse measurements together gets even harder. So the secret to our world is we don't measure what's distributed, we measure what's consumed.

If I recognize the content, let's start with video, if I recognize the content on every screen and every form of distribution, which is the way our technology is designed, I can measure every next form of distribution. We moved easily from broadcast to cable. We moved easily from broadcast to cable to satellite. We moved easily now into the [ph] IPT (20:26) world, right, and we moved easily to time shifted. Why? Because our technology is a small little audio code embedded in every piece of content that is picked up by the meters in the household samples that we have and measurement science becomes more important than it ever was because it's the only way to measure a big fragmented world.

And so believe it or not, this fragmentation thing is our best friend. Why? Because it gives us new forms of distribution to measure, new coverage, just like [ph] what – or (20:58) the buy side example, every new form of distribution, every new device is a new opportunity for us. And our ability to use the same measurement technique, right, and make it comparable to all other alternatives is why advertisers need it. So they can make choices and they can put things together.

And if you talk to an advertiser today, it's never anymore a discussion about which one, which distribution do I take, it's how do they work together, right. It's how do I synchronize the delivery of that ad. And that synchronization then provides for us a whole new set of insight opportunities and practices as we move forward.

So we've never dedicated ourselves to insights in watch until about 18 months ago, and we started investing in analytics and people to do that, and that's beginning to take off. Why? Because it's that synchronization question everyone's trying to answer. And I don't believe the agency world, frankly, is deepended up or smartened up with the data to really answer those questions effectively.

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

As fragmentation occurs and worlds collide, I would maybe say that – speaking about the channel distribution called the Internet, not so clear that a currency measure has really been decided by the market yet, you may disagree, but there seems to be to more openness around how that's going – is that a threat for you or an opportunity...

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

[indiscernible] (22:28)

Todd Juenger

Analyst, Sanford C. Bernstein & Co. LLC

or both – and like how – what's – how is...

David L. Calhoun

Chief Executive Officer & Executive Director, Nielsen Holdings NV

So pure opportunity. Most of what we're talking about is now a new form of media or medium which we would call the sort of that publisher site, right. So the Yahoo!s of the world, the Googles of the world, the Facebooks of the world, and then ultimately, how do you monetize and advertise in those sites and how do you measure those sites.

With respect to video distribution on those sites, I actually think the move to a currency and the use of our new product, the Online Campaign Rating, is actually already in full swing. And I think the reason is because first of all, that's the highest value component of advertising in that space, and ultimately its comparability and some of the joint content ownership interest in the TV distribution and publisher distribution provides for a sort of a natural thing. So you are seeing – in this upfront, you will see a lot of audiences – video audiences guaranteed by companies and content developers across publishers' sites, right. And that will be based on the OCR metric. So I feel very good about it.

The other form of advertising is display, which is a big market, still a lot of questions amongst advertisers as to how robust is that in terms of return on investment, but it's going to continue to develop. And for the beachfront properties like couple of the Yahoo! sites, the Facebook sites, for beachfront properties, there's no doubt there's huge value in that one. That one, there is no standard yet. Of course, we've designed our Online Campaign Rating to begin to become that standard.

The whole concept of the design of that product versus the two products that previously existed, which Nielsen provided one and our competitor provided the other, the difference between this and these is the sample size is about 50 times bigger. So it's literally, if there's 100 million households or 100 million people who saw an ad, we'll probably capture 50 million to 60 million of them, by virtue of the way this product was designed. That matters because these sites are so fragmented even more than TV, you need a big robust sample.

So that kind of sample actually gives us the opportunity to guarantee the number. And the content developers and the people who are going to use that, they also are willing to guarantee against that number, right. And advertisers, of course, will demand guarantees against that number. So we built a product that we believe is robust enough to do that and that's what you would call a currency. Nothing's a currency unless somebody transacts against it. Guarantee an audience, right, make good against an audience, whatever that means, that is how you define a currency. And we believe that this product that we designed, which is off to, in my view, a very good start, continues to have momentum in the marketplace, will accomplish that objective.

We will do lots more with that product over time that will sort of appeal to all the people who like all the sexy stuff around precision and targeting and things like that. But for right now, we wanted to build an underlying measurement technique that provided for accountability. And the industry has never had that before. You just can't do it with a million-person sample, you can't do it.

Todd Juenger

Analyst, Sanford C. Bernstein & Co. LLC

So much like on the buy side of your business in the watch side of the business, I think by definition, anybody who sells or buys television advertising is a customer of Nielsen today in television advertising.

David L. Calhoun

Chief Executive Officer & Executive Director, Nielsen Holdings NV

Yeah.

Todd Juenger

Analyst, Sanford C. Bernstein & Co. LLC

So when you think about mid single-ish type revenue growth rate, once again, there's probably not a lot of new customers out there for you on the television side. So once again, growth has to either come from price or new products. You just talked about a whole new world of Internet stuff, is that additive? Are there new customers?

David L. Calhoun

Chief Executive Officer & Executive Director, Nielsen Holdings NV

Yeah, the answer is of course it's additive. Does it come at a fast enough pace for everybody? That's debatable. But the pace is not usually – I'll describe you what that pace is, but the first way to think about it is every new form of video or content distribution is that it represents a new client, every single time. So we used to have all of our revenue in network. I'm quickly approaching single digits on network, right, single digits as a percent of my revenue, because network has lost lots of other stuff. But as you move to each and every one of these other, that represents an incremental opportunity. I'm not suggesting that network revenue went down, I'm just saying the other things continue to go up. And in the Internet world, that's what happens.

Now I've got a bunch of really high market cap publisher sites, guys with real money now, who also want all of their audiences' measurement and they all represent to me new revenue opportunity. Different pocket, a different everything. And by the way, the pool is getting bigger and what the pool is, is the audience. People spend more time in front of screens today than they did yesterday. And that's been going on for a long time. So as long as these audience numbers keep proliferating, this continues to represent opportunity. Each device is a new opportunity for us.

And so that's the way we think about it. They don't just steal from, it's not a zero-sum game, it's not. They don't steal from something else. Things migrate in a pretty orderly way. My pace never has anything to do with technology, believe it or not. There's not a single thing I can think of or my team has looked at where we can't already measure it. The fight is new distribution or new device, new audience, let's measure it, who gets credit: the device manufacturer, the distributor, or the content developer, fist fights. You read about them every day, all day in the media – all the media chronicles. Those fights are what prevents immediate adoption of audience measurement because they want that sorted out before the measurement is out there and accepted.

And that is what paces our development and the introduction of technology in new audience. That's not going to go away, these are big players who have these fights. Almost always they get resolved, almost always they take longer than they should, and almost always they end up with the currency, they'll want to support it, and that usually is us, and I would submit that's still the program.

Todd Juenger

Analyst, Sanford C. Bernstein & Co. LLC

Just as we've – questions from the audience are [ph] feathering (28:50) in, I can't help but point out while – before we leave this topic, there's multiple questions in here from people like us who have also been reading the press, wondering what about over-the-top viewing and I'm reading – what is...

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

Are they measurable? I can't wait to get it included and rolled into C3, which is the currency that everybody [ph] uses. Yeah. (29:12)

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

Video on demand viewing, iPad viewing, [ph] (29:15) lots of people reading lots of popular press out there. I read this too. So please, I...

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

So all these things, again, measurable. iPad viewing, we have – of course, we've proven the technology and we are in discussions with distributors and content players around how to measure it. We've got some good things going on in discrete markets to do that and then we incorporate it into the currency. And we've got – we've even read I think yesterday from one of the guys who's been the toughest on us by a long shot, how excited he is for the new measurements around mobile and iPad. So this comes, but it gets back to that battle and debate of, okay, now who's going to get credit for it? So we have to just demonstrate that the technology works, that the audience accreditation rules are set the right way, and that usually, these guys are not going to let you do it until they're comfortable that that accreditation works for them and works to their benefit. And that's literally what happens on all of those kinds of questions.

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

Right. And one of the things that we were reading more about last year that I haven't seen written about much lately, so I wonder what's going – is the local television market situation.

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

Yeah.

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

And there are new competitors emerging who have new – I don't know if it's new or not, but different ways that they're trying to measure audiences locally. And anyway, last year, there was a lot of press around were they wining some markets in a couple of your stations. [ph] Really, its (30:47) press release saying they're dropping Nielsen and I think most of them ended up coming back, but I haven't read anything about that for six months. What's going on in the local television markets, how are your customers progressing there?

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

Yeah, so local TV, first of all, really important to size it. So it's pretty small. The kind of market that we're talking about here is something less than $100 million maybe considerably in terms of what that threat was meant to represent. Listen, local for us – here's what happens to the national sample for Nielsen, and this is by the way a 15-year-old problem. I remember talking about it in might be [ph] NBC (31:24) days, right. So our measurement process sort of takes a sample nationally. Its numbers are, I mean, perfect. It's really one of the great samples in the world. It's usually used as a [indiscernible] (31:38).

As you move down to discrete locations with that metric and you get down to a zip code level, you may have only a couple of households in that zip code and that's what a local guy needs. He needs to know what his measurements are in that zip code. And month-to-month, if we change out a household, something really significant happened in this world. So it basically leads to an unstable metric in the local channels. We have been unwilling, over time, to invest in lots more households there because there was no return on it. The local guys aren't going to pay you more. They're not going to do anything, et cetera. So we've had two camps frustrated for a long period of time.

So our competitors showed up with basically a set-top box solution. Now I already mentioned to you what I considered to be the limitations of a set-top box solution. They don't really measure all the audiences in any given location. Some locations are better than other because they do have a penetration in a particular zip code. So they might have some little advantage on that front, but they're not going to get the guys who still get their signal by way of broadcast, much less the crowd that's going to do IPTV, and set-top boxes aren't very reliable. We've always known that. We've had access to exactly the same data.

So we crafted a different solution we call hybrid, which now is a very low cost device, no bigger than your iPhone that, in effect, you – we will mail to a much bigger audience in any given local market and we have this operating in several markets today. And in effect, you put that next to your TV, it picks up all the audio signals, it gives another data point. We don't have to push buttons to find out who exactly is watching because we use the rest of our sample to impute that, but in effect, we get all these data points in a much lower cost, much more robust way that is not dependent on a single form of distribution. It can cover anything. So that has been our solution. We announced hybrid, that's when most of the noise started going away. And I'll just remind everybody, the incremental revenue in that competitive threat is less than $1 million for the last three years. [ph] So I mean come on. (33:39)

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

[indiscernible] (33:41) [ph] One part – well, not – (33:43) sort of bringing them together and then I want to make sure we get to some of the different audience questions here, which we've actually been covering as we've been going as well. But you've got a bunch of information of what people watch, a bunch of information of what people buy, it seems like those naturally could come together to be even something bigger.

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

Yeah.

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

You've been talking this for a while. What's going on there? And if I can really press you on like how real is it and how immediate is it?

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

Yeah.

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

And when will it move from a concept to something we'll see in the financial statement?

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

Yeah. So the things that in my view creates what I believe to be a steady progression in the Nielsen growth over time, we talked about population growth, we talked about media fragmentation and new forms of distribution. The final one is the insight practices built around ad solutions, which is the marriage of watch and buy. In other words, this is the audience I paid to reach, what happened on the shelf or what happened in the retail community relative to the advertising I bought. And that's a business that, for us, is actually beginning to be substantial.

So we've got a couple of hundred million dollars going for us, it's growing at a very healthy double digit clip. Our challenge is to create only syndicated solutions to this. I don't want to create one-off solutions, a lot of people do that. In fact, a lot of the captive clients we have do it for themselves, that's fine. But what we want to do is create syndicated metrics that allow for sort of everyday measurement of a campaign's effectiveness. And we're making really good progress. We link it with our own retail data. We link it with external sources of data.

We got a deal with Catalina years ago, we built a really good product that really – it takes Catalina's overnight retail data, which represents roughly 60 million households, and it allows us to marry this at a very local level. It also allows us to determine like a particular brand's targeted consumers, what shows do they watch. So we end up going back to the media world and we begin to give them selling tools around what brands are likely to be attracted to what shows. So again, watch and buy data, but we're going to serve it up through all the necessary [ph] interests. (35:57)

And the last one is we recently did a deal to take up what we believe to be the most robust set of credit card data available in this country, and marry it with the watch data. Now credit card data's interesting because it tells you the retail spend, it doesn't give you UPC data for every thing that was on the invoice, but it does give you retail spend. And for travel, lodging, all the major kinds of retail that are trying to measure themselves against their alternatives, this becomes a really robust metric. So we got off to a very fast start with this one.

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

Got it. Want to make sure I get these. And so some of these may seem non sequitur, but I'll try and weave them together best I can. So question about operating leverage and just as you describe the business, it seems like one that is characterized by steady top line growth and a pretty fixed cost attribute, shouldn't that yield margin expansion and operating leverage over time. Is that...

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

So yeah, I mean I was – there really is a easy way to describe this. Each year, when we enter a year based on what we know about the growth of our – the big fixed business and the revenue attached to the fixed costs and where you get that leverage. You don't need a lot of growth to get decent leverage. That model will usually spell out about 100 basis point margin uplift. And what we do is we spend some of that, most of that goes to new developing markets coverage. So that discussion around population growth and the notion that we're going to build new measurement around these rural parts of the world so that no one else ever attacks us, that's where we spend it.

And we spend down roughly half of that 100 basis points. We know exactly where it goes and what it is and we can adjust that over time. But we really do believe very strongly in the prospects of that developing market growth, and we're going to stay on that program. But that's how you would quantify the metric and that's literally the way Brian West, my CFO, and I manage it.

Todd Juenger

Analyst, Sanford C. Bernstein & Co. LLC

And one of the things that might make it a little hard to see is the question here about quality of earnings, and just to comment, I mean there has been a lot of restructuring charges on – and various charges over the years that that are all adjusted out. Is there any end in sight, especially in the restructurings?

David L. Calhoun

Chief Executive Officer & Executive Director, Nielsen Holdings NV

Well, big restructuring, sure. We're not going to do a lot of that anymore. If I see restructuring opportunities [ph] to use to (38:24) lower my cost base, right, I'll do it. So I don't want to kid anybody, but it's not going to be anywhere near the order of magnitude it was. I mean it can't be because there aren't quite as many of those kinds of opportunities. Most of the productivity plans that we lay out over the course of the next bunch of years really relate to the rationalization. We built over the last five years two brand new technology platforms to serve both watch and buy, called Media 3.0 and Answers on Demand for buy. We implemented them in some of our biggest, toughest clients. We have really begun to rationalize watch, and we've gotten some really nice productivity gains out of that one.

The buy side one is harder because of the integrated nature of the work we do with our client, the delivery of that work. But what we have to do is in steps and increments, we're going to shut down platforms that were previously designed to support those clients and move everything to Answers on Demand. Over time, that's a steady and I think important stream of productivity and we're going to have to be a little bold with our clients on how we do that, but we're prepared. I believe that will be a nice and steady source of productivity and then more importantly, it gets you even further down that leverage model, right, where every next dollar imputes more operating leverage.

Todd Juenger

Analyst, Sanford C. Bernstein & Co. LLC

Moving from one form of leverage to the other, there's multiple questions upon here, I'll just group them as sort of capital allocation and balance sheet question.

David L. Calhoun

Chief Executive Officer & Executive Director, Nielsen Holdings NV

Yeah.

Todd Juenger

Analyst, Sanford C. Bernstein & Co. LLC

So people would love to hear your thoughts on...

David L. Calhoun

Chief Executive Officer & Executive Director, Nielsen Holdings NV

Yeah, I got them.

Todd Juenger

Analyst, Sanford C. Bernstein & Co. LLC

Debt level – right, [ph] go ahead. (39:56)

David L. Calhoun

Chief Executive Officer & Executive Director, Nielsen Holdings NV

Look, we started this company at 10x, which is ridiculous, but we did. We went through 2008 and 2009 at, I think, 8x. So we [ph] stop with – (40:06) the model holds up really well. This is one of those consistent models. I have always believed, and I still believe to this day, that the right model for our company is to get deleveraged, get really close to investment grade, if not investment grade, so that we'll always have low cost debt available to us, but more importantly, turn this into a robust dividend model. That's always been my intention, that's always the way we play the game.

We've announced the first of those dividends recently. We've got two quarters behind us, I feel great about that. It's not the end, we want to do more. We got to get these transactions that we've announced done. The result of those two transactions is – accelerates my thinking on capital allocation because it's an accretive model on cash in a pretty significant way. So that's going to feel good. We keep [ph] the lever in (41:00) here, we keep deleveraging in the process, but we intend for this to be a robust dividend model.

I'm not a huge fan of the buybacks because we're not – I haven't seen a real history of opportunistic buying that makes any sense, right, because too often, we outsmart ourselves on that stuff. And I think that the consistent revenue model that we have and the things we started this discussion on, that's what it spells, right, that's what it spells. That is the model – I've been transparent since day one, that's the model we're headed toward.

Todd Juenger

Analyst, Sanford C. Bernstein & Co. LLC

There's multiple questions in here, so – around you probably have more in-house data about the health of economies around the world, consumer products growth rates, trends in economic and consumer behavior, multiple people have asked to hear your insights on that. Anything you're seeing that can help investors broadly understand are emerging markets slowing down, are they growing faster, what's going on in the U.S., what stage are we at the cycle, that sort of stuff?

David L. Calhoun

Chief Executive Officer & Executive Director, Nielsen Holdings NV

Yeah. So let's just take developed first. This economy feels like it's got a little lift in it. And there's no doubt about it, our confidence metrics go up a bit, the retail numbers support it a bit. Now here you don't just jump up a full percentage point or two percentage points, you move up in tens of points. But there's no doubt it feels better than it's felt in a long time, and so I'm a little optimistic for our clients that they're going to have a decent run here in the U.S.

Europe is literally a ball and chain. What I think I see going on is our clients are adjusting to a reasonably permanent state. So I see them making moves that suggest that this is a flat market for a long period of time, and confidence in Europe is just abysmal, and it's not getting any better. So there is – I don't mean to sort of overstate, but I just don't see much positive. The minute I do, I'll raise my hand because we all need it, but it's – that's sort of the way Europe is.

And I see the rest of the world like the export economies, China where I just came back from, they're also making those same judgment calls, right. So the export models that they have now are getting – basically getting tailored to what they see as a, I think, a recovering U.S. – slow recovering U.S. economy and a really flat to down kind of European market. So those are the two big developed [ph] sides (43:20).

The developing world still feels really good to me. I just got back from China, you will – the export model definitely will be a little under pressure and their investment model, I think, will get toned down a bit, still be robust in the rural parts of the country but will get toned down just a bit. [ph] And there's no – (43:40) they're doing everything in their power, and I think successfully, to create and stimulate consumer demand. And we see that, we really do.

I saw some very aggressive local nationals and multinationals who recognized, interestingly, on a differential basis, the growth opportunity in China versus the developed world is expanding. Never mind they go from [ph] nine to seven (44:03), the rest of the world went down considerably. So the relative advantage in terms of growth opportunity is actually bigger than it's ever been and that's how they think about it.

So I actually – I came back very confident in China, I still feel confident in India, it's always a little slower. They're not going to make the moves to modern trade as quickly as China and the other economies. That is going to remain a largely traditional trade market, but you will continue to see expansion out into the rural parts of the country.

And then Latin America is not as robust as the world would like it to be. So Latin America I think is everyone wants to jump on the Brazil bandwagon and all the big events, but they're struggling more than I think people understand. It's not to say their confidence isn't pretty high, I think it is, it's just that the retail numbers don't necessarily support the optimism that surrounds these big new games. And that's probably in a nutshell.

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

So we're [ph] temporarily (45:03) out of time but people – let me ask one final question which I'm sure you can answer very quickly. A lot of people would really like to know the date at which Arbitron is going to close.

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

They have to go to Washington and if you find out, call me.

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

[ph] But we're curious to know... (45:13)

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

And I can't ever handicap stuff like that. So we have gone through – we are almost complete, the sort of the Second Request response, which is dig through every document you can find, blah, blah, blah, then organize it and turn it over. So then they'll have a period of time where they're obligated to respond to us, any questions, et cetera. All the questions, honestly so far, and again, I won't speculate, but they revolve around such key little things in our world and in our markets that I'm – regardless of whether we win the argument or whether we have to remedy the argument, it's not hard. That's at least my feeling at the moment, but I do not and I will not handicap their view because I don't know it yet.

Todd Juenger

Analyst, Sanford C. Bernstein & Co. LLC

Yeah. Got it. We are out of time. Let's thank everybody on a Friday morning. Thank you, Mr. Calhoun and enjoy the [ph] one more (46:09) session [ph] in our conference. (46:08)

David L. Calhoun

Chief Executive Officer & Executive Director, Nielsen Holdings NV

Yeah. Thanks, thanks. That's great.